



Cash Conventions

Contents

Preface: AFMA Code of Conduct.....	2
1. Description.....	3
2. Products.....	3
2.1. At Call Funds.....	3
2.2. Term Funds.....	3
2.3. Cash Transactions between ESA holders.....	4
2.3.1. Conventions facilitating RBA's use of RITS transaction data to calculate the RBA Cash Rate .	4
2.4. Cash Transactions where one or both parties are not an ESA holder.....	4
3. Dealing.....	4
3.1. Methods of Dealing.....	4
3.2. Electronic Dealing.....	4
3.3. Business Day.....	5
3.4. Standard Transaction Size (market parcel).....	5
3.5. Two Way Pricing.....	5
3.6. Quotation and Dealing.....	5
3.7. Other Instrument Conventions.....	5
3.8. Basis.....	5
3.9. Maturity Conventions.....	5
3.10. Settlement Rate or Index.....	5
3.11. Premium Payment Date(s).....	5
3.12. Expiry Conventions.....	5
3.13. Broker Conventions.....	5
3.14. Confidentiality.....	6
3.15. Credit.....	6
3.16. Exercise of Options.....	6
3.17. Data Source.....	6
3.18. Pricing Formulae.....	6
3.19. Cash Market Closing Time.....	6
4. Confirmations.....	6
4.1. Timing.....	6
4.2. Obligation of Dealers.....	6
4.3. Documentation.....	7
4.3.1. Unsecured transactions.....	7
4.3.2. Secured transactions.....	7
4.3.3. Other.....	7
5. Settlements.....	7
5.1. Physical Settlements.....	7
5.2. Cash Settlements.....	7
5.3. Premium Payments.....	7
5.4. Exercise of Options.....	7
5.5. Settlement Failures.....	7
Settlement of Market Repo Transactions in Austraclear.....	7

Preface: 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 Members¹ 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 conventions² as set out below when engaging in any form of market dealing.

¹ As defined in the AFMA Constitution

² The Cash Conventions are maintained by the AFMA Cash Committee

1. Description

The Cash Market is the market for unsecured loans between Australian authorised deposit-taking institutions (ADIs). For the purposes of the determination of the RBA Cash Rate, which is a significant financial benchmark, the Cash Market is the market for borrowing and lending Australian Dollar ESA balances between cash market participants (as defined by the RBA in its Cash Rate Procedures Manual) on an unsecured basis, for same day settlement and an overnight term.

These Cash Market Conventions apply to unsecured transactions that are settled 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 bilateral agreement between individual participants. Loans are usually either at call or for a fixed term.

There are four distinct ESA trading sessions that occur each day:

- 1) The Morning Settlement Session (7:30am – 8:45am) settles the prior day's low value settlements (LVSS) together with any Direct Entry (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.
- 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 (4:30pm-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 5:15pm-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 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 during morning money market trading (until 11am) without the need for prior notice. For repaid/recalled funds, transactions must be matched and input into the preferred settlements stream by 12:30pm Sydney time.

2.2. Term Funds

Cash transactions 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 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 RBA 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 holding banks** as Interbank Overnight 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](#). In particular, IBOC transactions must be entered in RITS as specified in *Section 4. Data Sufficiency and Section 5. Input Selection* of the [RBA Cash Rate Procedures 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 'Trade Type' 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 settled 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 any day that the Reserve Bank Information and Transfer System (RITS) is open.

3.4. Standard Transaction Size (market parcel)

Market Parcel is negotiable between counterparties at the time of dealing. AUD 25 million is deemed to be the normal market parcel in circumstances where it is not specified by the parties 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.

The rate dealt is to be communicated between the parties at the point of trade execution.

3.7. Other Instrument Conventions

For conventions regarding secured transactions, e.g. 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. Lenders are expected to be aware of any counterparty credit constraints prior to dealing and should advise the counterparty if they are unable to transact on these grounds.

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 or 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 [AFMA Common Confirmation and 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 and settling cash transactions via RITS and/or Austraclear, counterparties are requested to input the agreed cash rate, thereby allowing the functionality of those systems to match the trades.

4.2. Obligation of Dealers

Dealers are expected to conduct business activities in accordance with the principles expressed in 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. Secured transactions

Refer AFMA [Reciprocal Purchase Agreements Conventions](#)

4.3.3. Other

As bilaterally agreed between the parties.

5. Settlements

Refer to the [AFMA Common Confirmation and Settlement Standards](#).

5.1. Physical Settlements

Not applicable.

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.

Settlement of Market Repo Transactions in Austraclear

On 11 December 2019 Austraclear published a market notice advising all Austraclear participants that from **23rd November 2020**, all Market Repos are to be settled using the dedicated repo module in Austraclear. The link to the notice follows.

<https://www.asxonline.com/content/asxonline/public/notices/2019/dec/1433.19.12.html>
