

THE IRISH CLEARING SYSTEM

General Background

The Irish clearing system is a set of agreed procedures for the exchange and settlement by participating banks of paper and electronic payment instruments, including cheques, credit transfers and direct debits. The accepting banks distribute these payment instruments to branch offices either physically or electronically, and the branch offices debit or credit their customers accordingly.

The member banks of the Irish clearing system have, as required under the Central Bank Act 1997, formed two companies for the collective governance of the system and its related rules and procedures. These companies are known as the ***Irish Paper Clearing Company Limited (IPCC)***, which clears paper instruments (i.e. cheques and credit transfers), and the ***Irish Retail Electronic Payments Clearing Company Limited (IRECC)***, which clears retail electronic payments, both debit and credit. The clearing systems operated by IPCC and IRECC are of fundamental importance to the Irish economy and, in effect, together constitute the national clearing system for retail payments. Both companies are regulated by the Central Bank and Financial Services Authority of Ireland (CBFSAI).

IPCC and IRECC were formed for collective governance purposes only, and the clearing system is not based on a centralised 'infrastructure' in common ownership. There are agreed standards and codes for electronic and physical processing, and procedures for daily settlement of the resulting liabilities. The interbank liabilities arising from each day's exchange of paper and electronic payment instructions are settled on a net basis in central bank funds in settlement accounts held with the Central Bank and Financial Services Authority of Ireland (CBFSAI).

Banks can participate in the clearing system through either direct (i.e. 'ordinary') or indirect (i.e. 'associate') membership of IPCC and IRECC. Indirect membership is obtained by means of an agency arrangement with any of the direct members.

Access Criteria

The access criteria currently applicable to direct and indirect membership of IPCC and IRECC are summarised below.

(a) Direct membership

To become a direct member of either IPCC or IRECC, an applicant must:

- *be a credit institution;*
- *have a settlement account with the CBFSAI;*
- *demonstrate that it has the resources (both financial and technical) and the expertise necessary to participate in the clearing process;*
- *pay any reasonable impact costs by way of a levy, to the company to cover the expenses of existing members associated with their having to accommodate a new clearing member;*
- *pay its share of the company's administration/operational costs;*
- *agree to be bound by the company's memorandum and articles of association, membership rules, clearing rules etc;*
- *execute any necessary legal agreements or undertakings.*

(b) Indirect membership

To become an indirect member of either IPCC or IRECC, an applicant must:

- *be a credit institution;*
- *enter into a formal agency arrangement with a direct member who will act as its agent;*
- *agree to be bound by the company's memorandum and articles of association, membership rules, clearing rules etc.;*
- *pay any appropriate share of the company's administration/operational costs (although to date, no such charge has been levied on indirect members).*

The detailed rules and provisions regarding membership are set out in the IPCC and IRECC **Articles of Association** and **Rules for Membership**. These, and other documents relevant to an application for membership of the clearing system, are available to the applicant institution from the company on request. The detailed provisions regarding clearing and standards are set out in the Rules for IPCC and IRECC Clearing.

While there is no minimum volume requirement in order to qualify for direct membership, banks with relatively low clearing volumes have generally availed of indirect membership. This membership category enables them to provide to their customers cheque and retail payment facilities comparable to those that they could provide if participating as direct members of the clearing system.

The direct members of the clearing system currently comprise AIB, Bank of Ireland, National Irish Bank, Ulster Bank, Permanent TSB, BNP Paribas and CBFSAI (the latter is not, however, a member of IRECC).

Application for Membership of IPCC and IRECC

A bank wishing to become a direct member of either IPCC or IRECC should submit a written application for membership to the relevant company, together with the required supporting documentation, i.e. an outline of the applicant's plans for entry into and participation in the clearing system and all relevant information required under each of the access criteria headings. Although neither IPCC nor IRECC charges an entry fee to a new member, an applicant for direct membership is required to pay an administration fee to cover the cost of processing their application, together with the reasonable impact costs that existing direct members will incur in changing their systems to accommodate a new member. Direct members are also required to pay the annual operating costs of IPCC and/or IRECC, their contributions in this regard being calculated by reference to their individual clearing volumes.

Following an application for direct membership, each existing direct member would conduct an exercise to determine broadly the level of its impact costs. These indicative costs figures would then be notified to the CBFSAI as regulator, which, following a review of the costs of each member, would inform IPCC and IRECC of the amount that the companies would be permitted to charge an applicant in respect of these indicative impact costs. A final determination of the actual amount of impact costs would be made once each existing member had received requisite technical information from an applicant, and a full evaluation of what was required to facilitate an applicant's participation had been conducted. This evaluation would entail submission by the applicant of a Technical and Operating Plan which would provide

the existing ordinary members with sufficient detail in relation to the applicant's internal systems to facilitate the establishment of the necessary bi-lateral links between all clearing participants.

Banks interested in indirect membership of the Irish clearing system can approach any of the direct participants in this regard with a view to entering into an agency relationship appropriate to their needs. Indirect members are charged fees for processing cheques and other payment instruments by their clearing agent; the level of these fees is a matter for bilateral negotiation between the parties concerned.

Regulation (or Oversight) of the Clearing System

As regulator (or overseer) of payment systems in Ireland, the CBFSAI is responsible for regulation of the national clearing system. This includes approval of the criteria governing access of direct and indirect members to the clearing system. In exercising its regulatory function, the CBFSAI seeks to ensure that payment systems in the State are safe, effective and efficient, and that all credit institutions with a requirement to do so can access these systems on a fair and equitable basis. It is important that the efficient and effective operation of payment systems is ensured at all times, as this is a core requirement for maintaining financial stability, and for meeting both the business needs of the economy generally and the personal banking requirements of the public at large.

Note:

The above is a general guide only to membership of IPCC and IRECC and is without prejudice to the precise terms of the documents concerned. Further, a more detailed step-by-step Membership Guide is available upon request.

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