



## Prudential Standard APS 910

### Financial Claims Scheme

#### Objective and key requirements of this Prudential Standard

This Prudential Standard sets out the minimum requirements that an ADI must meet to ensure it is adequately prepared should it be declared under the Financial Claims Scheme.

The key requirements of this Prudential Standard include that:

- an ADI must identify each unique account-holder;
- an ADI must develop and implement a Single Customer View;
- an ADI must put in place processes and controls to ensure the integrity of Single Customer View data; and
- the systems and data required by this Prudential Standard must be subject to both external audit and sign-off by the chief executive officer.

#### Authority

1. This Prudential Standard is made under section 11AF of the *Banking Act 1959* (the **Banking Act**).

#### Application

2. This Prudential Standard applies to all authorised deposit-taking institutions (**ADIs**) except for foreign ADIs.
3. References to APRA in this Prudential Standard may include a person to whom APRA has delegated its functions or powers in accordance with section 16AN of the *Banking Act* or section 15 of the *Australian Prudential Regulation Authority Act 1998*.

## Definitions

4. In this Prudential Standard:

*account-holder* has the meaning in subsection 5(1) of the Banking Act.

*declared ADI* has the meaning in subsection 5(1) of the Banking Act.

*End-of-Day* means 9.00 am on the day following the date on which the Minister's declaration is made under section 16AD of the Banking Act in relation to an ADI or, for testing purposes, 9.00 am on the day following the date on which APRA requests that the information be generated.

*FCS* means the Financial Claims Scheme for ADIs.

*net credit balance* has the meaning in section 5 of the Banking Act.

*prescribed account* is an account prescribed under section 16AH(5) of the Banking Act.

*protected account* has the meaning in section 5 of the Banking Act.

## Single Customer View

5. An ADI must identify each unique account-holder for the purposes of being able to pay an account-holder who holds a protected account should the ADI be a declared ADI under section 16AD of the Banking Act.
6. An ADI must maintain the capacity to generate the aggregate balance of all protected accounts (including prescribed accounts) held by an account-holder in the form of a Single Customer View (SCV).
7. An ADI must maintain its SCV systems and the SCV data generated by those systems in Australia, unless otherwise approved, in writing, by APRA.
8. The information that an ADI must include in its SCV is set out in Attachment A to this Prudential Standard. Attachment B provides associated information for account aggregation purposes and determining End-of-Day positions.

## Time for generating SCV data

9. An ADI must generate SCV data within 48 hours of the End-of-Day on which:
- (a) a declaration is made under s 16AD of the Banking Act; or
  - (b) APRA requests the ADI to generate the data.

## Audit

10. The systems, controls, processes and information used by an ADI to generate its SCV data must be reviewed by an auditor engaged for this purpose. This review and testing must be done on an annual basis to enable the auditor to form an

opinion on the accuracy and reliability of the data and the systems used to generate those data.

11. For the purposes of data generated in accordance with this Prudential Standard, an ADI must engage an auditor:
  - (a) at the end of the applicable transition period under this Prudential Standard to undertake a reasonable assurance review of the controls over the systems used to generate SCV data for the purpose of ensuring that the SCV can be relied upon as being complete and accurate; and
  - (b) to undertake a reasonable assurance review every third year thereafter, with limited assurance reviews in intervening years.
12. Notwithstanding the requirements in paragraph 11, APRA may, in writing, require an ADI to engage an auditor to undertake a reasonable assurance review of SCV systems and data if:
  - (a) APRA has concerns about the ADI's systems used to generate SCV data, or controls over those systems, or the data generated by those systems or any other aspect of an ADI's operations in relation to Financial Claims Scheme (FCS) matters; or
  - (b) a review conducted by the auditor is qualified, or the auditor has concerns about the systems used to generate SCV data, controls over those systems, or data generated by those systems or any other aspect of an ADI's operations in relation to FCS matters.
13. An ADI must ensure that a copy of the final audit report produced for the purposes of this Prudential Standard is provided to APRA at the same time as it is provided to the ADI.
14. All information generated by an ADI under this Prudential Standard must be subject to processes and controls developed by the ADI for the internal review and authorisation of that information. It is the responsibility of the Board and senior management of an ADI to ensure that appropriate policies and procedures are in place to ensure the integrity of SCV systems, processes and data.

### **Attestation**

15. An ADI must, within three months of its annual balance date, provide APRA with an attestation from its chief executive officer (**CEO**).
16. The CEO must attest, for the financial year to which the declaration relates, that:
  - (a) the ADI has taken all necessary steps to ensure that it is compliant with the requirements as set out in this Prudential Standard;
  - (b) the ADI has systems and processes that allow it to identify each unique account-holder who holds a protected account;

- (c) the ADI is able to calculate an SCV for each unique account-holder in accordance with this Prudential Standard and transmit those data to APRA, if APRA so requires;
  - (d) the ADI's systems and associated controls are adequate for the purposes of ensuring that data generated by SCV systems are complete and accurate; and
  - (e) the ADI is able to generate the SCV data required by this Prudential Standard within the timeframes set out at paragraph 9.
17. If the CEO is unable to provide the attestation at paragraph 15 without qualification, the CEO must set out in the attestation the reasons why he or she is unable to make an unqualified attestation.
18. The attestation required at paragraph 15 may be provided by an ADI at the same time and as part of the declarations required by *Prudential Standard APS 310 Audit and Related Matters*.

### **Commencement**

19. This Prudential Standard commences on 1 January 2012.

### **Transition**

20. An ADI will be allowed a transition period of two years from the date of commencement of this Prudential Standard in which to comply with the requirements of this Prudential Standard.
21. In addition to the transition provided for at paragraph 20, APRA may grant an extended transition period, of up to two years, for an ADI to comply with this Prudential Standard or parts thereof.
22. An ADI seeking an extended transition period must set out its request, in writing, to APRA.
23. In deciding whether to grant an extended transition period, APRA will take into account the matters set out by an ADI in its request, as well as any other matters APRA considers relevant in deciding whether to grant an extended transition period and the period of the extension. APRA may impose conditions it considers appropriate in granting an extended transition period.
24. An ADI seeking an extended transition period must, as part of its request, set out those provisions in this Prudential Standard it will be unable to comply with by the end of the transition period provided for at paragraph 20, the reasons why it cannot comply, details of the actions it will take to comply, in the shortest reasonable time, and the timeframe for its compliance with this Prudential Standard.
25. An ADI granted an extended transition period under this Prudential Standard must provide periodic progress updates to APRA, in a form specified by APRA and at an interval determined by APRA.

26. An ADI granted an extended transition period under paragraph 21 must comply with this Prudential Standard by the earlier of the date specified by APRA or 31 December 2015.
27. For the purposes of paragraph 9 of this Prudential Standard, the time period in which an ADI must be able to generate SCV data is extended from 48 hours to 72 hours after End-of-Day until 31 December 2015.

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## Attachment A

This Attachment sets out the data that an ADI must include as part of its SCV (refer to Table 1 for data items to be captured). The data are necessary to ensure the integrity of the SCV. The SCV will ensure the identification of protected accounts for each unique account-holder, thereby facilitating the timely and accurate payout of FCS balances to account-holders in the event that an ADI is declared by the Minister under section 16AD of the Banking Act.

### Account-holder information

1. Each unique account-holder must be identified. For this purpose, an ADI will need to have some form of unique account-holder identifier that can be used to identify each account-holder and aggregate the balances in protected accounts for an account-holder into an SCV. The account-holder identifier will form the basis for the payment of balances held in protected accounts up to the FCS limit.
2. The account-holder status (or customer status) refers to the status an ADI normally uses for this purpose - e.g. whether the account-holder is deceased, bankrupt, has no valid address or any other indicator the ADI may use to identify the status of the account-holder.
3. An ADI must capture the account-holder details in Table 1, including such matters as title, name, address (both postal and street address), telephone numbers and email addresses to the extent that the ADI has these data in its source systems.

### Account details

4. This is the information that an ADI must include for each protected account that is aggregated for each account-holder into an SCV.

### Account-holder aggregate details

5. The aggregate details refer to the sum of all individual account balances for an account-holder.

### ADI summary account-holder and deposit data

6. An ADI's SCV systems must be able to generate summary account-holder and deposit data for use by APRA (refer to Section 2 of Table 1). An ADI may include any additional information it considers pertinent for this purpose.

**Table 1**

#### Section 1 – Account-holder information

<b>1. Account-holder identifier</b>	
1.1	Account holder identifier
1.2	Account-holder status
1.3	Tax file number (if available)
1.4	Whether account-holder is an active electronic banking customer

<b>2. Account-holder details</b>	
2.1	Entity details
2.1.1	Entity type
2.2	Entity name
2.2.1	Title
2.2.2	Surname
2.2.3	Middle name or initial
2.2.4	First name or initial
2.2.5	Suffix
2.3	Date of birth
2.4	Street address details
2.4.1	Unit / Street Number
2.4.2	Street Name
2.4.3	City/Town/Suburb
2.4.4	State
2.4.5	Postcode
2.4.6	Country
2.5	Mailing address details
2.5.1	PO Box (if applicable)/ RMB etc
2.5.2	Unit / Street number
2.5.3	Street Name
2.5.4	City/Town/Suburb
2.5.5	State
2.5.6	Postcode
2.5.7	Country
2.6	Email address details
2.7	Telephone number details
2.7.1	Home telephone
2.7.2	Work telephone
2.7.3	Mobile telephone
<b>3. Account details (for each protected account for each account-holder)</b>	
<b>3.1 Account title</b>	
3.1.1	Account status
3.1.2	Account classification
3.2	BSB
3.3	Account number
3.4	Product type
3.4.1	Product name
3.5	Account balance
3.5.1	Account balance – cleared funds
3.5.2	Account balance – uncleared funds
3.5.3	Principal
3.5.4	Accrued interest
3.5.5	Accrued fees and charges
<b>4. Account-holder aggregate account details</b>	
4.1	Aggregate account balance details
4.1.1	Aggregate balance – cleared funds
4.1.2	Aggregate balance – uncleared funds
4.1.3	Aggregate principal (sum of principal in all protected accounts)
4.1.4	Aggregate accrued interest (sum of accrued interest for all protected accounts)
4.1.5	Aggregate accrued fees and charges (sum of accrued fees and charges attributable to all protected accounts)

## Section 2 – ADI summary deposit data

<b>5.</b>	<b>Aggregated ADI deposit data</b>
5.1	FCS eligible deposit balance
5.1.1	Aggregate cleared funds
5.1.2	Aggregate uncleared funds
5.1.3	Aggregate sum of principal amounts
5.1.4	Aggregate sum of accrued interest amounts
5.1.5	Aggregate sum of accrued fees and charges
5.1.6	Aggregate sum of prescribed account balances
5.2	Total balance of all deposits of the ADI

7. An ADI must ensure that controls are in place in relation to its SCV data such that:
- (a) data sourced from any product, customer or other ADI system for SCV purposes are complete and accurate, to the extent practicable;
  - (b) all fields are populated with data, or fields with no data are flagged as data ‘not available’;
  - (c) calculation fields are accurate (for example, an account-holder’s aggregate account-holding is equal to the sum of its constituent parts);
  - (d) name and address fields are complete and valid;
  - (e) all records are referenced to their source;
  - (f) there are no duplicate account-holders;
  - (g) there are no duplicate records for an account-holder; and
  - (h) SCV account balances are reconciled to source systems.



## Attachment B

This Attachment includes requirements concerning account aggregation and calculation of End-of-Day positions.

### Principles for account aggregation

1. The account aggregation principles are designed to assist an ADI with the treatment of balances in protected accounts. How an account is treated will depend on the entity type (as defined in section 960-100 of the *Income Tax Assessment Act 1997*) and whether the account is held in a single name or in multiple names.
2. An ADI must apply the following rules when dealing with protected accounts:
  - (a) each protected account attributable to an account-holder must be aggregated under an SCV for the purpose of establishing an account-holder's balance;
  - (b) account aggregation for SCV purposes must include aggregation of all protected accounts in an account-holder's name including protected joint accounts, business accounts, prescribed accounts and all other protected accounts held by an account-holder, whether individually or jointly;
  - (c) prescribed accounts must be included in the SCV and also flagged as being prescribed accounts, since all such accounts will be transferred to 'like' accounts at another ADI to preserve their status rather than being paid out to the account-holder;
  - (d) joint accounts must be split on a proportionate basis between all account-holders named on that account (e.g. for a joint account with four named account-holders, each account-holder would have one quarter of the total account balance included as part of their aggregated protected account balance);
  - (e) in the case of business accounts, where the account is held in a business name, the balance must be treated as belonging to a single account-holder, being the person (including corporations, etc) named as the account-holder. If a business account is held in multiple individual names (as may be the case with partnership accounts) the rules for joint accounts apply; and
  - (f) as for joint accounts, the balance in a partnership account is to be split proportionately among all named account-holders.
3. An ADI must separately identify and flag each pooled trust account held by an account-holder.

## Calculation of End-of-Day deposit balances

4. The amount repayable to an account-holder must be calculated as the sum of the End-of-Day deposit balances held in all protected accounts in an account-holder's name on the day on which a declaration is made that the FCS applies in relation to an ADI (or if APRA requires the ADI to generate data for test purposes, the day on which APRA instructs the ADI to generate the data). As End-of-Day deposit balances could include both cleared and uncleared funds, payments must only be made on the basis of deposit balances comprising cleared funds. Uncleared funds in protected accounts, on the day the FCS is declared, must clear before being eligible to be paid out.
5. A failed ADI is likely to be withdrawn from the payments system as soon as a decision is made to declare the FCS in relation to that ADI. It is therefore necessary to ensure the correct posting to accounts of all unsettled<sup>1</sup> payments exchanged between the failed ADI and other ADIs on the day of the failure. These payments could include direct entry credits, cheques and EFTPOS transactions.
6. An ADI must not net or set-off against balances held in a protected account for the purposes of the FCS. All balances must be on a gross basis adjusting for accrued interest, fees and charges applicable to an account (i.e. the net credit balance as defined in section 5 of the Banking Act).
7. Overdrafts and other forms of debt must not to be set off against balances in protected accounts.

## Process for determining End-of-Day position

### Failure by a direct participant

8. The Australian Payments Clearing Association's (APCA's) Australian Paper Clearing System (APCS) has been determined by the Reserve Bank of Australia to be a 'recognised settlement system' under the *Cheques Act 1986* (Cheques Act). The effect of this is that all cheques drawn on an ADI that becomes a failed financial institution (within the meaning of subsection 70A(2) of the Cheques Act) after the cheque is lodged and before the cheque is settled are taken to be dishonoured. Accordingly, for the purpose of calculating an End-of-Day balance, any debits posted to an account by a failed ADI in connection with unsettled cheques must be reversed. Similarly, credit entries made by other ADIs to an account arising from unsettled cheques drawn on the failed ADI must also be reversed.
9. Cheques drawn on an ADI, other than the failed ADI, and deposited into accounts at a failed ADI prior to the commencement of statutory management remain obligations due to the failed ADI by the ADI on whom the cheque is drawn. When calculating the End-of-Day aggregate deposit balance, the failed ADI must ensure that credits associated with these cheques are posted to accounts as they normally

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<sup>1</sup> Settlement refers to the extinguishment of obligations arising between payments system participants (including ADIs) using Exchange Settlement Accounts at the Reserve Bank of Australia.

would be. However, these deposits would remain subject to the standard APCS rules on cleared funds (i.e. cheques drawn on an ADI, and deposited at the failed ADI, could be dishonoured by an ADI if, for example, the drawer had insufficient funds in their account). As a result, End-of-Day deposit balances must distinguish between 'cleared' and 'uncleared' funds. APRA will only make FCS payments to account-holders in respect of cleared funds.

10. Legislation similar to the Cheques Act does not exist in respect of other payments instruments. Treatment of accounts in respect of non-cheque payment instruments may be influenced by non-APCA contractual requirements (e.g. BPAY). To the extent that contractual requirements are either silent, or allow discretion to be exercised, ADIs must adopt uniform accounting treatments in dealing with a failed ADI.
11. The exchange of direct entry credit and debit files will cease from the time that an ADI is withdrawn from the payments system. Specifically, for files that were exchanged prior to the ADI's withdrawal:
  - (a) unsettled direct entry credit files received from a failed ADI would be returned to the failed ADI if they had not already been posted to accounts at another ADI. Unsettled direct entry credits that had been posted to accounts at another ADI would stand. To ensure consistent treatment between accounts at a failed ADI and all other ADIs, the failed ADI would need to explicitly identify which of its files had been processed by another ADI and which had not;
  - (b) direct entry debit files that have not been settled by a failed ADI would be treated as if they had not been exchanged or dishonoured (and any account postings would be reversed by the receiving ADI as well as the failed ADI);
  - (c) all direct entry credit and debit files exchanged on the day of failure, which require settlement payment from another ADI to the failed ADI, are to be processed as normal. As a result, the failed ADI would need to post incoming direct entry credit payments from other ADIs and include these transactions in its End-of-Day aggregate deposit balance. The same would apply to direct debit files the failed ADI had exchanged with other ADIs;
  - (d) real-time gross settlement (RTGS) payments are settled at the time they are exchanged. As a result, RTGS payments exchanged between a failed ADI and another ADI are irrevocable and these transactions must be included in the End-of-Day balance; and
  - (e) a failed ADI's ATM network and EFTPOS banking channels would be closed from the time that the ADI is withdrawn from the payments system. Unsettled ATM and EFTPOS transactions must not be revoked because of the real-time nature of these transactions. APRA would also instruct the statutory manager, or request the liquidator, to close the payments functions associated with a failed ADI's internet and telephone banking facilities.

### **Accrued interest and fees**

12. An ADI must calculate accrued interest and pay interest at the relevant interest rate applicable to the account in question, rather than a break rate that might apply if an account-holder withdraws funds before a certain time or subject to other restrictions. An ADI must ensure that its accounting systems are able to apply interest at the contractual rate applicable to each account in the event of the ADI failing.
13. For the purpose of testing SCV data, it will not be necessary for an ADI, in calculating the End-of-Day balance, to run an accrual to determine interest, fees and charges applicable to an account, unless the accrual is normally run on a daily basis or where the reporting date selected by APRA coincides with month-end. An End-of-Day figure based on the principal amounts held in each protected account will be sufficient for the initial End-of-Day balance for testing purposes.

### **Treatment of unsettled payments**

14. Depending on how account-holders are to be paid out, an ADI would either be suspended from the payments system and then reinstated for a limited period to facilitate payment to account-holders (if the ADI's own systems were used for payment), or terminated from the payments system, with APRA appointing a paying agent to pay out balances in protected accounts up to the FCS limit to account-holders. In either case, the standard APCA failure-to-settle procedures would be applied in each payment system in which the ADI was a participant.
15. APCA rules distinguish between direct participants and indirect participants. The former assume responsibility for settlement of payments obligations drawn on indirect participants as well as their own settlement obligations. In the event that an indirect participant fails, its representative direct participant remains responsible for settling the indirect participant's obligations. In these circumstances, credits posted to accounts at a solvent ADI, and associated debits posted to accounts at the failed ADI, would stand even where the indirect participant had not settled for the resultant obligations with its representative direct participant (subject to the legitimate reversal of direct credits and the possibility of direct debits being dishonoured by the failed ADI). Since some ADIs are direct participants in one or more APCA payment systems while participating indirectly in others, the treatment of customer accounts may vary by payment instrument.

### **Reversing a bank cheque drawn on a failed ADI**

16. Unsettled bank cheques, including personal cheques, drawn on a failed ADI would be dishonoured by other ADIs under existing APCA rules upon an ADI being wound up. In effect, an ADI would need to identify the cheques drawn on the failed ADI that had been deposited to customer accounts that day (since the last interbank 9am settlement) and then debit them to the receiving customers' account balances. Equally, the failed ADI would need to be able to re-credit any cheque debits posted to its customers' accounts since the last interbank settlement occurred. Bank cheques (as distinct from customer cheques) would need to be re-

**September 2011**

credited to the bank cheque account held in the failed ADI's name they were drawn from.

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