



BANK OF ENGLAND

Publication



# CHAPS Reference Manual

October 2021



Please note this version has been supplied as advanced information and as such is draft.

Users should note that the provisions within this advanced CHAPS Reference Manual are subject to change from time to time. Whilst we endeavour to publish the most up to date documents on our website, we would encourage all those wishing to review any published documents to contact the Bank of England in order to ensure they receive the most up to date versions.

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# Overview

## 1. General overview

### *Introduction, Scope and Application*

- 1.1 This CHAPS Reference Manual is issued by the Bank.
- 1.2 The Bank is a body corporate incorporated by Royal Charter and whose principal place of business is at the Bank of England, Threadneedle Street, London EC2R 8AH, United Kingdom.
- 1.3 The Bank issues this CHAPS Reference Manual in its capacity as operator of the CHAPS System.
- 1.4 CHAPS is the UK's electronic payment system for high value and systemically important transactions which settle across the Bank's Real Time Gross Settlement System, thereby achieving irrevocable finality at the point of settlement.
- 1.5 The CHAPS System is a designated system for the purposes of the SFR. The CHAPS System is also a regulated payment system under the FSBRA.
- 1.6 This CHAPS Reference Manual together with the CHAPS User Documents set out those obligations or other matters applicable to Direct Participants' participation in the CHAPS System and describe certain key elements of the CHAPS System's design and operations and the risks and controls relevant to the Bank's operation of the CHAPS System.
- 1.7 This CHAPS Reference Manual performs two principal functions:
  - (a) it forms a core part of the legal basis for the Bank's operation of the CHAPS System; and
  - (b) it aims to provide a clear and comprehensive description of the rules, requirements and key procedures relevant to the Bank's operation of the CHAPS System in a document which is publicly disclosed.
- 1.8 Direct Participants in the CHAPS System will enter into a CHAPS Participation Agreement with the Bank, under which Direct Participants agree to comply with all specifications of the Bank for the time being applicable to a Direct Participant in the CHAPS System.
- 1.9 This CHAPS Reference Manual (including any amendments made from time to time in accordance with section 10.1) will be published on the Bank's website at [www.bankofengland.co.uk](http://www.bankofengland.co.uk). The CHAPS User Documents are available to Direct Participants.
- 1.10 More information about the CHAPS System, including a copy of the most recent responses to the CPMI-IOSCO Disclosure framework for FMIs, is provided on the Bank's website.
- 1.11 The Bank's mission is to promote the good of the people of the United Kingdom by maintaining monetary and financial stability.
- 1.12 Aligned with the Bank's mission, in its operation of CHAPS, the Bank will first consider supporting financial stability through promoting the safety, efficiency and effectiveness of the CHAPS System and acting as an end-to-end risk manager.
- 1.13 Where consistent with the Bank's mission, the Bank will seek to:
  - (a) enable fair and open access to the CHAPS System, based on reasonable risk-related participation requirements as a means of promoting competition, innovation and the interests of users; and

- (b) reflect the legitimate interests of relevant stakeholders and give appropriate voice to users of the CHAPS System.

### ***The Payment Systems Regulator***

- 1.14 The legal framework relevant to the operation of the CHAPS System includes provisions under Part 5 of the FSBRA. Part 5 gives certain powers to the PSR which it may exercise to advance one or more of the PSR's statutory objectives.
- 1.15 The PSR's exercise of these statutory powers may require a CHAPS Indirect Access Provider to give indirect access to the CHAPS System to a prospective Indirect Participant (e.g. in exercise of the PSR's powers in section 56(3) of the FSBRA). The statutory provisions supplement the provisions of this CHAPS Reference Manual.
- 1.16 The Bank as Supervisor of Financial Market Infrastructure The Bank's operation of the CHAPS System is subject to non-statutory supervision by the Bank's Financial Market Infrastructure Directorate, and subject to the same standards as other systemically important payment systems.

### ***Transparency***

- 1.17 The transparency of the CHAPS System and its related operations is supported by ensuring that all relevant information is made available in this CHAPS Reference Manual to Direct Participants, relevant supervisory authorities and the public to inform sound decision-making and foster wider market confidence in the system. Specifically, information contained in this CHAPS Reference Manual is designed to enable Direct Participants and other interested parties to have a clear understanding of the risks and controls on risks associated with participation in the CHAPS System.

### ***Annexes to this CHAPS Reference Manual***

- 1.18 Annexes to this CHAPS Reference Manual may be issued by the Bank in accordance with sections 10.1 to 10.8 and any such Annexes issued will form part of this CHAPS Reference Manual. Unless explicitly noted otherwise, in the event of a conflict between any Annex and this CHAPS Reference Manual, this CHAPS Reference Manual will prevail.

### ***Responsibility of the Bank***

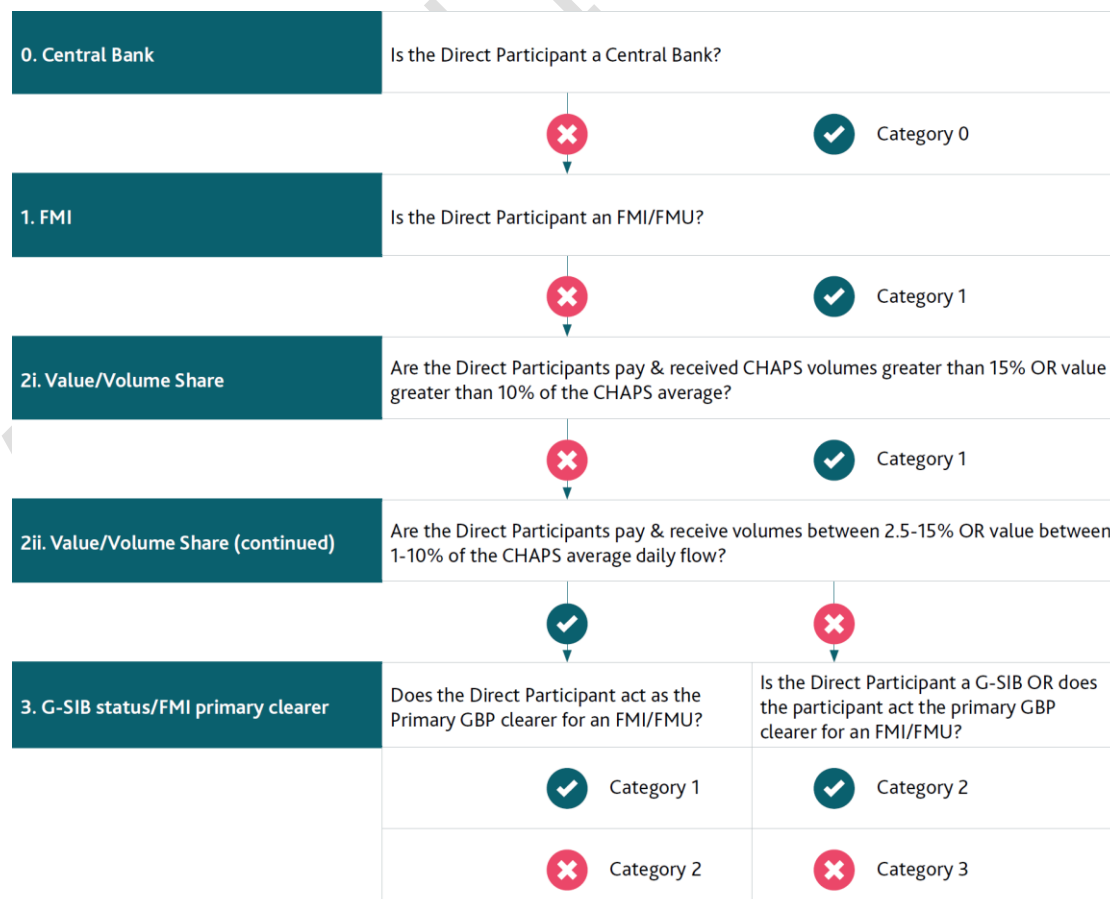
- 1.19 Without affecting:
  - (a) any right that an interested party may have under the FSBRA (e.g. to apply to the PSR for an order granting it access to the CHAPS System);
  - (b) any obligation of the Bank as operator of a designated system under the SFR; or
  - (c) the operation of the Review Process for the benefit of certain applicants to participation in the CHAPS System;

this CHAPS Reference Manual creates rights and obligations between the Bank and Direct Participants only.
- 1.20 This CHAPS Reference Manual should be read in conjunction with the CHAPS Participation Agreement.
- 1.21 No description in this CHAPS Reference Manual which refers to the Bank; the services provided by it; the CHAPS System or the performance or non-performance of any act or thing shall be interpreted as imposing on the Bank any greater obligation than that assumed by it under the CHAPS Participation Agreement.

- 1.22 The services provided by SWIFT are provided as a principal under contract with Direct Participants and not as an agent or delegate of the Bank.
- 1.23 Each Direct Participant acknowledges that the Bank, in its capacity as the operator of the CHAPS System, may act upon any recommendation, guidance or requirement given by the Bank, in its capacity as a resolution authority, in connection with the exercise of any stabilisation power (as defined in section 1(4) of the 2009 Act) or any other power under Part 1 of the 2009 Act in relation to that Direct Participant or another Direct Participant.
- 1.24 Nothing in this CHAPS Reference Manual shall require the Bank to do anything which it considers to be incompatible with or otherwise prejudicial to the achievement or performance of any of the objectives or functions of the Bank as a whole.

### Direct Participant Categories

- 1.25 Unless otherwise specifically indicated in this CHAPS Reference Manual, its provisions apply to govern the relationship between the Bank and all Direct Participants.
- 1.26 However, the Bank aims to ensure that a burden or restriction which is imposed on a Direct Participant, or on the carrying on of an activity, in connection with its participation in the CHAPS System is proportionate to the benefits for the safety, efficiency and effectiveness of the CHAPS System which can be expected to result from the imposition of that burden or restriction.
- 1.27 The Bank has, therefore, determined that certain provisions of this CHAPS Reference Manual should be modified in relation to certain categories of Direct Participant where that is appropriate having due regard to factors that are designed to determine the systemic impact of entities falling within that category. To that end, the Bank determines a Direct Participant's category as per the below flowchart and table.



Category	Description
0	A Direct Participant that is a central bank.
1	A Direct Participant that: <ul style="list-style-type: none"> <li>(i) is an FMI/FMU,</li> <li>(ii) has CHAPS volumes (send/receive) greater than 15% or has CHAPS values (send/receive) greater than 10% of the CHAPS average daily flow, or</li> <li>(iii) has CHAPS send and receive volumes between 2.5-15% and CHAPS values (send/receive) between 1 - 10% of the CHAPS average daily flow and acts as primary GBP clearer for an FMI/FMU.</li> </ul>
2	A Direct Participant that: <ul style="list-style-type: none"> <li>is not an FMI/FMU,</li> <li>(i) does not have CHAPS volumes (send/receive) greater than 15% nor CHAPS values (send/receive) greater than 10% of the CHAPS average daily flow,</li> <li>(ii) does send and receive volumes between 2.5 – 15% and values between 1 – 10% of the CHAPS average daily flow, but</li> <li>(iii) does not act as primary GBP clearer for an FMI/FMU.</li> </ul>
2	A Direct Participant that: <ul style="list-style-type: none"> <li>(i) is not an FMI/FMU,</li> <li>(ii) does not have CHAPS volumes (send/receive) greater than 15% nor CHAPS values (send/receive) greater than 10% of the CHAPS average daily flow (over the previous calendar year), and</li> <li>(iii) does not send and receive volumes between 2.5–15% and values between 1 – 10% of the CHAPS average daily flow (over the previous calendar year) but</li> <li>(iv) is a G-SIB and/or does act as primary GBP clearer for an FMI/FMU.</li> </ul>
3	A Direct Participant that: <ul style="list-style-type: none"> <li>(i) is not an FMI/FMU,</li> <li>(ii) does not have CHAPS volumes (send/receive) greater than 15% nor CHAPS values (send/receive) greater than 10% of the CHAPS average daily flow,</li> <li>(iii) does not send and receive volumes between 2.5–15% nor value between 1 – 10% of the CHAPS average daily flow, and</li> <li>(iv) is not a G-SIB and does not act as primary GBP clearer for an FMI/FMU.</li> </ul>

1.28 The Bank will regularly monitor whether the existing categorisation attributed to each Direct Participant is appropriate for that Direct Participant by reference to the most recent data or other information available to the Bank. The Bank will notify a Direct Participant in writing where it has determined (acting in good faith) that the Direct Participant's current categorisation no longer reflects its systemic impact by reference to the metrics and other factors set out in the flowchart and table above. Where such notification is given, the Bank, in consultation with the Direct Participant concerned, shall fix a date (falling at a reasonable period after such notification is given) from which the Direct Participant shall comply with the relevant provisions of this CHAPS Reference Manual as they apply to entities falling within the Direct Participant's new categorisation.

1.29 Where a provision is modified in relation to a particular category of Direct Participant, the manner of its modification is specifically explained:

- (a) in the table which is provided to Direct Participants; or
- (b) in the relevant requirement set out in sections 17- 37 (Operational Rules).

### Assignment

1.30 No Direct Participant may transfer or assign any of its rights under this CHAPS Reference Manual without the prior written approval of the Bank.

## 2. Other documents

### *User Documents*

- 2.1 This CHAPS Reference Manual is supplemented by the User Documents which set out further detail of the CHAPS System and explain the operational procedures involved. While this CHAPS Reference Manual is the primary reference document for the CHAPS System, Direct Participants must comply with and observe the User Documents. The CHAPS User Documents do not form part of this CHAPS Reference Manual. In the event of any conflict or inconsistency between the terms of this CHAPS Reference Manual and the terms of any CHAPS User Document, this CHAPS Reference Manual shall prevail.
- 2.2 The RTGS User Documents are issued by the Bank and do not form part of this CHAPS Reference Manual.
- 2.3 The Third Party User Documents are issued by bodies other than the Bank and do not form part of this CHAPS Reference Manual.
- 2.4 The Bank is not responsible for:
  - (a) the systems, services, networks or equipment provided, operated or used by bodies other than the Bank as part of or in connection with the CHAPS System; or
  - (b) the Third Party User Documents.

### *Guidance*

- 2.5 The Bank may issue from time to time documents that contain guidance, support and other information relevant to a Direct Participant's participation in the CHAPS System. These guidance documents are not intended to impose legal obligations. They are designed to facilitate a broader understanding of the operation of the CHAPS System.

## 3. Interpretation

- 3.1 All capitalised terms have the meanings given to them in the CHAPS Glossary of this CHAPS Reference Manual.
- 3.2 The Bank reserves the right to modify or disapply (in whole or in part) the application of any particular provision of this CHAPS Reference Manual.
- 3.3 In this CHAPS Reference Manual any reference to this CHAPS Reference Manual (or to any part of this CHAPS Reference Manual) or to any other agreements or documents (including without limitation, any of the User Documents) shall be construed as a reference to this CHAPS Reference Manual (or such part of this CHAPS Reference Manual) or such other agreements or documents as the same may from time to time be amended, varied, supplemented, novated or replaced.
- 3.4 Any capitalised or defined terms referred to in any of the Third Party User Documents which are used in this CHAPS Reference Manual, but are not defined in the CHAPS Glossary below, shall (save as the context otherwise requires) have the meanings respectively given to them in the relevant Third Party User Documents.
- 3.5 Any reference in this CHAPS Reference Manual to any statute or statutory provision shall (save as the context otherwise requires) be construed as a reference to such statute or statutory provision (including all instruments, orders or regulations made thereunder or deriving validity therefrom as are in force at the date of this version of this CHAPS Reference Manual) as the same may be subsequently amended, re-enacted or consolidated. Any reference to any provision of direct EU legislation is a reference to it as it forms part of



retained EU law in the UK and, in the case of a reference to the Settlement Finality Directive, also to EU law in any jurisdiction that may be applicable.

Advanced Information

# General Rules

## 4. Participation and Access Criteria

4.1 To be eligible to become and remain a Direct Participant, an entity must:

- (a) hold a sterling settlement account at the Bank (or, where applicable and in relation to a NBPS Direct Participant, more than one sterling settlement account) which the Bank has agreed may be used for the purpose of settling CHAPS payment obligations;
- (b) be a participant which falls within the definition of 'participant' in the SFR;
- (c) have the ability to comply, and continue to comply, on a continuous basis, with the technical and operational operating procedures, instructions and requirements of the CHAPS System as set out in the User Documents from time to time;
- (d) if required to do so by the Bank, pay a fee when first becoming a Direct Participant in the CHAPS System which is determined by the Bank and based on the cost to the Bank of technical implementation;
- (e) if required to do so by the Bank, provide a legal opinion issued by an independent legal adviser in a form and substance satisfactory to the Bank confirming, amongst other things:
  - (i) the entity's capacity to enter into and to execute the CHAPS Specifications; and
  - (ii) that the CHAPS Specifications are valid and legally binding on the entity and enforceable in accordance with their terms,

and such opinion may be requested either in advance of a potential Direct Participant joining the CHAPS System and/or from existing Direct Participants at any time, including when there is a material change to the relevant laws or regulations governing or affecting the CHAPS System;
- (f) where it has provided a legal opinion pursuant to the access criteria, notify the Bank without delay of any developments which could cast material doubts on any of the details in the legal opinion and shall arrange for the opinion to be updated upon request by the Bank, stating whether the points in the original opinion are still valid and noting any material changes;
- (g) in respect of a prospective NBPS Direct Participant, provide confirmation to the Bank from the FCA and, if applicable, from HMRC that:
  - (i) the FCA and/or HMRC (as applicable) has/have undertaken a Supervisory Assessment in respect of the prospective NBPS Participant, and
  - (ii) on the basis of the Supervisory Assessment, the FCA and/or HMRC (as applicable) has/have no objection to the prospective NBPS Participant opening and maintaining a sterling settlement account at the Bank for the purposes of its participation in the CHAPS System;
- (h) in respect of any prospective Direct Participants, if required to do so by the Bank, provide confirmation to the Bank that no objection to the prospective Direct Participant's opening and maintaining of a settlement account at the Bank for the purposes of its participation in the CHAPS System has been made by the Prudential Regulation Authority, the Financial Conduct Authority and/or by any other relevant UK or overseas regulatory body;

- (i) in respect of a NBPSP Direct Participant, at all times ensure that it holds in its sterling settlement account(s) only:

- (i) Relevant Funds; and/or

- (ii) own funds,

and that it keeps such funds segregated from each other and/or from any other funds that it may hold from time to time.

- 4.2 The Bank shall be entitled to be a Direct Participant as of right provided that it has the ability to comply on a continuous basis with the technical and operational operating procedures, instructions and requirements of the CHAPS System as set out in the CHAPS User Documents from time to time.

- 4.3 A Direct Participant shall not allocate a sorting code to a prospective Indirect Participant for use in the CHAPS System (or maintain such allocation) unless that prospective Indirect Participant meets, and continues to meet, the eligibility criteria specified for the CHAPS System in Section 3.2 of the Clearing Codes Rules and Procedures.

## 5. Consent to tiered participant arrangements

- 5.1 Notwithstanding any other provision of this CHAPS Reference Manual, sections 5.2 to 5.28 inclusive shall not apply to Category 0 Direct Participants, and Category 3 Direct Participants.

- 5.2 This section 5 sets out the requirements for a Direct Participant to provide CHAPS services under a tiered participant arrangement, as follows:

- (a) a Direct Participant must seek and receive General Consent from the Bank in order to be a CHAPS Indirect Access Provider in accordance with section 5.4; and
  - (b) a CHAPS Indirect Access Provider must receive from the Bank Deemed Consent or apply for and receive from the Bank Specific Consent to cause or enable a Payment Message to be entered into the CHAPS System for or on behalf of an Indirect Participant in accordance with section 5.14.

### *General Consent for a Direct Participant to be a CHAPS Indirect Access Provider*

- 5.3 A Direct Participant shall not cause or enable a Payment Message to be entered into the CHAPS System for or on behalf of any Indirect Participants, unless the Bank provides General Consent to the Direct Participant being a CHAPS Indirect Access Provider.

- 5.4 The Bank's "**General Consent**" to a Direct Participant being a CHAPS Indirect Access Provider may either:

- (a) be given, after application by the Direct Participant, subject to and in accordance with the requirements of section 5.9; or
  - (b) be deemed given if the Direct Participant does so pursuant to a contractual relationship which is or was put in place with an Indirect Participant as at [ ] January 2022.

- 5.5 A Direct Participant shall upon application for General Consent provide such information or other co-operation as the Bank may reasonably require in order to make its determination.

- 5.6 If General Consent is given after application by a Direct Participant, the Bank will provide to that Direct Participant written notification which shall specify the date and time at which the Bank's General Consent becomes effective (which may be with immediate effect) and any relevant terms.

- 5.7 If General Consent is refused, suspended or withdrawn, the Direct Participant shall not cause or enable any Payment Message to be entered into the CHAPS System for or on behalf of any Indirect Participant after such refusal is notified, while such suspension is in force, or after such withdrawal becomes effective.

#### ***Refusal and withdrawal of General Consent***

- 5.8 The Bank's General Consent may be refused or withdrawn at any time and the Bank will follow the communication procedures (including in relation to written notice) at sections 38.50 to 38.51.
- 5.9 The Bank shall refuse to give its General Consent after application by a Direct Participant or, as the case may be, shall withdraw its General Consent, unless the Bank determines that such refusal or withdrawal of General Consent is unnecessary or inappropriate to manage the risks that are brought (or would be brought) to the CHAPS System, or to the financial stability of the financial system of the United Kingdom, as a result of the Direct Participant acting as a CHAPS Indirect Access Provider.
- 5.10 Before exercising the powers reserved to the Bank under sections 5.3 to 5.9, the Bank shall have due regard and give due weight to: (a) the ability of the Direct Participant to comply with the provisions in section **Error! Reference source not found.**; and (b) such other matters as the Bank considers relevant to making a proper determination of any matters required to be determined by the Bank under this CHAPS Reference Manual in connection with its exercise of the relevant power.
- 5.11 Any decision made by the Bank to refuse or withdraw General Consent, or to suspend General Consent due to an event set out under section 6.8, to a Direct Participant being a CHAPS Indirect Access Provider is a Relevant Decision for the purposes of this CHAPS Reference Manual, in relation to which the affected Direct Participant is entitled to invoke the Review Process.

#### ***Suspension of General Consent***

- 5.12 The Bank's General Consent may be suspended if the Direct Participant notifies the Bank (or the Bank otherwise believes in good faith) that an event set out under sections 6.8 or 8.7 has occurred in relation to that Direct Participant. Where the Bank suspends its General Consent:
- (a) the Bank will provide written notification to the Direct Participant which shall specify the date and time at which the Bank's suspension of consent becomes effective (which may be with immediate effect) and any relevant terms;
  - (b) the Bank will review its decision to suspend General Consent as soon as it may be practicable to do so, and upon such review the Bank may decide either to withdraw its General Consent or lift the suspension; and
  - (c) if the Bank determines to:
    - (i) lift the suspension, it shall promptly notify the Direct Participant of that decision and the Direct Participant may upon receipt of such notification resume being a CHAPS Indirect Access Provider; and
    - (ii) withdraw its General Consent, it shall comply with section 5.8 above.

#### ***Consent to a CHAPS Indirect Access Provider causing or enabling a Payment Message to be entered into the CHAPS System for or on behalf of an Indirect Participant***

- 5.13 Without prejudice and in addition to section 5.4, a Direct Participant (acting as a CHAPS Indirect Access Provider) shall not cause or enable a Payment Message to be entered into the CHAPS System for or on behalf of a prospective Indirect Participant, unless the Bank consents to the Direct Participant causing or enabling Payment Messages to be entered into the CHAPS System for or on behalf of that prospective Indirect Participant.
- 5.14 The Bank's consent to a Direct Participant (acting as a CHAPS Indirect Access Provider) causing or enabling a Payment Message to be entered into the CHAPS System for or on behalf of a prospective Indirect Participant may either:
- (a) be deemed given in accordance with section 5.16 ("**Deemed Consent**"); or
  - (b) be given, after application by the CHAPS Indirect Access Provider pursuant to section 5.18 subject to and in accordance with the requirements of section 5.24 ("**Specific Consent**").
- 5.15 If Specific Consent is refused, or if Deemed Consent or Specific Consent is suspended or withdrawn, in relation to a particular Indirect Participant, the CHAPS Indirect Access Provider shall not cause or enable any Payment Message to be entered into the CHAPS System for or on behalf of the Indirect Participant concerned, as the case may be, after such refusal is notified, while such suspension is in force, or after such withdrawal becomes effective.

#### **Deemed Consent**

- 5.16 For the purposes of section 5.14(a), the Bank is deemed to consent to a Direct Participant (as CHAPS Indirect Access Provider) entering Payment Messages into the CHAPS System for or on behalf of an Indirect Participant if at or about the time a CHAPS Indirect Access Provider (or in limited circumstances, such as in international correspondent relationships, its Associate) puts or put in place a contractual relationship with the Indirect Participant, the CHAPS Indirect Access Provider (acting in good faith) determines or determined that the average daily value of the Payments to be sent and received will not or would not exceed the Deemed Tiering Consent Limit.
- 5.17 A Direct Participant shall promptly notify the Bank of the identity of each Indirect Participant for which the Direct Participant acts as CHAPS Indirect Access Provider in reliance on the Bank's Deemed Consent under section 5.14(a) and section 5.16.

#### **Specific Consent**

- 5.18 If the criteria in section 5.19 are met, a CHAPS Indirect Access Provider, shall not cause or enable a Payment Message to be entered into the CHAPS System for or on behalf of a prospective Indirect Participant unless the Bank gives Specific Consent to the CHAPS Indirect Access Provider causing or enabling Payment Messages to be entered into the CHAPS System for or on behalf of that prospective Indirect Participant.
- 5.19 The criteria for Specific Consent are as follows: at or about the time the CHAPS Indirect Access Provider (or in limited circumstances, such as in international correspondent relationships, its Associate) puts or put in place a contractual relationship with the Indirect Participant, the CHAPS Indirect Access Provider (acting in good faith) determines or determined that the average daily value of the Payments to be sent and received will or would equal to or exceed the Deemed Tiering Consent Limit. Such an Indirect Participant is referred to as a Key Indirect Participant.
- 5.20 A CHAPS Indirect Access Provider shall upon application for Specific Consent, provide such information or other co-operation as the Bank may reasonably require in order to make its determination.

- 5.21 If Specific Consent is given after application by a CHAPS Indirect Access Provider, the Bank will provide to that CHAPS Indirect Access Provider written notification which shall specify the date and time at which the Bank's Specific Consent becomes effective (which may be with immediate effect) and any relevant terms.

***Refusal of Specific Consent and withdrawal of Deemed Consent or Specific Consent***

- 5.22 The Bank may refuse its Specific Consent or withdraw its Deemed Consent or Specific Consent to a CHAPS Indirect Access Provider causing or enabling a Payment Message to be entered into the CHAPS System for or on behalf of an Indirect Participant at any time and the Bank will follow the communication procedures (including in relation to written notice) at sections 38.50 to 38.51.
- 5.23 The CHAPS Indirect Access Provider must notify the Bank, as the operator of the CHAPS System, immediately upon becoming aware that they have ceased or propose to cease entering Payment Messages into the CHAPS System for or on behalf of an identified Indirect Participant (otherwise than by reason of the withdrawal of the Bank's consent under section 5.22). In such event, the Bank's consent shall be automatically withdrawn from the time the CHAPS Indirect Access Provider ceases to act for the Indirect Participant concerned.
- 5.24 The Bank shall refuse to give its Specific Consent after application by a Direct Participant or, as the case may be, shall withdraw its Deemed Consent or its Specific Consent, unless the Bank determines that such refusal of Specific Consent or withdrawal of Deemed Consent or Specific Consent is unnecessary or inappropriate to manage the risks that are brought (or would be brought) to the CHAPS System, or to the financial stability of the financial system of the United Kingdom, as a result of the Direct Participant's relationship (or proposed relationship) with the Indirect Participant concerned.

***Suspension of Specific Consent or Deemed Consent***

- 5.25 The Bank shall suspend its Specific Consent or Deemed Consent in relation to a particular Indirect Participant, upon written notification to the CHAPS Indirect Access Provider, if the CHAPS Indirect Access Provider notifies the Bank (or the Bank otherwise believes in good faith) that an event set out under section 8.6 has occurred in relation to that Indirect Participant, provided that the Bank shall not suspend its Specific Consent or Deemed Consent if it determines that:
- (a) such suspension is unnecessary or inappropriate to manage the risks that are brought to the CHAPS System as a result of the CHAPS Indirect Access Provider's relationship with the Indirect Participant concerned; and
  - (b) there is no other reason to refer the relationship between the CHAPS Indirect Access Provider and the Indirect Participant concerned for review in accordance with section 5.26.
- 5.26 Unless the CHAPS Indirect Access Provider notifies the Bank under section 5.23 that it has ceased or proposes to cease acting for or on behalf of the Indirect Participant in relation to whom the Bank's consent has been suspended under section 5.25, any such suspension shall be reviewed by the Bank as soon as it may be practicable to do so. Upon such review, the Bank shall determine whether to end the suspension or to withdraw its consent under section 5.22.
- 5.27 If the Bank determines to end the suspension, it shall promptly notify the CHAPS Indirect Access Provider of that decision and the Direct Participant may upon receipt of such notification resume causing or enabling Payment Messages to be entered into the CHAPS System for or on behalf of the Indirect Participant concerned.

***Tiering Powers and Tiering Criteria***

- 5.28 Before exercising the powers reserved to the Bank under sections 5.13 to 5.26 inclusive, the Bank shall have due regard and give due weight to: (a) the Tiering Criteria; and (b) such other matters as the Bank considers relevant to making a proper determination of any matters required to be determined by the Bank under this CHAPS Reference Manual in connection with its exercise of the relevant power.
- 5.29 The Tiering Criteria:
- (a) shall be published in section 38 and shall be made available upon request; and
  - (b) may be amended from time to time by the Bank in accordance with this CHAPS Reference Manual to reflect new or additional matters that are identified by the Bank as properly impacting upon any decision to refuse, withdraw or suspend consent and/or any determination to be made under sections 5.24, 5.25 or 5.26.

#### ***Waiver of Relevant Tiering Rules***

- 5.30 The Bank may, by written notice, waive the application of sections 5.2 to 5.28 where the Payment Messages to be entered form part of the functions of a Financial Market Infrastructure and:
- (a) the Direct Participant causes or enables Payment Messages to be entered into the CHAPS System for or on behalf of the operator of that Financial Market Infrastructure; or
  - (b) the Direct Participant is the operator of that Financial Market Infrastructure.
- 5.31 Any such written notice:
- (a) shall specify either:
    - a fixed duration for the waiver; or
    - that the waiver will be effective until such time as it may be terminated upon further notice of reasonable period from the Bank; and
  - (b) may disapply all or any of sections 5.2 to 5.28, and/or change their application in a specified way, in relation to the Direct Participant and/or Financial Market Infrastructure concerned.
- 5.32 Upon the expiry of any waiver given under section 5.30, the Bank may (if it determines that it is appropriate to do so) give a new waiver under section 5.30 on the same or different terms to the expired waiver.

## **6. Decisions**

### ***Withdrawal of a Direct Participant***

- 6.1 Any Direct Participant shall be entitled to withdraw from CHAPS by giving written notice to the Bank specifying, subject to section 6.3, a proposed date of withdrawal.
- 6.2 On receiving a notice of withdrawal, the Bank shall notify all other Direct Participants in writing as soon as reasonably practicable.
- 6.3 The date on which a withdrawal by a Direct Participant shall be deemed to be effective shall be determined as follows:

- (a) in the event that the withdrawing Direct Participant gives 50 (fifty) or more Business Days' notice of withdrawal (excluding the day on which such notice is received), the effective withdrawal date is the date specified in the notice of withdrawal;
- (b) in the event that the withdrawing Direct Participant gives less than 50 (fifty) Business Days' notice of withdrawal (excluding the day on which such notice is received) the effective withdrawal date is the earliest Business Day on which the Bank determines the withdrawal can be accommodated by the Bank and all the other Direct Participants from a technical perspective without prejudicing the integrity of the CHAPS System; or
- (c) in the event that the withdrawing Direct Participant fails to give an effective withdrawal date, the Business Day following the expiry of 50 (fifty) Business Days (excluding the day on which such notice is received) from the date on which the Bank received the notice,

provided that the Bank in its absolute discretion shall always have the right to specify an alternative withdrawal date if it is necessary to preserve the integrity of the CHAPS System or for reasons of wider financial stability.

- 6.4 Once a notice of withdrawal has been received by the Bank, the withdrawing Direct Participant shall only be entitled to revoke such notice with the prior written approval of the Bank.
- 6.5 Notwithstanding any withdrawal, a withdrawing Direct Participant shall be fully liable for the due performance of all its obligations under the CHAPS Specifications incurred prior to the effective withdrawal date from CHAPS as determined by the Bank together with any additional costs arising from the withdrawal incurred by the Bank and/or any other Direct Participant in accommodating the withdrawal of the withdrawing Direct Participant by the date determined by the Bank under section 6.3 above.
- 6.6 A withdrawing Direct Participant will be liable for any direct costs incurred by the Bank and/or any other Direct Participant arising from the withdrawal of the Direct Participant.
- 6.7 Without limiting the generality of section 6.5 and section 6.6 above, a withdrawing Direct Participant or successor to its rights and obligations shall make payment of:
  - (a) its full share of the Bank's annual costs in relation to the CHAPS System for the financial year during which it withdraws;
  - (b) its full share of the other costs, fees and expenses in relation to the CHAPS System that the Bank has approved prior to the effective withdrawal date for such financial year; and
  - (c) any other costs, fees and expenses arising from the withdrawal of the Direct Participant as reasonably determined by the Bank in its absolute discretion.

#### ***Suspension and Exclusion of a Direct Participant***

- 6.8 The Bank may suspend or exclude a Direct Participant with immediate effect or with effect from such time and date as the Bank may specify from the CHAPS System where any of the events set out in section 8.6 inclusive occurs in relation to that Direct Participant or where, in the opinion of the Bank:
  - (a) the Direct Participant is in material breach of sections 4, 5, 6, 8, 9, 11, 12 or 13, or ceases to satisfy the criteria in sections 4.1 or 4.2;
  - (b) the Direct Participant is in breach of a Bank Direction;



- (c) the Direct Participant commits a persistent breach of any of the CHAPS Specifications (other than sections 4, 5, 6, 8, 9, 11, 12 and 13 or a Bank Direction) or any of the User Documents;
  - (d) circumstances have arisen in relation to that Direct Participant which could be prejudicial to the CHAPS System or the wider financial system or represent a threat to the security, integrity or reputation of the CHAPS System or the wider financial system;
  - (e) the Direct Participant's participation in the CHAPS System is disruptive to other Direct Participants or the services provided by the Bank or SWIFT in relation to the operation of the CHAPS System; and
  - (f) it appears likely that, in respect of that Direct Participant, an Insolvency Event will occur.
- 6.9 For the purpose of section 6.8(c), a Direct Participant is in persistent breach of a CHAPS Specification (other than sections 4, 5, 6, 8, 9, 11, 12 and 13 or a Bank Direction) or a User Document if the breach is repeated sufficiently often so to have a material impact upon the security, integrity, efficiency, effectiveness or reputation of the CHAPS System or the wider financial system.
- 6.10 For the avoidance of doubt, the Bank shall have no power to suspend or exclude a Direct Participant where it is exercising its power to exclude or suspend following the occurrence of any of the events set out in section 8.6 or under section 6.8(f) as a result of any of:
- (a) the exercise of a stabilisation power (as defined under section 1(4) of the 2009 Act);
  - (b) the appointment of a resolution administrator (under section 62B of the 2009 Act);
  - (c) the taking of any other crisis management measure as that term is defined in section 48Z(1) of the 2009 Act;
  - (d) the taking of any crisis prevention measure as that term is defined in section 48Z(1) of the 2009 Act; or
  - (e) the taking of any recognised third-country resolution action as that term is defined in section 48Z(1) of the 2009 Act,
- in each case in respect of the Direct Participant or any Associate of the Direct Participant; or
- (f) the occurrence of any event directly linked to the exercise of such a power, the making of such an appointment or the application of such a measure or action,
- unless in any such case the Direct Participant is also failing to perform its substantive obligations as a participant in the CHAPS System.
- 6.11 Sections 6.8 to 6.10 (inclusive) form part of the Participant Default Arrangements.

#### **Excluded Direct Participants**

- 6.12 Where a Direct Participant is excluded by the Bank from CHAPS pursuant to this CHAPS Reference Manual, such Excluded Direct Participant shall remain fully liable for the due performance of all its obligations under the CHAPS Specifications, incurred prior to the effective date of its exclusion from CHAPS, being the date determined by the Bank in its absolute discretion having regard to the need to preserve the integrity of the CHAPS System.

- 6.13 An Excluded Direct Participant will, at the discretion of the Bank, be liable for any direct costs incurred by the Bank and/or any other Direct Participant arising from the exclusion of the Excluded Direct Participant.
- 6.14 Without limiting the generality of section 6.13 above, an Excluded Direct Participant shall make payment of:
- (a) its full share of the Bank's annual costs in relation to the CHAPS System for the financial year during which it is excluded;
  - (b) its full share of all other costs, fees and expenses in relation to the CHAPS System that the Bank has approved for such financial year; and
  - (c) any other costs, fees and expenses arising from the exclusion of the Direct Participant as reasonably determined by the Bank in its absolute discretion.
- 6.15 Sections 6.12 to 6.14 (inclusive) form part of the Participant Default Arrangements.

***Obligation of Direct Participant to co-operate***

- 6.16 A Direct Participant shall at its own cost before, upon and after any withdrawal, suspension or exclusion provide such assistance and take such steps as the Bank may reasonably require:
- (a) for the orderly withdrawal, suspension or exclusion of the Direct Participant with a view to minimising any disruption to:
    - (i) other Direct Participants;
    - (ii) the operation of the CHAPS System;
    - (iii) the Bank's provision of its services to other Direct Participants;
    - (iv) SWIFT's provision of its services to the Bank or other Direct Participants; or
    - (v) any Indirect Participant in relation to which the Direct Participant acts (or has acted) as a CHAPS Indirect Access Provider,

in order to comply with any direction, decision or requirement of any regulatory authority.
- 6.17 Section 6.16 forms part of the Participant Default Arrangements.

***Bank Directions***

- 6.18 The Bank may from time to time give directions in its capacity as operator of the CHAPS System to Direct Participants requiring particular action to be taken (or not taken). Such Bank Directions may be given either generally or to particular Direct Participants or groups of the same.

**7. Assurance and onboarding**

***CHAPS Self-certification Compliance Certificate***

- 7.1 Each Direct Participant must complete the Compliance Certificate as directed by the Bank, in which it shall:
- (a) certify its compliance with the documents specified in the Compliance Certificate;

- (b) disclose in the relevant appendix of its Compliance Certificate all instances where controls or mitigants are either missing, not conducted or conducted ineffectively. These are to be reported as non-compliances; and
  - (c) produce and provide to the Bank a remediation plan for each non-compliance disclosed in accordance with section 7.1(b).
- 7.2 A Direct Participant's Compliance Certificate must be signed on its behalf by the individual who performs the relevant office as set out in the Bank's instructions in the compliance certificate. Where the instructions in the Compliance Certificate conflict with subsequent instructions given by the Bank in writing, the subsequent written instructions shall prevail.
- 7.3 Where a Direct Participant's signatory of the Compliance Certificate (as described in section 7.2) changes, the Direct Participant must advise the Bank as soon as reasonably practicable upon becoming aware.

#### **CHAPS Compliance Questionnaire**

- 7.4 In addition to the Compliance Certificate, each Direct Participant shall complete as directed by the Bank the CHAPS Compliance Questionnaire provided by the Bank to demonstrate how it complies with, or explain how it fails to comply with, the obligations of this CHAPS Reference Manual or CHAPS User Documents referred to in the Compliance Questionnaire and as disclosed pursuant to section 7.1(b).
- 7.5 In the Compliance Questionnaire, each Direct Participant must assess the effectiveness of their procedures, policies and arrangements and detail how they have been implemented to support their compliance with the obligations of this CHAPS Reference Manual or CHAPS User Documents referred to in the Compliance Questionnaire.

#### **Evidential Requirements**

- 7.6 Each Direct Participant shall ensure that all of the declarations made in the Compliance Certificate and Compliance Questionnaire about the existence, operation, recording of controls, mitigants or remediation plans are supported by evidence of sufficient quality and meet the requirements of the relevant obligations of this CHAPS Reference Manual and the CHAPS User Documents as defined in the Compliance Certificate and the Compliance Questionnaire. Such evidence will be made available to the Bank upon request.

#### **Monitoring and Reporting**

- 7.7 Each Direct Participant shall monitor its compliance with this CHAPS Reference Manual and the CHAPS User Documents as defined in the Compliance Certificate and the resolution of all non-compliances.
- 7.8 Each Direct Participant shall upon becoming aware, bring to the attention of the Bank all non-compliances and explain why such non-compliances have occurred and present a plan to bring the Direct Participant back into compliance with its obligations in this CHAPS Reference Manual and the CHAPS User Documents as defined in the Compliance Certificate.
- 7.9 Where a Direct Participant anticipates that planned remediation dates are expected to be missed or are no longer deemed achievable, this must be reported to the Bank immediately upon becoming aware.

#### **Support Services**

- 7.10 Each Direct Participant shall provide reasonable support for new or prospective Direct Participants, by providing support services as and when required by the Bank as follows:

- (a) undertaking testing under which the Direct Participant supports another Direct Participant by sending and receiving CHAPS test payment messages; and
  - (b) supporting the whole on-boarding process of a new or prospective Direct Participant, including but not limited to testing support.
- 7.11 If a Direct Participant is unable to provide support services to a new or prospective Direct Participant when directed to do so by the Bank, the Direct Participant must advise the Bank in writing why it cannot provide these services and the Bank may require the Direct Participant to provide support services in a different way.
- 7.12 The Bank may require a Direct Participant to provide support services to any new or prospective Direct Participant although, where reasonably possible, the Bank will only direct a Direct Participant to provide support services to a new or prospective Direct Participant which is in the same Category and has a similar profile (e.g. similar businesses and/or operational or technical infrastructures).
- 7.13 Where a Direct Participant is supporting the on-boarding process of a new or prospective Direct Participant pursuant to 7.10 above, the Bank will provide the Direct Participant and the new or prospective Direct Participant with a separate "End-to-end on-boarding support Guide" which contains the key roles and responsibilities involved in support services.

## **8. Rights and Duties of Direct Participants**

- 8.1 Each Direct Participant shall be responsible and liable for complying with this CHAPS Reference Manual as principal and not as agent for any other party.
- 8.2 Each Direct Participant shall for the purposes of making Payments through CHAPS, including as a CHAPS Indirect Access Provider:
- (a) comply with this CHAPS Reference Manual and the User Documents;
  - (b) be a member of SWIFT;
  - (c) accept and give same day value to all Payments denominated in sterling received within the timeframes set out in the CHAPS Timetable. Such requirement is without prejudice to any obligation which the Direct Participant may have in order to comply with any applicable law or regulation;
  - (d) release payment messages to the RTGS central scheduler once they have completed relevant internal controls (such as anti-money laundering checks or assessment against a Customer's credit limits); and
  - (e) comply with any laws, regulations, and guidance applicable to it as a Direct Participant, and if relevant, as a CHAPS Indirect Access Provider.
- 8.3 Each Direct Participant agrees and acknowledges that, including for the purposes of the SFR, the Bank in its capacity as operator of CHAPS may from time to time co-operate (by the sharing of information or otherwise) with:
- (a) either or both of the FCA and the PSR (or such body or bodies which supersede or replace any or all of them);
  - (b) with other parts of the Bank (including, for the avoidance of doubt, the Prudential Regulation Authority) in connection with the performance of its statutory or other public law functions;
  - (c) HM Treasury;

- (d) any relevant office holder (as defined in the SFR); and
  - (e) any authority, body or person having responsibility for any matter arising out of or connected with the default of any Direct Participant.
- 8.4 Each Direct Participant agrees and acknowledges that, for the purposes of the SFR, it must (except if such request is frivolous or vexatious) provide the following information to any interested person who requests it within 14 (fourteen) days of such request and upon payment by such person of a reasonable charge:
- (a) details of the systems which are designated for the purposes of the Settlement Finality Directive or the SFR in which such Direct Participant participates; and
  - (b) information about the main rules governing the functioning of those systems.
- 8.5 Each Direct Participant shall, if:
- (a) it is subject to the passing of a creditor's voluntary winding up resolution (or analogous procedure in the jurisdiction of incorporation of such Direct Participant); or
  - (b) a trust deed granted by it becomes a protected trust deed,
- notify the Bank immediately (as designating authority of the CHAPS System under the SFR) that such a resolution (or analogous procedure) has been passed, or, as the case may be, that such a trust deed has become a protected trust deed.
- 8.6 Each Direct Participant shall notify the Bank, as the operator of CHAPS, immediately upon becoming aware of the occurrence of any of the following events, whether in relation to the Direct Participant or (other than under section 8.6(f) or 8.6(g)) any Indirect Participant in relation to which the Direct Participant is acting as a CHAPS Indirect Access Provider:
- (a) the presentation of any petition for the liquidation or winding-up of, or for the appointment of a liquidator or an administrator in relation to, Direct Participant or Indirect Participant concerned;
  - (b) the appointment or purported appointment of a liquidator, provisional liquidator (including a provisional bank liquidator), administrator, receiver, administrative receiver, manager, trustee or similar person in respect of the Direct Participant or Indirect Participant concerned or any substantial part of the property or assets of the Direct Participant or Indirect Participant concerned;
  - (c) the dissolution of Indirect Participant concerned or the publication in the Gazette of a notice of prospective striking off pursuant to Section 1000 of the Companies Act 2006 or the making of an application by the Direct Participant or Indirect Participant concerned for its striking off pursuant to Section 1003 of the Companies Act 2006;
  - (d) the appointment or purported appointment of a bank liquidator, bank administrator or resolution administrator or the exercise of a stabilisation power in respect of the Direct Participant or Indirect Participant concerned (as each of those terms are defined or used in the 2009 Act) or the appointment or purported appointment of a special administrator (as defined in the Investment Bank Special Administration Regulations 2011);
  - (e) the occurrence under the laws of any applicable jurisdiction of anything analogous to or having a substantially similar effect to any of the events described in sections 8.6(a) to 8.6(d) inclusive in relation to the Direct Participant or Indirect Participant concerned;

- (f) the Direct Participant ceasing to satisfy the relevant participation and access conditions and criteria specified in section 4.2;
  - (g) the Direct Participant or Indirect Participant concerned having any authorisation as a credit institution (as defined in Article 4.1(1) of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012) suspended or withdrawn; and
  - (h) the Direct Participant:
    - (i) is in material breach of this CHAPS Reference Manual;
    - (ii) is in breach of any Bank Direction; or
    - (iii) commits a persistent breach of any of the other CHAPS Specifications or any of the User Documents.
- 8.7 For the purpose of section 8.6, a Direct Participant is (or will be) in persistent breach of a CHAPS Specification (other than sections 4, 5, 6, 8, 9, 11, 12 and 13 or a Bank Direction) or a User Document if the breach is (or will be) repeated sufficiently often so to have a material impact upon the security, integrity, efficiency, effectiveness or reputation of the CHAPS System.
- 8.8 Sections 8.5, 8.6 and 8.7 form part of the Participant Default Arrangements.
- 8.9 Each Direct Participant shall contribute in the manners and proportions decided by the Bank from time to time to the costs incurred by the Bank including the operation of the CHAPS System.
- 8.10 Each Direct Participant shall notify the Bank as soon as reasonably practicable upon becoming aware of any issue which in its reasonable opinion is likely to materially affect the integrity of the CHAPS System, except where the Direct Participant is prevented from doing so as a result of any legal or regulatory requirement.
- 8.11 Each Direct Participant will, to the extent permitted by applicable law, inform the Bank in advance of any proposed major organisational and business change relating to it, including but not limited to major changes of control or ownership, and it will inform the Bank without delay of any material changes to the matters in the information provided by the Direct Participant prior to entering into the CHAPS Participation Agreement with the Bank.
- 8.12 Each Direct Participant will comply at all times with and perform any measures, directions or other requirements (including any variations or waivers) imposed on it by or agreed by it with the PRA or the FCA under FSMA or otherwise, and any similar measures, directions or other requirements imposed on it by any regulatory or supervisory authority whether in the United Kingdom or elsewhere, where any failure to comply could reasonably be expected to have a material adverse effect on the business of the Direct Participant or on its ability to comply with the provisions of this CHAPS Reference Manual.
- 8.13 Each Direct Participant shall:
- (a) provide such co-operation, by the sharing of information or otherwise, as the Bank may reasonably require from time to time to enable or facilitate the Bank's performance of any or all of its functions under this CHAPS Reference Manual and/or RTGS or its performance or satisfaction of other obligations or requirements under any relevant legislation or of any Regulatory Authority; and
  - (b) reserve and exercise such rights or powers in relation to all or any of its Customers or its Customers' affairs as may be necessary or appropriate in order to ensure the

Direct Participant's compliance with its obligations under this CHAPS Reference Manual.

- 8.14 The Bank may publicise from time to time, in such manner as the Bank may determine, information relating to any material or persistent failure by a Direct Participant to comply with the CHAPS Specifications or any of the CHAPS User Documents. The power reserved to the Bank under this section 8.14 shall not entitle the Bank to:

- (a) publicise the name of any person other than that of the Direct Participant concerned; or
- (b) disclose the affairs of any Customer of the Direct Participant concerned.

## 9. Payments

### *Eligible Payments*

- 9.1 In order for a Payment to be eligible for Clearing it must:

- (a) comply with the specification of a Payment as outlined in this CHAPS Reference Manual and the User Documents;
- (b) not be a Conditional Payment;
- (c) be directed between Direct Participants which have been registered in the relevant SWIFT Closed User Group for a FIN Y-Copy service as Direct Participants; and
- (d) not be initiated by a Direct Participant that has been excluded or suspended.

### *Entry of Payment Messages into the CHAPS System and irrevocability*

- 9.2 For the purposes of the SFR, and subject to sections 9.1 and 9.4, a Payment Message takes effect as having entered the CHAPS System at the point at which that Payment Message has entered the SWIFT network and is acknowledged within that network by SWIFT and is not capable of being revoked by the sending Direct Participant or any other party after the moment that settlement with respect to that Payment Message is final in accordance with Section C.7 (Final settlement in the RTGS System) of the RTGS Reference Manual.

- 9.3 Section 9.2 is part of the Participant Default Arrangements

### *Purported Payment Message Involving a Suspended or an Excluded Direct Participant*

- 9.4 Any purported Payment Message that is:

- (a) sent by a Direct Participant that is a Suspended Direct Participant or an Excluded Direct Participant at the time that Payment Message would otherwise take effect as having entered the CHAPS System in accordance with section 9.2; or
- (b) sent by a Direct Participant that is not a Suspended Direct Participant or an Excluded Direct Participant relating to an entity that is a Suspended Direct Participant or an Excluded Direct Participant at the time that Payment Message would otherwise take effect as having entered the CHAPS System in accordance with section 9.2,

shall in either case be void and of no effect.

- 9.5 Upon suspending or excluding a Direct Participant, the Bank shall notify the Direct Participants (including the Suspended Direct Participant or the Excluded Direct Participant) and at and from the moment that such notice is made:

- (a) the Suspended Direct Participant or the Excluded Direct Participant shall use its best endeavours to cease sending Payment Messages; and
- (b) each Direct Participant (excluding the Suspended Direct Participant or the Excluded Direct Participant) shall use its best endeavours to cease sending Payment Messages with respect to the Suspended Direct Participant or the Excluded Direct Participant.

## **10. Changes to this CHAPS Reference Manual and the CHAPS User Documents**

- 10.1 The provisions of this CHAPS Reference Manual and any CHAPS User Document may be changed from time to time by the Bank at any time upon written notice to each Direct Participant without the agreement of the Direct Participants. Any amendment shall apply with effect from such time as may be specified by the Bank. The Bank will endeavour to give reasonable notice of any amendment, but reserves the right to introduce any amendments with immediate effect if the Bank considers it necessary to do so.
- 10.2 Without prejudice to section 10.1, the Bank generally seeks to operate the CHAPS System in accordance with section 10.3. However, circumstances may occur when the Bank needs to alter the CHAPS Timetable for a period of time, without prior notice to or only upon short notice to Direct Participants. The Bank shall notify Direct Participants of any such changes in accordance with the communication procedures specified from time to time in the CHAPS Operational Reference Manual.
- 10.3 Pursuant to sections 10.1 and 10.2, the Bank reserves the right to make changes to this CHAPS Reference Manual and any CHAPS User Document without prior consultation and to introduce any amendments with immediate effect as necessary. However, the Bank may, but is not under any obligation to, consult Direct Participants and other relevant stakeholders.
- 10.4 The Bank will determine in its absolute discretion the period of any consultation but in determining such period, will consider a number of factors including: (a) the extent, materiality and complexity of the proposed changes; (b) whether the proposed changes will require Direct Participants to amend their own systems or revise existing legal arrangements with Customers or otherwise; (c) whether the proposed changes will require Indirect Participants to amend their own systems or revise existing legal arrangements with their Customers or otherwise; and (d) the period of notice that the Bank proposes to give.
- 10.5 The Bank would not normally consult on changes to this CHAPS Reference Manual or any CHAPS User Document which are clarificatory, minor, non-material nature or correct any inaccuracy.
- 10.6 The Bank may initiate changes to the CHAPS Reference Manual and CHAPS User documents and Direct Participants may propose changes to the Bank.
- 10.7 The Bank will, where appropriate, publicly disclose changes on its website.
- 10.8 This section shall apply mutatis mutandis to changes to the CHAPS Participation Agreement.

## **11. Information obligations**

- 11.1 Each Direct Participant agrees to treat as confidential all information which comes into its possession as a result of its participation in CHAPS including information which it receives about other Direct Participants.
- 11.2 The undertaking in section 11.1 does not apply to information which:
  - (a) is disclosed with the prior written consent of the Bank;
  - (b) is already in the public domain when received;



- (c) subsequently comes into the public domain except through breach of section 11.1;
  - (d) was already in the lawful possession of the Direct Participant and was not acquired by the Direct Participant under any obligation of confidence;
  - (e) was independently developed by the Direct Participant without any use of confidential information provided by the Bank;
  - (f) is disclosed in confidence to the Direct Participant's professional advisers or auditors where such disclosure is considered necessary by the Direct Participant, acting reasonably, and provided that, where reasonably practicable, where the Direct Participant proposes to make such disclosure it shall have notified the Bank in advance of the proposed form, timing, nature and purpose of the disclosure and (except where such disclosure is made pursuant to FOIA) it takes reasonable steps to procure that any such person maintains the confidentiality of that information; or
  - (g) is required to be disclosed by law, regulation or any governmental or competent regulatory or resolution authority, whether in the United Kingdom or elsewhere, provided that the Direct Participant making such disclosure has promptly notified the Bank in advance of the proposed form, timing, nature and purpose of the disclosure and (except where such disclosure is made pursuant to FOIA) it takes reasonable steps to procure that any such person maintains the confidentiality of that information.
- 11.3 The Bank agrees to treat as confidential any information about a Direct Participant and its activities and Customers which comes into its possession as a result of its management and operation of CHAPS where such information is by its nature confidential or which the Bank knows or should reasonably know is confidential.
- 11.4 Notwithstanding sections 11.1 and 11.3 the Bank shall be entitled to disclose information to the extent required:
- (a) to fulfil its obligations as a settlement service provider; or
  - (b) in its capacity as an overseer or supervisor of payment systems,
- and nothing in sections 11.1 and 11.3 shall preclude the disclosure of information in any case in which the disclosure is made by the Bank (including those areas not connected to the operation of CHAPS) or any of its officers or employees:
- (c) to Regulatory Authorities or any other governmental body, monetary authority, competent regulatory or resolution authority or the operator of any deposit guarantee or investor protection scheme, whether in the United Kingdom or elsewhere;
  - (d) for the purposes of which is being or may be carried out or of any criminal proceedings whatever which have been or may be initiated, in either case whether in the United Kingdom or elsewhere; or
  - (e) for the purpose of enabling or assisting the Bank to discharge its functions as a monetary authority.
- 11.5 Without prejudice to sections 11.3 and 11.4, each Direct Participant agrees that any information referred to in 11.1 held by the Bank or within the CHAPS System may be used by the Bank to enable or facilitate the Bank's performance of any or all of its functions under this CHAPS Reference Manual or its performance or satisfaction of other obligations or requirements under any relevant legislation or to any Regulatory Authority.

- 11.6 Each Direct Participant agrees and acknowledges that, for the purposes of the SFR, the Bank in its capacity as operator of CHAPS may from time to time co-operate (by the sharing of information or otherwise) in accordance with section 8.3.

## **12. Freedom of Information**

- 12.1 Where information which is held by the Bank is requested from the Bank under FOIA which:
- (a) was obtained by the Bank by virtue of its participation in or operation of CHAPS; and
  - (b) includes information which:
    - (i) is subject to the confidentiality obligation in section 11;
    - (ii) comprises Personal Data of employees or Customers of other Direct Participants; or
    - (iii) is information which, if disclosed, would be prejudicial to the commercial interests of a Direct Participant,

the Bank shall use reasonable endeavours to notify and consult with any affected Direct Participant(s) where it intends to disclose such information and shall give proper consideration to whether such information is Exempt Information. For the avoidance of doubt, Direct Participants fully accept that the final decision as to whether to make a disclosure will be the Bank's alone.

## **13. Data protection**

- 13.1 This section 13 sets out the obligations of the Bank and the Direct Participants arising from the applicable Data Protection Legislation and related applicable laws, as it applies to the processing of personal data by the relevant party as a result of, or in connection with the CHAPS Participation Agreement and/or this CHAPS Reference Manual.
- 13.2 For the purposes of this section 13 "personal data", "processing", "data controller" "data processor" and "pseudonymisation" shall have the meanings ascribed to them in the Data Protection Legislation and their cognate terms shall be construed accordingly.
- 13.3 The Bank and the Direct Participants agree and acknowledge that they will duly observe all their obligations under the Data Protection Legislation which arise in connection with this section 13.
- 13.4 Each Direct Participant agrees and acknowledges that in order to perform its role as operator of the CHAPS System and for the provision of the HVPS Services and for the performance of any other of its functions under this CHAPS Reference Manual, it may be necessary for the Bank to process DPA Data, including in the following scenarios, and in such cases the Bank will solely determine the manner and processing of the DPA Data:
- (a) for its own purposes including in its role as the operator of CHAPS and/or its capacity as a monetary authority;
  - (b) for it to comply with applicable laws and legal requirements;
  - (c) for conducting analysis for the purposes of HVPS services and CHAPS operation;
  - (d) for it to make disclosure as necessary to comply with a legal or regulatory requirement or as the Bank thinks reasonably necessary; and
  - (e) for the purposes of crime reduction including:

- (i) the prevention or detection of crime, or
  - (ii) the apprehension or prosecution of offenders.
- 13.5 Notwithstanding section 13.4 above, the Bank and the Direct Participants agree that the Bank is a data controller in respect of any DPA Data processed pursuant to and for the purposes of the CHAPS Participation Agreement and/or this CHAPS Reference Manual.
- 13.6 The DPA Data that the Bank may process may include names, e-mail addresses, work addresses, home addresses, phone numbers, job titles, relating to a Direct Participant's persons or individual customers, and/or account and transaction details relating to individual customers of the Direct Participant.
- 13.7 The Bank may retain the DPA Data for as long as reasonably necessary or as required in order to comply with a legal requirement.
- 13.8 As data controller, both the Bank and the Direct Participant agree and acknowledge that they shall be responsible for their own compliance obligations as a data controller, including to:
  - (a) implement such measures and perform or receive the HVPS Services (as applicable) in compliance with the Data Protection Legislation;
  - (b) be responsible for determining its own data security obligations taking into account the state of the art, the costs of implementation and the nature, scope, context and purposes of the processing as well as the risk of varying likelihood and severity for the rights and freedoms of the data subjects, and implement appropriate technical and organisational measures to protect personal data against unauthorised or unlawful processing and accidental destruction or loss and ensure the protection of the rights of the data subject, in such a manner that processing will meet the requirements of the Data Protection Legislation, including where appropriate: (i) the pseudonymisation and encryption of personal data; (ii) the ability to ensure the ongoing confidentiality, integrity, availability and resilience of processing systems and services; (iii) the ability to restore the availability and access to personal data in a timely manner in the event of a physical or technical incident; and (iv) a process for regularly testing, assessing and evaluating the effectiveness of technical and organisational measures for ensuring the security of the processing, where DPA Data has been transmitted by it, or while the DPA Data is in its possession or control; and
  - (c) where appropriate, promptly refer to the other party any requests, from: (i) data subjects with regard to the right of access to DPA Data by that data subject in accordance with the Data Protection Legislation; (ii) the Information Commissioner; or (iii) any other law enforcement authority and to the extent it is reasonable and practical to do so consult with the other party (for the avoidance of doubt at no additional cost) before responding to such request.
- 13.9 Where DPA Data is shared between the Direct Participant and the Bank each acting as a data controller:
  - (a) the data transferor warrants and undertakes to the data recipient that such Personal Data have been collected, processed and transferred in accordance with the Data Protection Legislation and section 13; and
  - (b) the data recipient will process the DPA Data in accordance with the Data Protection Legislation and this section 13.

#### **14. Contracts (Rights of Third Parties) Act 1999**

- 14.1 Except to the extent otherwise expressly provided for in a CHAPS Participation Agreement, no person other than a Direct Participant or the Bank shall have any right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term (express or implied) or other provision of this CHAPS Reference Manual, without prejudice to any right or remedy of the third party which may exist or be available apart from that Act.

## **15. Governing law**

- 15.1 This CHAPS Reference Manual and any rights and obligations arising out of or in connection with it (including any non-contractual obligations) shall, unless stated otherwise, be governed by and interpreted in accordance with English law.

## **16. Jurisdiction**

- 16.1 Each Direct Participant irrevocably agrees that the English courts shall have exclusive jurisdiction in relation to all disputes (including claims for set-off and counterclaims) arising out of or in connection with (i) the creation, validity, effect, interpretation, performance or non-performance of, or the legal relationships established by this CHAPS Reference Manual; and (ii) any non-contractual obligations arising out of or in connection with this CHAPS Reference Manual. For such purposes, each Direct Participant waives any objection to the exercise of such jurisdiction.
- 16.2 The Direct Participant irrevocably agrees that a judgment or order of the English courts in connection with this CHAPS Reference Manual is conclusive and binding on it and may be enforced against it in the courts of any other jurisdiction.

# Operational Rules

## General - Risk

### 17. Operational Procedures and Instructions

- 17.1 Each Direct Participant shall identify, document, and monitor the operational requirements that its processes, procedures and systems must be able to meet to provide its CHAPS-Related Processes.
- 17.2 Each Direct Participant shall use suitably skilled and trained people in the development, operation and maintenance of the systems and other operational processes used to support its CHAPS-Related Processes.
- 17.3 Each Direct Participant shall have appropriate controls in place for all system and/or operational commands that are used in exceptional circumstances.
- 17.4 Each Direct Participant shall regularly and at least annually, and when material changes to them occur, independently review and, if required amend, the design and operational effectiveness of the controls set out at section 17.3.
- 17.5 Each Direct Participant must be ready to and must support different types of opening as notified to them by the Bank. These include, but are not limited to:
  - (a) Normal Start - where no conditions are placed on sending and receiving Payments between Direct Participants;
  - (b) Managed Start – Direct Participants may request a Managed Start to manage identified operational risk or, to fulfil Direct Participants’ internal policies by opening their systems early and exchanging low-value Payments with another Direct Participant to ensure that their systems are operating correctly; Direct Participants shall not unreasonably withhold support to another Direct Participant in respect of a Managed Start; and
  - (c) Controlled Start - where all Direct Participants open their systems early and exchange low-value Payments to ensure that every Direct Participant's system is operating correctly.

### 18. Risk Management

- 18.1 Each Direct Participant shall design, document and operate a Management-approved risk management framework, which should be in accordance with industry standards and best practices and which should be independently reviewed, and if required, amended regularly, and at least annually, and when material changes occur to the Direct Participant’s business model or to its CHAPS-Related Processes.
- 18.2 Each Direct Participant shall apply this risk management framework to identify, monitor and manage risks to its CHAPS-Related Processes.
- 18.3 Each Direct Participant shall communicate its risk management framework to all of its relevant employees and contractors engaged in its CHAPS-Related Processes.
- 18.4 Each Direct Participant shall identify, monitor and manage people risk of its CHAPS-Related Processes. Each Direct Participant shall establish and operate policies, procedures and training to meet the people risks identified to ensure that staff are able to perform competently their CHAPS duties in all operating conditions.

- 18.5 Each Direct Participant shall identify, monitor, and manage the risks to operational access relevant to the provision of its CHAPS-Related Processes.
- 18.6 Each Direct Participant shall design and operate such controls, policies and arrangements as are appropriate to ensure that it can continue to conduct and provide its CHAPS-Related Processes in compliance with this CHAPS Reference Manual in the event that the identified operational access risks identified pursuant to section 18.5 occur.
- 18.7 When designing and implementing such controls, policies and arrangements referred to in section 18.6, each Direct Participant shall consider at a minimum the impact of and its intended response to the following operational access risks:
- (a) the Direct Participant or any party to a Payment with the Direct Participant is made the subject of a procedure under a special resolution regime under applicable law or regulation;
  - (b) the Direct Participant or any party to a Payment with the Direct Participant is removed from the CHAPS Closed User Group; and
  - (c) the Direct Participant or any party to a Payment with the Direct Participant cannot access its Account.

## **19. Data Requirements**

### **Sort Codes**

- 19.1 Each Direct Participant shall follow the Vocalink Bank Reference Data Members Guide for registering and maintaining its reference data in accordance with CHAPS specific instructions contained in the guide.
- 19.2 Each Direct Participant shall procure and maintain access to the (E)ISCD.
- 19.3 Each Direct Participant shall update its internal reference data systems when changes are made to the (E)ISCD. At the latest, revisions should be updated within a Direct Participant's internal reference data systems before the start of the next working day.
- 19.4 Each Direct Participant shall verify that all of its relevant bank reference records are present in the (E)ISCD.
- 19.5 Each Direct Participant shall follow the CHAPS technical and message standards set out in the CHAPS Technical Reference Manual and the CHAPS Operational Reference Manual.

### **Data Retention**

- 19.6 Each Direct Participant shall maintain records of Payments and books of account for a minimum of 7 (seven) years after the underlying transactions have occurred.
- 19.7 Each Direct Participant shall establish ongoing means to access stored records and archives of relevant data, including but not limited to:
- (a) any Payment successfully sent or received; and
  - (b) details of any unsuccessful Payment Messages such as SWIFT NAKs (Negative acknowledgement).

## **20. SWIFT Network Connectivity**

- 20.1 Subject to section 20.2, each Direct Participant shall have a minimum of SWIFT Alliance Connect Gold as its network connectivity solution, in a two-leased line configuration for both their active and standby sites.
- 20.2 A Category 3 Direct Participant may choose to use a SWIFT Service Bureau which meets the SWIFT Shared Infrastructure Programme eligibility criteria and operational standards.
- 20.3 Each Direct Participant shall ensure that its leased lines go through geographically separate locations to connect to its SWIFT Network Partner. This does not apply to Category 3 Participants.
- 20.4 Each Direct Participant shall test at a frequency determined by its risk assessment the leased lines at its active and standby sites to ensure ability to failover when required.
- 20.5 Each Direct Participant is required to implement a tertiary SWIFT connection solution that would be used in the event that its active and standby network connectivity solution is inoperable. This does not apply to Category 3 Direct Participants.
- 20.6 Subject to section 20.2, each Direct Participant shall secure its messages and network connections using SWIFT Hardware Security Module (HSM) clusters. Category 0, 1, and 2 Direct Participants shall have at least two HSMs at both its active and standby sites. Subject to section 20.2, each Category 3 Direct Participant shall have at least one HSM at both its active and standby sites.
- 20.7 Each Direct Participant shall obtain a SWIFT support package which it has assessed as appropriate to its requirements. Subject to section 20.2, each Direct Participant shall obtain the SWIFT Premium Support package at a minimum.
- 20.8 Each Direct Participant is required to meet the mandatory controls as part of the SWIFT Customer Security Controls Framework that are applicable to its architecture and, if relevant, compliance with the SWIFT's advisory "Back Office Data Flow Security" control objective. Additionally, where a Direct Participant uses a Cloud Servicer Provider they must also comply with SWIFT's advisory "External Transmission Data Protection" control objective. Where full compliance with these controls cannot be met, Direct Participants must have a Management-approved and funded work-plan to address the control(s) by the date specified by SWIFT. Progress on this plan must be provided by the Direct Participant to the Bank to evidence that this goal will be achieved.
- 20.9 Each Direct Participant must provide the Bank with access to its annual attestation via the SWIFT KYC Security Attestation portal.

## **21. Change Management**

- 21.1 Each Direct Participant shall ensure that any changes to its CHAPS-Related Processes do not adversely affect the safe and efficient operation, stability, resilience or integrity of the CHAPS System or introduce operational risk or security risk to the CHAPS System.
- 21.2 Each Direct Participant shall design, document and operate a Management-approved change control methodology, which should be in accordance with industry standards and best practices and which should be independently reviewed regularly and at least annually, and when material changes occur. Each Direct Participant shall communicate its change control methodology to all its relevant employees, contractors and service providers engaged in its CHAPS-Related Processes.
- 21.3 Each Direct Participant shall conduct appropriate risk assessments of any proposed changes:
  - (a) to its CHAPS-Related Processes; and
  - (b) which may affect its CHAPS-Related Processes.

The risk assessments shall be in accordance with the Direct Participant's risk management framework established pursuant to section 18.1 and change control methodology established pursuant to section 21.2 and conducted as and when required.

- 21.4 The risk assessment and the risk assessment process undertaken by each Direct Participant pursuant to section 21.3 shall:
- (a) be conducted by qualified and experienced personnel and in accordance with the Three Lines of Defence Model;
  - (b) have due regard to the operation of the central settlement service operated by the Bank; and
  - (c) support the Bank in assessing the aggregate change risk to other infrastructure providers, Direct Participants (and their Customers), service users and the Bank.
- 21.5 Each Direct Participant shall disclose its key technical and operational components to the Bank so that the Bank can identify, analyse, manage and monitor any risks to the CHAPS System.
- 21.6 Each Direct Participant shall notify the Bank in writing of any changes to its technical and operational components.
- 21.7 A Direct Participant shall provide written notice to the Bank of any planned system changes that may materially and directly or indirectly impact the CHAPS System in accordance with the notice periods set out in the Changes to Participant Systems chapter in the CHAPS Operational Reference Manual.
- 21.8 Each Direct Participant shall design, document and operate a Management-approved testing strategy and/or methodology, which should be in accordance with industry standards and best practices and which should be independently reviewed regularly and at least annually, and when material changes occur. Each Direct Participant shall communicate its testing strategy and/or methodology to all its relevant employees, contractors and service providers engaged in CHAPS-Related Processes.
- 21.9 Each Direct Participant shall ensure that its testing strategy and/or methodology:
- (a) documents pre-defined acceptance criteria designed to test and verify the proposed changes to its CHAPS Production Environment to ensure that, after those changes are implemented, the CHAPS Production Environment continues to comply with this CHAPS Reference Manual and the CHAPS User Documents;
  - (b) conducts tests in line with testing criteria specified by the Bank from time to time (to include stressed/high volume as well as normal operating conditions); and
  - (c) ensures that test results are documented and compared to the pre-defined acceptance criteria.
- 21.10 Each Direct Participant shall conduct such testing and validation of any changes to its systems, applications or processes that are used to provide its CHAPS-Related Processes so as to evidence:
- (a) the correct functioning and operation of the change in accordance with this CHAPS Reference Manual and CHAPS User Documents;
  - (b) the correct operation of internal and application processing controls; and



- (c) that the change will support continued operation in stressed business conditions as well as "business as usual" conditions including rolling forward to a subsequent calendar day or days.
- 21.11 Each Direct Participant shall ensure that the testing methodology/strategy checks that no extraneous code is present, which could impact the correct operation of its systems and operations.
- 21.12 Each Direct Participant must be able to separate "test" payments from "live" payments, which means at a minimum that:
  - (a) there is a clear segregation between environments including but not limited to live, pre-production, user acceptance testing, system testing and training;
  - (b) all CHAPS related changes must be tested in an environment that mirrors the live environment as closely as is practicable;
  - (c) test and pre-production environments must be regularly assessed to ensure consistency with the live environment. Differences between environments should be subject to a risk assessment; and
  - (d) all test and training messages must be transmitted to a Test BIC and Training BIC respectively, except as required by the Bank from time to time as notified to the Direct Participant.
- 21.13 Each Direct Participant shall conduct, at least annually, vulnerability testing against its CHAPS-Related Processes or after any major system upgrade using either external parties or parties independent of its CHAPS-related business areas.
- 21.14 Each Direct Participant shall share the key results of its stress, scenario and vulnerability testing with the Bank:
  - (a) when requested; or
  - (b) by exception, where material risks or concerns are identified.
- 21.15 Each Direct Participant shall participate in mandatory CHAPS System level tests. The Bank will notify Direct Participants when they are required to participate in these tests.
- 21.16 Each Direct Participant shall maintain its software applications and system components, including any relevant changes, in accordance with the most recent release and maintenance schedules issued by the Bank and SWIFT, to the extent that such release or schedule relates to software or hardware required to be used by this CHAPS Reference Manual.
- 21.17 If a Direct Participant wishes to deviate from the most recent release and maintenance schedules issued by the Bank and SWIFT, it must:
  - (a) identify, monitor, and manage the risks of doing so; and
  - (b) obtain the prior written consent of the Bank before doing so.

### **General - Resilience**

## **22. Availability Management**

- 22.1 Each Direct Participant shall operate a minimum of two sites which are located at different physical locations with both in active configuration, or one in active and the other in standby configuration.

- 22.2 Each Direct Participant shall design and build full redundancy into the infrastructure that enables its CHAPS-Related Processes to ensure continuity in a contingency or emergency situation.
- 22.3 Each Direct Participant must be able to receive Payments at its standby site within the period specified below in order to invoke their contingency arrangements:
- (a) Category 0 Direct Participants, Category 1 Direct Participants, Category 2 Direct Participants - Period of Time: 1 hour
  - (b) Category 3 Direct Participants - Period of Time: 2 hours
- 22.4 Each Direct Participant shall design and maintain the systems supporting its CHAPS-Related Processes to be sufficiently flexible and capable of handling potential future operational changes, upon reasonable notice of those changes, including but not limited to:
- (a) the admission of new Direct Participants to the CHAPS System;
  - (b) changes to the legal or operational structure of Direct Participants such as an acquisition, merger or business sale;
  - (c) the withdrawal or exclusion of Direct Participants from the CHAPS System;
  - (d) the suspension of Direct Participants;
  - (e) updated SWIFT message formats;
  - (f) (permanent or temporary) changes to CHAPS Business Days and the CHAPS Operating Day;
  - (g) the addition of new payment types and settlement mechanisms; and
  - (h) changes to the technical identification of Direct Participants.
- 22.5 Each Direct Participant must be able to operate its CHAPS-Related Processes in accordance with this CHAPS Reference Manual and the CHAPS User Documents whether the central settlement infrastructure is operating in either MIRS dormant mode, or MIRS active mode. When MIRS is in active mode, Direct Participants must have a means to schedule their payments locally to accommodate the unavailability of the LSM.

## **23. Capacity Management**

- 23.1 Each Direct Participant shall have sufficient capacity to meet unplanned inbound and outbound payment volumes. Unplanned volumes are calculated by taking the peak days of inbound and outbound payment volumes from the previous year for the Direct Participant, averaging them and then multiplying by 2 (two).
- 23.2 Each Direct Participant shall periodically and at least annually test its capacity arrangements. Each Direct Participant shall ensure that its capacity testing scenarios are based on planned volume forecasts with appropriate stress and flexing to accommodate significant market variations. This paragraph does not apply to Category 3 Direct Participants.

## **24. Continuity Management**

### ***Business Continuity Management***

- 24.1 Each Direct Participant shall establish a business continuity management process to minimise the impact on its ability to provide its CHAPS-Related Processes in the event of a severe but plausible business disruption or failure.

### ***Business Impact Analysis***

- 24.2 Each Direct Participant shall conduct a business impact analysis which predicts the consequences of disruption of a business function and process and gathers information needed to develop recovery strategies, by analysing its exposure to severe business disruptions and abnormal operating conditions. Each Direct Participant shall assess the potential impacts to its CHAPS-Related Processes, which should be informed by the Direct Participant's risk assessment carried out in accordance with section 18.2
- 24.3 Where a Direct Participant has identified emerging risk to its CHAPS-Related Processes, such risks shall be documented and Management-approved. Where the Direct Participant deems those risks to be material it shall share the outcome of its business impact analysis with the Bank.

### ***Business Continuity Planning***

- 24.4 Each Direct Participant shall apply the outcome of its business impact analysis to develop business continuity plans that:
- (a) consider and mitigate the risks that could adversely impact its CHAPS-Related Processes; and
  - (b) allow it to continue to provide its CHAPS-Related Processes.
- 24.5 The business continuity plans and the controls that are necessary for it to continue providing its CHAPS-Related Processes shall be documented and Management-approved.

### ***Testing of Plans***

- 24.6 Each Direct Participant shall test all of the technical and operational aspects of its site contingency arrangements at least twice a year. As a minimum, this must include verification that an end-to-end test has been carried out to show that a SWIFT message has been sent and an acknowledgement received.
- 24.7 Each Direct Participant shall test, review, and update its business continuity plans regularly and at least annually. Each Direct Participant must be able to satisfy itself through testing that it is able to sustain its CHAPS-Related Processes in compliance with this CHAPS Reference Manual and the CHAPS User Documents until normal business operations are re-established.
- 24.8 Each Direct Participant shall document its business continuity plan test results and any identified weaknesses in its business continuity plans. Any weaknesses identified shall be analysed, addressed, and, as appropriate, reported to the Direct Participant's management.

## **25. Incident Management**

- 25.1 Sections 30, 31 and 32 shall be read in conjunction with this section 25.

### ***Approach***

- 25.2 Each Direct Participant shall design and operate its CHAPS-Related Processes to ensure that it can complete all Payments that it deems as critical by the end of the value date in the event of a severe but plausible disruption. In so doing, a Direct Participant should seek to minimise the need to request an Extension.

### ***Reporting Incidents***

- 25.3 Each Direct Participant shall take immediate (and not later than 15 minutes of becoming aware of the Incident) and appropriate steps to assess the risks arising from an Incident which is affecting it or the CHAPS System.
- 25.4 Each Direct Participant shall take immediate (and not later than 15 minutes of becoming aware of the Incident) action to resolve, so far as it is within its control to do so, an Incident that:
- (a) affects or could affect the processing of Payments;
  - (b) affects or could affect the safety, integrity or predictability of the CHAPS System; or
  - (c) affects or could affect the completion of the Payments that it has already accepted from its Customers on any given CHAPS Operating Day for payment that same CHAPS Business Day in accordance with section 27.4(a).
- 25.5 Each Direct Participant shall notify the Bank within 15 minutes of becoming aware of the Incident. Notification in the first instance should be by telephone.
- 25.6 Each Direct Participant shall immediately (and not later than 15 minutes of becoming aware of the Incident) inform the Bank if its access to its Account at the Bank is restricted in any way.
- 25.7 A Direct Participant shall use its reasonable endeavours to regularly update the Bank about the status of each Incident affecting it, the Direct Participant's progress in resolving it and the likelihood of having to request an Extension from the Bank using the Direct Participant's understanding of its expected daily payment profile. At a minimum, a Direct Participant shall provide an update to the Bank at hourly intervals (every 60 minutes up to 14:00 and at intervals of no more than 30 (thirty) minutes (up to and including 2 hours before closing MT103s)) and at each major decision point in the Incident's resolution.

#### **Post Incident Management**

- 25.8 After an Incident, each Direct Participant shall complete all appropriate sections of the incident form (as provided by the Bank).
- 25.9 The incident form shall be returned by the Direct Participant to the Bank by the date specified by the Bank. If the Direct Participant is unable to return the incident form by this date, the Direct Participant shall notify the Bank and request an extension for returning the incident form. This request will be assessed and where appropriate agreed by the Bank.
- 25.10 Each Direct Participant shall:
- (a) work collaboratively with the Bank regarding Incident management to achieve successful root cause analysis; and
  - (b) share with the Bank its internal processes for dealing with the Incident .
- 25.11 Each Direct Participant shall co-operate with the Bank to identify any collaborative lessons that should be learned from any Incident affecting the Direct Participant.
- 25.12 Each Direct Participant shall implement appropriate measures as a result of lessons learned from any Incidents with a view to preventing any detrimental impact on the Direct Participant's CHAPS-Related Processes.

## **26. Operational Communications**

- 26.1 Each Direct Participant shall ensure that there are effective means of operational communication and escalation with the Bank during normal operating times and also out of hours.
- 26.2 Each Direct Participant shall have in place, maintain, secure and provide to the Bank the following:
- (a) the telephone numbers that are required to support the day to day operational requirements of the Bank, including but not limited to the 'voice blast' processes and procedures;
  - (b) an authorised contact personnel list, which includes an escalation tree and contact details for the most senior individual at the Direct Participant who is responsible for running its CHAPS-Related Processes; and
  - (c) its CHAPS operations structure and organisation chart, (together with the Operational Contacts).
- 26.3 Each Direct Participant's authorised contact personnel list shall include, but not be limited to, the primary and secondary contact details of individuals involved in the following aspects of its CHAPS-Related Processes:
- (a) Extension and Incident management; notification and authorisation;
  - (b) CHAPS day to day general payment operations and queries;
  - (c) Operational risk and scheme management;
  - (d) CHAPS emergency contacts;
  - (e) disablement and suspension contacts; and
  - (f) fraud contacts.
- 26.4 Each Direct Participant shall:
- (a) review its Operational Contacts every four months as part of the Bank's operational review process; and
  - (b) inform the Bank of any proposed changes to the Operational Contacts outside of the review period referred to in section 26.4 (a),
- prior to such changes taking effect and so as to ensure that the list held with the Bank is always up-to-date.

## 27. Extensions

- 27.1 Each Direct Participant may request an Extension and must support those Extensions as set out in the table below. Further, the Bank is entitled to call an Extension in the circumstances and for the purposes set out in the table below.
- 27.2 Four types of Extensions are possible as set out in the table below:

	Extension Type	Message	Requestor	Request Period
	<b>Payment</b> A <b>Payments Extension</b> , to support Direct Participants and their users.	MT 103 MT 202	Any Direct Participant	07:00 - 17:30

	<b>Settlement</b> A <b>Settlement Extension</b> , to support Direct Participants.	MT 202 (Sett)	Any Direct Participant	17:30 - 17:50
	<b>RTGS</b> An <b>RTGS Extension</b> , to support RTGS and other RTGS users.	MT 202 (Sett)	Bank	07:00 - 17:50
	<b>General</b> A <b>General Extension</b> , to promote financial stability.	MT 103 MT 202	Bank	07:00 - 17:30

### **Extending normal operating hours**

- 27.3 Each Direct Participant may request an Extension where it is unable to send all of the Payments that it has accepted from its Customers, for payment that same CHAPS Business Day.
- 27.4 Each Direct Participant shall at the earliest opportunity notify the Bank that it either will or may request an Extension from the Bank where it:
- (a) knows or has reasonable grounds for believing that it cannot send all of the Payments that it has already accepted from its Customers on any given CHAPS Operating Day for Payment that same CHAPS Business Day;
  - (b) knows or has reasonable grounds for believing that it cannot complete all of the Payments that are within the RTGS Central System on any given CHAPS Operating Day for payment to its Customers that same CHAPS Business Day; or
  - (c) has insufficient time to invoke any planned recovery or continuity procedures and to complete its existing accepted Payments.
- 27.5 Each Direct Participant that is experiencing an operational or other issue that may affect its ability to send or complete Payments shall immediately (and not later than 15 minutes of becoming aware of the Incident) notify the Bank that it is experiencing operational difficulties that may give rise to a request for an Extension from the Bank.
- 27.6 Each Direct Participant shall establish sufficient operational and technical capacity to support all types of Extensions up to a CHAPS System latest extension close time of 20:00.
- 27.7 Each Direct Participant may, after requesting an Extension, request that the Extension be cancelled. A cancelled Extension will be treated as an Incident by the Bank.
- 27.8 The Bank may call an Extension on the Direct Participant's behalf in the following circumstances:
- (a) at or after 17:30 if the Direct Participant has not requested an Extension and an outage is ongoing;
  - (b) an Incident exists and a Direct Participant's attempt to rectify it has already failed;
  - (c) an Incident exists and the cause remains unknown;
  - (d) the Direct Participant does not provide assurance satisfactory to the Bank that the Direct Participant is managing the Incident effectively;
  - (e) the Direct Participant's operational staff are insufficiently contactable by the Bank;

- (f) there are systemic or multi-scheme elements to the Direct Participant's issue that require an Extension to maintain stability of markets and the wider financial system; or
- (g) the integrity or reputation of the CHAPS System or the Bank is at risk.

27.9 Each Direct Participant acknowledges and agrees that the decision as to whether or not to approve an Extension is a matter solely for the Bank, but any such approval shall not be unreasonably withheld. Where the Bank refuses a Direct Participant's request for an Extension, the Bank shall provide a reason for its refusal. The Bank is not required to provide a reason where:

- (a) it would be unlawful to do so;
- (b) it would be a breach of any regulatory requirement, direction or guidance to which the Bank is subject to do so; or
- (c) the Bank reasonably considers that to provide any such reason would compromise the integrity, security or stability of the CHAPS System or the Bank.

27.10 Without prejudice to 27.8 above, each Direct Participant acknowledges and agrees that the Bank may call any type of Extension for any reason including but not limited to: (a) protecting the safety, reputation or integrity of the CHAPS System; or (b) managing systemic or other material risks which may include multi or cross-scheme elements relating to a CHAPS System issue; or (c) otherwise fulfilling the Bank's mission to maintain monetary and financial stability.

## Security - Risk

### 28. Identifying security risks

Develop an organisational understanding to manage security risk to systems, people, assets, data, and capabilities.

#### Asset management

- 28.1 Each Direct Participant shall identify and assess the criticality of the internal and external dependencies and assets for its CHAPS-Related processes.
- 28.2 Each Direct Participant shall have appropriate information classification policies covering the following criteria: legal requirements, sensitivity and criticality of its CHAPS-related assets.

#### Business environment

- 28.3 Each Direct Participant shall have security personnel, with formal roles and responsibilities, to identify and protect its internal and external CHAPS-Related Processes, business relationships, Critical Service Providers and technology.
- 28.4 Each Direct Participant shall, at a minimum, operate its contingency arrangements, including but not limited to its standby site, with the same level of security resilience as its other non-contingency arrangements.

#### Governance

- 28.5 Each Direct Participant shall have formal policies, procedures, processes and personnel in place to manage internal and external people, process and technology security risks related to the CHAPS System.
- 28.6 Each Direct Participant shall annually and when significant changes take place, obtain and share with its management independent validation and assurance showing that its controls, policies and arrangements to mitigate CHAPS security-related risks, continue to be adequate and effective. This includes assurance across each of the five principles covered in the NIST Cyber Security Framework being identify, protect, detect, respond and recover.
- 28.7 Each Direct Participant shall agree and communicate relevant security policy requirements to its Critical Service Providers. These requirements shall be monitored and non-compliances managed.

#### Risk assessment and risk management

- 28.8 Each Direct Participant shall have an adequate number of appropriately trained personnel and established processes to identify, measure, manage, monitor and report internal and external security risks, threats and vulnerabilities which could impact the performance, availability, resilience and capacity of their CHAPS Related-Processes.

#### Supply chain risk management

- 28.9 Each Direct Participant shall have established and documented processes and agreements with each Critical Service Provider to identify, measure, manage, monitor and report CHAPS-related security and information security risks within the supply chain.
- 28.10 Each Direct Participant shall have documented agreements with each Critical Service Provider demonstrating how the provider will prepare for, respond to and recover from Incidents to ensure the Direct Participant can continue to comply with this CHAPS Reference Manual.



- 28.11 The above requirements also apply to relevant cloud technology and / or SWIFT Service Bureau services or activities.
- 28.12 Resilience of connectivity must be provided between the Direct Participant and the SWIFT Service Bureau or Cloud Service Provider using encrypted and authenticated connections that withstand single point of failure.
- 28.13 Where a Direct Participant uses a Cloud Service Provider or SWIFT Service Bureau it shall ensure that the Cloud Service Provider or SWIFT Service Bureau complies with the current version of the ISO 27001 standards.
- 28.14 Where a Direct Participant uses a Cloud Service Provider it shall ensure that the Cloud Service Provider complies with the current version of the ISO 27017 standards.

## **29. Protecting against security risk**

*Develop and implement appropriate safeguards to ensure delivery of critical services.*

### ***Identity management, authentication and access control***

- 29.1 Each Direct Participant shall monitor, manage and protect physical and logical assets and associated facilities, to limit physical and remote access and connectivity to authorised internal and external users, processes and assets.
- 29.2 Each Direct Participant shall protect the integrity of its internal and external CHAPS-Related processes by limiting physical and remote access to authorised internal and external users, processes and assets.
- 29.3 Each Direct Participant shall review access and connectivity permissions and processes for internal and external users, processes and assets at a minimum, on an annual basis.
- 29.4 Each Direct Participant shall ensure that remote access connections, from public or non-bank networks, are authenticated and encrypted, including but not limited to access from standby sites.
- 29.5 Where a Direct Participant uses an Emergency Access Account, it must ensure that the relevant account(s) are disabled immediately after use (and no later than 15 minutes after such use) and all relevant passwords changed.

### ***Awareness and training***

- 29.6 Each Direct Participant shall deliver formal security training and awareness activities for all internal stakeholders who are engaged in its CHAPS-Related Processes.
- 29.7 Each Direct Participant shall agree CHAPS-related security training expectations with its Critical Service Providers which are in line with the security requirements set out in this CHAPS Reference Manual.

### ***Data security***

- 29.8 Each Direct Participant shall protect the confidentiality, integrity, authenticity and availability of CHAPS-related assets, information, data, records and hardware, whether they are at rest or in transit.
- 29.9 Each Direct Participant shall own, operate and maintain a development and testing capability and environment that is separate to the CHAPS Production Environment for all processes and interfaces relating to CHAPS.

- 29.10 Where a Direct Participant is completely decommissioning or using CHAPS-related software or hardware for non-CHAPS-related purposes, it shall remove all electronic and physical CHAPS-related data and information from them.

#### ***Information protection processes and procedures***

- 29.11 Each Direct Participant shall implement, manage and periodically review security policies to protect its CHAPS information systems and assets.
- 29.12 Each Direct Participant shall identify, manage and mitigate the risk of vulnerabilities within technologies relating to the CHAPS System.
- 29.13 Each Direct Participant shall retain, archive, back up and maintain information relating to all CHAPS-Related Processes and periodically test it to ensure it can be accessed in the future.
- 29.14 Each Direct Participant shall record and maintain information on the time of all Payments executed by it and such information must not be changed.

#### ***Protective technology***

- 29.15 Each Direct Participant shall implement, manage, review and improve, on an ongoing basis, the protective technology solutions of their CHAPS-Related Processes.
- 29.16 Each Direct Participant shall ensure that its audit logs for its CHAPS-Related Processes are kept fully secure and protected from modification.
- 29.17 Each Direct Participant shall use a trusted time source to synchronise all clocks of critical CHAPS infrastructure components. This must be automatically synchronised at least weekly. When a component clock is amended, an appropriate audit trail must be created denoting the time of the event (old time) and the new value of the clock.
- 29.18 Each Direct Participant shall have the appropriate segregation of duties and areas of responsibility to prevent unauthorised or unintentional modification or misuse of its CHAPS-related assets.

### ***Security - Resilience***

#### **30. Detecting Incidents**

- 30.1 Section 25 shall be read in conjunction with this section 30 and sections 31 and 32.

*Develop and implement appropriate activities to identify the occurrence of a security event.*

#### ***Anomalies, events and security continuous monitoring***

- 30.2 Each Direct Participant shall effectively implement technology and personnel controls to detect and analyse Incidents to identify areas of weakness and implement remediation activities to help protect the CHAPS System. Direct Participants must identify, monitor and log such Incidents.
- 30.3 Each Direct Participant shall manage and monitor audit logs which facilitate the identification of all inbound and outbound Payment-processing events.

#### ***Detection processes***

- 30.4 Each Direct Participant shall review, test and continually improve its Incident detection and containment capability.

- 30.5 Each Direct Participant shall immediately (and no later than 15 minutes after becoming aware) notify the Bank of any issue, imminent risk, or credible threat to Payment confidentiality, integrity or availability including anything which leads the Direct Participant to believe that:
- (a) the CHAPS System should not open as normal at the start of the CHAPS Operating Day;
  - (b) the CHAPS System may be at risk of abnormal operation at any time during the CHAPS Operating Day; or
  - (c) the CHAPS operations or systems of any other Direct Participant(s) may be at risk of abnormal operation at any time during the CHAPS Operating Day.

### **31. Responding to Incidents**

*Develop and implement appropriate activities to take action regarding a detected incident.*

#### **Response planning**

- 31.1 Each Direct Participant shall implement and manage internal and external facing Incident response processes and procedures, with regular reviews, exercises and continuous improvement activities, to respond effectively and minimise the impact on the CHAPS System.
- 31.2 In the event of compromised credential certificates, a Direct Participant shall immediately take the following actions:
- (a) invoke appropriate Incident management and escalation procedures;
  - (b) revoke the certificates; and
  - (c) inform the Bank as soon as reasonably practicable without impacting internal Incident management procedures but no later than 15 minutes of the Direct Participant becoming aware of the credential certificates being compromised.

#### **Communication**

- 31.3 Each Direct Participant shall train CHAPS associated staff on how to execute Incident information sharing, escalation, notification and wider communication with internal and external stakeholders, during an Incident.
- 31.4 Each Direct Participant shall establish and institutionalise contact with peer groups and associations of security professionals in similar organisations to share non-confidential CHAPS security-related information including, but not limited to, threats and vulnerabilities.

#### **Analysis**

- 31.5 Each Direct Participant shall implement procedures to receive, analyse, investigate and respond to notifications of Incidents and/or vulnerabilities from internal and external sources (e.g. internal testing, incident alerts, monitoring, security bulletins or security researchers).

#### **Mitigation**

- 31.6 Once detected, each Direct Participant shall contain internal and external Incidents and mitigate the risks of further spread.

- 31.7 Each Direct Participant shall identify new, emerging and potential risks and vulnerabilities and include them in risk management activities, confirming plans for mitigation.

***Improvements to response capability***

- 31.8 Each Direct Participant shall comply with the Bank's post incident management processes and apply lessons learned to their response capability (see sections 25.8 and 25.12).

**32. Recovering from Incidents**

*Develop and implement appropriate activities to maintain plans for resilience and to restore any capabilities or services that were impaired due to an Incident.*

***Recovery planning***

- 32.1 Each Direct Participant shall implement and manage internal and external facing Incident recovery processes and procedures, with regular reviews, exercises and continuous improvement activities, to minimise the impact on the CHAPS System.

***Testing and exercising***

- 32.2 Each Direct Participant shall complete regular security tests (including penetration testing) and exercises, with relevant internal and external stakeholders, to give assurance on the effectiveness of response and recovery processes and procedures.
- 32.3 Each Direct Participant shall include improvements and mitigations resulting from security tests and exercises in continuous improvement activities, to ensure the response and recovery capability continues to improve.

***Communication***

- 32.4 Each Direct Participant shall respond collaboratively and communicate effectively with internal and external stakeholders during an Incident, including the Bank, other Direct Participants, Indirect Participants their own Customers and service providers, to help protect the CHAPS System from further impacts.

## ***Outsourcing and Third Party Risk Management – Risk and Resilience***

### **33. Pre Outsourcing**

- 33.1 Where a Direct Participant uses a Service Provider to perform its CHAPS-Related Processes, services, or activities which would otherwise be undertaken by the Participant itself, it shall ensure and be able to evidence that the controls, policies and arrangements it has put in place with its Service Providers:
- (a) enable the Direct Participant to comply with this CHAPS Reference Manual; and
  - (b) require the Service Provider to comply with the relevant provisions of this CHAPS Reference Manual and the CHAPS User Documents.
- 33.2 Where a Direct Participant plans to use, or currently uses a Service Provider it shall assess whether that Service Provider is or will become a Critical Service Provider, and shall assess this throughout the duration of an outsourcing arrangement. This should be assessed:
- (a) before entering into an outsourcing arrangement;
  - (b) at appropriate intervals thereafter (e.g. service performance reviews);
  - (c) before a Direct Participant materially changes an existing outsourcing arrangement; and
  - (d) following large-scale change of service or organisational change at the Service Provider.
- 33.3 Before a Direct Participant enters into a Critical Service Provider arrangement or materially changes a Critical Service Provider arrangement it shall notify the Bank. This shall include arrangements with Service Providers where the Service Provider was not initially a Critical Service Provider and is now expected to become so pursuant to an assessment as described at paragraph 33.2 above.
- 33.4 Where a Direct Participant notifies the Bank under paragraph 33.3 the Participant shall provide additional information if requested by the Bank or implement any enhancements that are requested of the Participant by the Bank during its pre-outsourcing process (e.g. due diligence, risk management, governance).
- 33.5 Where a Direct Participant has determined it is about to enter into, or materially change, an outsourcing arrangement with a Service Provider then the Participant shall conduct a risk assessment that considers the potential impact on its operational risk. The Participant shall revise this risk assessment following material changes to outsourcing arrangements with Service Providers, when a Service Provider is expected to become a Critical Service Provider pursuant to an assessment described at section 33.2, or following a serious disruption of service with its Critical Service Providers.
- 33.6 Each Direct Participant shall establish and operate such controls, policies and arrangements as are necessary to ensure that it has appropriately mitigated the risks to its CHAPS-Related Processes, services and activities and the CHAPS System which are associated with entering into an outsourcing agreement with a Service Provider.
- 33.7 A Direct Participant shall not use or continue to use a Service Provider whose ownership or performance of any process, service or activity causes or risks causing damage to the security, safety, integrity or reputation of the CHAPS System.
- 33.8 Where a Direct Participant plans to enter into or materially change an outsourcing arrangement for their CHAPS payment processing it shall comply with any applicable notification requirements with respect to relevant Regulatory Authorities.

### 34. Outsourcing Management and Governance

- 34.1 Where a Direct Participant uses a Service Provider to perform its CHAPS-Related Processes, services or activities the Direct Participant remains responsible and accountable to the Bank for the proper and timely performance of all the requirements outlined in this CHAPS Reference Manual and the CHAPS User Documents relevant or related to those processes, services or activities. In particular the Direct Participant (and not the Service Provider) is and remains responsible for the payment of:
- (a) any fees or other charges payable by the Direct Participant under the CHAPS Specifications; and
  - (b) any other sums payable by the Direct Participant under the CHAPS Specifications.
- 34.2 Each Direct Participant shall have formal policies, procedures, processes and personnel in place to manage outsourcing relationships and third party risks. This includes identifying and managing risks posed to its CHAPS-Related Processes, services or activities and to the wider CHAPS System.
- 34.3 Each Direct Participant shall establish a process for reporting management information on the performance of its outsourcing arrangements and how these enable the Direct Participant to comply with this CHAPS Reference Manual and the CHAPS User Documents.
- 34.4 Where a Direct Participant enters into an outsourcing arrangement with a Critical Service Provider, or where a Service Provider becomes a Critical Service Provider following an assessment in accordance with section 33.2 above, the Participant shall establish appropriate capability to:
- (a) retain historical knowledge to support Incident management, business continuity management, and post Incident problem management; and
  - (b) adequately enable staff to configure, deploy, and operate Service Provider solutions.
- 34.5 Where a Direct Participant uses a Cloud Service Provider it shall define both its and its Cloud Service Provider's respective responsibilities in the Shared Responsibility Model.
- 34.6 Each Direct Participant shall have and operate a Management-approved cloud security strategy and/or methodology, which should be in accordance with industry standards and best practices and which should be audited and reviewed at regular intervals, at least annually, and when material changes occur.
- 34.7 Where a Direct Participant enters into an outsourcing arrangement, it shall make reasonable and appropriate agreements with its Service Providers to ensure the Direct Participant (or its auditor) may be granted appropriate and proportionate access, audit and information management rights.
- 34.8 Where a Direct Participant enters into an outsourcing arrangement the Direct Participant shall confirm whether the Service Provider intends to use sub-outsourcing services. The Direct Participant shall include how its Service Provider oversees its own sub-outsourced Service Providers as part of the Direct Participant's third party risk management activities pursuant to section 34.2.
- 34.9 Where a Direct Participant enters into an outsourcing arrangement the Direct Participant shall regularly review the outsourcing arrangement at least annually with its Service Provider to determine if the use of sub-outsourcing services has changed and shall update its risk assessment and risk management processes in sections 34.2 and 34.3 accordingly.

### 35. Outsourcing Systems, Data, Business Continuity and Resilience

- 35.1 Where a Direct Participant enters into an outsourcing arrangement with a Service Provider it shall:
- (a) identify risks to data held by the Service Provider and their potential impact to: (1) the Participant's ability to meet the requirements of this CHAPS Reference Manual; and (2) the financial and operational resilience of the CHAPS System;
  - (b) classify data based on confidentiality and sensitivity;
  - (c) apply a risk-based approach to the location of data-in-transit, data-at-rest, and data-in-use, and implement appropriate controls; and
  - (d) agree with its Service Provider the appropriate level of data confidentiality, integrity, and availability to comply with this CHAPS Reference Manual and the CHAPS User Documents.
- 35.2 Where a Direct Participant enters into an outsourcing arrangement that involves the transfer of CHAPS-related data it shall define, document, and understand the respective roles and responsibilities in respect of that data and respond appropriately to protect it.
- 35.3 Where a Direct Participant enters into an outsourcing arrangement it shall remain responsible for the CHAPS-related data.
- 35.4 Where a Direct Participant terminates an outsourcing arrangement or permits the decommissioning of systems provided by a Service Provider, it shall ensure the removal of all CHAPS-related data from the third party's assets and systems.
- 35.5 Where a Direct Participant enters into an outsourcing arrangement it shall consider the risks which may arise from doing so and include them in the its business continuity plans it is required to develop and document pursuant to sections 24.4 and 24.5, including a documented exit strategy for (i) planned exits (i.e. non-stressed exit) and (ii) unplanned exits (i.e. stressed exit).
- 35.6 Each Direct Participant shall design and implement controls that ensure it can continue to operate and provide its CHAPS-Related Processes, services and activities in compliance with this CHAPS Reference Manual and the CHAPS User Documents in the event that any Service Provider is unable to meet its obligations.
- 35.7 Where a Direct Participant uses a Cloud Service Provider as part of its CHAPS-Related Processes, services or activities, it shall fully leverage the suite of resilience services and offerings of the Cloud Service Provider to design and operate effective operational resilience of its CHAPS-Related Processes, services and activities.
- (a) Category 0, 1 and 2 Direct Participants are required to have resiliency options in multiple Availability Zones in more than one Region; and
  - (b) Category 3 Direct Participants are required to have resiliency options in multiple Availability Zones within at least one Region.

## Liquidity

### 36. Throughput

#### *Hours of Operation*

- 36.1 All times specified below are references to London time.
- 36.2 Each Direct Participant may use the CHAPS System from 06:00.
- 36.3 Each Direct Participant must be fully operational and ready to send and receive Payments on every CHAPS Business Day:
- (a) (if a Category 0 Direct Participant, Category 1 Direct Participant or a Category 2 Direct Participant) as from 07.00; or
  - (b) (if a Category 3 Direct Participant) as from 08.00.
- 36.4 Each Direct Participant shall send all of their accepted MT103 payments by 17:40 and MT202 payments by 18:00 on any given CHAPS Business Day, except where the Bank has called an Extension in which case the Bank will advise by when all accepted payments must be sent.
- 36.5 Direct Participants shall ensure that only settlement period MT202 payments shall be made during the settlement period between 17:40 and 18:00 on any given CHAPS Business Day.
- 36.6 Each Direct Participant shall send all forward dated payments (subject to passing its relevant internal verification checking), which are held within its systems for payment on a specific CHAPS Business Day and where a specific time has not been specified by the Customer, within the same business day after the opening of its systems for CHAPS business.

#### *Throughput Criteria: General Principle on Liquidity Efficiency*

- 36.7 Each Direct Participant is expected to settle Payments (subject to passing its relevant internal verification checking) as soon as reasonably practicable within the CHAPS Business day. This obligation is known as the “**General Principle on Liquidity Efficiency**”.

#### *Throughput Criteria: Scope of Application*

- 36.8 In addition to the General Principle on Liquidity Efficiency, each Category 1 and Category 2 Direct Participant is required to comply with the Throughput Criteria.
- 36.9 The Bank may request mitigation/remediation if appropriate and/or may apply a Throughput Criteria at levels it deems to be appropriate and proportionate to manage the risks.
- 36.10 Application of the Throughput Criteria to a Direct Participant in these circumstances will apply until such time that the Bank deems it appropriate for the application of the Throughput Criteria to cease.

#### *Throughput Criteria: The Standard Requirements*

- 36.11 Each Direct Participant is required to have settled (by value and averaged over each calendar month excluding Excluded Payments (as defined below)) the ‘Target’ detailed in ‘Table A’.



**Table A: Throughput Targets**

Quantum	Category 0/1			Category 2		Category 3
	FMI	Target	Red tolerance (2%)	Target	Red tolerance (6%)	Not Applicable
12:00	Not Applicable	50%	Less than 48%	50%	Less than 44%	
15:00		75%	Less than 73%	75%	Less than 69%	
17:00		90%	Less than 88%	90%	Less than 84%	

36.12 An Excluded Payment is a payment made by a Participant to:

- (a) Its own Account held at the Bank.
- (b) An Account held at the Bank by an Indirect Participant in relation to whom they themselves are acting as a CHAPS Indirect Access Provider for.
- (c) Another Direct Participant which is an '**Associate**' except where that Associate and the Direct Participant are:
  - (i) ring fenced from each other, in accordance with Part IXB of FSMA, and related legislation, each as amended; and
  - (ii) not supervised by the PRA as a single liquidity sub-group pursuant to a DoL Sub Permission.

36.13 Any deviation from Target that flags 'Red tolerance' will be an immediate breach trigger of a presumptive breach of the Throughput Criteria. A "presumptive breach" means that the Bank will assess the cause and potential impact of the missed target and then determine whether it should be considered a breach.

36.14 Any breach shall be treated as non-compliance with this CHAPS Reference Manual unless otherwise agreed by/with the Bank or unless section 36.17 is applicable.

36.15 Each Direct Participant must report breaches on its Compliance Certificate unless otherwise agreed by/with the Bank.

36.16 In a scenario where there is an absence of a granted Throughput Adjustment Waiver and there is a breach of Throughput Criteria then this event will invoke the non-compliance process.

36.17 The Throughput Criteria do not apply for the first six months to any new Direct Participants. This is to enable its business profile to stabilise and for sufficient data to be available in the event that a Throughput Adjustment Waiver is required for a new on-boarder.

#### **Throughput Criteria: Changes to the Standard Requirements**

36.18 The Bank reserves the right to unilaterally adjust the Throughput Criteria, including tolerances, at its discretion.

#### **Throughput Criteria: Throughput Adjustment Waivers**

36.19 A temporary Throughput Adjustment Waiver may be applied for by a Category 1 or a Category 2 Direct Participant using the Throughput Adjustment Waiver Procedure in the event that circumstances outside of its control, including aspects of their business model, prohibit it from achieving the Throughput Criteria set out in Table A. Details of the application process can be found in sections 36.20 to 36.25 (inclusive).

#### **Throughput Criteria: Throughput Adjustment Waiver Procedures**

- 36.20 Where a Direct Participant considers that there are mitigating circumstances outside of its control, including attributable to its business model that prevents it from meeting the Throughput Criteria, it can apply for a Throughput Adjustment Waiver.
- 36.21 If successful, the Throughput Adjustment Waiver bi-laterally adjusts the Throughput Criteria required to be met by that Direct Participant for a period defined by the Bank.
- 36.22 The defined period for a Throughput Adjustment Waiver is wholly at the Bank's discretion based on its analysis, the information provided by the Direct Participant and the Bank's assessment of the likely impact of granting the Throughput Adjustment Waiver.
- 36.23 The Bank reserves the right to unilaterally amend the duration of a Throughput Adjustment Waiver or its target at any time.
- 36.24 The Throughput Adjustment Waiver application must be completed using the template provided by the Bank and be supported by a comprehensive data analysis of the twelve most recent months payment data.
- 36.25 Each Direct Participant should submit an application for a Throughput Adjustment Waiver at least three months prior to the proposed commencement date.

### **37. Obligations in respect of Tiered Participation Arrangements**

#### ***General***

- 37.1 Where a Direct Participant provides access to the CHAPS System to an Indirect Participant, it will be acting as a CHAPS Indirect Access Provider. Each CHAPS Indirect Access Provider shall ensure that at a minimum:
  - (a) the following provisions in this section will apply; and
  - (b) it has a contractual relationship with the Indirect Participant, or in limited circumstances, such as in international correspondent relationships, its Associate has a contractual relationship with the Indirect Participant.

#### ***Indirect Participant Due Diligence***

- 37.2 A Direct Participant which proposes to act as a CHAPS Indirect Access Provider shall develop and document processes and policies to on-board Indirect Participants to CHAPS.
- 37.3 A Direct Participant which proposes to act as a CHAPS Indirect Access Provider shall identify, assess and document the risks associated with its provision of CHAPS services to Indirect Participants and to each individual Indirect Participant as part of its on-boarding process (with due regard to the CHAPS Indirect Access Provider's obligations under the CHAPS Reference Manual and CHAPS User Documents and under general law).
- 37.4 Each CHAPS Indirect Access Provider shall maintain as a minimum the following information regarding its Indirect Participants: legal name, LEI, SWIFT BIC, business model, ultimate beneficial owner - if applicable - and understanding of why each Indirect Participant requires access to the CHAPS System.

#### ***Indirect Participant Risk Management***

- 37.5 Each CHAPS Indirect Access Provider shall establish and operate such controls, policies and arrangements as are necessary to ensure that it has appropriately mitigated to an acceptable level the risks associated with providing CHAPS services to its Indirect Participants.

- 37.6 Each CHAPS Indirect Access Provider shall design well-developed and formal contingency plans for dealing with Indirect Participants for which it acts which are in distress.
- 37.7 Each CHAPS Indirect Access Provider shall (with such frequency as it reasonably considers is appropriate) validate and obtain assurance that the controls, policies and arrangements that it has put in place in respect of its Indirect Participants under section 37.5 above are effective and that they continue to be effective.
- 37.8 Each CHAPS Indirect Access Provider shall inform an Indirect Participant for which it acts if payments sent or received by the CHAPS Indirect Access Provider on behalf of that Indirect Participant could be Internalised Payments and that Internalised Payments do not receive the protections of the SFR.
- 37.9 Each CHAPS Indirect Access Provider shall take reasonable steps to ensure that the Indirect Participants to whom they provide operational services do not jeopardise the safety, integrity or reputation of the CHAPS System and/or the stability of the wider financial system.

#### ***New Key Indirect Participants***

- 37.10 If a Direct Participant plans to bring on new Indirect Participants with daily flows (or projected daily flows) in excess of the Deemed Tiering Consent Limit, it must notify the Bank of this intent and supply the relevant information to the Bank so that a determination may be made regarding whether the Bank will provide Specific Consent to the arrangement as required by section 5.14.
- 37.11 The Bank will then undertake analysis (as detailed in section 38) as to whether the indirect access of the proposed Indirect Participant to the CHAPS System might pose a systemic or other material risk to CHAPS and/or the wider financial system. If, in the Bank's determination, this is found to be the case, then the Direct Participant shall take the necessary mitigation steps to address this matter or the Bank may refuse consent to the Participant concerned acting as Direct Participant for the proposed Indirect Participant concerned.

#### ***Existing Indirect Participants***

- 37.12 Due to the Bank's obligations towards managing systemic and other risks to its system and the wider financial system, CHAPS Indirect Access Providers must supply the Bank with all relevant information on the liquidity flows of all their existing Indirect Participant at such frequency as specified by the Bank.
- 37.13 Bank will then undertake analysis (as detailed in section 38) as to whether an Indirect Participant may be posing a systemic or other material risk to CHAPS and/or the wider financial system. If, in the Bank's determination, this is found to be the case, then the CHAPS Indirect Access Provider shall take the necessary mitigation steps to address this matter or the Bank may withdraw its consent.

#### ***Other ongoing obligations in relation to tiering***

- 37.14 Under the Tiering Criteria set out in section 38, where the Bank is minded to refuse or withdraw its consent under its Tiering Powers for a particular indirect relationship it must give a Warning Notice to the relevant CHAPS Indirect Access Provider. After receipt of such a Warning Notice, the relevant CHAPS Indirect Access Provider shall:
- (a) promptly give a copy of the Warning Notice to the affected Indirect Participant(s);
  - (b) inform the affected Indirect Participant(s) of its/their ability to express their views to the Bank (via the Direct Participant) in response to the Warning Notice and ensure

that the affected Indirect Participant(s) has/have a reasonable opportunity to express their views in response to the Warning Notice; and

- (c) ensure that the manner in which the CHAPS Indirect Access Provider responds to the Warning Notice fairly and objectively takes into account and puts forward the interests and concerns of the affected Indirect Participant(s), and in particular that any relevant views expressed by the affected Indirect Participant(s) are properly reflected or otherwise included as or as part of, or as an annex to, the written representations made by the CHAPS Indirect Access Provider to the Bank in response to the Warning Notice including, for the avoidance of doubt, where those views conflict with the views of the CHAPS Indirect Access Provider.

37.15 In the Tiering Criteria set out in section 38, it is explained in what circumstances a CHAPS Indirect Access Provider may invoke the Review Process in response to a *Relevant Decision*. In connection with a Relevant Decision, the CHAPS Indirect Access Provider shall:

- (a) promptly inform any affected Indirect Participant(s) of their right to require the CHAPS Indirect Access Provider to invoke the Review Process;
- (b) invoke the Review Process if any affected Indirect Participant wishes the CHAPS Indirect Access Provider to do so, provided that the affected Indirect Participant is prepared to fund its and the CHAPS Indirect Access Provider's costs associated with the Review Process; and
- (c) have due regard and give due weight to the interests and concerns of the affected Indirect Participant(s) when determining the manner in which the CHAPS Indirect Access Provider exercises its rights under the Review Process including, for the avoidance of doubt, bringing to the attention of the Review Panel any conflict between the views of the affected Indirect Participant(s) and the views of the CHAPS Indirect Access Provider.

37.16 A CHAPS Indirect Access Provider shall have no further obligation under section 37.15 above at any time after:

- (a) the Bank's consent is automatically withdrawn in accordance with section 5.23; or
- (b) the Participant terminates its contractual relationship, or does not otherwise have such a relationship, with the Indirect Participant or Indirect Participants concerned which governs the entry of Payment Messages into the CHAPS System for or on behalf of that Indirect Participant or those Indirect Participants.

In such circumstances, the inability of the affected Indirect Participant or Indirect Participants to access the CHAPS System via the Direct Participant does not result from a Relevant Decision which may properly be the subject of the Review Process; rather, it results from the decision of the relevant Participant not to (or to cease to) provide CHAPS-related payment services to the Indirect Participant in accordance with its contractual or other rights to do so.

#### **Monitoring contractual obligations**

37.17 Direct Participants as CHAPS Indirect Access Providers shall establish a process regularly to monitor (at a minimum annually) the performance of Relevant Indirect Participants against their contractual obligations in respect of their CHAPS payment transactions.

# Procedures relating to Bank Decisions

## 38. Exercise of Discretion of Bank's Tiering Powers

### *Introduction*

- 38.1 As the operator of the CHAPS System, the Bank seeks to identify, monitor and manage the material risks to the CHAPS System arising from tiered participation arrangements.
- 38.2 The Bank has set out quantitative Tiering Criteria (the Tiering Thresholds) in section 38.28 below. These are thresholds beyond which the Bank considers that an Indirect Participant should move to direct access unless a) appropriate mitigating circumstances are in place and/or b) the Indirect Participant is not eligible for direct access (including if it is not permitted to hold an account in RTGS).

### *Refusing or withdrawing consent to tiered participating arrangements*

- 38.3 In the normal course of events, the Bank expects that risks will be managed appropriately by relevant CHAPS Indirect Access Providers and Indirect Participants without recourse to refusing or withdrawing consent.
- 38.4 The Bank's decision to grant, refuse, or withdraw consent is made at a point in time. The Bank may review its decision if circumstances, including its view of the risk profile, change.
- 38.5 An affected Direct Participant may invoke the Review Process in section 39 in respect of a decision by the Bank to refuse or withdraw consent in the exercise of its Tiering Powers. For clarity, an affected Direct Participant may not invoke the Review Process in respect of a decision by the Bank to suspend General Consent (unless the suspension was due to an event set out under section **Error! Reference source not found.**), Deemed Consent, or Specific Consent, but may invoke the Review Process in respect of a determination to withdraw consent subsequent to such suspension.

### *Deemed Tiering Consent Limit and the Tiering Criteria*

- 38.6 The following sections set out the Deemed Tiering Consent Limit and the Tiering Criteria to which the Bank must have regard before exercising its Tiering Powers in accordance with section 5.29.
- 38.7 The Tiering Criteria set out certain criteria, principles, expectations and other matters to which the Bank will have due regard and give due weight when exercising its Tiering Powers.
- 38.8 The Deemed Tiering Consent Limit is as follows:
- (a) the Deemed Tiering Consent Limit is 0.5% of CHAPS average daily values of the Payments to be sent and received; and
  - (b) where the Indirect Participant:
    - (i) is in, or proposes to be in, a contractual relationship with one or more of the Direct Participant's Associates for the provision of CHAPS payment services; or
    - (ii) is associated with one or more Indirect Participants which are in, or propose to be in, a contractual relationship with the Direct Participant and/or one or more of the Direct Participant's Associates for the provision of CHAPS payment services (the Indirect Participant and such of its Associates being together the Indirect Participants),

the Deemed Tiering Consent Limit will be applied in relation to the aggregated average daily value of Payments to be sent and received by the Direct Participant and/or its Associates for or on behalf of the Indirect Participant or (as the case may be) the Indirect Participants.

- 38.9 Nothing in this section 38 or this CHAPS Reference Manual is intended to affect any right of a potential Indirect Participant to apply to the PSR to require a Direct Participant to give the potential Indirect Participant indirect access to the CHAPS System.

#### ***Tiering Powers: Circumstances of Exercise***

- 38.10 The Tiering Powers are exercisable by the Bank in two distinct circumstances:
- (a) where the Bank has been notified (or otherwise becomes aware) that an insolvency event specified in any of sections 8.6(a) to 8.6(e) inclusive and 8.6(g) has occurred in relation to the Indirect Participant concerned (the Insolvent Tiering Powers); and
  - (b) where the Bank is required to determine whether to refuse or withdraw consent under its Tiering Powers in circumstances where the Bank has not been notified (or has not otherwise become aware) that an insolvency event specified in any of sections 8.6(a) to 8.6(e) inclusive and 8.6(g) has occurred in relation to the Indirect Participant concerned (the Solvent Tiering Powers).

#### ***Risks Arising in Tiering Arrangements***

##### *The oversight context*

- 38.11 The Financial Market Infrastructure area of the Bank supervises the CHAPS System on a non-statutory basis and, therefore, the Bank is expected to have regard to the Principles in operating CHAPS.
- 38.12 Principle 19 provides that an FMI should identify, monitor and manage the material risks to the FMI arising from tiered participation arrangements.

##### *General observations*

- 38.13 The Bank recognises that, in determining whether and if so how to exercise the Tiering Powers, it must take into account two broad, but potentially countervailing, considerations:
- (a) The presence of tiering arrangements does not in or of itself bring unnecessary or inappropriate risks to the CHAPS System. In fact, certain benefits can be achieved through arrangements under which Direct Participants provide payment services to Indirect Participants to allow them to access CHAPS indirectly, including:
    - (i) efficiency benefits for Direct Participants, in particular as a result of the economies of scale arising from processing additional volumes of direct Payments and the potential pooling of liquidity;
    - (ii) as certain Indirect Participants will or may not satisfy the participation and access criteria set out in section 4, tiering arrangements allow such Indirect Participants to access the facilities of the CHAPS System when they would not otherwise be able to do so<sup>1</sup>;

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<sup>1</sup> Consistent with Principle 18, the CHAPS System has objective, risk-based and publicly disclosed criteria for participation which permit fair and open access. Under Principle 18, the Bank should take into account whether this CHAPS Reference Manual (and the Tiering Criteria) promote fair and open access not only for Direct Participants, but also for Indirect Participants that are not Direct Participants (i.e. as Indirect Participants).

- (iii) even if a prospective Indirect Participant would or might satisfy the participation and access criteria, the costs of direct participation may be considered prohibitive in relation to the costs of indirect participation<sup>2</sup> or the direct benefits of joining as a Direct Participant; and
  - (iv) an adverse consequence of the points outlined in sections 38.13(a)(ii) and 38.13(a)(iii) above might be that, if a prospective Indirect Participant were denied access to CHAPS as an Indirect Participant, its transactions might come to be settled in less efficient and robust systems or by other means – which could give rise to greater risks to the stability of the financial system of the United Kingdom as a whole.
- (b) However, any assessment of the benefits of tiering arrangements must take full account of the wider risks to the CHAPS System and the risks to financial stability more generally. The proper management of these risks is primarily a matter for the Direct Participant and the Indirect Participant concerned, and where appropriate their regulators, but the Bank must identify, understand and manage these risks to the extent they create systemic or other material risks for CHAPS or to the financial system of the United Kingdom.

*Risks to the CHAPS System and financial stability*

*Credit risk*

- 38.14 The CHAPS System holds each Direct Participant accountable in respect of Payment Messages which it enters into the CHAPS System – whether for itself, or for or on behalf of Indirect Participants: see section 8.1. The Direct Participants will, therefore, incur credit risk on Indirect Participants where they extend intraday credit to them in respect of Payments made by the Direct Participant (as a CHAPS Indirect Access Provider) for the account of their Indirect Participants. Similarly, Indirect Participants incur credit risk upon Direct Participants to the extent of any credit balances they hold with the Direct Participants (as CHAPS Indirect Access Provider) in support of their payment activities through the CHAPS System.
- 38.15 In the interests of the safe and efficient operation of CHAPS, the Bank expects Direct Participants to understand and manage their potential credit exposure to Indirect Participants (for example, through credit limits and appropriate financial collateral arrangements). This must include an assessment of potential exposures in the event of stress scenario, such as a "run" on a Customer-Indirect Participant in the retail or wholesale markets, as well as an analysis of the susceptibility and vulnerability of such a Customer to a "run" in the event that it becomes distressed with due regard to their reliance on funding from retail deposits or short-term wholesale lending<sup>3</sup>.
- 38.16 The Bank expects Direct Participants to have well-developed and formal contingency plans for dealing with Customer-Indirect Participants which are in distress, including procedures for reducing credit limits (potentially to 0 (zero)); procedures for pre-collateralisation of exposures; procedures for communications with the Customer-Indirect Participant in distress; and procedures for ensuring full and prompt compliance with the information requirements of sections 8.6 and 8.13.

<sup>2</sup> The costs of direct participation include one-off set-up costs, such as the cost of developing the necessary hardware, software and processes to connect to CHAPS and establishing sufficient expertise amongst staff. They also involve a potentially significant level of ongoing costs, such as fees and other participation costs, opportunity costs of providing collateral or holding liquid assets, hardware and software maintenance, and higher staffing costs.

<sup>3</sup> See the PRA Supervisory Statement on Settlement bank exposures to customer banks: management of the risks (LSS12/13 April 2013).

- 38.17 The Bank is concerned to identify, understand and manage where material credit exposures might arise which could lead to a failure of a Direct Participant. It takes into account the fact that even if a Direct Participant is provided with financial collateral to collateralise credit granted to a Customer-Indirect Participant, the Direct Participant may be left with a tail of collateral that it cannot liquidate in an orderly fashion so as to leave it short of liquidity (potentially disrupting both its own settlement operations and those of other Direct Participants). Similarly, having regard to broader financial stability risks, the Bank is concerned to identify, understand and manage any material credit exposures that might lead to a failure of an Indirect Participant.

*Liquidity risk*

- 38.18 In tiered arrangements, liquidity risk can occur for both the Direct Participants and Indirect Participants. A "run" on an Indirect Participant is likely to result in a much higher than normal outflow of payments, resulting in disruption to the liquidity position as between a Direct Participant and its Customer-Indirect Participant, and unusual patterns of payment flows within CHAPS. A Direct Participant might decide, in order to protect its own position, to delay the input of Payment Messages into CHAPS for or on behalf of the affected Indirect Participant; and this may cause disruption to the payment operations of other Direct Participants reliant upon payment inflows to fund Payments – and further undermine market confidence more generally. Equally, the Customer-Indirect Participant would face liquidity risk if the Direct Participant were to cut its credit limit at short notice<sup>4</sup>.

*Operational, legal and systemic risks*

- 38.19 The principal operational risk faced by Indirect Participants is that disruption at the Direct Participant (acting as CHAPS Indirect Access Provider) – whether financial or operational – may leave them unable to make or receive direct Payments through the CHAPS System. Where a large number of Indirect Participants settle Payments through a small number of Direct Participants (acting as CHAPS Indirect Access Provider), or an Indirect Participant sends Payments through a smaller Direct Participant (acting as a CHAPS Indirect Access Provider), an operational outage or a shortage of liquidity at a Direct Participant may disrupt the financial system of the United Kingdom more widely. The inability of a significant proportion of Indirect Participants, or a large Indirect Participant, to access the CHAPS System may cause more widespread disruption to financial markets and adversely affect confidence in the financial system as a whole.
- 38.20 The settlement asset of the CHAPS System, as between the Direct Participants, is a claim on the Bank. However, where two Indirect Participants are Customers of the same Direct Participant (acting as CHAPS Indirect Access Provider), the payment between them (where it would ordinarily enter the CHAPS System if they were not customers of the same bank) will be "internalised" across the books of the CHAPS Indirect Access Provider – rather than across accounts maintained at the Bank. In such cases, the settlement asset is not central bank money, but commercial bank money.
- 38.21 As the Indirect Participant is a Customer of the Direct Participant, the credit risk created by such commercial bank money is unlikely of itself to be of direct concern to the Indirect Participant.
- 38.22 However, there is a material risk that Indirect Participants (and their customers) would expect payments that would ordinarily be sent through the CHAPS System, as a "designated system" under the SFR, to receive the full protections of the SFR. In fact, such protections will not extend to Internalised Payments, as the Participant's Settlement Account at the Bank is not debited in respect of such a payment and therefore no relevant Payment Message is treated as being entered into the CHAPS System under this CHAPS Reference

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<sup>4</sup> This risk would be mitigated if an Indirect Participant has a committed liquidity line or highly liquid financial collateral available, if necessary, which is sufficient to meet any stressed outflows of payments.



Manual: see section 9.2. In addition, if an insolvency event affects the Indirect Participant, any Payment Message attributable to it will not receive protection because an Indirect Participant is not a "participant" of the CHAPS System for the purposes of the SFR. Further, as the Bank has no contractual relationship with Indirect Participants, it has no direct control over the management of any default by an Indirect Participant – an Indirect Participant is not subject to the Participant Default Arrangements put in place by the Bank to limit systemic and other types of risk which arise in the event that a Direct Participant appears to be unable, or likely to become unable, to meet its obligations in respect of a Payment Message.

- 38.23 The absence or reduction in protection under the SFR, or the Settlement Finality Directive, as applicable, for Payment Messages (and related Payments) attributable to Indirect Participants might, where the payment values are material, create systemic risk and undermine market confidence in the CHAPS System.

***Factors for, and against, the Bank Exercising its Tiering Powers***

- 38.24 Taking into account the risks described in sections 38.11 to 38.23, the Bank has identified certain features of an indirect relationship that will create a presumption in favour of the exercise of the Tiering Powers so as to refuse, withdraw or suspend consent. In which case, the burden of proof will fall on the relevant Direct Participant to establish that:

- (a) there are countervailing "other factors" that favour consent; and
- (b) those "other factors" are of sufficient weight to rebut the presumption in favour of the refusal, withdrawal or suspension of consent with due regard to the considerations applied by the Bank (as outlined in section 38.26 below) when making its determination.

- 38.25 It should be emphasised that the absence of any of the "presumptive criteria" described in sections 38.24 to 38.43 (Factors for, and against, the Bank Exercising its Tiering Powers) (as applicable to the exercise of the Solvent Tiering Powers<sup>5</sup>) does not mean that the Bank will consent to a particular indirect relationship. It remains the purpose and effect of sections 4 to 16 (General Rules) that the Bank will refuse or withdraw consent under its Solvent Tiering Powers, unless it determines that such refusal or withdrawal of consent is "unnecessary" or "inappropriate" to manage the relevant risks arising from the indirect relationship concerned. However, the absence of the "presumptive criteria" may mean that the Bank will be able to determine relatively quickly, and without any requirement for further input from the Participant, that the risks are insufficiently material to prevent a Positive Determination.

- 38.26 In assessing whether the Direct Participant concerned has established that refusal, withdrawal or suspension of consent is "unnecessary" or "inappropriate", the Bank will have due regard and will give due weight to any countervailing "other factors" that are relevant to the determination and that might establish:

- (a) the risks which arise or which might arise for the CHAPS System or (where applicable) the wider financial system by refusing, withdrawing or suspending consent are, in fact, greater than the risks which would or might be avoided or limited by any such refusal, withdrawal or suspension of consent; or

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<sup>5</sup> The Insolvent Tiering Powers are only exercisable where the Bank has been notified (or otherwise becomes aware) that a relevant insolvency event, as described in section 8.6, has occurred in relation to an Indirect Participant. The occurrence of any of these events gives rise, therefore, to the presumption that the Bank will suspend its consent; and their occurrence amounts to the "presumptive criteria" for the exercise of the Insolvent Tiering Powers (see sections 38.44 and 38.45 of the main text). If no relevant insolvency event has occurred in relation to an Indirect Participant, then there is no basis for the Bank to exercise the Insolvent Tiering Powers. It is for this reason that the Bank has limited the scope of section 38.26 to its exercise of the Solvent Tiering Powers only.

- (b) other reasonable steps might properly be taken (whether by the Bank or the Direct Participant concerned or as required by any relevant regulator) to manage the risks created by the indirect relationship concerned which would make a refusal, withdrawal or suspension of consent a disproportionate response to those risks.

38.27 The relevant "presumptive criteria" differ as between an exercise by the Bank of its Solvent Tiering Powers and its Insolvent Tiering Powers respectively.

***Solvent Tiering Powers: quantitative analysis***

38.28 The Bank will exercise its Solvent Tiering Powers so as to withdraw consent to a particular indirect relationship, unless the Direct Participant establishes that there is or are "other factors" that are of sufficient weight to render such a refusal or withdrawal of consent "unnecessary" or "inappropriate" with regard to the considerations outlined in section 38.26, if in the period of 12 (twelve) months prior to the relevant determination (the relevant period):

- (a) the average<sup>6</sup> daily value of Relevant Payments<sup>7</sup> sent and received for or on behalf of the Indirect Participant Group<sup>8</sup> exceeded 2% of the average daily value of Relevant Payments sent and received by all Direct Participants (the Total Value Threshold); and
- (b) the average daily value of Relevant Payments sent and received by the Participant Group<sup>9</sup> for or on behalf of the Indirect Participant Group exceeded 40% of the aggregate of the average daily value of:
  - (i) own account payments<sup>10</sup> sent and received by the Participant Group through the CHAPS System; and
  - (ii) relevant internalised payments<sup>11</sup> sent and received by the Participant Group, (the Relative Value Threshold).

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<sup>6</sup> References in this section 38.28 to average values are to the mean average.

<sup>7</sup> Relevant Payments comprise both Payments (as defined in this CHAPS Reference Manual) sent and received through the CHAPS System and internalised payments.

<sup>8</sup> The Indirect Participant Group consists of the Indirect Participant concerned and (if applicable) any other Indirect Participant which at the time a Relevant Payment is sent or received is both: (i) an Indirect Participant (under a contractual relationship with any CHAPS Indirect Access Provider); and (ii) associated with the Indirect Participant concerned. A relevant own account payment, which is sent or received for or on behalf of an Indirect Participant within the Indirect Participant Group, shall not be a Relevant Payment which is sent or received for or on behalf of the Indirect Participant Group for the purposes of section 38.28(a) or 38.28(b). A relevant own account payment is, for this purpose, a Payment or an internalised payment that is sent or received by a Direct Participant (acting as a CHAPS Indirect Access Provider) for or on behalf of an Indirect Participant which is associated with the Direct Participant.

<sup>9</sup> The Participant Group consists of the Direct Participant concerned and (if applicable) any other entity which at the time a Relevant Payment is sent or received is both: (i) a Direct Participant; and (ii) associated with the Direct Participant concerned. Where the Direct Participant is a ring-fenced bank under the definitions of the Financial Services (Banking Reform) Act 2013, the Participant Group consists of the Direct Participant only, or, the institutions within the "ring-fenced bank sub-group" as recognised by the PRA (PRA Policy Statement PS20/16) (bracketed wording effective from January 2019).

<sup>10</sup> An own account payment is a Payment sent or received by a Direct Participant through the CHAPS System: (i) for its own account; or (ii) for or on behalf of an Indirect Participant which is associated with that Direct Participant; or (iii) for the account of its customer which is not an Indirect Participant. In contrast to a "relevant own account payment", the term "own account payment" does not include an internalised payment for the purpose of section 38.28(b).

<sup>11</sup> A relevant internalised payment is an internalised payment sent or received by the Participant Group, but excludes any internalised payment (which is not a relevant own account payment) sent or received by the Participant Group for or on behalf of the Indirect Participant Group.

- 38.29 In assessing whether either or both of these "presumptive criteria" apply, no account shall be taken of any Relevant Payment sent by a Direct Participant to correct or reverse a misrouted or otherwise mistaken payment received by the Direct Participant for the account of an Indirect Participant.
- 38.30 When determining whether to give or to refuse consent to a prospective indirect relationship, the Bank will refuse to give consent: (i) if it considers (based upon its reasonable assessment of the forecasted or likely value of the Relevant Payments to be made and received for or on behalf of the prospective Indirect Participant concerned) that any or all of the "presumptive criteria" outlined in section 38.28 above would apply to the indirect relationship concerned at the end of the period of 12 (twelve) months after such consent is given; unless (ii) the Direct Participant can establish "other factors" that are of sufficient weight to make a Positive Determination appropriate (with regard to the considerations outlined in section 38.26 above).
- 38.31 Internalised payments create similar risks for the CHAPS System or the wider UK financial system as Payments sent and received through the CHAPS System<sup>12</sup>. For this reason, internalised payments are included in the thresholds described in section 38.28(b) above. The Bank will also have regard to the values of internalised payments if such values otherwise create material risks for the CHAPS System or the wider UK financial system, or if for any other reason it is appropriate to assess and understand their effect when making any determination under the Tiering Powers.

***Solvent Tiering Powers: combined quantitative and qualitative analysis***

- 38.32 Please note that, as at the effective date of this version of this CHAPS Reference Manual, the systems that are required to produce the market information referred to in section 38.36 are not yet in operation. Until such time as those systems are in place, sections 38.33 to 38.42 (inclusive) will not have effect. Sections 38.33 to 38.42 (inclusive) will, accordingly, come into effect from such date as may subsequently be notified by the Bank to the Direct Participants. However, consistent with the Bank's broader regulatory concern to understand and manage liquidity and credit risks as outlined in sections 38.14 to 38.18 above, the Bank will continue to monitor (on the basis of management information available to it) the CHAPS payments activity of Direct Participants and their Indirect Participants with a view to identifying whether it might be indicative of unacceptable levels of liquidity and/or credit risk for the CHAPS System.
- 38.33 As explained in sections 38.14 to 38.18 above, the Bank is concerned to identify, understand and manage the liquidity and credit risks that arise out of a particular indirect relationship. However, two principal factors shape the Bank's approach to such risks:
- (a) the management of liquidity and credit risks is primarily the responsibility of the Participant, the Indirect Participant concerned and their respective regulators (see paragraph 3.19.8 of the Principles); and
  - (b) the Bank only has ready access to a relatively narrow range of market information that might enable or facilitate its understanding of the nature and extent of the risks in the context of the broader banker- customer relationship between a Participant (acting as a Direct Participant) and an Indirect Participant (and/or other Indirect Participant within their respective corporate groups), and the measures that are or might be taken by the Direct Participant or the Indirect Participant concerned to mitigate or otherwise manage those risks.

<sup>12</sup> In particular, internalised payments: (i) create the same operational reliance by an Indirect Participant on the operational and financial stability of the Direct Participant; (ii) do not attract the protections of the SFR; and (iii) do not involve use of central bank money as the settlement asset.

- 38.34 In the light of these considerations, the Bank adopts a two part approach to its identification, understanding and management of the liquidity and credit risks associated with a particular indirect relationship. This approach recognises that at any point during a CHAPS Business Day the net position of CHAPS Payments received and sent by the Participant for the account of the Indirect Participant concerned will or may be constituted by:
- (a) a positive net cumulative position - which is one indicator of the extent of the intraday credit exposure of the Indirect Participant to the Direct Participant and one indicator of the extent of the Direct Participant's reliance upon the Indirect Participant as a source of intraday liquidity;
  - (b) a negative net cumulative position - which is one indicator of the extent of the intraday credit exposure of the Direct Participant to the Indirect Participant and one indicator of the extent of the Indirect Participant's reliance on the Direct Participant as a source of intraday liquidity.
- 38.35 As such, the respective net cumulative positions (positive and negative) on any CHAPS Business Day are preliminary measures of the liquidity risks (and, potentially, credit risks) assumed by the Direct Participant (acting as a CHAPS Indirect Access Provider) and the Indirect Participant under their tiered arrangements.
- 38.36 The Bank, therefore, obtains market information for each indirect relationship where its positive net cumulative position and/or its negative net cumulative position on any CHAPS Business Day exceeds a threshold that is specified and notified by the Bank to the Direct Participants from time to time; and does so for a period of time that is not de Minimis (the duration of which is also specified and notified by the Bank to the Direct Participants from time to time). If the market information provided by a Direct Participant indicates that either or both of such net cumulative positions for a particular Indirect Participant exceeds the relevant threshold for the relevant period, then the Bank will seek further information from and consult with the Direct Participant.
- 38.37 The procedures outlined in section 38.36 above constitute the first part of the Bank's approach to its identification and management of the liquidity and credit risks associated with a particular indirect relationship. Importantly, at this stage, there is no exercise of the Tiering Powers so as to result in the withdrawal of consent for a particular indirect relationship.
- 38.38 The second part of the Bank's approach to credit and liquidity risks may, but need not, result in the withdrawal of consent for the indirect relationship concerned. The Bank may consult with the Direct Participant and/or the Indirect Participant concerned, as well as the appropriate regulator(s), to determine the nature and extent of relevant credit and liquidity risks across the broader banker-customer relationship (and, if appropriate, with reference to any group relationships); and to assess the effectiveness of the risk mitigation tools used by the Direct Participant and/or the Indirect Participant to manage those risks.
- 38.39 Following this, the Bank may conclude:
- (a) that no action should be taken under its Tiering Powers (i.e. that withdrawal of consent is, in the Bank's view, neither necessary nor appropriate to manage the relevant credit and/or liquidity risks); or
  - (b) that it should exercise its Tiering Powers so as to withdraw its consent for the indirect relationship concerned (i.e. that withdrawal of consent is likely, in the Bank's view, to be necessary or appropriate to manage the relevant credit and/or liquidity risks).
- 38.40 If the Bank concludes that no action is required as outlined in section 38.39(a) above, then it will continue to monitor the relevant indirect relationship for credit and liquidity risk, but

it is unlikely (in the absence of any other relevant factors) that it will decide to exercise its Tiering Powers so as to withdraw consent.

- 38.41 If the Bank concludes that consent should be withdrawn as outlined in section 38.39(b) above, then the Bank (with due regard to the considerations outlined in section 38.26 above) will determine whether it is "unnecessary" or "inappropriate" to withdraw consent. In making that determination, the Bank will consider the potential role of supervisory and other regulatory tools to manage the relevant risks.

### ***Insolvent Tiering Powers***

- 38.42 Upon being notified (or otherwise becoming aware) that any event described in sections 8.6(a) to 8.6(e) inclusive or 8.6(g) has occurred in relation to an Indirect Participant, the Bank will immediately suspend consent to the Direct Participant continuing to enter Payment Messages into the CHAPS System for or on behalf of the Indirect Participant concerned under section 5.25. The Bank will not suspend its consent if both of the following conditions are satisfied:

- (a) the Participant provides evidence which establishes to the satisfaction of the Bank that:
  - (i) the relevant notification was made by the Direct Participant in error (or the information otherwise received by the Bank is incorrect or inaccurate);
  - (ii) any relevant petition or application is frivolous, vexatious or otherwise an abuse of the process of court;
  - (iii) the appointment of the relevant insolvency office-holder was invalid or otherwise void for any reason under applicable law;
  - (iv) any relevant application has been withdrawn or dismissed in accordance with applicable law with the effect that no order or other action may be taken in response to the application; or
  - (v) for any other reason, the relevant event affecting the Indirect Participant concerned does not represent a threat to the security, integrity or reputation of the CHAPS System; and
- (b) the Bank consider that there is no other reason why the indirect relationship should be referred for full review by the Bank under section 5.26– where the Bank will be entitled (and is likely to have greater time) to identify and assess the risks created by the relationship not only for CHAPS, but also for the wider UK financial system, in determining whether it should lift the suspension or withdraw the Bank's consent.

- 38.43 When exercising its Insolvent Tiering Powers under sections 5.22 and 5.26 to withdraw consent or to lift the suspension of consent, the Bank will withdraw its consent unless the Direct Participant establishes "other factors" of sufficient weight to persuade the Bank that such withdrawal is "unnecessary" or "inappropriate" to manage the relevant risks (with regard to the considerations outlined in section 38.26 above). If the Bank determines that withdrawal of consent is "unnecessary" or "inappropriate", it will promptly notify the Direct Participant of its decision to lift the suspension.

### ***Other factors***

- 38.44 In sections 38.24 to 38.43 (Factors for, and against, the Bank Exercising its Tiering Powers), the Bank has described certain "presumptive criteria" and related matters the presence of which in relation to a particular indirect relationship will cause it to refuse, withdraw or suspend consent, unless the Direct Participant can establish countervailing "other factors" which are of sufficient weight to make a Positive Determination appropriate.

- 38.45 Equally, even in the absence of "presumptive criteria" or related matters, the Bank will wish to be satisfied that there are "other factors" that would make it "unnecessary" or "inappropriate" to exercise its Solvent Tiering Powers so as to refuse or withdraw consent for the indirect relationship concerned. A Participant may raise any matter with the Bank that the Direct Participant considers is or might be an "other factor", which taken alone or with other relevant factors, will assist the Bank in making any determination under its Tiering Powers with reference to the considerations outlined in section 38.26 above.
- 38.46 In sections 38.44 to 38.49 (Other factors), the Bank describes certain factors that it considers are "other factors" that are properly to be weighed before making any determination in exercise of its Tiering Powers. These factors differ depending upon whether the Bank is deciding whether to use its Solvent Tiering Powers or its Insolvent Tiering Powers. It should be emphasised that:
- (a) the "other factors" identified in sections 38.44 to 38.49 (Other factors) are not intended to be an exhaustive or complete description of all the factors that might need to be weighed by the Bank before making a determination under its Tiering Powers; and
  - (b) the presence of "other factors" in relation to the Indirect Participant concerned does not mean that the Bank will necessarily make a Positive Determination – the "other factors" must together be of sufficient weight to make a Positive Determination appropriate with reference to the considerations outlined in section 38.26 above.
- 38.47 The judgement is ultimately one for the Bank alone to determine whether, having due regard and giving due weight to all relevant factors, it would be "unnecessary" or "inappropriate" to refuse, withdraw or suspend consent to manage relevant risks arising out of or in connection with a particular indirect relationship.

#### ***Solvent Tiering Powers***

- 38.48 The Bank considers the following to be "other factors" that would or might properly be taken into account by the Bank in exercise of its Solvent Tiering Powers:
- (a) the relative value of Relevant Payments sent and received for or on behalf of the Indirect Participant concerned, whether alone or when taken together with other Indirect Participants which are Customers of the relevant Direct Participant (acting as an CHAPS Indirect Access Provider), is not such as to create material risks for the CHAPS System or the financial stability of the financial system of the United Kingdom;
  - (b) the risks that are created by a particular indirect relationship are or can be mitigated by reasonable measures taken or to be taken by the Direct Participant or Indirect Participant concerned, including:
    - (i) collateralisation with suitably liquid, high-quality financial collateral;
    - (ii) hard credit limits upon the Indirect Participant concerned, or intra-day caps on the value of net or gross Payments to be made by the Direct Participant (acting as a CHAPS Indirect Access Provider) for or on behalf of the Indirect Participant concerned;
    - (iii) pre-funding requirements for the Indirect Participant concerned;
    - (iv) ensuring access to the payment facilities of another Direct Participant (acting as Indirect Participant) in the event of an operational or other disruption affecting the Direct Participant that is the primary provider of CHAPS-related payment services to the Indirect Participant concerned;

- (v) making appropriate disclosures to the Indirect Participant concerned to explain the increased or different risks that are caused for it (and its customers) by reason of its failure to be a direct participant in the CHAPS System; and
- (vi) putting in place robust contingency arrangements so as to minimise the period of any disruption caused to customer- Indirect Participants in the event of a system-failure affecting the Direct Participant (acting as a Indirect Participant),

(although where any or all of the "presumptive criteria" apply to a particular indirect relationship, the factors described in paragraph 38.48(b) above are unlikely to result in a Positive Determination in the absence of additional countervailing other factors that are of sufficient weight);

- (c) with regard to the considerations outlined in sections 38.13(a)(ii) to 38.13(a)(iv) above, if certain types or sizes of Indirect Participant would be denied effective access to the CHAPS System in the event of a refusal or withdrawal of consent or if, even indirectly, there is a risk that transactions would be settled in inappropriate alternative systems or by other means;
- (d) any actual or potential adverse impact on competition in the UK banking sector that may arise as a result of a refusal or withdrawal of consent and whether any objective justification is available for such refusal or withdrawal of consent in accordance with any applicable competition laws;
- (e) if there is a group relationship between the Direct Participant and an Indirect Participant, any operational or other risks which would or might arise if consent was refused or withdrawn would need to be assessed and evaluated as against any risks that are or might be mitigated were the Indirect Participant required to become a direct participant in the CHAPS System;
- (f) if the Indirect Participant has relationships with a number of different Direct Participants (acting as CHAPS Indirect Access Providers) which help to reduce the systemic, operational and other risks associated with the interdependencies created by the concentration of CHAPS payment activity through a single Direct Participant (acting as a CHAPS Indirect Access Provider);
- (g) the historical data upon which the quantitative "presumptive criteria" described in section 38.28 above are based no longer reflect the current or likely future values of Relevant Payments to be sent and received by the Direct Participant (or the Participant Group) for the Indirect Participant concerned (or the relevant Indirect Participant Group);
- (h) in assessing the risks to the CHAPS System, the Bank may consider the impact of atypical or other exceptional payments activity by a Participant on any CHAPS Business Day(s) during the relevant period in respect of which the quantitative "presumptive criteria" in section 38.28 above are assessed for the Direct Participant – this reflects the fact that these criteria are based on average daily values, amounts or balances, which may not give a complete and accurate measure of the relevant risks once the atypical or exceptional nature of the relevant payments activity is taken into account; and
- (i) any actual or potential adverse impact on the advancement of any one or more of the payment systems objectives of the PSR as a result of a refusal or withdrawal of consent and whether any financial stability, risk-based or other objective justification is available for such refusal or withdrawal of consent in accordance with applicable law.



### ***Insolvent Tiering Powers***

- 38.49 The Bank considers any of the factors described in section 38.48 above to be countervailing "other factors" that would or might weigh in favour of a Positive Determination in exercise of its Insolvent Tiering Powers under section 5.26.

### ***Communication of the Bank's proposed and Final Decision under the Tiering Powers***

- 38.50 If the Bank is minded to refuse or withdraw its consent to an indirect relationship in exercise of its Tiering Powers, it shall adopt the following procedure:
- (a) it will give written notice to the Direct Participant concerned stating that the Bank proposes to refuse or (as the case may be) withdraw its consent in relation to an identified CHAPS Payment Services Provider or identified Indirect Participant (a Warning Notice);
  - (b) the Warning Notice will give reasons for the proposed refusal or (as the case may be) withdrawal of consent;
  - (c) the Warning Notice will specify a reasonable period (which may not be less than 21 (twenty one) days) within which the Direct Participant may make written representations to the Bank as to why it should make a Positive Determination and/or in relation to any other matter that is relevant to the determination to be made by the Bank under its Tiering Powers (the Representation Period);
  - (d) a copy of the Warning Notice will be given to other parts of the Bank, including the PRA and the Financial Market Infrastructure supervision area, as well as other regulators;
  - (e) the Representation Period may be extended by the Bank upon its own volition, or upon the written request of the Direct Participant concerned;
  - (f) in making any determination under its Tiering Powers, the Bank will have due regard and give due weight to the written representations (if any) made by the Direct Participant;
  - (g) within a reasonable period (which may not be more than 42 (forty two) days) after the end of the Representation Period, the Bank shall give a written notice to the Direct Participant (a Decision Notice) which either:
    - (i) confirms that the Bank is refusing or withdrawing its consent to the Direct Participant acting as a CHAPS Indirect Access Provider for the other Indirect Participant or Indirect Participants concerned (or any one or more of the other Indirect Participants concerned); or
    - (ii) states that the Bank has made a Positive Determination and consents to the indirect relationship(s) concerned (or any one or more of the indirect relationships concerned);
  - (h) if the Decision Notice confirms that the Bank is withdrawing consent it will specify a date and time (which may be immediate) by which the withdrawal of consent becomes effective (being the date and time from which the Direct Participant shall permanently cease to cause or enable Payment Messages to be entered into the CHAPS System for or on behalf of the other Indirect Participant or Indirect Participants concerned); and
  - (i) in any event, a Decision Notice shall give notice to the Direct Participant of its entitlement to invoke the Review Process and may include such other terms



(including, if different from those contained in the Warning Notice, the reasons for its decision) as the Bank considers necessary or appropriate in connection with its determination to refuse or withdraw consent for a particular indirect relationship or particular indirect relationships.

- 38.51 In determining the date and time by which the withdrawal of consent becomes effective for the purposes of paragraph 45.8 above, or the other terms that might be included in a Decision Notice, the Bank shall have due regard and give due weight to the need to ensure that:
- (a) the security, integrity and reputation of the CHAPS System and the wider financial system of the United Kingdom is protected;
  - (b) the termination of the relationship between the Direct Participant and the Indirect Participant or Indirect Participants concerned should be undertaken in an orderly manner and so as to minimise any disruption to the operation of the CHAPS System or to the financial system of the United Kingdom as a whole;
  - (c) the process for termination should not unnecessarily or inappropriately create or increase risks for the Direct Participant and/or the Indirect Participant or Indirect Participants concerned or be unduly disruptive to them or their respective businesses;
  - (d) the right of the Direct Participant to invoke the Review Process, and to conduct an effective appeal before the appeal Review Panel, is not adversely affected; and
  - (e) the process of assessing each indirect relationship, under which Payment Messages are being entered into the CHAPS System for or on behalf of a particular Indirect Participant or Indirect Participants, is a continuous one; and is not a "once and for all" exercise. The fact that the Bank makes a Positive Determination in respect of a particular indirect relationship does not prevent the Bank from re-assessing that indirect relationship from time to time with reference to the relevant circumstances then affecting the relationship. It is, of course, possible that the extent and/or nature of the risks that arise from an indirect relationship will change with time; or that the extent and/or nature of those risks turn out to be materially different from those envisaged by the Bank and the Direct Participant at the time the Positive Determination was made; or that the Bank may come to identify new or different material risks affecting the CHAPS System or the financial stability of the financial system of the United Kingdom and which arise out of the relationship concerned. It follows that an indirect relationship that was once assessed with a Positive Determination may come to be re-assessed; and this re-assessment may result in the issue or re-issue of a Warning Notice in accordance with the procedure set out in section 38.50 above.
- 38.52 Any decision made by the Bank to refuse or withdraw consent in exercise of its Tiering Powers is a Relevant Decision for the purposes of this CHAPS Reference Manual, in relation to which the affected Direct Participant is entitled to invoke the Review Process.

### **39. Review Process**

- 39.1 Each Direct Participant or prospective Direct Participant shall be entitled to invoke the Review Process in respect of a Relevant Decision affecting it.
- 39.2 Within 30 (thirty) days after the Bank has notified the Direct Participant or prospective Direct Participant of a Relevant Decision, the Direct Participant or prospective Direct Participant may give written notice to the Bank of its wish to initiate the Review Process.
- 39.3 Within 20 (twenty) working days following the receipt of the notice referred to in paragraph 39.2 above, the Bank shall convene a panel consisting of one or more of the independent

members of the RTGS/CHAPS Board (the Review Panel) and request such panel to review the Relevant Decision.

- 39.4 Following receipt of the request referred to in paragraph 39.3 above, the Review Panel shall consider the reasons given for the Relevant Decision and shall notify both the Bank and the affected Direct Participant or prospective Direct Participant of its findings.
- 39.5 In performing its review of the Relevant Decision, the Review Panel may request a written submission or submissions from the Bank and/or discussion with the Bank as to the reasons for the Relevant Decision.
- 39.6 It will be open to the Review Panel either to affirm the Relevant Decision or to remit the Relevant Decision to the Bank together with such guidance as it considers relevant to further consideration of the Relevant Decision by the Bank.
- 39.7 If the decision is remitted to the Bank by the Review Panel, the Bank shall notify the Direct Participant or prospective Direct Participant of its final decision following the conclusion of its further review of the remitted decision.
- 39.8 If the Review Panel affirms the Relevant Decision, the Relevant Decision shall stand.
- 39.9 Without prejudice to section 10 (changes to this CHAPS Reference Manual and the CHAPS User Documents) of this CHAPS Reference Manual, the Bank may from time to time revise the Review Process. Such revisions shall have no effect on any review proceedings which have already been commenced at the time such revisions are published, unless the parties involved in the proceedings otherwise agree. Subject to any such agreement, any such procedures shall continue to be conducted pursuant to the Review Process in force at the time those proceedings were commenced.

# CHAPS GLOSSARY

In this CHAPS Reference Manual, the following words and expressions shall have the following meanings:

## Account

Means a settlement account, reserve account or omnibus account held by a Direct Participant at the Bank.

## Annexes

Means an Annex to this CHAPS Reference Manual.

## Associate

Means, in relation to any entity (the **first entity**), an entity which is (or would be) a member of the same group as the first entity, where group means a group as defined in section 421 of FSMA, provided that the Bank may determine from time to time that the entities are, or are not, members of the same group, regardless of whether or not the entities meet the definition of group in section 421 of FSMA. **Associated** shall be interpreted accordingly.

## Availability Zone

A physically isolated location within a Region, these locations have independent infrastructure resources (they are made-up of at least one data centre). A resilient cloud-based solution is distributed across multiple Availability Zones.

## Bank

Means The Governor and Company of the Bank of England.

## Bank Direction

Means any direction given by or on behalf of the Bank in its capacity as operator of the CHAPS System in accordance with section 6.18 of this CHAPS Reference Manual.

## Board

Means the RTGS/CHAPS Board chaired by the Bank's Deputy Governor for Markets and Banking.

## Business Day

Means any day (other than a Saturday or a Sunday) on which banks are open for business in London, United Kingdom.

## Category

Means the classification of Direct Participants according to the risk each brings to the CHAPS System as set out in this CHAPS Reference Manual at 1.27.

## CHAPS or CHAPS System

Means the payment messaging network for the making of sterling-denominated payments comprising the RTGS System, the SWIFT network and FIN Y-Copy service, Direct Participants' payment processes and interfaces to the SWIFT network.

**CHAPS Business Day**

Means any day on which the CHAPS System is operating.

**CHAPS Indirect Access Provider**

Means a Direct Participant which has a contractual relationship with an Indirect Participant governing the Direct Participant's entry of Payment Messages into the CHAPS System for or on behalf of that Indirect Participant.

**CHAPS Operating Day**

Means those hours of a CHAPS Business Day during which the CHAPS System is operational as described in the CHAPS Timetable (and subject to any Extension or other change contemplated by 10.2 of this CHAPS Reference Manual).

**CHAPS Participation Agreement**

Means the agreement between the Bank and the Direct Participant by which the Direct Participant is admitted as a Direct Participant in the CHAPS System.

**CHAPS Production Environment**

Means the systems, applications or processes that are used by a Direct Participant to provide its CHAPS-Related processes.

**CHAPS Reference Manual**

Means this document.

**CHAPS-Related Processes**

Means the processes, assets, activities and services which enable a Direct Participant to maintain its normal Payment processing to its Customers and meet its CHAPS obligations as set out in the CHAPS Specifications.

**CHAPS Specifications**

Means all specifications of the Bank for the time being applicable to a Participant comprising all the obligations, requirements, conditions and operating procedures for the time being applicable to a Participant under or by virtue of:

- the CHAPS Participation Agreement;
- this CHAPS Reference Manual; and
- any Bank Direction.

**CHAPS Timetable**

Means the processing timetables set out in the CHAPS Operational Reference Manual.

**CHAPS User Documents**

Means the following documents issued by the Bank and made available to Direct Participants:

- the CHAPS Operational Reference Manual;
- the CHAPS Technical Reference Manual; and

- the Enquiry Link Security Code of Conduct.

### **Clearing**

Means the process of exchanging Payment Messages in accordance with this CHAPS Reference Manual.

### **Closed User Group**

Means a FIN Y-Copy closed user group(s) containing Direct Participants, together with the Bank which allows Direct Participants to send specific messages with specific criteria to each other with an extract of the message being copied to the Bank.

### **Cloud Service Provider**

Means an entity (a person or organisation) that is responsible for making a cloud service available to a Participant. A Cloud Service Provider builds the requested software/platform/infrastructure services, manages the technical infrastructure required for providing the services, provisions the services at agreed-upon service levels, and protects the security and privacy of the services. Depending on the cloud deployment and cloud service model the usage scenarios can be different among Cloud Service Providers.

### **Compliance Certificate**

Means the CHAPS self-certification compliance certificate required to be completed annually by all Direct Participants in accordance with section 7.1.

### **Compliance Questionnaire**

Means the CHAPS compliance questionnaire provided by the Bank and required to be completed annually by all Direct Participants in accordance with section 7.2.

### **Conditional Payment**

Means a Payment requiring any action with the exception of that required by SWIFT Standards and recognised SWIFT codewords or as otherwise expressly required by this CHAPS Reference Manual.

### **Consultation**

Means a consultation carried out by the Bank in relation to prospective changes to this CHAPS Reference Manual as described in 10.3.

### **Critical Service Provider**

Means in relation to a Direct Participant, a Service Provider for which a defect or failure in its performance would materially impact the Direct Participant's ability to comply with this CHAPS Reference Manual and CHAPS User Documents.

### **Customer**

Means, in relation to a Direct Participant, a person for whom the Direct Participant accesses the CHAPS System to enable or facilitate that Direct Participant's provision of CHAPS payment services to that person. A Customer may include an Indirect Participant or an Associate of the Direct Participant.

### **Data Protection Legislation**

Means all applicable data protection and privacy legislation in force from time to time in the UK including the General Data Protection Regulation ((EU) 2016/679) as it forms part of the law of

England and Wales by virtue of section 3 of the European Union (Withdrawal) Act 2018 and as amended (UK GDPR); the Data Protection Act 2018 (DPA 2018) (and regulations made thereunder) and the Privacy and Electronic Communications Regulations 2003 (SI 2003/2426), as amended, and the guidance and codes of practice issued by the Information Commissioner or any other relevant regulatory authority and applicable to a party.

### **Deemed Consent**

Means consent deemed to be given by the Bank to a CHAPS Indirect Access Provider to cause or enable a Payment Message to be entered into the CHAPS System for or on behalf of an Indirect Participant in accordance with section 5.14(a).

### **Deemed Tiering Consent Limit**

Means the limit of the average daily value of Payments to be sent and received as specified from time to time in section 38.8.

### **Direct Participant**

Means an entity which satisfies the criteria specified in 4.1 of this CHAPS Reference Manual and is admitted to participation in the CHAPS System by entering into a CHAPS Participation Agreement with the Bank.

### **DoL Sub Permission**

Means a permission granted by the Prudential Regulation Authority under: (a) Article 8(1) of the onshored and amended UK version of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 ("CRR"); or (b) any CRR rule within the meaning of section 144A of the Financial Services and Markets Act 2000 that corresponds to Article 8(1) of the CRR for the purpose of section 5 of the Financial Services Act 2021.

### **DPA Data**

Means any personal data collected, generated or otherwise processed as a result of, or in connection with the CHAPS Participation Agreement and/or this CHAPS Reference Manual.

### **(E)ISCD**

Means the Vocalink Extended Industry Sorting Code Directory or the Vocalink Industry Sorting Code Directory.

### **Emergency Access Account**

Means access accounts that are used in emergency situations (sometimes referred to as break glass scenarios) to prevent or remediate an unforeseen system failure.

### **EMRs 2011**

Means the Electronic Money Regulations 2011.

### **Enquiry Link User Guide**

Means the document issued by the Bank to all RTGS account holders in relation Enquiry Link, the system that allows RTGS account holders and certain other organisations to interrogate balance and other information and to perform certain other functions.

### **Excluded Direct Participant**

Means a Direct Participant which has been excluded by the Bank from the CHAPS System in accordance with section 6.8 or otherwise in accordance with the terms of this CHAPS Reference Manual.

### **Exempt Information**

Has the meaning specified in Section 84 of the Freedom of Information Act 2000, or in section 73 of the Freedom of Information (Scotland) Act 2002, as appropriate.

### **Extension**

Means an extension of the CHAPS Operating Day (or any part of the CHAPS Operating Day) in accordance with 27 of this CHAPS Reference Manual.

### **FCA**

Means the Financial Conduct Authority (or such body which supersedes or replaces it).

### **FIN Y-Copy**

Means a value-added feature of FIN (SWIFT's core store-and-forward messaging service) that supports the clearing and settlement of high-value payments, treasury and securities-related transactions by enabling FIN messages to be fully or partially copied and optionally authorised by a third party, before release to the beneficiary.

### **Financial Market Infrastructure or FMI/FMU**

Means a multilateral system among participating entities, including the operator of the system, used for the purposes of clearing, settling or recording payments, securities, derivatives or other financial transactions.

### **FOIA**

Means the Freedom of Information Act 2000, or the Freedom of Information (Scotland) Act 2002, as appropriate.

### **FSBRA**

Means the Financial Services (Banking Reform) Act 2013.

### **FSMA**

Means the Financial Services and Markets Act 2000.

### **G-SIB**

Means an institution which is included in the list of global systemically important banks published from time to time by the Financial Stability Board (or any body which supersedes or replaces it).

### **General Consent**

Means consent from the Bank for a Direct Participant to be a CHAPS Indirect Access Provider in accordance with section 5.4.

### **HMRC**

Means Her Majesty's Revenue and Customs in the United Kingdom.

### **HVPS Services**

Means those activities to be undertaken by the Bank in relation to the administration and management of the CHAPS System and as defined in the CHAPS Participation Agreement.

### **Incident**

Means any event or series of events which has disrupted, or is likely, in the opinion of the Direct Participant or the Bank, to disrupt the smooth flow of Payments or adversely affect the Direct Participant's CHAPS-Related Processes including, but not limited to:

- an event or series of events which reduces the availability, or negatively impacts the integrity, of the Direct Participant's CHAPS-Related Processes; or
- where information is not made available to the Direct Participant or there is unauthorised disclosure of confidential information.

### **Indirect Participant**

Means, an Institution, or a 'payment service provider' within the meaning of regulation 2(1) of the PSR or any other entity which provides CHAPS payment services to its customers and which has a contractual relationship with the CHAPS Indirect Access Provider (or in limited circumstances, including for example international correspondent relationships, a contractual relationship with the CHAPS Indirect Access Provider's Associate), governing the CHAPS Indirect Access Provider's entry of Payment Messages into the CHAPS System for or on behalf of the Indirect Participant.

### **Insolvency Event**

Means any of the events described in 8.6(a), 8.6(b), 8.6(c) or 8.6(e), or an application for a bank insolvency order or for the appointment of a bank administrator (as each of these terms are defined in the Banking Act 2009) or an application for any of a special administration order, special administration (bank insolvency) order or special administration (bank administration) order (as each of those terms are defined in the Investment Bank Special Administration Regulations 2011) in relation to a Direct Participant.

### **Institution**

Means any of the following:

- a credit institution as defined in Article 4.1(1) of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012 as it forms part of domestic law by virtue of the European Union Withdrawal Act 2018 and regulations made under that Act, as amended;
- an authorised electronic money institution as defined in the Electronic Money Regulations 2011 or an authorised payment institution as defined in the Payment Services Regulations 2017;
- an investment firm as defined in Article 4.1(1) of Directive 2014/65/EU on markets in financial instruments as it forms part of domestic law by virtue of the Financial Services and Markets Act 2000 (Markets in Financial Instruments) Regulations 2017, the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001, and the Data Reporting Services Regulations 2017, as amended by the European Union Withdrawal Act 2018 and regulations made under that Act, as amended;
- a public authority or publicly guaranteed undertaking;
- any undertaking whose head office is outside the United Kingdom and whose functions correspond to those of a credit institution or investment firm as defined in (i) and (iii) above;



- any other undertaking which, were it to be a participant in the CHAPS System, would be an 'institution' within the meaning of regulation 2(1) of the SFR; and
- (for the purposes of 4.3 to 5.27 inclusive only) anybody corporate or unincorporated association which operates financial market infrastructure and which is not otherwise included in any of the preceding paragraphs of this definition.

### **Internalised Payment**

Means a payment that would ordinarily be sent as a Payment through the CHAPS System, but which is not so sent because the paying Indirect Participant and the payee are customers of the same Direct Participant.

### **Key Indirect Participant**

Means an Indirect Participant which meets the criteria laid out in 5.19.

### **Liquidity Bridge**

Means the RTGS System liquidity bridge with TARGET2 to enable Direct Participants to import euro as cash collateral for sterling intra-day liquidity.

### **LSM**

Means the liquidity saving mechanism which is designed to help Direct Participants reduce their intraday liquidity requirements by enabling Payments to 'queue' temporarily in RTGS.

### **Management-approved**

Means an item which has been appropriately approved by a level of governance of the Direct Participant which has authority to approve such item.

### **MIRS**

Means SWIFT's Market Infrastructure Resiliency Service which is a fully diversified real time gross settlement application, hosted and operated by SWIFT, that provides operational and business continuity services to RTGS operators in case of failure of their sites.

### **Non-Bank Payment Service Provider/NBPSP**

Means an authorised electronic money institution as defined in the Electronic Money Regulations 2011 or an authorised payment institution as defined in the Payment Services Regulations 2017.

### **Operational Contacts**

Means the contact details set out at sections 26.2(a) and 26.2(b).

### **Participant Default Arrangements**

Means the procedures and arrangements set out in sections 6.8 to 6.16 (inclusive) 8.5, 8.6, 8.7 and 9.2 put in place by the Bank under the SFRs to limit systemic and other types of risk which arise in the event of a Direct Participant appearing to be unable, or likely to become unable, in the opinion of the Bank, to meet its obligations in respect of a Payment Message.

### **Payment**

Means a payment made through CHAPS that satisfies the criteria listed in section 9 of this CHAPS Reference Manual.

**Payment Message**

Means a message sent through CHAPS in respect of a specific Payment.

**Positive Determination**

Means a determination made (or to be made) by the Bank in accordance with sections 5.22 to 5.25, that it will consent or lift the suspension of consent to an indirect relationship (or will not withdraw or suspend its consent)

**PRA**

Means the Prudential Regulation Authority (or such body which supersedes or replaces it).

**Principles**

Means the CPMI-IOSCO Principles for financial market infrastructures.

**PSR**

Means the UK Payment Systems Regulator (or such body which supersedes or replaces it).

**PSRs**

Means the Payment Services Regulations 2017.

**Region**

A geographic area that a Cloud Service Provider uses to house its infrastructure, these are often distributed around the world so that cloud service consumers can choose a Region most appropriate for them. Regions are physically and geographically isolated from other Regions and are made-up of multiple Availability Zones.

**Regulatory Authority**

Means any governmental or regulatory body that has responsibility for regulating or overseeing all or any part of a Direct Participant's activities in relation to CHAPS, including the Competition and Markets Authority, HM Treasury, the Bank of England, the Financial Conduct Authority, the Payment Systems Regulator and the Prudential Regulation Authority (or such body or bodies which supersede or replace any of the foregoing).

**Relevant Decision**

Means a decision of the Bank relating to:

- the eligibility of an entity to become and/or remain a Direct Participant under section 4.1;
- the refusal of General Consent to a Direct Participant being a CHAPS Indirect Access Provider after application by the Direct Participant under section 5.4(a);
- the withdrawal of General Consent to a Direct Participant being a CHAPS Indirect Access Provider under section 5.8 regardless of whether such General Consent was deemed given or given by the Bank after it was applied for by the Direct Participant;
- the refusal of Specific Consent to a CHAPS Indirect Access Provider causing or enabling a Payment Message to be entered into the CHAPS System for or on behalf of an Indirect Participant under section 5.22;

- the withdrawal of Deemed Consent or Specific Consent to a CHAPS Indirect Access Provider causing or enabling a Payment Message to be entered into the CHAPS System for or on behalf of an Indirect Participant under section 5.225.22;
- the suspension of General Consent for reasons under section 6.8; or
- the suspension or exclusion of a Direct Participant under section 6.8.

### Relevant Funds

Means, in relation to a NBPSP Direct Participant which is an authorised payment institution:

- sums received from, or for the benefit of, a payment service user for the execution of a payment transaction (as such terms are defined in the PSRs), and
- sums received from a payment service provider for the execution of a payment transaction on behalf of a payment service user (as such terms are defined in the PSRs);

and, in relation to a NBPSP Direct Participant which is an authorised electronic money institution, funds that either:

- have been received in exchange for electronic money (as defined in the EMRs) that has been issued, or
- have been received by the NBPSP Direct Participant for the execution of payment transactions (as defined in the EMRs) that are not related to the issuance of electronic money.

### Relevant Indirect Participant

An Indirect Participant for or on behalf of which the aggregated average daily value of Payments sent and received (or to be sent and received) by a CHAPS Indirect Access Provider (and/or an Associate of the CHAPS Indirect Access Provider) either:

- in the period of 12 (twelve) months prior to the determination, exceeds the Deemed Tiering Consent Limit specified from time to time in section 38.8; or
- in the period of 12 (twelve) months to follow the determination, is expected by the CHAPS Indirect Access Provider (acting reasonably) to exceed the Deemed Tiering Consent Limit specified from time to time in section 38.8,

and for this purpose Payments sent and received (or to be sent and received) for or on behalf of Associates of the Indirect Participant shall be included in the calculation of the aggregated average daily value of Payments.

### Review Process

Means the process set out in section 39 of this CHAPS Reference Manual, which the Bank makes available to Direct Participants and prospective Direct Participants who wish to trigger the Review Process in relation to Relevant Decisions made by the Bank in the performance of its functions as operator of the CHAPS System.

### **RTGS/RTGS System**

Means the settlement system owned by the Bank in which processing and settlement of sterling payments take place on a transaction-by-transaction basis in real time, offering finality of settlement in central bank money.

### **RTGS Reference Manual**

Means the document entitled the "RTGS Reference Manual" issued by the Bank.

### **RTGS User Documents**

Means the following documents issued by the Bank in connection with the RTGS System and relevant to the participation of Direct Participants in the CHAPS System:

- the RTGS Reference Manual; and
- the Enquiry Link User Guide,

and which do not form part of this CHAPS Reference Manual.

### **Service Provider**

A third party entity (i.e. a person or organisation) that is undertaking an outsourced process, service or activity, or parts thereof (whether directly or by sub-outsourcing), which relates directly or indirectly to a Participant's CHAPS obligations, which would otherwise be undertaken by the Participant itself. This is underpinned by an outsourcing arrangement between the Participant and the third party entity.

### **Settlement Finality Directive**

Means Directive 98/26/EC of the European Parliament and of the Council of 19 May 1998.

### **SFR**

Means the Financial Markets and Insolvency (Settlement Finality) Regulations 1999.

### **Shared Responsibility Model**

A model used to define the respective obligations of organisations and cloud providers. This cloud specific concept supports a Direct Participant in identifying, understanding, and defining their and their Cloud Service Providers respective responsibilities in respect of technology operations and data security, and how both should act appropriately to protect data.

### **Specific Consent**

Means consent given by the Bank to a CHAPS Indirect Access Provider, upon application by that CHAPS Indirect Access Provider to cause or enable a Payment Message to be entered into the CHAPS System for or on behalf of an Indirect Participant in accordance with section 5.14(b).

### **Supervisory Assessment**

Means an assessment undertaken by either or both of the FCA and HMRC covering, but not limited to, the following areas in respect of a prospective NBPS Direct Participant's:

- governance arrangements;
- systems and controls for safeguarding customer funds; and
- systems and controls relating to financial crime.

### **Suspended Direct Participant**

Means a Direct Participant which has been suspended by the Bank in accordance with sections 5.12 5.25 and 6.8.

### **SWIFT**

Means the Society for Worldwide Interbank Financial Telecommunication and, in relation to settling CHAPS Payments, the interface which is used by the Bank's RTGS Processor.

### **SWIFT Alliance Connect Gold**

Means the SWIFT Alliance Gold connection package provided by SWIFT.

### **SWIFT Customer Security Controls Framework**

Means the mandatory and advisory security controls for SWIFT users introduced in its customer security programme.

### **SWIFT Hardware Security Module / HSM**

Means a tamper-resistant hardware device within which the user generates and stores its SWIFTNet public key infrastructure private keys. The HSM performs cryptographic operations such as signing the data that is sent over SWIFTNet.

### **SWIFT Network Partner**

Means an independent network provider that SWIFT selects to provide an IP virtual private network service offering to SWIFT customers.

### **SWIFT Service Bureau**

Means a SWIFT user or non-user organisation that provides services to connect non-affiliated SWIFT users.

### **SWIFT Shared Infrastructure Programme**

Means the SWIFT defined eligibility criteria and operational standards for a third-party service bureau offering SWIFT connectivity.

### **Third Party User Documents**

Means the following documents issued by bodies other than the Bank and which are relevant to the participation of Direct Participants in the CHAPS System:

- the FIN Y-Copy Service Description issued by SWIFT;
- the SWIFT User Handbook issued by SWIFT;
- the Clearing Codes Rules and Procedures issued by Payments UK; and
- PN5005 Bank Reference Data Participants Guide produced by Vocalink Limited and issued by Bacs Payment Schemes Limited.

### **Three Lines of Defence Model**

Means the relationship between different line functions in an organisation and is a guide to how responsibilities should be divided in an organisation's risk management framework being as follows:

- the first line of defence – functions that own and manage risk;

- the second line of defence – functions that oversee or specialise in risk management and compliance; and
- the third line of defence – functions that provide independent assurance, and internal audit.

### **Throughput Adjustment Waiver**

Means a waiver granted by the Bank to a Direct Participant in accordance with the procedure described in sections 36.20 to 36.25 of this CHAPS Reference Manual under which the Direct Participant is temporarily allowed to have throughput values which do not meet the Throughput Criteria.

### **Throughput Criteria**

Means those criteria, principles, expectations or other matters specified in section 36 to which all Direct Participants are expected to adhere, subject to any Throughput Adjustment Waiver.

### **Tiering Criteria**

Means those criteria, principles, expectations or other matters set out in section 38.

### **Tiering Powers**

Means those powers reserved to the Bank to consent, or to withdraw or suspend its consent, to a Direct Participant (as a CHAPS Indirect Access Provider) causing or enabling Payment Messages to be entered into the CHAPS System for or on behalf of an Indirect Participant under sections 5.13 to 5.27 inclusive.

### **Tiering Thresholds**

Means either or both of the thresholds specified in section 38.28 of this CHAPS Reference Manual which are intended to help the Bank to identify, monitor and manage material risks arising from tiered participation arrangements affecting the CHAPS System.

### **User Documents**

Means any or all of the CHAPS User Documents, the RTGS User Documents and the Third Party User Documents.

### **Voice Blast**

Means a Bank initiated phone call to all Direct Participants which is primarily used to notify Direct Participants of key operational messages.

### **Vulnerability testing**

Means the process of identifying any vulnerabilities that may affect the security or integrity of the CHAPS System.

### **2009 Act**

Means the Banking Act 2009.