

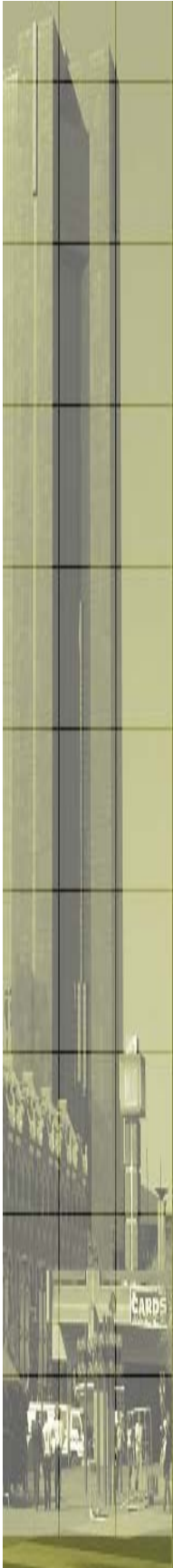
**SUBMISSION TO
THE COMPETITION ENQUIRY
INTO
COMPETITION IN BANKING**

BY THE

**PAYMENTS ASSOCIATION
OF
SOUTH AFRICA**

(PASA)

OCTOBER 2006



Motivation for submission

This submission is made on specific request by the Enquiry Panel. The Panel requested a submission from PASA describing the responsibilities and workings of the association and its committees.

The submission furthermore describes the interaction of PASA with other stakeholders in the National Payment System (NPS) in South Africa.



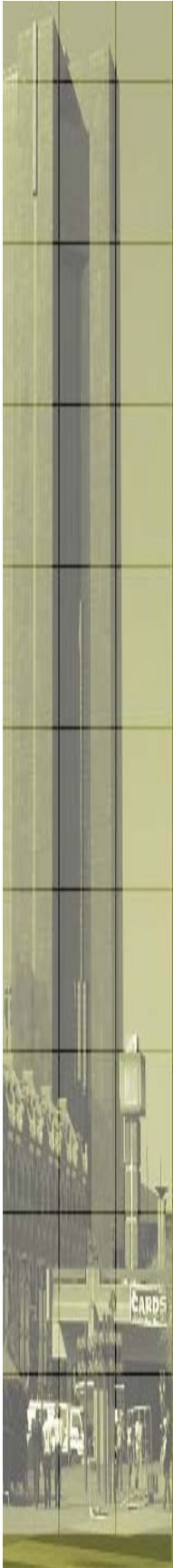


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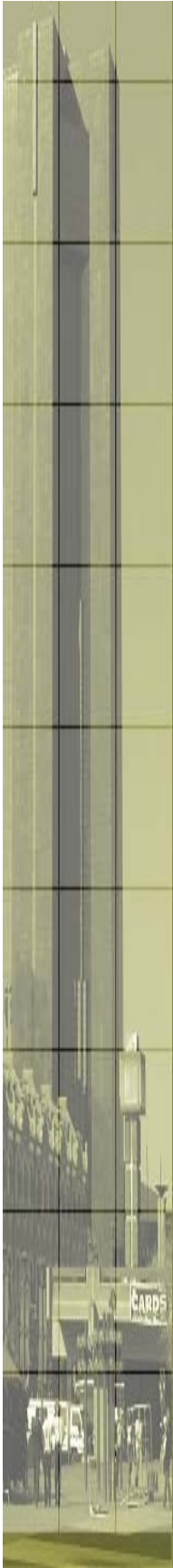
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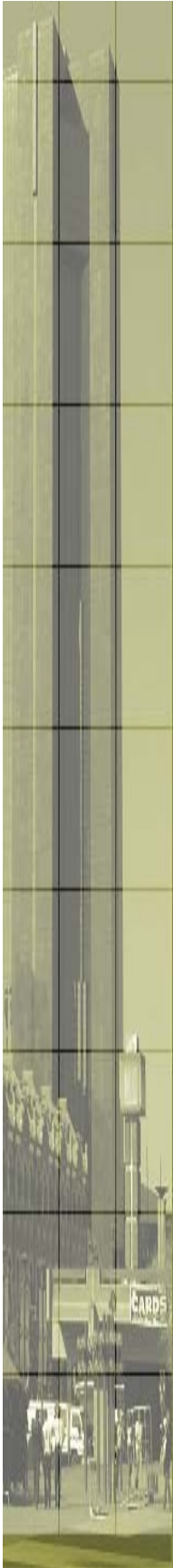
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South African National Payment System (NPS)

Payments Association of South Africa

The Payments Association of South Africa (PASA) was founded on 26th September 1996 and was subsequently recognised as a payment system management body by the South African Reserve Bank (SARB) under the provisions of the National Payment System Act (Act No.78 of 1998) (NPS Act) in June 1999.

The association's mission is to provide a safe and sound payment system to the South African banking industry on a fair and equitable basis for benefit of the South African community.

By way of objective PASA has the responsibility to manage the South African payments inter-bank clearing system in order to:

- provide the South African community with safe and efficient facilities to exchange payments;
- protect the integrity of the payment system;
- manage the clearing and settlement risks in the payment system;
- facilitate access of participants and prospective participants to the payment system on a fair and equitable basis;
- facilitate communication between participants; and
- enable proper understanding of the system and the rules applicable to it.

Access to PASA

PASA membership consists currently of registered South African banking institutions as only banks may clear transactions for settlement at the Reserve Bank in terms of the NPS Act.

Banks wishing to participate in payment clearing and settlement apply separately to the Reserve Bank for settlement facilities and PASA for payment clearing.

Entry and participation criteria have been designed to assist new members in meeting PASA regulatory requirements and new participants are required to enter into a formal mentorship relationship with an established member.

Entry Criteria

To qualify as a member of PASA the applicant:

- **Must be a Bank**

The following are eligible for membership of PASA:

- Banks registered in South Africa in terms of the Banks Act, 1990 (Act No. 94 of 1990);
- Mutual Banks registered in terms of the Mutual Banks Act, 1993 (Act No. 124 of 1993);
- A branch of a foreign institution registered as such under the Banks Act; and
- The SARB in terms of the Reserve Bank Act, 1989 (Act No. 90 of 1989).

- **Must be a Member of the Banking Association**

Membership of PASA is conditional upon membership of the Banking Association inter alia to ensure:

- that the participants in the clearing system adhere to a uniform code of conduct as published by the Banking Association from time to time; and
- that there is a single official mouthpiece for the banking industry.

This requirement does not apply to the SARB.

- **Must become a Member of a Payment Clearing House (PCH)**

Membership of PASA is confined to banks, which are also members of at least one Payment Clearing House (PCH), or have been granted provisional membership of PASA, pending acceptance as a PCH member.

Membership of PASA and a PCH is applied for simultaneously, and granting of the one is conditional upon the granting of the other. (Both may be granted subject to admission by the other).

- **Must have a SARB Settlement Account**

A PASA member bank must settle across an account designated for settlement purposes, at the SARB, in its own name.

The process for application for Membership

Applications are to be submitted to the CEO of PASA who will arrange for the application to be tabled at the applicable forums.

Before tabling applications, the PASA executive will ensure that all membership applications are complete.

Applications for membership of PASA must include the following supporting documentation.

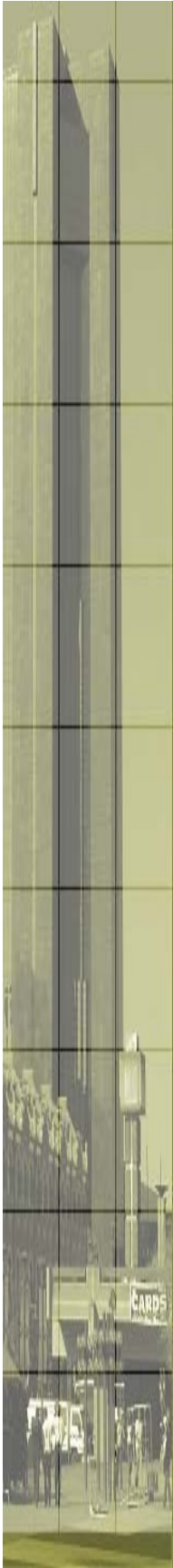
- In the case of local banks, a Certificate of Registration as a Bank. (SARB form Number DI003).
- In the case of branches of foreign banks, a Certificate of Registration as a Branch of a Foreign Bank.
- Business License to Conduct the Business of a Bank (SARB form number DI022 relative to the current year).
- Certificate of Registration as a company in terms of the Companies Act of 1973 (Act No. 61 of 1973).
- Confirmation from SARB or agreement with SARB regarding SAMOS.
- Confirmation from Banking Council of membership application to that body.
- Articles of Association.
- Statement of Nature of Business.
- PCH application.
- Confirmation of acceptance by or agreement with PCH System Operator.
- Bilateral PCH Agreements.
- Payment of fees due on application.

Applicants must provide any relevant information which PASA Council or the appropriate PCH PG may call for, in support of the application.

Current membership

There are currently 21 clearing banks participating in the NPS as members of PASA. These are (in alphabetical order):

1. ABN Amro Bank NV Johannesburg Branch
2. ABSA Bank Limited
3. African Bank Limited
4. Calyon Corporate and Investment Bank South Africa Branch
5. Capitec Bank Limited
6. Citibank NA South Africa Branch
7. First Rand Bank Limited
8. Habib Overseas Bank Limited
9. HBZ Bank Limited
10. Investec Bank Limited
11. Mercantile Bank Limited
12. Nedbank Limited
13. South African Reserve Bank
14. Teba Bank Limited
15. Rennies Bank Limited
16. The Standard Bank of South Africa Limited
17. Standard Chartered Bank Johannesburg Branch
18. State Bank of India
19. Societe Generale Johannesburg Branch
20. The South African Bank of Athens Limited
21. MEEG Bank Limited (Sponsored by ABSA Bank)



Two organisations exempted from the Banks Act, participate as sponsored clearing participants in the payment system participating in a number of payment streams such as ATMs, Electronic Fund Transfers and Debit Card. These are The PostBank, sponsored by Standard Bank and Ithala, sponsored by ABSA Bank. Ensuring compliance to the payment rules and regulations by these organisations is currently the responsibility of the PASA Member banks that sponsor them into the system.

Funding of PASA

The activities of PASA are funded by way of a pro-rata contribution to the budget of PASA on an annual basis. In the event of a surplus at the end of the year the surplus is repatriated to the contributors pro-rata to their original contribution. A shortfall will be funded in the same ratio.

The formula for contribution is as follows:

- 30% of the expenses (Budget) – Shared equally between all members
- 20% of the expenses (Budget) – Shared equally between the PCHs who share it equally between their respective members
- 25% of the expenses (Budget) – Shared pro-rata to the value throughput of each bank through all the payment systems during the previous year
- 25% of the expenses (Budget) – Shared pro-rata to the volume throughput of each bank through all the payment systems during the previous year


Ninety percent (90%) of the expenses normally relate to the operational expenses of the PASA Executive office, consisting of 8 people that facilitate the administration and meetings of the various PASA committees and PASA as a body. The rest of the expenses (10%) goes towards general and legal consultancy fees to obtain expert opinion where required. No participant can benefit individually from a PASA expense.

PASA Operational Approach

The members of PASA participate in the co-operative structure required to serve the need to facilitate the exchange of payment instructions in the most efficient and effective way possible. Such structure dictates that the requirements for effective participation by members are met in a manner that balances the interests of the participant group with the needs of the individual participants. Balance is obtained in a structure and methodology that allow for all participants to participate fully in the setting of standards and agreement on solutions for the operational needs of the group as a whole.

The approach of PASA is to provide for all members to participate fully on an operational level, either directly, or if incapable to participate fully on its own, it may be represented by another member with a proxy for such representative to vote on its behalf.

The model provides for participants to be sponsored into the system on a technical and financial basis in order to assist smaller participants to benefit from shared infrastructure where the cost of the required infrastructure may be problematic for such small organisation. The model furthermore provides for new entrants to be mentored by existing participants in order to ensure the transfer of knowledge, required to participate responsibly and effectively, to the new entrant in a controlled manner.

A vertical decorative image on the left side of the page, showing a tall, narrow structure, possibly a building or a tower, with a grid pattern overlaid on it. The image is oriented vertically and has a yellowish-green tint.

The structure benefits from a positive supportive approach from all participants where operational failure of any participant receives industry administrative support in a manner that ensures that participants would readily support such failing participant in the clear understanding that reciprocal support would be forthcoming in the event of own failure.

The committee structures provide for voting to break deadlock in the absence of agreement but disagreement on any matters needs to be defined in terms of the risk it would pose to the system in general. Absence of clear definition of such risk normally would allow for consensus to be maintained.

Any member that feels aggrieved about a decision of PASA that affects its business negatively retains the right appeal to the SARB.

PASA Corporate Structure

PASA Council

PASA Council is responsible for the strategic direction and governance of the Association. Not only does the Council represent the interests of the members but also bears the responsibility of ensuring an efficient, reliable and stable payments environment to serve the economy and people of the country.

The structure of PASA Council was originally developed to address and maintain a balance between 3 key issues:

- The variation in risk introduced and experienced by participants due to the different values and volumes of transactions introduced
- The need to maintain a productive and effective Council and to avoid an unwieldy Council body; and
- The burden on small participants to provide resources.

PASA Council is thus constituted of the chairperson as well as representatives of:

- the five Association members (banks) with the highest throughput, as a product of value and volume cleared through the inter-bank systems during the previous year;
- two Association members elected by the rest of the members (commonly referred to as the “Smaller Banks”); and
- the SARB (non-voting).

Chairperson of PASA Council

The members of Council, on a bi-annual basis, elect the chairperson from their ranks. The bank of the elected chairperson has to appoint an additional representative as the chairperson does not represent his or her bank and has no vote on Council.

No bank may have a chairperson serving for more than four years within a cycle of twelve years.

Functioning of PASA Council

PASA Council meets bi-monthly to review the report of PASA ExO on the operations of PASA and to provide final approval for matters, such as rule amendments, compliance reviews and membership applications, or any other matters that warrant consideration in terms of proper governance principles.

The constitution allows for voting but consideration is required to be based on the interest of the payment system as a whole and the members as a group and disagreement with any decision would require clear identification of the risks posed by acceptance of the matter under consideration.

PASA Committee Structure

PASA Council Committees

The committees appointed by Council are sub-committees of Council acting in a governance capacity without any executive powers.

Governance Committee

The Governance Committee has the responsibility to advise PASA Council as to the satisfactory performance of PASA as a body, as well as the various Committees, in terms of the requirements of proper governance.

The Committee performs its function by evaluating the adequacy of the procedures and controls of the various bodies constituting PASA. The Committee evaluates the risk management procedures and controls as well as the process followed by the Risk Advisory Committee.

The Committee also serves the function normally performed by an audit and finance committee by monitoring the financial and administrative practices, controls and policies and reviewing the budget and performance against budget.

The Governance Committee is made up of the Vice-chairperson of PASA, a member from one of the banks representing the smaller banks and another member and is constituted by Council. The SARB has a standing invitation to participate in the activities of the Committee.

Appointments and Remuneration Committee

The Appointments and Remuneration Committee advises PASA Council as to whether the positions within PASA ExO and the remuneration of the incumbents are appropriate to the tasks of PASA ExO. The Committee further advises Council as to the appropriateness of personnel policies and approves and make recommendations to Council on the appointment of Executives.

The tasks of PASA ExO are described in a mandate, approved by Council and form the framework for measuring performance of the members of PASA ExO.

PASA STANDING (Portfolio) COMMITTEES

Risk Advisory Committee

The Risk Advisory Committee is made up of knowledgeable representatives of at least four member banks, selected by PASA ExO, to assist in the identification, evaluation and proposal as to mitigation of risks in the payment environment for which PASA is responsible.

The Committee serves as an advisory body only and any actions required are put forward by way of proposal to PASA Council. The Governance Committee has the responsibility to evaluate the activities of the Committee in order to assure that risks identified and proposals made are properly addressed.

Dispute Resolution Committee

The Dispute Resolution Committee serves to facilitate resolution of disputes relating to payment issues between members. The purpose of the Committee is to provide expert knowledge from peer banks to disputing parties in order to, not only find a solution acceptable to the two parties, but also to identify possible amendments to agreements and rules to remove the cause of such dispute in the future.

If any of the parties do not agree with the finding of the Committee it may progress the matter further in arbitration or court. Proposals made by the Committee are not enforceable by the Committee but serves as recommendation to the affected Committees.

The seven members of the Committee are appointed by each of the PASA Council member banks and elects a chairperson as they deem fit. The members are normally sought out of the legal fraternity as the experience and approach of persons trained in the legal environment serves the purpose of the Committee best.

Legal Committee

The Legal Committee has been established and mandated by PASA Council to peruse, vet and draft any appropriate legal documentation and advise on any appropriate legal matters emanating from any official PASA committee, including PASA ExO for the sole purpose of advising, assisting and supporting PASA in achieving its goals and objectives as stated in the PASA constitution.

Settlement System Participant Group

The Settlement System Participant Group (SSPG) has been established by the system participants in the inter-bank clearing and settlement system by the signing of the Settlement Agreement for the settlement of payment obligations in the South African payment system. The SSPG has been constituted and mandated by PASA Council to act as a body with a common interest or consultative forum for the purpose of recommending and, once approved by SARB and PASA, to implement rules for settlement and liaise and consult with the SARB, PASA and such other party or parties within the clearing and settlement system as may be appropriate or desirable, regarding matters, including operational matters, relating to settlement of payment obligations in the inter-bank clearing and settlement system.

Settlement Risk Focus Committee

The Settlement Risk Focus Committee has been set up to consider settlement assurance options proposed by each payment clearing house and after assessment to consider proposals for the acceptance by PASA Council in terms of inter-bank agreements.

The committee therefore has a restricted mandate linked to the creation of new PCH's.

BCP/DR Policy Committee

The committee provides the following:

- To act as the banking industry forum for all BCP/DR policy requirements.
- To ensure creation of the minimum BCP/DR standards for availability by participants and PCH System Operators in the payments industry.
- To act as conduit into the participant banks in order to ensure high-level co-operation in reaching compliance with the BCP/DR standards agreed to.

The committee reviews reports of events as submitted by PASA ExO so as to consider implementation of changes to the policy.

Crisis Handling Committee / Curatorship

The committee assists PASA ExO in its role as coordinator for actions taken by a curator upon appointment and for the continued participation of the bank under curatorship as a PASA member for future clearing and settlements.



NPS Systems

1 Settlement Systems

South African Multiple Option Settlement System (SAMOS)

The South African Multiple Option Settlement system is also referred to as RTL (Real Time Line) or RTGS (Real Time Gross Settlement System). The system falls under the responsibility of PASA and specifically the PCH for Immediate Settlement Payment Service (IMMS). This is the designated real time service where more than 90% of the value of all South African payments flows through this stream on a pre-funded real time basis. This payment stream is aimed at higher value payments but credit payments of any value may be made through it.

Continuous Linked Settlement Service (CLS)

The SARB provides access to a settlement service for CLS bank as defined under the NPS Act for transactions conducted with CLS by its South African registered settlement member to facilitate final settlement of the domestic Rand settlements for foreign exchange transactions with other CLS settlement banks. This membership facilitates the Rand (ZAR) being a CLS traded currency giving the South African economy and the financial system credibility thereby increasing foreign direct investment.

The settlement bank in turn provides for third and fourth party clearing services to other PASA member and non- PASA member banks.

2 Clearing Houses

Payment Clearing Houses

Payment Clearing Houses (PCHs) of PASA are all founded on a principle of centralised operators providing connectivity and switching of transactions between all banks participating in a particular payment stream. This highly efficient model is managed in terms of a legal framework based on a standard PCH agreement signed once by each participating party but drafted in such a way that it creates a bi-lateral legal relationship between the individual parties in the PCH. The PCH Agreement is supported on a more detailed level by PCH Clearing Rules that establishes the operational rules regulating participation.

A PCH and its operations are managed by a committee of representatives of the participating banks as a PCH Participant Group (PCH PG). Participation and decision taking happens on an equal basis with every member having one vote. The PCH PG bears responsibility for the effective functioning and risk management of the payment streams it is responsible for. In some instances more than one PCH, such as Electronic Funds Transfers (Debit and Credit), is managed by a single PCH PG.

Any two or more PASA member banks may elect to create a new payment clearing house with the approval of PASA Council. PASA Council will consider whether such new payment stream could not be accommodated in an existing PCH in the interest of efficiency. Any PASA member has a right to join a new clearing house subsequent to establishment as a non-founding member.

The following Clearing Houses are in existence:

ZAPS

ZAPS is a deferred same day batch settlement payment stream cleared on a real time basis. It has an item limit restriction of R5 million for credit transfers and provides an alternate to IMMS, for corporate payment service for SWIFT users as customers of banks in South Africa.

Code Line Clearing

The Code Line Clearing PCH (CLC PCH) is the Clearing House responsible for cheques cleared between banks, using the Code Line Clearing System. This system enables banks to capture the information of a deposited cheque electronically by reading the magnetic code line and transmitting the information via the PCH System Operator to the paying bank for settlement before the paper cheque is delivered to the paying bank for final approval.

The volume of cheques is constantly dropping as a result of a gradual migration to electronic payment mechanisms. The introduction of item limits for cheques of R5 million at the beginning of 2002 had a major impact on values being cleared. Cheques, however still represent a significant preferred payment mechanism in the corporate environment.

Paper Credit Clearing

The paper credit clearing house is responsible for the exchange of credit paper instruments between banks. The use of manual paper credit transfers has reached minimal levels due to the delay in providing value.

Electronic Funds Transfers (debits and credits)

The two Electronic Funds Transfer PCHs are identified separately as a result of the risk profiles of debit transactions and credit transactions being quite different. Not all banks participate in both the payment streams. A single participant group due to the similarity in respect of the technology used manages the two payment streams.

The EFT Credit PCH facilitates the exchange of credit payment instructions of amounts less than R 5 million that are delivered on a once a day batch basis to the inter-bank PCH System Operator for sorting and onwards delivery to the receiving bank. The PCH System Operator deliver settlement instructions to the SARB as soon as the sorting process has been completed and the batches are settled by the SARB across the accounts of the participating banks.

EFT debits facilitate the delivery of mandated debit requests from users of the collecting bank to the paying bank via the interbank PCH System Operator in a similar process to the credits. Transactions so delivered are settled by the SARB upon receipt of the settlement instructions from the PCH System Operator but such transactions may be returned the next day, using a reversal of the same process, for reasons that may vary from a shortage of funds in the account of the paying customer to disputed mandate.

Customers may request reversal of fraudulent or unmandated debit transactions at any time after processing.

AEDO

This clearing house provides for the clearing of PIN and card authenticated early debit order payments, which are cleared for recoveries originating from the credit grantor market place.

When a customer decides to enter into a credit agreement, albeit with a furniture retailer, micro financier or insurer, the contractual obligations placed on the customer, specifically in terms of the minimum repayments and payback period, are captured electronically and authorised by the customer, after having checked the captured information for correctness by swiping his/her ATM or debit card through the AEDO terminal's adjoining keypad.

The customer's card details, PIN and contractual payment information are then forwarded in a secure format to the customer's bank, which verifies the authenticity of the transaction from the card and PIN data received. Authentic transactions are registered on AEDO for future payment, whilst all other transactions are rejected, a fact that is relayed back to the payment collector.

On the applicable dates, AEDO presents the previously authorised payment instructions for processing, directly after the transmission of bulk salaries. Confirmation of the payments success, or otherwise, is distributed to the relevant payment collectors soon thereafter. In the event of non-payment of any one of the payments on the pre-designated date, a message is relayed to the payment collector, who is then able to follow-up with the customer directly.

NAEDO

This clearing house provides for the recovery of non-authenticated early debit order payments as detailed above with the exception that the process does not require authentication before submission for clearing.

NuPay

Two PASA member banks to effect clearing of authenticated debit orders initiated this clearing house. Following industry negotiations the pipeline transactions will be allowed to run off over an eighteen-month period from June 2006 and thereafter the banks will participate as members of AEDO/NAEDO.

RTC

A number of PASA member banks have elected to participate in a new PCH that commenced operations in September 2006 on a trial basis. The system provides for the real time clearing and application of funds on a deferred settlement basis of no more than one hour for transactions below a R5 million item limit. The limit will be adjusted to R250000 after normal Treasury square off at 17h00 and achieve same day settlement in the night window that closes at 24h00. Inter-bank exposures will be fully collateralised to achieve end of same day settlement.

Debit Card *

Three clearing house operators are utilised for debit card switching between South African banking institutions on a real time basis. The local operator Bankserv provides for both PIN based and signature authorised transaction switching of branded VISA and MasterCard affiliated cards. Certain banks have also elected to utilise the offshore switching services of VISA and MasterCard who then settle transactions via either Bankserv or direct to the SARB on a daily basis to achieve final inter-bank settlement in central bank funds on a net basis.

Credit Card *

An authorisation and delayed delivery for clearing service operates at inter-bank level by Bankserv Limited. Certain banks also utilise the VISA and MasterCard clearing networks with interface direct to banks.

VISA settlement is currently achieved through SAMOS from information provided by VISA to Bankserv Limited that provides the interface to the SARB.

MasterCard net settlements are achieved by direct interface to the SARB.

* Member banks have historically issued hybrid cards that function as both credit and debit. Signature authorised transactions for debit card transactions (non-PIN based) are currently processed through the credit card switch and thereafter interfaced to client accounts.

ATM/Saswitch

The ATM PCH is the clearing house governing the clearing and settlement of ATM transactions between the banks in South Africa. Bankserv is the appointed PCH System Operator that manages the switching system for the participating banks.

The PCH was only formally constituted in 2001, but the ATM switching system is one of the oldest globally and was introduced in 1984.

The ATM networks of all the South African banks have been available to all domestic and overseas clients through the use of both Credit and Debit Cards since 1984.

The ATM switch provides a stable environment with most of the retail banks being participants exchanging customer transactions since inception. The client base is therefore quite comfortable in using ATMs from other banks. The banks have also developed a security guide and apply those standards to ensure that all the ATMs in the switch are installed with similar levels of client protection in order to provide the required elements of privacy when transacting in this environment.

The processes of all participating banks regarding the management of cash and client claims are mature and have been engineered to exceptional levels of efficiency.

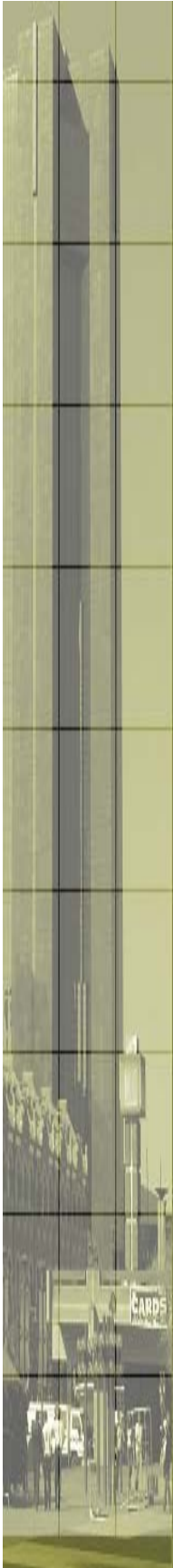
There has been a rationalisation in the South African banking sector over recent years and the number of active participants has reduced significantly. Fortunately this did not reduce the number of ATMs available to customers as the merged entities continued using the ATM infrastructure of the individual parties prior to these mergers and the introduction of quite a number of smaller ATMs situated in convenience stores continue to increase the number of transactions cleared.

The major participants have all equipped their ATM networks with fault tolerant equipment to ensure that availability is of the highest possible standard. The PCH System Operator uses similar processes and has proper Disaster and Business Continuity Plans in place to protect its exceptional levels of availability that has become a norm over the years.

The average industry success rate for the year was 99,00% and the uptime of the switching service was 100% of the service level requirement. The service level is a 24 x 7 requirement with 60 hours per annum allocated for planned maintenance.

The public is served not only by banks providing a widespread network of ATMs across the country but also by a third party operator in the form of ATM Solutions that provides access to the ATM network through more than one thousand five hundred ATMs contracted to a number of banks that perform the clearing and settlement of transactions. Similar services are performed by other smaller third party operators.

VISA has recently been authorised as a PCH System Operator, additional to Bankserv, in the ATM payment clearing stream.



**Bond Exchange
Equities Market
Money Market**

These three exchange markets utilise the services of STRATE Limited for delivery and payment as provided by three separate payment clearing house agreements.

The STRATE payment stream is responsible for clearing and settling payments, resulting from equity (share market), bonds, and (from some time during 2007) money market instruments between participating banks.

The equities settlements are on a T5 settlement cycle and Bonds on T3. Money Market has been specified to achieve real time settlement through SAMOS from its phased launch date.

Cash Settlements

A cash settlement payment clearing house with real time settlement through SAMOS is under development for implementation in early 2007. This will replace the over the counter trades and direct SAMOS entry system used to achieve delayed clearing at present.

The PCH will not be responsible for cash handling, as it will provide only settlement of bulk cash transactions between the participants and the SARB.

PASA Committee Mandates/Constitutions

PASA Committees

The following committees have been set up to facilitate specific needs of the PASA community.

Governance Committee

The Governance Committee was established by PASA Council to:

Assist PASA Council in fulfilling its oversight/management responsibilities by monitoring the activities of the Management of PASA ExO, the PASA Committees, and the Payment Clearing House Participant Groups and reporting areas of concern to PASA Council, including reports on:

- the financial reporting process;
- the budgeting process;
- the internal (if applicable) and external audit process of PASA; and
- PASA's process for monitoring compliance with laws and regulations and its own code of conduct.

Legal Committee

The Legal Committee was established and mandated by PASA Council to peruse, vet and draft any appropriate legal documentation and advise on any appropriate legal matter emanating from any official PASA committee, including PASA ExO, for the sole purpose of advising, assisting and supporting PASA in achieving its goals and objectives as stated in the PASA Constitution.

Any PASA committee thus requiring the services of the Legal Committee must identify the issue and provide a concise description of the issue for the Legal Committee to consider. The matter is officially referred to the Legal Committee once a Referral Form, completed and signed by the chairperson of the PASA committee, is tabled for consideration by the Legal Committee.

The Legal Committee is only mandated to make recommendations and its "findings" are not binding on any party or committee.

The final decision on the issue in terms of the advice provided by the Legal Committee, vests with the committee referring the legal issue to the Legal Committee.

The committee also provides valuable advice on a wide spectrum of industry legal questions.

Risk Advisory Committee

The purpose of the Risk Advisory Committee is to:

- concern itself with and be able to provide guidance on all matters that affect or cause risk in inter-bank clearing and settlement and in particular, the containment of that risk
- conduct high level research, in conjunction with PASA ExO, to stay abreast of strategic developments in payments, locally as well as internationally, in order to be able to pro-actively provide guidance with regards to future risk issues.

The committee acts in an advisory capacity to PASA ExO that is responsible for the risk management processes in PASA.

Settlement Risk Focus Committee

The SRFC has been constituted and mandated to investigate and evaluate the various options to manage settlement failure, in relation to each PCH and to make suitable recommendations to PASA Council. The options chosen are reviewed on a regular basis in terms of changing circumstances.

Settlement System Participant Group

The Settlement System Participant Group (SSPG) has been established by the system participants in the inter-bank clearing and settlement system and constituted and mandated by PASA Council to act as a body with a common interest or consultative forum for the purpose of recommending and, once approved by SARB and PASA, to implement rules for settlement and liaise and consult with the SARB, PASA and such other party or parties within the clearing and settlement system as may be appropriate or desirable, regarding matters, including operational matters, relating to settlement of payment obligations in the inter-bank clearing and settlement system.

For this purpose the SSPG has been mandated specifically:

- to determine and recommend settlement rules and procedures to PASA Council for approval, which rules shall be subject to PASA's change control provisions;
- to implement rules for settlement;
- to determine arrangements for the management of participant limits set by the PCH PGs, including arrangements for breaches, penalties for breaches and changes to limits during the relevant month, to the extent that such arrangements affect the Settlement Agreement or the rights and obligations of the parties thereto, and document same in the settlement rules;
- to determine rules for the orderly withdrawal of a system participant in the event of the termination of a system participant's participation in the Settlement Agreement;
- to plan the implementation of any consequences stemming from the agreement reached pertaining to a system participant under curatorship as contemplated in clause 5.4 of the Settlement Agreement as well as the procedure to deal with these consequences; and
- to determine dispute resolution rules pertaining to any dispute between any parties arising out of or in connection with the Settlement Agreement, including the settlement rules, practices, procedures and principles, or its implementation, or any dispute arising out of or in connection with its cancellation.

Dispute Resolution Committee

The Dispute Resolution Committee, and dispute panel acting under its authority, have been established by PASA Council with the following mandate:

- to mediate on all formally declared disputes arising between PASA members on the interpretation and application of rules primarily to facilitate the achievement of consensus between members;
- to formally provide and record a finding on the interpretation and application of the rule and to recommend a course of action where consensus could not be reached between the members;
- to recommend the adoption of new rules or the amendment of existing rules where the absence of such rule may result in, or the amendment may prevent future conflict;
- to appoint *ad hoc* mediators or dispute panels with authority to mediate and to hear disputes between the parties;
- to recommend referral of any dispute which cannot be resolved by mediation for arbitration in terms of the rules of the Arbitration Foundation of South Africa (“AFSA”); and
- to monitor any disputes referred for arbitration.

The principle is to facilitate dispute handling, using the specialist knowledge available in the PASA community, in order to reduce the need to seek Court assistance to resolve issues. Parties to a dispute retain the right to call for court action in the event of failure to resolve a dispute

Crisis Handling Committee / Curatorship

The committee is mandated to assist PASA ExO to achieve the following:

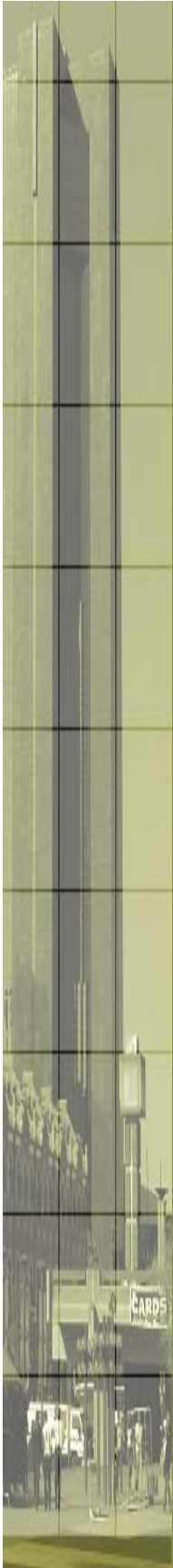
- To create a forum for the exchange of information (restricted to the contents of the formal SARB / curator objectives and directives);
- To ensure correctness of information communicated to member banks;
- To provide communication to operators;
- To provide communication to SARB,NPSD, and the curator;
- To clarify “rules” for parties appointed to manage crisis;
- To ensure that PASA monitors continued compliance with affected agreements and rules during a period of crisis;
- To assist the SARB representatives in advising the curator on compliance to the agreements and rules;
- To record in minute form actions required and contents of all communications; and
- To report to PASA Council and SARB NPSD on the process followed, the results of the process and any proposals as to improvement of any processes or actions for future implementation. Such report will be made once the crisis committee has completed its function for any specific Curatorship.

BCP/DR Policy Committee

This committee carries a dual role as the policy body for both PASA and as the banking industry coordinating representative for policy formulation on the Financial Sector Contingency Forum (FSCF) as the body, established under leadership of the SARB, to prepare for and manage contingency events in the financial sector.

The FSCF has designated PASA ExO as the body responsible for crisis management within the times laid down before declaration of a systemic event. This will trigger activation of the FSCF and assumption of full powers to resolve a declared state of financial sector contingency action under SARB and Government direction.

Members of the committee also allocate resources to support the major member banks in strategic initiatives to ensure robustness of the networks and BCP arrangements in support of industry BCP requirements by the single telephone data provider in South Africa.

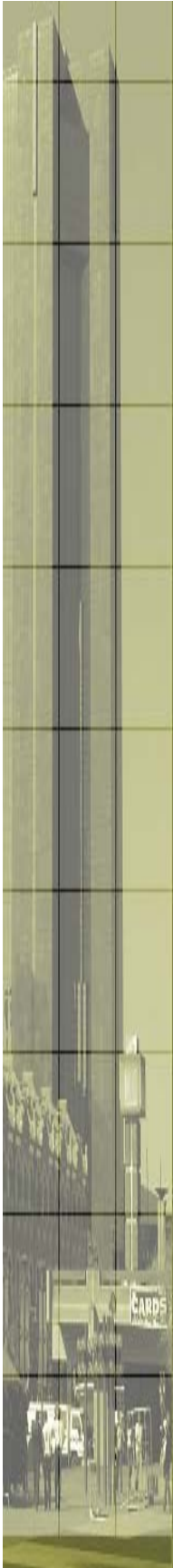


Project Specific Committees/Workgroups

PASA Council convenes ad-hoc workgroups as work dictates. An example of one such workgroup, active at the time of writing this document, was:

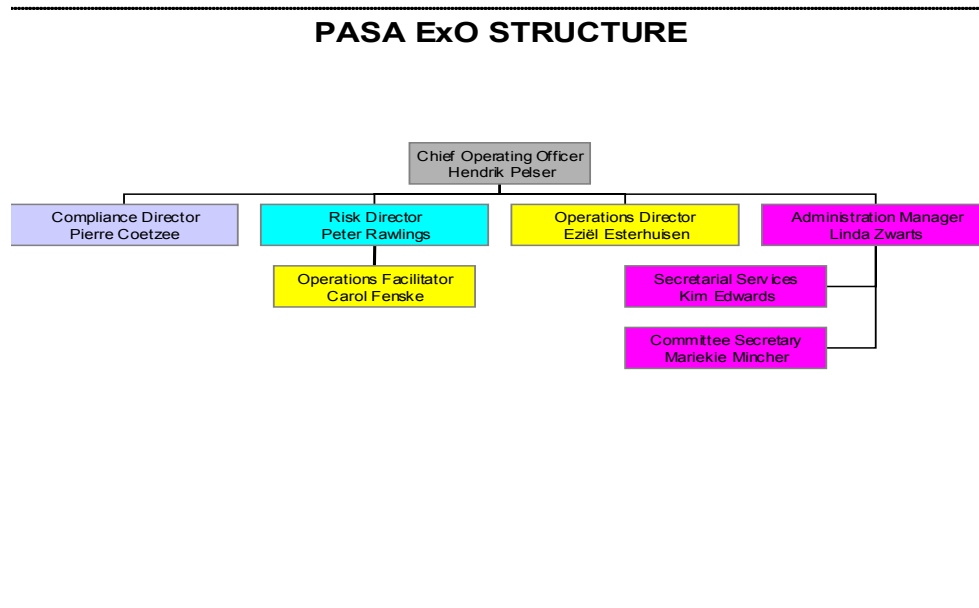
Council Risk Policy Workgroup

A group has been established to review current SARB and PASA policies covering settlement requirements inclusive of failed bank procedures. This group will also consider the future role of sponsorship in anticipation of government initiatives to allow further classes of banking institution designated as second and third tier institutions. It has been proposed that the target for these licenses will include retailers and cell phone providers. The second tier banks will be granted membership of PASA when introduced.



PASA Management Structure (ExO)


PASA ExO provides support services to PASA Council and committees on a functional basis. ExO as a joint responsibility undertakes policy development.



The Compliance Director is responsible for development and maintenance of the legal framework of PASA and does so through participation in and control of the change control procedures as well as to monitor compliance with the various rules and regulations of PASA and its committees.

The Risk Director is responsible for evaluation of and advice as to the various risks, which the payment systems face. The Risk Advisory Committee provides support to the evaluation of risk and may propose improvements to rules and processes in order to reduce identified risks to acceptable levels. Evaluation of developments in the payment industry across the world serves as a basis for best practice recommendations.

The Operations Director acts as the PASA ExO representative and interfaces with the various operational committees of PASA, such as the PCH Participant Groups in order to assist the chairperson and members. The chairpersons, who are employees of member banks, have to not only carry the responsibility for the effective operation of the PCH PGs but also usually have to work fulltime for their own organisation. In doing this, they are assisted by the Operations Director in order to lighten the load and to ensure co-ordination between the various bodies.

A vertical decorative image on the left side of the page, showing a close-up of a glass and metal architectural structure, possibly a window or door frame, with a grid pattern.

The Administration Manager is responsible for the effective administration of PASA ExO and the various committees. The task includes scheduling of meetings and effective delivery of documentation as well as control over the standard of delivery. The financial and personnel administration of PASA ExO is performed on a contract basis by the financial department of the Banking Association.

The Operations Facilitator is responsible for the Internet deliveries of PASA. PASA provides all members and operators with an integrated intra/extranet system, enabling all members and representatives secure access to all documents and information relating to the committees on which they serve.

The Committee Secretary is responsible for agendas, documentation and minutes of the various PASA committees.

Secretarial Services provides secretarial services to the executives and arranges venues and parking for the various committee members.

PASA ExO provides assistance to committees in such a way that the lack of time or people resources does not bring any activity to a standstill by filling gaps left by members without intruding on the right of the members to execute and control. This challenge is addressed by developing proposals and provision of draft documents which are then used by the various bodies in a process of workshops to produce the required policies, rules and agreements to fulfil the self regulating role of PASA.

PASA Key Payment Transaction Indicators

Volumes Millions	2002	2003	2004	2005
Immediate Settlement/SAMOS	0.9	1.1	1.3	1.4
CLC - Cheques	187.9	144.3	127.5	112.8
EFT Debits	217.7	234.2	249.0	276.1
EFT Credits	169.8	194.9	221.4	243.7
ATM	148.2	153.2	160.9	189.9
ZAPS	0.6	0.5	0.6	0.6
Debit Card	4.4	16.3	37.6	68.8

Values R billion	2002	2003	2004	2005
Immediate Settlement/SAMOS	32 738.5	35 714.0	38316.6	39583.3
CLC - Cheques	1 722.0	1 472.1	1474.9	1496.5
EFT Debits	226.7	248.0	284.5	333.1
EFT Credits	1 662.7	1 903.6	2229.1	2602.9
ATM	31.7	34.8	38.8	48.6
ZAPS	86.2	72.9	66.0	66.8
Debit Card	0.8	3.3	7.9	15.3

Notes

- 1 Immediate settlement includes STRATE and BESA settlements for equity and bond markets.
- 2 Immediate settlement is the high value real time payment system operated by SARB.
- 3 EFT Debits is the same as the UK Direct Debits.
- 4 EFT Credits is the same instrument as the UK Credit transfer. It is a batch-cleared system with delayed daily settlement for values below R5 million.
- 5 CLC and EFT include some on-us processing.

PASA Primary Regulatory Interaction

South African Reserve Bank (SARB)

The SARB provides many roles that affect the NPS in South Africa.

As lead regulator of registered banking institutions it provides for legislated regulation under the **Banks Act** of all PASA member banks.

As **overseer of the NPS** under the NPS Act the SARB National Payment System Department (NPSD) provides the necessary authority to PASA to act as the sole Payment System Management Body in South Africa.

The NPSD head chairs the South African National Payment Association (**SANPAY**) that represents a collective of constituted associations that have an interest in the SA NPS.

The SARB as a PASA member is a **clearing bank for its own account** and for certain government departments such as the National Treasury.

The SARB is also involved as **operator** of the two approved settlement services for domestic real time clearing (SAMOS) and the Continuous Linked Settlement System for CLS Bank.

The SARB is also the clearing operator for the cash settlement-clearing house.

The SARB also chairs the **Financial Sector Contingency Forum** upon which both SARB NPSD and PASA inter alia sit to provide BCP/DR standards and crisis management for the financial sector in South Africa.

Regulatory Authorities

SARB, NPSD, / PASA

In terms of the South African NPS PASA performs the role of payments management body under authority and oversight of the SARB.

STRATE Limited

For financial markets STRATE Limited, the provider of operator services for bonds, equities and money market instruments, is also the legislated regulator of the markets including custodial services as provided by both certain PASA member banks and other approved entities. STRATE falls under the oversight of the Financial Service Board. PASA is reliant on the regulatory efficiency of STRATE as failure of the exchanges would have a material impact on the liquidity in the payment system.

National Treasury

National Treasury interfaces with the SARB as final authority to deal with crisis management policy for bank failure, curatorship and business resumption.

Minister of Finance

The department of the minister has direct responsibility for the Central Bank and the Financial Services Board as regulator of non-bank financial services, including financial markets.

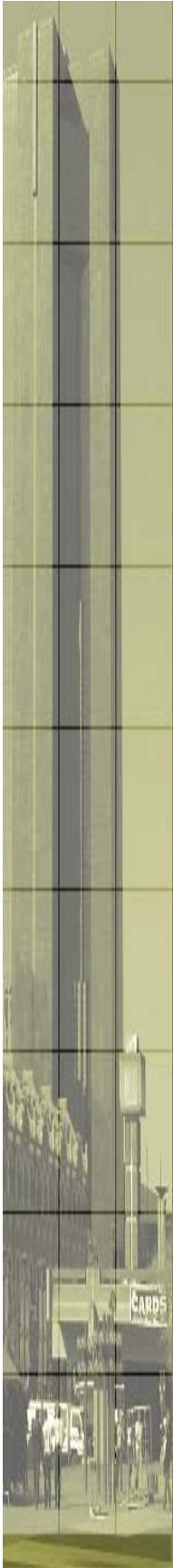
Ombudsman for Banking Services (OBS)

The Ombudsman for Banking Services resolves individual complaints about banking services and products. They aim to do this impartially, fairly and confidentially.

Any bank customer who has a complaint against his or her bank may approach the OBS for assistance. The service is free and the only requirements that must be met are that:

- They resolve complaints by investigating matters according to the rules of the scheme.
- If the matter has not been resolved by negotiation after investigation, a formal decision may be taken.
- The decision may be in the form of a **determination** that is binding on the bank or a **recommendation** that is not.

A complainant is free to sue in court or enter into any other dispute resolving process at any time while the complaint is being dealt with by the scheme, provided he or she informs the OBS of this so that they can close the file. The scheme developed from the Office of the Banking Ombudsman that was established in 1997. Since 2000, the scheme has operated entirely independently of the banks. The OBS is an **independent** and **impartial** body that reports to the **Board of the OBS**, not to the banks. They cannot make rules for the banking industry or deal with policy issues, nor can they give general advice about banking or financial matters. Commercial decisions taken by banks regarding fees or the granting of credit are out of our jurisdiction unless mal-administration has occurred. As such the OBS cannot assist in getting the bank to approve credit or alter terms of repayment on a loan. The scheme has several lawyers and ex-bankers on its staff.



PASA Secondary Regulatory Interaction

Financial Industry Sector Association (FISA)

A constituted association attended by PASA, STRATE and the Banking Association, amongst others, to provide input to a body which represents cross financial sector industry communications on financial sector strategy and developments.

The body is also the recognised authority on financial sector standards for South Africa in consultation with the South African Bureau of Standards.

In this role the elected officials maintain global reach with all bodies involved in financial sector standards relevant to the payment business of PASA membership inclusive of authorised operators.

Financial Sector Contingency Forum

The **objectives** of the financial sector contingency planning are to:

- Plan for periods when the markets or financial system, for various reasons, are under unusual stress or experience risks that could have systemic consequences, and
- To formalise the relationship between regulators, institutions and firms in the financial markets dealing with such events.

The intended outcome is to ensure that, by using a co-coordinated framework, all the relevant parties are fully aware of their respective obligations and duties during such periods. The FSCF documents its plans, which are held by PASA as participant, and will be made available from time to time under security access control to members of the PASA BCP/DR policy committee on the PASA intranet web site.

The FSCF will review reports on events as documented by PASA. The FSCF recognises the PASA BCP/DR Policy Committee as the forum for BCP/DR policy creation, dissemination as far as the payment systems used by members and operators are concerned. The FSCF has approved PASA ExO as the primary manager of crisis handling for incidents affecting payment, clearing and settlement systems in the NPS, excluding CLS that is managed by the SARB, NPSD. The PASA COO and CEO's or their nominated executives of the authorised operators attend the FSCF.

The FSCF is responsible for an event being declared systemic.

Both SARB and PASA are committee members and the PASA COO chairs the Strategy Group for Telecommunication Data Recovery that reports to the risk sub-committee of the FSCF on preparedness of the current sole provider of telecommunication data services to PASA members and authorised operators.

SARB National Payment System Strategy Group

PASA executives and member bank representative members attend NPS strategy sessions convened by the SARB.

This group also supports the regional payment and clearing strategies for the Southern African Development Community and its future role in the provision of integrated payment, clearing and settlement systems to support African Union.

CMA - Clearing and Payments Oversight Committee (CPOC)

An oversight committee is chaired by the Head of the SARB, NPSD, for payment, clearing and settlements between member countries of the Common Monetary Area (CMA). The countries being South Africa, Namibia, Lesotho and Swaziland who have adopted the Rand as a common currency unit in addition to their own currencies. The exchange rates being set at parity on a 1 for 1 basis.

Financial Action Task Force

PASA and the Banking Association provide input on behalf of the South African banking industry and can be expected to provide assistance to the SADC regional FATF initiatives.

IMF and World Bank

PASA provides support to submissions through the SARB for these organisations ongoing assessment programmes for South Africa and the region.

Business Continuity/DR Crisis Management

The FCSF has adopted PASA policies for BCP/DR and has elected to utilise the communication and reporting platforms applied by PASA in managing incidents and any subsequent crisis events in order to ensure a seamless integration into the higher level decision making process of the SARB Financial Stability Unit.

The recent release of the BIS supervisor groups BCP principles paper may move this from the current self regulator environment to the formal regulated requirements under Banks Act legislation.

Crisis Handling for Bank Failure / Curatorship

PASA has adopted two policy documents that deal with the responsibilities and actions that flow from either the failure of a member bank or the appointment of a Bank Curator by the Registrar of Banks to manage the affairs of a member that has been placed under curatorship. The declaration of such an event entails the removal of the board and executives to be replaced by the SARB appointed curator.

In the case of curatorship the SARB has included requirements for orderly settlement of any exposures during the clearing day of declaration.

PASA rules for removal of a failed member bank conform to the SARB requirement as provided for in terms of the NPS Act.

Compliance Powers/Practices

Compliance

PASA undertakes planned compliance reviews on selected high-risk areas on a scheduled basis each calendar year as approved by PASA Council.

Member banks or PASA ExO may propose additional areas for compliance verification for inclusion in the annual plan at any stage subject to Council approval.

The basis of the compliance exercise is for member bank compliance executives, as appointed under banking supervision regulation, to undertake reviews independent of the PASA member representatives, to satisfy the objective of neutral assessment.

Any areas of non-compliance are discussed fully between members at the appropriate PCH PG meetings.

Steps taken either by the member or the collective membership to remedy a reported situation are reviewed.

PASA has the powers to refer any matters to the SARB, in its role of overseer of the NPS, and also to the Registrar of Banks where a dual regulatory role is deemed necessary for specific compliance requirements.

Penalty Policy

PASA Council has adopted a policy to provide for penalty determination for member banks and operators that breach PASA rules.

The policy describes the formal process for the documentation and investigation of alleged contraventions of PASA rules. The objective is to ensure compliance by PASA members with the provisions of the PASA rules which include the contents of any PCH or any other agreement, any clearing rules, Position Paper and any policy, rule or document officially approved by PASA.

The process is intended to provide a methodology whereby a PASA member may lodge a substantiated complaint for investigation without having to enter into a dispute with the party against whom the complaint is lodged. The complainant must be a party to the transaction/s to which the complaint relates in order to be able to lodge the complaint.

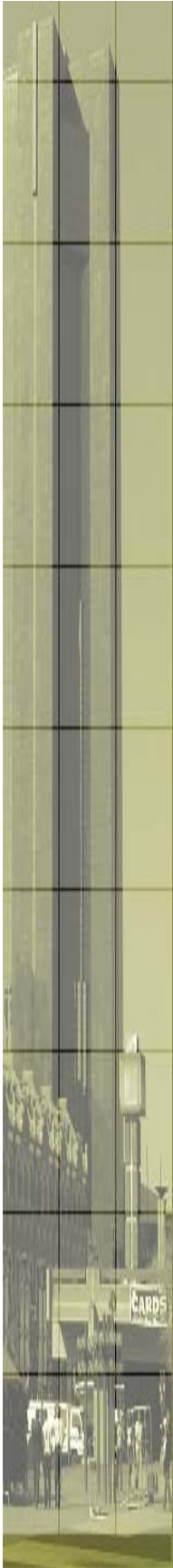
PASA assumes no wrongdoing on the part of the PASA member against which an allegation is made solely on the basis that a complaint has been lodged. Substantiated facts are required to prove a contravention of the PASA Rules.

The process provides an opportunity for a formal review and evaluation of the circumstances surrounding any possible contravention of PASA rules. The respondent is provided with the opportunity to investigate and respond to the complaint.

The process is intended to provide a methodology whereby PASA ExO may, of its own accord (in terms of an official compliance exercise or otherwise), investigate a contravention of the PASA rules (which might include a finding by the PASA Dispute Resolution Committee), in which event PASA ExO will be regarded as the complainant for purposes of following due process.

The policy further provides for the establishment of a Rules Compliance Panel that has the authority for imposition of a penalty against a respondent for a contravention of the PASA rules or when a respondent does not respond to the notices issued pursuant to the penalty rules. The panel also has the final responsibility to determine whether a PASA rules contravention has occurred.

The level of financial penalty is determined based on a range of circumstances and is subject to final approval by PASA Council.



Roles/Responsibilities/Mandate – Consumer Protection

PASA's mandate as defined does not require that the body interfaces to or provides for consideration of issues concerning consumer protection.

In the South African banking industry this role resides with member banks and in terms of the Banking Code of Conduct as issued by the Banking Association.



Stakeholder Interaction

The FEASibility Report makes reference in the Section on Access and Non-Banks to *“The failure to date by the SARB and PASA to develop any regulations in respect of CPSPs appears to be an oversight in terms of the Blue Book strategy (FEASibility Report, Page 78, Paragraph 4)”*. and *“The governance concerns about self-regulation of the payment association can be addressed by allowing broader membership of appropriate – non-bank participants to PASA (FEASibility Report, Page 30, Paragraph 4)”*.

Membership of PASA, as payment system management body, is currently restricted to banks and institutions or bodies exempted in terms of Section 3 (3) (3) of the NPS Act.

PASA has no legal ability to regulate any body other than its members. It does, however, have the ability to regulate users, including CPSPs, via its members as all participants in a payment system would be required to comply with the rules of such payment stream and the rules extend from payer to payee.

The regulation of third party payment providers proved to be problematic as the original NPS Act of 1998 excluded agents of recipients of payments from the ambit of the Act and most third party payment providers qualified as such. The amendment of the NPS Act in 2004 aimed at inter alia, correcting this shortcoming and provided for “System Operators”, a definition that would include both third party payment providers and multi-party service providers in any payment stream/s, to fall under regulation of the SARB by way of Directive.

The relevant Directives that have been drafted (a process that involved PASA and its members as well as non-bank stakeholders) are expected to be released in the near future.

The experience gained in development of the Early Debit Order (EDO) payment streams (*Solutions developed to assist providers of credit and services at the lower end of the market to collect payments as soon as possible after credits (salaries/wages) have been deposited into a customers account to enhance the probability to recover debt and increase the borrowing ability of borrowers in that market*) and engaging with the various stakeholder in that market have proven to be a valuable contribution to the understanding that positive interaction between the banks as providers of core payment systems and access to bank accounts with the various stakeholders enhance the efficiency of the service delivery as far as payment services are concerned. These lessons have resulted in the members of PASA Council considering ways of increasing engagement with all the stakeholders in the payment systems provided by PASA members as a group.

The identification of positive value added by engagement in the EDO process, enhanced by the requirements of the Promotion of Administrative Justice Act (Act 3 of 2000), that was only lately identified as relevant to PASA, resulted in PASA engaging in a process of considering ways to increase participation by all stakeholders in the processes of PASA. A Stakeholder Forum has resulted from the EDO process and will be utilised as a model for expansion to similar stakeholder forums.

The draft model developed for enhanced engagement with non-banks has been presented to the SARB for consideration