



**SOUTH AFRICAN RESERVE BANK
NATIONAL PAYMENT SYSTEM DEPARTMENT**

**POSITION PAPER - COST-RECOVERY POLICY FOR
THE SOUTH AFRICAN MULTIPLE OPTION SETTLEMENT
(SAMOS) SYSTEM**

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This paper outlines the principles that will be applied in the calculation of charges that will be levied for different services associated with the settlement system component of the National Payment System.

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1. BACKGROUND

The introduction of an online central bank settlement system aimed at facilitating efficient interbank fund transfers electronically between banks; has been one of the main strategies for reducing risks in the National Payment System (NPS), as described in the South African NPS Framework and Strategy document. Fulfilment of this strategy required that a central bank settlement system and a highly secure interbank settlement network be established.

A central bank settlement system, referred to as the South African Multiple Option Settlement (SAMOS) system, was implemented on the 09th March 1998 in order to address the above-mentioned requirement. It was agreed by the SA Reserve Bank (SARB) and the banking industry that the operational costs of the SAMOS system would be recovered from participants. Capital costs were to be depreciated by the SARB using Generally Accepted Accounting Principles.

Prior to the implementation of the SAMOS system, certain message volume projections were made due to expectations at the time. Current message volumes prove that projected volumes are not being realised. The fact that the projections and expectations did not hold true led to the situation where the costs expended for the provision of the system are not being fully recovered. Current cost recovery data indicate that we are not likely to recover all the operational costs expended for providing the settlement system in the past five years that the settlement system has been in operation. This state of affairs, led to a decision by the SA Reserve Bank to review the current SAMOS processing cost recovery model.

This document outlines the SAMOS Cost recovery approach that is followed for the provision of settlement services by the National Payment System Department of the South African Reserve Bank. Position Paper 5/97 issued earlier by this Office is hereby withdrawn and replaced by this document.

Development of this document seeks to ensure that participants in the settlement system are in no doubt about which administrative directives, guidelines and

principles are applied in the calculation of charges for the use of the SAMOS system. The principles that will be applied in the calculation of charges for the SARB-LINK interbank settlement network are, however, specifically excluded from this document.

2. PRINCIPLES APPLIED IN FORMULATION OF COST-RECOVERY POLICY

2.1 General Principles for recovery of operational costs

The fees charged for the use of the SAMOS system are based on the operational costs associated with the processing capacity required to operate the system. Charges will be divided into three distinct categories namely; an account management fee, instruction processing fee and exception charges.

The SA Reserve Bank shall levy an annual account management fee on all settlement banks at the beginning of the financial year of the SARB. Recovery of this fee will be done on a quarterly basis.

The charge for processing an instruction will be based on the operational costs associated with the processing capacity required by each instruction and not on the value of the instruction. The SAMOS system is subject to severe peak-processing periods during operational hours. In order to address the impact that this has on both processing capacity and the risk profile of the payment system, different charges may be levied for different periods of the day. The different charges shall be calculated by application of a discount or surcharge to instructions processed during a specific processing window.

One of the fundamental principles agreed upon in the South African NPS Framework and Strategy document is that payment-related risks should be visible and controlled. Instructions that cannot be processed owing to errors in the instruction format, or the paying bank not having sufficient funds and/or

collateral available in the system, can increase the payment-related risks of the NPS as a whole. Exception charges will be levied on instructions that cannot be

processed, in order to encourage the accurate preparation of instructions as well as diligent management of funds and/or collateral. In case of defaults that occur owing to circumstances beyond the control of the participant, that participant could lodge an appeal, which, if successful, would lead to repayment of the charge.

The following general principles shall be applied in the formulation of the cost-recovery policy:

- 2.1.1** All operational costs pertaining to the provision of the SAMOS system must be recovered within a financial year.
- 2.1.2** Uniform cost structures will apply to all participants in the calculation of the instruction processing charge and exception charge regardless of the size or volume of transactions or any other distinguishing characteristic. These transaction charges will be reviewed annually and will remain fixed for a year.
- The SA Reserve Bank will use the previous year's message volumes to project message volumes for the next year in order to facilitate the determination of the processing charge per instruction.
- 2.1.3** Participants will be charged a differentiated account management fee. This fee will be based on the average settlement instruction amount that the participant settled in the previous year as well as the number and types of Payment Clearing houses in which they participate. This management fee will be reviewed annually and will remain fixed for a year.
- The Account Management fee payable by each participant shall be calculated as follows;
 - A SAMOS annual operational budget figure for the next year will be determined.
 - A projected SAMOS revenue figure for the next year to be derived from message processing fees covered in 2.1.2 will be determined.
 - An estimated Under-recovery/Over-recovery amount for the next year will be determined using the SAMOS annual operational budget figure and the projected SAMOS revenue figure as determined above.

- Any Under-recovery amount derived above will be apportioned to all settlement banks based on; the number and type of Payment Clearing Houses that they participate in as well as the average amount of settlement instruction value that they settle on the settlement system.

2.1.4 At its own discretion, the SA Reserve Bank may in the first month of the financial year;

- ❑ Repay to participants any material over-recovery of fees collected in the previous year based on principles applied when the management fee was determined in that year.
- ❑ After discussion with participants, recover any material under-recovery of fees for the previous year based on principles applied when the management fee was determined in that year.

2.1.5 The costs associated with provision of the SAMOS disaster recovery facility will be recovered from participants as part of this SAMOS cost recovery policy.

2.2 General Principles for recovery of enhancement costs

In the event that a specific enhancement request, outside of planned SAMOS enhancements is put forward by the participants to the SA Reserve Bank, implemented and paid for by the SA Reserve Bank, the cost associated with the implementation thereof will be recovered separately by means of a once off fee to participants.

3. METHOD AND FREQUENCY OF PAYMENT FOR CHARGES

The account management fee shall be payable quarterly. This fee shall be levied by the SARB on all settlement banks at the end of each quarter. Payment of this fee shall be recovered by means of a batch submitted by the SARB on a settlement cycle date advised to participants in advance.

A once off charge per settlement member for implemented enhancements requested by participants from the SA Reserve Bank will be determined based on the nature of the enhancement requested as well as the cost of providing such a service or facility. Payment of this fee shall be recovered by means of a batch submitted by the SARB on a settlement cycle date advised to participants in advance.

The total instruction processing fees as well as exception charges will be calculated for all participants at the end of each settlement cycle day (SCD). A settlement instruction (SI) will be generated by the SAMOS system at the beginning of the next SCD in order to pay the SA Reserve Bank for these charges. Although the SI will be generated by the SAMOS system, the participating bank will be responsible for ensuring that there are sufficient funds in its settlement account to pay the charges.

4. ACKNOWLEDGEMENT OF RECEIPT

Two additional copies of this position paper are enclosed for the use of your institution's independent auditors. The attached acknowledgement of receipt, duly completed and signed by both the chief executive officer of the institution and the said auditors, should be returned to the National Payment System Department at the SARB at the earliest convenience of the aforementioned signatories.

D C Mitchell

Head: National Payment System Department

ACKNOWLEDGEMENT OF RECEIPT

I acknowledge receipt of Position Paper 01/2003. Copies have been handed to the undermentioned auditors of this institution:

NAME OF AUDITOR

AUDITOR'S SIGNATURE

1. _____

2. _____

DATE

CHIEF EXECUTIVE OFFICER

NAME OF BANK

PLEASE RETURN TO:

The National Payment System Department
P O Box 427
PRETORIA
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