



# Cash Conventions

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## AFMA Code of Conduct

AFMA promotes efficiency, integrity and professionalism in Australia's financial markets. The AFMA Code of Conduct (the Code) clearly articulates the ethical principles for minimum acceptable standards of behaviour and supports responsible decision making by firms and individuals engaged in financial markets activities.

All AFMA Financial Markets Members and Partner Members<sup>1</sup> are expected to observe the Code and operate with integrity, professionalism and competence. The Code is designed to support behaviors that put the interests of clients, the firm and the wider community ahead of personal or individual interests, and promotes confident participation by users in Australia's OTC markets.

The Code is presented in two parts – the [Ethical Principles](#) and the [Guidelines](#).

Market participants are reminded that they are generally expected to observe and adhere to the market standards and conventions<sup>2</sup> as set out below when engaging in any form of market dealing.

### 1. Description

Australia's cash market is a key component within the overall structure and stance of Australia's official monetary policy, the latter determined by the Board of the Reserve Bank of Australia (RBA) and which is set in terms of a target for the cash rate – the interest rate on overnight, unsecured loans between financial institutions. The cash rate is determined in the market by the interplay of the demand for, and the supply of, Exchange Settlement (ES) balances, which are adjusted daily by the RBA to ensure close correlation of the interest rates reflecting the demand for system cash with that of the official cash rate target.

These Cash Market Conventions apply to both unsecured and secured transactions between market participants generally and AFMA members specifically, such transactions being settled in ES cash via the RBA's Real Time Gross Settlement (RTGS) feeder systems, i.e. Austraclear, RITS or SWIFT.

Conditions relating to settlements via bank cheque or other deferred settlement methods are subject to negotiation between individual participants. Loans are usually either at call or for a fixed term.

In November 2013, the Reserve Bank introduced changes to its Reserve Bank Information and Transfer System (RITS) to allow the same-day settlement of non-government direct entry (DE) obligations through banks' Exchange Settlement Accounts. Direct entry payments are now settled as part of a netted multilateral settlement on the same day they are cleared, and shortly after the official industry clearing exchange times, at 10.45 am, 1.45 pm, 4.45 pm, 7.15 pm and 9.15 pm.

Four distinct RBA Exchange Settlement Account (ESA) trading sessions occur each day. These are:

- 1) The Morning Settlement Session (7:30am – 8:45am) settles prior day's low value settlements (LVSS) together with any DE payments which did not settle on the prior day and are resubmitted on a net deferred basis. This session is open to banks holding an ESA with the RBA.

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<sup>1</sup> As defined in the AFMA Constitution

<sup>2</sup> The Cash Conventions are maintained by the AFMA Cash Committee

- 2) The Daily Settlement Session (9:15am-4:30pm) is open to all RITS clients (irrespective of whether the client holds an ESA or not) for settlement of transactions via the RTGS feeder systems.
- 3) The Settlement Close Session (4:30-5:15pm) is used by banks to clear payments queued in the RTGS system both on behalf of the ESA holder and their clients. Only RITS transactions are permitted in this session.
  - 3.1. An Interim Session is conducted between 5:15-5:20pm.
- 4) The Evening Settlement Session commences immediately following the Interim Session (5:20pm) and concludes at 10:00pm.

**\*\*Note\*\***: The SWIFT settlement *cut-off* is at 6:05pm AEST and 8:05pm AEDT.  
The SWIFT and Austraclear *close* is at 6:30pm AEST and 8:30pm AEDT

Banks may bilaterally trade amongst themselves during all sessions.

## 2. Products

### 2.1. At Call Funds

Except as prescribed in Section 2.3 *Cash Transactions between ESA holders*, at call funds can be recalled, repaid or renegotiated as to interest rate during morning money market trading (until 11am) without the need for prior notice. For repaid/recalled funds, transactions must be matched or input into the preferred settlements stream by 12:30pm Sydney time.

### 2.2. Term Funds

Cash dealt to a fixed maturity date, with interest paid at maturity

### 2.3. Cash Transactions between ESA holders

Cash transactions between ESA holders may be entered into and settled in any of the RITS Sessions, depending on negotiation between the parties involved. Specific rules apply to transactions between ADI banks that settle any payment across their own ESA, as prescribed in Section 2.3.1.

#### 2.3.1. Conventions facilitating RBA's use of RITS transaction data to calculate the Cash Rate

The Market Operations (MO) section of the Reserve Bank's Domestic Markets Department collects all RITS cash transfers for each day RITS is open for settlement.

All cash transfers identified by **ESA holder banks** as interbank cash rate (IBOC) transactions are used as inputs to calculate and publish the Cash Rate. In order for MO to apply this process, specific cash market practices are required, as described in the [RBA's Cash Rate Methodology and Procedures Manual](#). In particular, IBOC transactions must be entered in RITS as specified in *Section 4. Data Sufficiency and Section 5. Input Selection* of the RBA manual. Specific market conventions applicable to cash transactions between **ESA holder banks** are as follows:

##### 2.3.1.1. Overnight term

All IBOC cash transactions must be for an overnight term, and under no circumstance be rolled.

##### 2.3.1.2. Interest rate

The interest rate applicable to all IBOC cash transactions must be recorded in the dedicated RITS Cash Transfer 'Interest Rate' field;

#### **2.3.1.3. Settlement**

- a. IBOC cash transactions must be settled through RITS Cash Transfers: Exigo must not be used for this purpose;
- b. IBOC cash transactions must be identified in the 'Private Comments' field using one of two identifier codes:
  - i. IBOC1 for the first leg;
  - ii. IBOC2 for the second leg.
- c. Second leg transactions must encompass principal and interest in a single payment, with the interest rate recorded in the 'Interest Rate' field.

#### **2.4. Cash Transactions where one or both parties are not an ESA holder**

These cash transactions are restricted to the daily settlement session only (9:15am-4:30pm), as are transactions via Austraclear or SWIFT.

### **3. Dealing**

#### **3.1. Methods of Dealing**

Phone, or as otherwise agreed between parties.

#### **3.2. Electronic Dealing**

Platforms and communications networks as bilaterally approved for use between parties

#### **3.3. Business Day**

A business day is defined as any day on which the Reserve Bank Information and Transfer System (RITS) is open for business in Sydney and/or Melbourne.

#### **3.4. Standard Transaction Size (market parcel)**

A standard market parcel is AUD25million, subject to credit limits.  
Market Parcel is negotiable between counterparties at the time of dealing.

#### **3.5. Two Way Pricing**

Not Applicable

#### **3.6. Quotation and Dealing**

Bid – where the cash is borrowed.

Offer – where the cash is lent.

At the point of trade execution, the rate dealt is to be communicated between both parties.

#### **3.7. Other Instrument Conventions**

For conventions regarding general collateral repos and intra-day repos please refer to the [Repo Conventions](#)

#### **3.8. Basis**

All rates are quoted on an actual/365 day basis.

Loans between ESA holders pay interest at maturity

Loans between all other parties (and between ESA account holders where one party is a non-bank) pay interest under bilaterally agreed terms.

### **3.9. Maturity Conventions**

Except as prescribed in Section 2.3 *Cash Transactions between ESA holders*, 11:00am transactions are at call and are automatically rolled the following day at 11am unless otherwise advised and agreed between counterparties.

### **3.10. Settlement Rate or Index**

Not Applicable

### **3.11. Premium Payment Date(s)**

Not Applicable

### **3.12. Expiry Conventions**

Not Applicable

### **3.13. Broker Conventions**

Not Applicable

### **3.14. Confidentiality**

No specific conventions apply. Refer to Ethical Principle 9 (EP9) of the AFMA Code of Conduct and associated Guidelines, which describes expectations with regard to the treatment of confidential information.

### **3.15. Credit**

All transactions are subject to the credit limits as applied by the lender. Dealers should advise the counterparty if they are unable to transact due to credit constraints.

### **3.16. Exercise of Options**

Not Applicable

### **3.17. Data Source**

Not applicable

### **3.18. Pricing Formulae**

Simple interest formula – The general form for calculating the simple interest amount is:

$$I = P \times r \times t$$

$I$  = amount of interest

$P$  = principle amount or present value

$r$  = rate of interest per annum

$t$  = time in years

### 3.19. Cash Market Closing Time

The Cash market closes concurrently with the close of SWIFT, i.e. 6.30 pm AEST, 8.30 pm AEDT. This notwithstanding, parties may bilaterally agree to deal and settle cash transactions up until the close of the Evening Settlement Session, i.e. 10:00pm.

## 4. Confirmations

At the point of trade execution, the rate dealt is to be communicated between both parties. Refer to the [Australian Dollar Debt Instrument Confirmation & Settlement Standards](#).

### 4.1. Timing

The settlement function replaces the initial confirmation.

**Except as described in Section 2.3 Cash Transactions between ESA holders**, when confirming & settling cash transactions via the RBA RITS and/or the SFE Austraclear systems counterparties are requested to input the agreed cash rate, thus allowing the functionality of those systems to match the trades.

### 4.2. Obligation of Dealers

All dealers are subject to the AFMA Code of Conduct.

### 4.3. Documentation

#### 4.3.1. Unsecured transactions

No specific convention applies: The documentary standard will be bilaterally agreed between the parties

#### 4.3.2. Repo

Currently The 2000 TBMA/ISMA Global Master Repurchase Agreement, with the AFMA-recommended replacement of Annex 1 (available by subscription to the AFMA Guide to Australian OTC Transactions section 2.2), as the recommended market standard. This is currently being reviewed and will be replaced by the 2011 GMRA and annexes in due course.

#### 4.3.3. Other

The documentary standard will be bilaterally agreed between the parties.

## 5. Settlements

Refer to the [Australian Dollar Debt Instrument Confirmation & Settlement Standards](#).

### 5.1. Physical Settlements

**Except as described in Section 2.3 Cash Transactions between ESA holders**, physical settlement is still available as a method of settlement, although it is preferable that settlements fall under the RTGS umbrella. Physical settlement can only be made with the prior agreement of both counterparties.

### 5.2. Cash Settlements

**Except as described in Section 2.3 Cash Transactions between ESA holders**, the system uses several preferred payment methods: SWIFT, Austraclear and RITS, all of which fall under the RTGS umbrella.

**5.3. Premium Payments**

Not Applicable

**5.4. Exercise of Options**

Not Applicable

**5.5. Settlement Failures**

Failure to pay funds into a counterparty's account on the agreed value date will require an adjustment for good value. For funds paid to an incorrect account undue enrichment may be claimed.

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