



**BANK OF ENGLAND**

# **CHAPS Reference Manual**

**Users should note that the provisions within this 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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## Document Change Control and History

Version Number	Change Summary
Version number 1.1d	Initial consultation version published June 2016
Version number 2	Updated version, please see change control register
31 July 2017	Updated version, please see change control register. New version-naming convention adopted.
25 September 2017	Updated version reflecting Bank of England becoming operator of CHAPS System.
2 <sup>nd</sup> January 2018	Updated version, please see change control register
22 <sup>nd</sup> May 2018	Updated version, please see change control register

## Change Control Register

Version	Date Issued	Effective date of change	Page Number v1.1D	Page Number V2	Chapter	Section	Details or purpose of new/deleted/change to rule/requirement
1.1D	29/04/2016	13/02/2017	88	90	Chapter 3	C/43	Replace CHAPS Co with CHAPS
1.1D	29/04/2016	13/02/2017	14	14	Chapter 1	Definitions	Definition for Annex added
1.1D	29/04/2016	13/02/2017	N/A	154	Annex A - Transitional Spec	C. PRA Approval Warranty	Actual Annex added
1.1D	29/04/2016	13/02/2017	88	91	Chapter 3	Static Data and Routing -38	Remove "Its CHAPS Board Director (or another" and replace with "a"
1.1D	29/04/2016	13/02/2017	104	107	Chapter 3	Amendment to Indirect Participation section - please see v2	Amendment to Indirect Participation section - please see v2
1.1D	29/04/2017	13/02/2017	82	84	Chapter 3	7	Replace 16:00 with 18:00
1.1D	29/04/2017	13/02/2017	82	84	Chapter 3	7	Replace 16:00 with 17.40
1.1D	29/04/2017	13/02/2017	82	84	Chapter 3	7	Replace 16.20 with 18.00
1.1D	29/04/2017	13/02/2017	84	86	Chapter 3	7	Replace 17.45 with 17.30
1.1D	29/04/2017	13/02/2017	85	87	Chapter 3	7	Replace 15.40 with 17.40
1.1D	29/04/2017	13/02/2017	55	55	Chapter 3	PCM flowchart	PC table will be amended to ensure Category 3 participants are captured by the Applicable Requirements arising from ESD changes

Version	Date Issued	Effective date of change	Page Number v1.1D	Page Number V2	Chapter	Section	Details or purpose of new/deleted/change to rule/requirement
1.1D	29/04/2017	13/02/2017	80	82	Chapter 3	8	Amend to include all categories
1.1D	29/04/2017	13/02/2017	98	101	Chapter 3	Part A Section 8	Replace pages 98 through to 100 in its entirety with CHAPS throughput Criteria ESD Draft Section 8 Throughput Criteria v0.1
1.1D	29/04/2017	13/02/2017	140	146	Chapter 4	Part C Section 1	Replace pages 140 in its entirety with CHAPS Throughput Criteria ESD Draft TAW Procedure v0.1
1.1D	29/04/2017	13/02/2017	141	146	Chapter 4	Part C Section 1	Replace pages 141 in its entirety with Throughput Criteria ESD Draft Throughput Escalation Process v0.1
1.1D	29/04/2017	13/02/2017	83	85	Chapter 3	<i>Day to Day operations - CHAPS operating Day - Abnormal issues, risks or threats (e.g. cyber attacks)</i>	Will now read: Participants shall reconcile the "Settled CHAPS Payment Summary" on the Enquiry Link each CHAPS Business Day to their own data records. If any discrepancy is identified by this reconciliation process, a Participant shall immediately (and not later than 10 minutes) investigate and advise RT System Controllers.
1.1D	29/04/2017	13/02/2017	102	106	Chapter 3	Self-certification - Monitoring and reporting	Will now read: Participants shall actively monitor the resolution of all exceptions and bring to the attention of the Bank any risks arising. Where planned remediation dates are missed or no longer deemed achievable, then these must be reported to the Bank upon becoming aware.

Version	Date Issued	Effective date of change	Page Number v1.1D	Page Number V2	Chapter	Section	Details or purpose of new/deleted/change to rule/requirement
1.1D	29/04/2017	13/02/2017	72	73	Chapter 3	Compromise of Security Assets - E	<p>Will now read: A Participant shall have in place and operate procedures such that, if the Participant suspects or knows that one (or more) credential store(s) and/or the keys it contains has been compromised, it can take the following actions:</p> <p>14.1 the Participant must immediately (and not later than 10 minutes) upon becoming aware, revoke the certificates of the lost or stolen credential store;</p>
1.1D	29/04/2017	13/02/2017	73	74	Chapter 3	Security - Compromise of security assets	<p>Will now read: Will the event of credential stores being lost or stolen, a Participant shall procure that its PSOs immediately (and not later than 10 minutes) upon becoming aware, take the following actions:</p> <p>17.1 revoke the certificates of lost or stolen credential stores - which can be done on-line or, in an emergency, SWIFT can be asked to perform this task; and 17.2 inform RTGS System Control.</p> <p>All reports of stolen or lost credential stores should be confirmed in writing by an authorised signatory of the Participant to RTGS System Control. This will result in the Enquiry Link Webstation Operator service or its successors including Enquiry Link Browse being disabled immediately on the RTGS System.</p>
1.1D	29/04/2017	13/02/2017	77	79	Chapter 3	Security - Systems activity and administration	<p>Will now read: Where a Participant uses an emergency access account, it must ensure that the relevant account(s) are disabled immediately (and not later than 10 minutes) upon becoming aware after use and all relevant passwords changed.</p>

Version	Date Issued	Effective date of change	Page Number v1.1D	Page Number V2	Chapter	Section	Details or purpose of new/deleted/change to rule/requirement
1.1D	29/04/2016	13/02/2017	80	81	Chapter 3	6: Resilience and Contingency (Para 11)	<b>Delete frequency box and amend Paragraph 11 to:</b> "Participants shall regularly test all of the technical and operational aspects of their site contingency arrangements at least half yearly"
1.1D	29/04/2016	13/02/2017	80	82	Chapter 3	6: Resilience and Contingency (Para 15)	<b>Amend Paragraph 15 to;</b> "Each Participant shall have sufficient capacity to meet unplanned inbound and outbound payment volumes. Unplanned volumes are calculated by taking the peak days inbound and outbound payment volumes from the previous year for the Participant, averaging them and then multiplying by 2 (two)."
1.1D	29/04/2016	13/02/2017	68	69	Chapter 3	4: Network and SWIFT Connectivity (Para 12, 13 & 14)	<b>Replace Paragraph 12 to;</b> "Participants are required to implement a Tertiary SWIFT Connection that would be used in the event that their primary and secondary connections are inoperable. This paragraph 12 does not apply to Category 3 Participants."  <b>Replace Paragraph 13 to;</b> "The Tertiary SWIFT Connection Principles defined in the CHAPS Technical Reference Manual must be adhered to for a Participants Tertiary SWIFT Connection solution. This paragraph 13 does not apply to Category 3 Participants."  <b>Delete Para 14 in its entirety</b>
1.1D	29/04/2016	13/02/2017	25	N/A	Chapter 1	Glossary	<b>Remove</b> the definition for "Tertiary network"
1.1D	29/04/2016	13/02/2017	67	69	Chapter 3	4	Include segregation of networks in requirement 2

Version	Date Issued	Effective date of change	Page Number v1.1D	Page Number V2	Chapter	Section	Details or purpose of new/deleted/change to rule/requirement
1.1D	29/04/2016	13/02/2017	72	73	Chapter 3	5D	Change title from Security Asset Management to "Asset Management"
1.1D	29/04/2016	13/02/2017	72	73	Chapter 3	5D	Revise requirement to apply to all assets not just security in requirement 11
1.1D	29/04/2016	13/02/2017	72	73	Chapter 3	5D	Revise requirement to apply to all assets not just security in requirement 12
1.1D	29/04/2016	13/02/2017	77	78	Chapter 3	5J	Add requirement (43) regarding synchronisation of clocks used in event logs and audit trails
1.1D	29/04/2016	13/02/2017	77	78	Chapter 3	5K	Remove word "and" from 55.2 and add to 55.3 to reflect additional sub requirement: 55.4
1.1D	29/04/2016	13/02/2017	77	78	Chapter 3	5K	Add requirement regarding configuration and management of remote access permissions/credentials
1.1D	29/04/2016	13/02/2017	77	79	Chapter 3	5K	Add requirement (57) regarding multi factor authentication for remote access
1.1D	29/04/2016	13/02/2017	77	79	Chapter 3	5K	Add requirement (58) regarding logical session timeout for remote access
1.1D	29/04/2016	13/02/2017	92	94	Chapter 3	Reporting Incidents (73)	Replace 5 CHAPS Business Days with 10 days
1.1D	29/04/2016	13/02/2017	84	86	Chapter 3	7 B.12 Line 4	Requestor should read CHAPS Co

Version	Date Issued	Effective date of change	Page Number v1.1D	Page Number V2	Chapter	Section	Details or purpose of new/deleted/change to rule/requirement
1.1D	29/04/2016	13/02/2017	83	85	Chaps Participation Requirements CHAPTER 3/7	Day to Day operations - CHAPS operating Day - Abnormal issues, risks or threats (e.g. cyber attacks)	Will now read: Participants shall reconcile the "Settled CHAPS Payment Summary" on the Enquiry Link each CHAPS Business Day to their own data records. If any discrepancy is identified by this reconciliation process, a Participant shall immediately (and not later than 10 minutes) investigate and advise RT System Controllers first, followed by CHAPS Co Operations
1.1D	29/04/2016	13/02/2017	Throughout the whole CRM	Through out the whole CRM	Throughout the whole CRM	Throughout the whole CRM	Amend references to CHAPS Tech Manual to CHAPS Technical Reference Manual
1.1D	29/04/2016	13/02/2017	127	132	Chapter 4	Part B section E	Footnote added to advise how a ring-fence bank is dealt with for Tiering
1.1D	29/04/2016	13/02/2017	141	147	Chapter 3	Waivers and Appeals - 13	Change Board Director to TOC representative
1.1D	29/04/2016	13/02/2017	101	104	Chapter 3	Self Certification - 4	'Head of the Key Business Area' (Payments) as defined by the PRA to replace Board Director
1.1D	29/04/2016	13/02/2017	101	104	Chapter 3	Self Certification - 5.2	'Head of the Key Business Area' (Payments) as defined by the PRA to replace Board Director
1.1D	29/04/2016	13/02/2017	87	90	Chapter 3	Static Data and Routing -21	Remove "Its CHAPS Board Director (or another" and replace with "a"
2	13/02/17	31/07/2017	71	71	Chapter 3	Section 4: Network and SWIFT connectivity, bullet 22.5	Remove "and select"



Version	Date Issued	Effective date of change	Page Number v1.1D	Page Number V2	Chapter	Section	Details or purpose of new/deleted/change to rule/requirement
2	13/02/17	31/07/2017	76	76	Chapter 3	Section 5: Security, bullet 37	Replace "regularly"with "annually"
2	13/02/17	31/07/2017	75	75	Chapter 3	Section 5: Security, bullet 23	Replace "periodically"with "annually or when significant changes take place"
2	13/02/17	31/07/2017	107-108	107-108	Chapter 3	Participation Requirements, para 5	Replace reference to "paragraph 4"with "paragraph 3", and reference to "paragraph 6"with "paragraph 5"
2	13/02/17	31/07/2017	95	95	Chapter 7	Participation Requirements, 76.1	Add "to achieve successful root cause analysis"to end of paragraph
2	13/02/17	31/07/2017	94	94	Chapter 3	Participation Requirements, 66, 67 and 71	Replace references in 66 and 67 to "10 minutes"with "15 minutes". In 71, replace "using Incident Management Forms"with "within 15 minutes of the Incident being recognised"
2	13/02/17	31/07/2017	All	All	All	Footer	Replace ", Confidential"with "Classification: Public"
2	13/02/17	31/07/2017	All	All	All	Header	All references to version numbers and dates replaced with Version: 31 July 2017
3	25/09/2017	HVPS Operator Transfer Time (as defined in the Participation Agreement	All	All	All	Header	Revised in line with Bank becoming operator
25/09/2017	25/09/2017	05/01/2018	82	83	Chapter 3	Day to day operations	Replace ", repayments "with "return"

Version being changed	Issue date of version being changed	Effective date of change	Page Number in version being changed	Page Number in new version	Chapter	Section	Details or purpose of new/deleted/change to rule/requirement
25/09/2017	25/09/2017	05/01/2018	77	78	Chapter 3	Day to day operations	Remove "E.53 A Participant shall provide its CHAPS service level performance statistics to CHAPS Operations by no later than the tenth CHAPS Business Day of the subsequent operating month."
25/09/2017	25/09/2017	05/01/2018	77	78	Chapter 3	Day to day operations	Addition of "and, as requested" to requirement E.52
25/09/2017	25/09/2017	05/01/2018	67	67	Chapter 3	Security	Addition of two requirements "60 & 61, regarding SWIFT Customer Security (SWIFT CSP)
25/09/2017	25/09/2017	05/01/2018	N/A	68	Chapter 3	Security	Addition of "Aggregator and Cloud Based Technology Requirement"
25/09/2017	25/09/2017	05/01/2018	62,63,65	62,63,65	Chapter 3	Security	Replace ", Stores " with "Certificates"
25/09/2017	25/09/2017	05/01/2018	67	68	Chapter 3	Resilience and Contingency	Addition of a "new risk based assessment for Data Centre distances between Primary and Secondary sites, which replaces the existing requirement in the CRM.
25/09/2017	25/09/2017	05/01/2018	72 & 78	73 & 79	Chapter 3	Extensions/Incident Management	Replace ", 10 minutes " with "15 minutes"
25/09/2017	25/09/2017	05/01/2018	69	69	Chapter 3	Resilience and Contingency	Replace ", half yearly " with " twice a year"
25/09/2017	25/09/2017	05/01/2018	98	99	Chapter 4	Participation Costs	Amend DR charge to "0.195 & add 2018"
25/09/2017	25/09/2017	05/01/2018	79	79	Chapter 3	Day to day operations	Replace wording under Operational Communications, formally "82.1 – 82.6, now 81.1 to 81.6"
25/09/2017	25/09/2017	05/01/2018	76	77	Chapter 3	Day to day operations	Remove "E.52.2 & 52.3" as being captured under Incident Management
25/09/2017	25/09/2017	05/01/2018	78	79	Chapter 3	Day to day operations	Addition of new wording "66.3 & 66.4", re Incident Management
05/01/2018	05/01/2018	25/05/2018	11	12	Table of Contents	Table of Contents	Renumbering of page numbers
05/01/2018	05/01/2018	25/05/2018	N/A	24	Chapter 1	CHAPS Glossary	Addition of new definition "Data Protection Legislation"
05/01/2018	05/01/2018	25/05/2018	N/A	25	Chapter 1	CHAPS Glossary	Addition of 3 new definitions "Data Recipient" "Data Transferor" and "DPA Data"
05/01/2018	05/01/2018	25/05/2018	N/A	26	Chapter 1	CHAPS Glossary	Addition of new definition "HVPS Services"
05/01/2018	05/01/2018	25/05/2018	N/A	27	Chapter 1	CHAPS Glossary	Addition of new definition "Participant Staff"
05/01/2018	05/01/2018	25/05/2018	27	28	Chapter 1	CHAPS Glossary	Amendment of definition "Personal Data" to read "Has the same meaning as in the Data Protection Legislation"

05/01/2018	05/01/2018	25/05/2018	45	47	Table of Contents	Table of Contents	Renumbering of page numbers
05/01/2018	05/01/2018	25/05/2018	95	97	Table of Contents	Table of Contents	Renumbering of page numbers
05/01/2018	05/01/2018	25/05/2018	121	123 & 124	Chapter 4	Part E: Data Protection	Insertion of new paragraphs 1, 3 and 8
05/01/2018	05/01/2018	25/05/2018	121	N/A	Chapter 4	Part E: Data Protection	Deletion of previous paragraphs 3,5 and 6
05/01/2018	05/01/2018	25/05/2018	121	123 & 124	Chapter 4	Part E: Data Protection	Renumbering and amendment of previous paragraphs 1, 2,4 and 7
05/01/2018	05/01/2018	25/05/2018	121	123 & 124	Chapter 4	Part E: Data Protection	Insertion of new paragraphs 1, 3 and 8
05/01/2018	05/01/2018	25/05/2018	121	N/A	Chapter 4	Part E: Data Protection	Deletion of previous paragraphs 3,5 and 6

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# CHAPTER I

## Overview

## INTRODUCTION

### *About the Bank*

This CHAPS Reference Manual is issued by the Governor and Company of the Bank of England (the Bank).

The Bank is a body corporate incorporated by Royal Charter and whose principal place of business is at Bank of England, Threadneedle Street, London EC2R 8AH, United Kingdom.

The Bank issues this CHAPS Reference Manual in its capacity as operator of the CHAPS System.

### *About the CHAPS System*

CHAPS is the UK electronic payment system for high value and systemically important transactions which settle across the Bank's Real Time Gross Settlement (RTGS) System, thereby achieving irrevocable finality at the point of settlement.

The CHAPS System plays a critical role in the financial system and the broader economy of the United Kingdom. The CHAPS System is a designated system for the purposes of the Financial Markets and Insolvency (Settlement Finality) Regulations 1999. The CHAPS System is also a regulated payment system under the Financial Services (Banking Reform) Act 2013.

More information about the CHAPS System is contained in the responses to the CPMI-IOSCO Disclosure framework for FMIs. A copy of the most recent responses for CHAPS can be found in the relevant section of the Bank's website.

## NAVIGATING THIS CHAPS REFERENCE MANUAL

This CHAPS Reference Manual comprises four Chapters.

All capitalized terms have the meaning given to them in the CHAPS Glossary set out in Chapter II.

### *Overview (Chapter I)*

The Overview deals with certain fundamental matters relevant to this CHAPS Reference Manual. Specifically, the Overview:

- provides basic information about the Bank (as operator of the CHAPS System) and the CHAPS System;
- helps guide the reader to relevant parts of this CHAPS Reference Manual which are likely to be of interest to the reader;
- explains how to navigate this CHAPS Reference Manual;
- explains the key purposes of this CHAPS Reference Manual;
- sets out the responsibility which the Bank accepts for the provisions of this CHAPS Reference Manual and other documents referred to in it; and
- establishes certain core provisions which are applicable to all parts of this CHAPS Reference Manual, including the law that governs its provisions; and the CHAPS Glossary below and related terms (which help the reader to interpret the provisions of this CHAPS Reference Manual).

### *CHAPS Rules (Chapter II)*

The CHAPS Rules set out those obligations or other matters applicable to Participants which either:

- enable or facilitate the Bank to identify, monitor, measure and/or manage (i) material risks to the CHAPS System or the wider financial system, and (ii) matters that have a *significant effect* on the efficiency or effectiveness of the CHAPS System; or
- by statute are specifically directed to be covered by the rules of the CHAPS System.

### **CHAPS Participation Requirements** (Chapter III)

The CHAPS Participation Requirements set out obligations applicable to Participants which are not contained in the CHAPS Rules.

This may be because they do not by themselves enable or facilitate the Bank to identify, monitor, measure and/or manage (i) material risks to the CHAPS System or the wider financial system, or (ii) matters that have a significant effect on the efficiency or effectiveness of the CHAPS System. They remain, however, individually and together important obligations with which Participants must comply to support the security, integrity and reputation of the CHAPS System.

Other CHAPS Participation Requirements may be concerned with material risks or matters that have a significant effect on the efficiency or effectiveness of the CHAPS System. However, their principal function is to provide practical and detailed support for a "founding" CHAPS Rule (and which cross-refers to the relevant CHAPS Participation Requirement(s)). For example, CHAPS Rule 3.2.1 establishes the founding principle under which the Bank is entitled to measure, monitor and manage liquidity, credit, systemic and other material risks affecting the CHAPS System. The practical day-to-day application of that CHAPS Rule is achieved through the CHAPS Participation Requirements set out in Part A, section 8 and Part B, sections 1 and 2 of Chapter III (which set out detailed requirements in relation to Throughput Criteria and indirect participation arrangements designed to enable the Bank to measure, monitor and manage the relevant risks).

### **CHAPS Procedures** (Chapter IV)

The CHAPS Procedures:

- describe certain key elements of the CHAPS System's design and operations; and
- set out or refer to certain other important matters and material that enable Participants, and other interested parties, to have a clear understanding of the risks and controls on risks relevant to the Bank's operation of the CHAPS System, as well as a description of the principal direct and indirect costs of participation in the CHAPS System.

## **PURPOSE OF THIS CHAPS REFERENCE MANUAL**

This CHAPS Reference Manual performs two principal functions.

- first, it forms a core part of the legal basis for the Bank's operation of the CHAPS System; and
- second, 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.

### **Legal basis of the CHAPS System**

Participants in the CHAPS System will enter into a contract with the Bank (the **Participation Agreement**). Under this contract, Participants agree to comply with all specifications of the Bank for the time being applicable to a participant in the CHAPS System, including:

- the obligations for the time being applicable to a Participant under or by virtue of the **CHAPS Rules** set out in Chapter II of this CHAPS Reference Manual; and
- the obligations for the time being applicable to a Participant under or by virtue of the **CHAPS Participation Requirements** set out in Chapter III of this CHAPS Reference Manual.

The CHAPS Rules and the CHAPS Participation Requirements cross-refer to certain key operational procedures applicable to a Participant which form part of the **CHAPS Procedures** set out in Chapter IV of this CHAPS Reference Manual.

The CHAPS Procedures include, for example, a description of the principal direct and indirect costs of participation in the CHAPS System.

Under the Participation Agreement, the Bank agrees to provide certain services and to perform certain functions in relation to the CHAPS System. In connection with these services and functions, the CHAPS Procedures also:

- describe certain key procedures relevant to the performance of these services and functions; and
- explain how the Bank intends to exercise discretion reserved to it in relation to the performance of these services and functions.

The CHAPS Procedures include, for example:

- the CHAPS Timetable;
- the Tiering Criteria, which explain how the Bank intends to exercise its Tiering Powers - under which the Bank may give, withdraw or suspend its consent to a Participant (as a Direct Participant) to provide indirect access to the functions and facilities of the CHAPS System to a Relevant Entity (as an Indirect Participant);
- a description of the review process which the Bank makes available to Participants and prospective Participants who wish to appeal against certain decisions made by the Bank in the performance of its functions as operator of the CHAPS System; and
- a description of the procedures adopted by the Bank to make changes to this CHAPS Reference Manual (or any component part of this CHAPS Reference Manual) and/or the CHAPS User Documents.

### **The Payment Systems Regulator**

The legal framework relevant to the operation of the CHAPS System also includes provisions under Part 5 of the Financial Services (Banking Reform) Act 2013 (the **2013 Act**). In particular, Part 5 gives certain powers to the Payment Systems Regulator (the **PSR**) which it may exercise, upon its own initiative or upon application of a Participant or other interested party, to advance one or more of the PSR's statutory objectives (i.e. its competition objective, its innovation objective and its service-user objective).

The PSR's exercise of these statutory powers may require a Participant (as a Direct Participant) to give indirect access to the CHAPS System to a Relevant Entity as an Indirect Participant (e.g. in exercise of the PSR's powers in section 56(3) of the 2013 Act).

As such, while this CHAPS Reference Manual (and the Participation Agreement) forms a core part of the legal basis for the Bank's operation of the CHAPS System, it is important for readers to bear in mind the statutory context to which indirect access to the CHAPS System is operated. These statutory provisions supplement the provisions of this CHAPS Reference Manual.



## *The Bank of England as Supervisor of Financial Market Infrastructure*

The Bank's operation of the CHAPS System will be 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.

### *Annexes to this CHAPS Reference Manual*

Annexes to this CHAPS Reference Manual may be issued by the Bank in accordance with Chapter IV, Part D of this CHAPS Reference Manual 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 to this CHAPS Reference Manual and this CHAPS Reference Manual and/or any of the **User Documents**, the Annex to this CHAPS Reference Manual will take precedence.

### *Other documentation*

Other documentation (the **User Documents**) are not made available to the public, as they contain information which is either confidential or is not considered sufficiently material to merit disclosure in the interests of fostering wider public confidence in the CHAPS System.

The **User Documents** refer collectively to the **CHAPS User Documents**, the **RTGS User Documents** and the **Third Party User Documents** in this CHAPS Reference Manual.

While this CHAPS Reference Manual is the primary reference document for the CHAPS System, Participants must comply with and observe the User Documents.

### *CHAPS User Documents*

The **CHAPS User Documents** are issued by the Bank. They are made up of the CHAPS Technical Reference Manual and the CHAPS Operational Reference Manual, and do not form part of this CHAPS Reference Manual. In the event of any inconsistency between the CHAPS User Documents and this CHAPS Reference Manual, the CHAPS Reference Manual shall prevail.

### *RTGS User Documents*

The **RTGS User Documents** are issued by the Bank. They are made up of the RTGS Reference Manual and the Enquiry Link User Guide, and do not form part of this CHAPS Reference Manual.

### *Third Party User Documents*

The **Third Party User Documents** refer to manuals, guides, handbooks, descriptions, specifications, codes and other documents issued by bodies other than the Bank (and which do not form part of this CHAPS Reference Manual).

The Third Party User Documents include, for example:

- the SWIFT User Handbook issued by SWIFT; and
- the Clearing Codes Rules and Procedures issued by Payments UK.

This reflects the fact that SWIFT provides key parts of the infrastructure used for the purposes of operating the CHAPS System. The Bank is not responsible for:

- the systems, services, networks or equipment provided, operated or used by such infrastructure providers as part of or in connection with the CHAPS System; or
- the Third Party User Documents issued by such infrastructure providers in relation to the systems, services, networks or equipment they provide, operate or use as part of or in connection with the CHAPS System (or any other Third Party User Documents).

The services provided by SWIFT are provided as a principal under contract with Participants and not as an agent or delegate of the Bank.

### **Guidance documents**

The Bank may also issue from time to time documents that contain guidance, support and other information relevant to a 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.

## **TRANSPARENCY**

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 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 Participants and other interested parties to have a clear understanding of the risks and controls on risks associated with participation in the CHAPS System.

## **PARTICIPANT CATEGORIES**

Unless otherwise specifically indicated in this CHAPS Reference Manual, its provisions apply to govern the relationship between the Bank and all Participants.

However, the Bank aims to ensure that a burden or restriction which is imposed on a Participant, or on the carrying on of an activity, in connection with its participation in the CHAPS System should be proportionate to the benefits for the integrity, security, efficiency, effectiveness or reputation of CHAPS which can be expected to result from the imposition of that burden or restriction.

The Bank has, therefore, determined that certain provisions of this CHAPS Reference Manual should be modified in relation to certain categories of Participant where that is appropriate having due regard to factors that are designed to determine the systemic impact of entities falling within that category, for example by reference to the relative volumes and/or values of CHAPS payments made and received by the entity concerned. To that end, the Bank applies the metrics and other factors set out in the flowchart and table at the beginning of Chapter III of this CHAPS Reference Manual to determine the relevant categorisation of a Participant.

The Bank will regularly monitor whether the existing categorisation attributed to each Participant is appropriate for that Participant by reference to the most recent data or other information available to the Bank. The Bank will notify a Participant in writing where it has determined (acting in good faith) that the 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 at the beginning of Chapter III. Where such notification is given, the Bank, in consultation with the Participant concerned, shall fix a date (falling at a reasonable period after such notification is given) from which the Participant shall comply with the relevant provisions of this CHAPS Reference Manual as they apply to entities falling within the Participant's new categorisation.

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

- in the table at the beginning of Chapter III of this CHAPS Reference Manual; or
- in the relevant requirement set out in Chapter III (and any related CHAPS Rule). Further, the Bank has concluded that it would be inappropriate to apply certain provisions of this CHAPS Reference Manual to a Participant that is a central bank. This may be the case, for example, where to require compliance with an obligation set out herein by such a Participant would or might threaten, or be incompatible with or otherwise be prejudicial to,

the achievement or performance of the central bank's statutory or other public law objectives, duties or functions.

In consequence, the Bank applies a Category 0 Participant to central banks and, in certain cases, has disapplied or modified certain provisions of this CHAPS Reference Manual in relation to Category 0 Participants. For the avoidance of doubt, this applies to the Bank itself in its capacity as a Participant of CHAPS. Where any section, part or provision of this CHAPS Reference Manual is modified or disapplied in relation to a Category 0 Participant, this is explained:

- in that section, part or provision; or
- in the table at the beginning of Chapter III.

## **RESPONSIBILITY OF THE BANK IN RELATION TO THIS CHAPS REFERENCE MANUAL**

Without affecting:

- any right that an interested party may have under the 2013 Act (e.g. to apply to the PSR for an order granting it access to the CHAPS System);
- any obligation of the Bank as operator of a designated system (under the Financial Markets and Insolvency (Settlement Finality) Regulations 1999); or
- 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 those entities who have entered into a Participation Agreement with it only.

Under the Participation Agreement, the Bank undertakes certain defined obligations in relation to its provision and performance of the services, the maintenance of a secure and reliable system for the clearing and settlement of sterling-denominated payments and the performance of its functions as set out in Clause 3 of the Participation Agreement. No description in this CHAPS Reference Manual which refers to the Bank, the services provided by it or 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 relevant contract with its Participants.

The Bank's mission is to promote the good of the people of the United Kingdom by maintaining monetary and financial stability.

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 a systemic risk manager.

Where consistent with the Bank's mission, the Bank will seek to:

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

## **GOVERNING LAW AND JURISDICTION**

This CHAPS Reference Manual and the rights and obligations (including all non-contractual obligations) arising under or in connection with it shall be governed by, and construed in accordance with English law.

For the benefit of the Bank, each CHAPS Participant irrevocably agrees that the courts of England and Wales shall have jurisdiction to hear and determine any suit, action or proceeding, and to settle any disputes which may arise out of or in connection with this CHAPS Reference Manual and/or any non-contractual obligation arising in connection with this CHAPS Reference Manual. For such purposes, each CHAPS Participant irrevocably submits to the exclusive jurisdiction of the courts of England and Wales.

Each CHAPS Participant irrevocably waives any objection which it might now or hereafter have to the courts being nominated as the forum to hear and determine any suit, action, or proceeding, and to settle any disputes which may arise out of or in connection with this CHAPS Reference Manual and/or any non-contractual obligation, arising in connection with this CHAPS Reference Manual and agreed not to claim that any such court is not a convenient or appropriate forum.

The exclusive submission to the jurisdiction of the courts of England and Wales by each Participant shall not (and shall not be construed so as to) limit the right of the Bank to take proceedings against any CHAPS Participant in any other court of competent jurisdiction nor shall the taking of proceedings in any one or more jurisdictions preclude the taking of proceedings by the Bank in any other jurisdiction, whether concurrently or not.

### **CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999**

Except to the extent otherwise expressly provided for in the Participation Agreement between the Bank and the Participants, no person other than a 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 but this is without prejudice to any right or remedy of the third party which may exist or be available apart from that Act.

### **ASSIGNMENT OF RIGHTS**

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

### **INTERPRETATION OF THIS CHAPS REFERENCE MANUAL**

The provisions of this CHAPS Reference Manual should be read, and are intended to be interpreted, with due regard to their underlying purpose as well as to the letter of the drafting.

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 where the provision is inappropriate to the circumstances. Without prejudice to the generality of the foregoing or the categorisation of a Participant as a Category 0 Participant (with the consequences explained under "Participant Categories" above), the Bank may for example waive or modify (in whole or in part) the application of any section, part or provision of this CHAPS Reference Manual where it considers that the application or enforcement of that part or provision to a Participant which is a central bank would be inconsistent with, or would otherwise fail to promote, the interests of the performance of the Bank's functions as a central bank.

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 agreement or document (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 agreement or document as the same may from time to time be amended, varied, supplemented, novated or replaced.

Any capitalised or defined terms referred to in any of the Third Party User Documents which are used in this CHAPS Reference Manual, but 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.

Any reference in this CHAPS Reference Manual to any statute or statutory provision (which includes any legislative provision or regulatory instrument of the European Union) 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.

Unless otherwise specifically indicated, any reference in this CHAPS Reference Manual to the **Bank of England** or the **Bank** is to the Bank of England when acting in its capacity as operator of the CHAPS System.

Words importing one gender shall (where appropriate) include any other gender and words importing the singular shall (where appropriate) include the plural and vice versa.

The headings to provisions in this CHAPS Reference Manual are for ease of reference only and shall not affect their interpretation.

In this CHAPS Reference Manual, any reference to a **Payment** shall be construed in the context of the operation of the CHAPS System.

If there is a conflict between any provisions of this CHAPS Reference Manual and any provision of any CHAPS User Documents, then the relevant provision of this CHAPS Reference Manual shall apply.

# CHAPS Glossary

For the purposes of this CHAPS Reference Manual, the definitions set out below apply.

## Annexes

Refers to any Annexes to this CHAPS Reference Manual as issued by the Bank and which therefore form part of this CHAPS Reference Manual.

## Associate

In relation to any entity (the **first entity**), an entity which is (or would be) included with the first entity in a consolidated balance sheet and consolidated profit and loss account prepared in accordance with applicable law and/or applicable accounting standards; and **associated** shall be interpreted accordingly.

## Bank

The Governor and Company of the Bank of England.

## Bank Direction

Any direction for the time being in force given by or for the Bank in its capacity as operator of the CHAPS System in accordance with section 2 (directions) of Part B of Chapter IV of this CHAPS Reference Manual.

## Banking Business Day

Any day on which the CHAPS System is operating, other than a Saturday, Sunday, Christmas Day, Good Friday or a day which is a bank holiday in the United Kingdom.

## Board

The nine-member Board chaired by the Deputy Governor for Markets and Banking.

## CHAPS Business Day

Any day on which the CHAPS System is operating.

## Category

The classification used to acknowledge that Participants bring different inherent risk into the system by being connected to it. The different levels of risk are expressed as categories by taking into account factors such as values, volumes, nature of customer base and type of entity.

## CBT

The Computer Based Terminal comprising the hardware and software configuration that forms a SWIFT user's physical point of access to the SWIFT system.

## CHAPS or CHAPS System

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

## **CHAPS Efficiency Enhancement Requirements**

The CHAPS Participation Requirements set out in sub-sections D (service levels), E (performance monitoring) and F (forward dated payments) of section 7 of Part A of Chapter III of this CHAPS Reference Manual, which are designed to support the efficiency and effectiveness of the CHAPS System.

## **CHAPS Operating Day**

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 section 3 (temporary changes to the CHAPS Timetable) of Part D of Chapter IV of this CHAPS Reference Manual).

## **CHAPS Operations**

The individuals identified in the CHAPS Operations contact list communicated by the Bank to Participants from time to time.

## **CHAPS Participation Requirements**

The CHAPS Participation Requirements as set out in Chapter III of this CHAPS Reference Manual.

## **CHAPS Procedures**

The CHAPS Procedures as set out in Chapter IV of this CHAPS Reference Manual.

## **CHAPS Reference Manual**

The document entitled the "CHAPS Reference Manual" which is issued by the Bank and comprises:

- an Overview as Chapter I;
- the CHAPS Rules as Chapter II;
- the CHAPS Participation Requirements as Chapter III; and
- the CHAPS Procedures as Chapter IV.

## **CHAPS Risk Mitigation Requirements**

The CHAPS Participation Requirements set out in:

- section 8 (*throughput*) of Part A and sections 1 (*Indirect Participants*) and 2 (*tiering*) of Part B of Chapter III of this CHAPS Reference Manual, which are designed to enable or facilitate the identification, measurement, monitoring and management of the liquidity, credit, systemic and other material risks that arise through a Participant's participation in the CHAPS System; and
- sections 2 to 6 (inclusive) and sub-sections A to C (inclusive), G to K (inclusive) and M of section 7 of Part A of Chapter III of this CHAPS Reference Manual, which are designed to enable or facilitate the identification, monitoring and management of the operational risks that arise through a Participant's participation in the CHAPS System.

## **CHAPS Rules**

The CHAPS Rules as set out in Chapter II of this CHAPS Reference Manual.

## **CHAPS Specifications**

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 Participant's contract with the Bank;
- the CHAPS Rules;
- the CHAPS Participation Requirements; and
- any Bank Direction.

## **CHAPS Timetable**

The processing timetables set out in the section 1 (CHAPS timetable) of Part A of Chapter IV of this CHAPS Reference Manual.

## **CHAPS User Documents**

Those documents issued by the Bank (which do not form part of this CHAPS Reference Manual) and which are made available to Participants in the CHAPS System. The CHAPS User Documents comprise of:

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

## **Clearing**

The process of exchanging Payment Messages subject to the CHAPS Rules.

## **Conditional Payment**

A Payment requiring any action with the exception of that required by SWIFT Standards and recognised SWIFT codewords or as otherwise expressly required by the CHAPS Rules.

## **Credential store**

A technical environment in which security identification and permissions (credentials) are securely stored.

## **Customer**

In relation to a Participant, a person for whom the Participant accesses the CHAPS System to enable or facilitate that Participant's provision of CHAPS payment services to that person. A customer of a Participant may itself be a Relevant Entity or an Associate of the Participant.

## **Data Protection Legislation**

The Data Protection Act 1998, the Directive 95/46/EC of the European Parliament and of the Council of 24 October 1995 on the protection of individuals with regard to the processing of personal data and on the free movement of such data, the Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, the Privacy and Electronic Communications Directive 2002/58/EC, and all applicable Laws relating to processing of personal data and privacy as amended updated or replaced from time to time, including where applicable the guidance and codes of practice issued by the Information Commissioner, and all



references to 'personal data', 'processing', 'pseudonymisation', 'controller', 'processor', 'personal data breach', and 'cross-border processing' shall be construed accordingly.

### **Data Recipient**

For the purposes of Section 3, Part E of this CHAPS Reference Manual, the data controller who agrees to receive DPA Data from the Data Transferor for further processing.

### **Data Transferor**

For the purposes of Section 3, Part E of this CHAPS Reference Manual, the data controller who transfers the relevant DPA Data.

### **Direct Participant**

In relation to a Relevant Entity (acting as an **Indirect Participant**), a Participant which has a contractual relationship with that Relevant Entity governing the Participant's entry of Payment Messages into the CHAPS System for or on behalf of that Relevant Entity.

### **DPA Data**

For the purposes of Section 3, Part E of this CHAPS Reference Manual, all personal data collected, generated or otherwise processed by either party as a result of, or in connection with the CHAPS Participation Agreement and/or the CHAPS Reference Manual.

### **End User**

In relation to an Indirect Participant, a person for whom the Indirect Participant accesses the CHAPS System (through its relationship with a Direct Participant) to enable or facilitate that Indirect Participant's provision of CHAPS payment services to that person.

### **Enquiry Link Access**

The ability of Participants to securely monitor their payment flows within the RTGS System using either Enquiry Link Webstation or its successors including Enquiry Link Browse.

### **Excluded Participant**

A Participant which has been excluded by the Bank in accordance with CHAPS Rule 6.8.

### **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**

An extension of the CHAPS Operating Day (or any part of the CHAPS Operating Day) which is either:

- approved by the Bank (in response to a request from a Participant or Participants); or
- called by the Bank on its own initiative,

in either case in accordance with the relevant provisions in Chapter III of this CHAPS Reference Manual.

## **Financial market infrastructure or FMI /FMU**

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.

## **FIN Y-Copy**

FIN Y-Copy is 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.

## **FOIA**

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

## **G-SIB**

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).

## **HVPS Services**

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

## **Incident**

Any event, circumstance or other incident which adversely affects or (in the opinion of the Participant affected by such event, circumstance or other incident or of the Bank) may come adversely to affect that Participant's continuing provision or operation of CHAPS-related processes, services or activities within normal parameters.

## **Indirect Participant**

In relation to a Direct Participant, a Relevant Entity which has a contractual relationship with the Direct Participant governing the Direct Participant's entry of Payment Messages into the CHAPS System for or on behalf of that Relevant Entity.

## **Insolvency Event**

Any of the events described in CHAPS Rules 3.7.1, 3.7.2, 3.7.3 or 3.7.5, 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).

## **Insolvent Participant**

A Participant in relation to which an Insolvency Event has occurred.

## **Institution**

Any of the following:

- (i) 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;

- (ii) an electronic money institution within the meaning of Article 2(1) of Directive 2009/110/EC of the European Parliament and of the Council of 16 September 2009 on the taking up, pursuit and prudential supervision of the business of electronic money institutions amending Directives 2005/60/EC and 2006/48/EC and repealing Directive 2000/46/EC;
- (iii) an investment firm as defined in Article 4.1.1 of Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments, other than a person to whom Article 2 applies;
- (iv) a public authority or publicly guaranteed undertaking;
- (v) any undertaking whose head office is outside the European Community and whose functions correspond to those of a credit institution or investment firm as defined in (i) and (iii) above;
- (vi) 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 Regulations; and
- (vii) (for the purposes of CHAPS Rules 2.3 to 2.11 inclusive only) any body corporate or unincorporated association which operates financial market infrastructure and which is not otherwise included in any of the preceding paragraphs of this definition.

### Liquidity Bridge

The RTGS System includes a liquidity bridge with TARGET2 to enable CHAPS Participants to import euro as cash collateral for sterling intra-day liquidity.

### Participant

An entity which satisfies the criteria listed or otherwise specified in CHAPS Rule 2.1 or 2.2 and is admitted to participation in the CHAPS System under contract with the Bank. A Participant may be a **Category 0 Participant**, a **Category 1 Participant**, a **Category 2 Participant** or a **Category 3 Participant** (as explained at the start of Chapter III of this CHAPS Reference Manual).

### Participation Agreement

An agreement between the Bank and any entity relating inter alia to that entity's participation in the CHAPS System.

### Participant Default Arrangements

The procedures and other arrangements put in place by the Bank under the Regulations to limit systemic and other types of risk which arise in the event of a Participant appearing to be unable, or likely to become unable, to meet its obligations in respect of a Payment Message. The Participant Default Arrangements comprise those procedures and other arrangements set out in:

- CHAPS Rules 3.6 and 3.7;
- CHAPS Rule 4.2; and
- CHAPS Rules 6.8 to 6.12 (inclusive).

### Participant Staff

In relation to the Participant and for the purposes of Section 3, Part E of this CHAPS Reference Manual, those employees, directors, officers and independent contractors of the Participant (including agents of the Contractor or any of its sub-contractors or agents employed or engaged in any way in the performance of the Contractor's obligations to the Participant).

## **Payment**

A payment made through CHAPS that satisfies the criteria listed in CHAPS Rule 4.1.

## **Payment Message**

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

## **Payments UK**

Payments UK Management Limited or any body that supersedes or replaces it.

## **Personal Data**

Has the same meaning as in the Data Protection Legislation.

## **PSR**

The Payment Systems Regulator, whose address is 25 The North Colonnade, Canary Wharf, London, E14 5HS (or such body which supersedes or replaces it).

## **PSRs**

The Payment Services Regulations 2009.

## **Regulations**

The Financial Markets and Insolvency (Settlement Finality) Regulations 1999.

## **Regulatory Authority**

Any governmental or regulatory body that has responsibility for regulating or overseeing all or any part of a Participant's activities in relation to CHAPS, including the Competition and Markets Authority, the European Commission, 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**

A decision of the Bank relating to:

- the eligibility of an entity to become and/or remain a Participant under CHAPS Rule 2.1 or 2.2;
- the refusal of consent to a Participant acting for a Relevant Entity after application by the Participant under CHAPS Rule 2.1.4;
- the withdrawal of consent to a Participant acting for a Relevant Entity under CHAPS Rule 2.7; or
- the suspension or exclusion of a Participant under CHAPS Rule 6.8.

## **Relevant Entity**

Any person which is:

- an Institution;

- (if not an Institution) a 'payment service provider' within the meaning of regulation 2(1) of the PSRs; or
- any other entity which provides CHAPS payment services to End Users.

### Relevant Indirect Participant

An Indirect Participant for or on behalf of whom the aggregated average daily value of Payments sent and received (or to be sent and received) by a Direct Participant (and/or an Associate of the Direct Participant) 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 1 (***procedures relating to the Tiering Criteria***) of Part B of Chapter IV of this CHAPS Reference Manual; or
- in the period of 12 (twelve) months to follow the determination is expected by the Direct Participant (acting reasonably) to exceed the deemed tiering consent limit specified from time to time in section 1 (***procedures relating to the Tiering Criteria***) of Part B of Chapter IV of this CHAPS Reference Manual,

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.

### RTGS/RTGS System

The settlement system owned by the Bank of England 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.

### R transactions

The collective term used to describe transactions that are variously returned, rejected or recalled.

### RTGS Reference Manual

The document entitled the "RTGS Reference Manual" issued by the Bank of England.

### RTGS User Documents

Those documents issued by the Bank in connection with the RTGS System and which are referred to in this CHAPS Reference Manual as relevant to the participation of Participants in the CHAPS System. The RTGS User Documents comprise of:

- the RTGS Reference Manual issued by the Bank of England; and
- the Enquiry Link User Guide.

### Separacy

A term used to indicate resilience, specifically the absence of a single point of failure because of there being separate solutions in place.

### Service Provider

Has the meaning given to it in section 3 (*service providers*) of Part A of Chapter III of this CHAPS Reference Manual.

## Settlement Finality Directive

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

## Suspended Participant

A Participant which has been suspended by the Bank in accordance with CHAPS Rule 6.8.

## SWIFT

Society for Worldwide Interbank Financial Telecommunication. In relation to settling CHAPS payments, the interface which is used by the Bank of England's RTGS Processor.

## Third Party User Documents

Those documents issued by bodies other than the Bank and which are referred to in this CHAPS Reference Manual as relevant to the participation of Participants in the CHAPS System. The Third Party User Documents comprise of:

- 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.

## Throughput Adjustment Waiver (TAW)

A waiver granted by the Bank to a Participant in accordance with the procedure described in section 1 (procedures relating to the Throughput Criteria) of Part C of Chapter IV of this CHAPS Reference Manual under which the Participant is temporarily allowed to have throughput values below the Throughput Criteria.

## Throughput Criteria

Those criteria, principles, expectations or other matters specified in section 8 (throughput) of Part A of Chapter III of this CHAPS Reference Manual and to which all Participants are expected to adhere to in accordance with CHAPS Rule 3.3.1, subject to any Throughput Adjustment Waiver that may be granted by the Bank.

## Tiering Criteria

Those criteria, principles, expectations or other matters set out in section 1 (Indirect Participants) of Part B of Chapter IV of this CHAPS Reference Manual, and to which the Bank must have regard before exercising any of its Tiering Powers.

## Tiering Powers

Those powers reserved to the Bank to consent, or to withdraw or suspend its consent, to a Participant (as a Direct Participant) causing or enabling Payment Messages to be entered into the CHAPS System for or on behalf of a Relevant Entity (as an Indirect Participant) under CHAPS Rules 2.3 to 2.11 inclusive.

## Tiering Thresholds

Either or both of the thresholds specified in paragraph 29 of the Tiering Criteria (set out in section 1 (Indirect Participants) of Part B of Chapter IV of this CHAPS Reference Manual) which are

intended to facilitate the Bank to identify, monitor and manage material risks arising from tiered participation arrangements affecting the CHAPS System.

#### **2009 Act**

The Banking Act 2009.

#### **2013 Act**

The Financial Services (Banking Reform) Act 2013.

#### **Unique identifier**

An alpha numeric identifier or combination of identifiers used to identify a payment account. Within the CHAPS System, this would normally be either sort code and account number (domestic payments) or BIC and IBAN (international payments).

#### **User Documents**

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

#### **Voice blast**

A CHAPS initiated phone call to all Participants primarily used to notify Participants of key operational messages.

#### **Vulnerability testing**

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

## **CHAPTER II**

### **CHAPS Rules**



## 1. THE CHAPS RULES

- 1.1 These CHAPS Rules form part of this CHAPS Reference Manual issued by the Bank. They should be read together with Chapter I (Overview) of this CHAPS Reference Manual. The Overview of this CHAPS Reference Manual contains important information on:
- 1.1.1 the CHAPS System;
  - 1.1.2 the law which governs these CHAPS Rules;
  - 1.1.3 the jurisdiction of the courts to settle disputes in connection with these CHAPS Rules and/or any non-contractual obligation arising in connection with them; and
  - 1.1.4 the definition of terms used in, and the interpretation of, these CHAPS Rules.
- 1.2 Other provisions of this CHAPS Reference Manual are also relevant to these CHAPS Rules, including:
- 1.2.1 certain CHAPS Participation Requirements set out in Chapter III of this CHAPS Reference Manual to which cross-reference is specifically made by these CHAPS Rules;
  - 1.2.2 the processes by which changes may be made to these CHAPS Rules as described in Part D of Chapter IV of this CHAPS Reference Manual;
  - 1.2.3 the Review Process described in Part C of Section IV of this CHAPS Reference Manual.
  - 1.2.4 the procedures described in section 1 (*procedures relating to the Tiering Criteria*) of Part B and section 1 (*procedures relating to the Throughput Criteria*) of Part C, of Chapter IV of this CHAPS Reference Manual which set out how respectively:
    - 1.2.4.1 the Bank will exercise its discretion under its Tiering Powers; and
    - 1.2.4.2 a Participant may seek a Throughput Adjustment Waiver.
- 1.3 Each 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 Participant or another Participant.

Nothing in the 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.

## 2. PARTICIPATION, ACCESS CRITERIA AND CONSENT TO TIERED ARRANGEMENTS

- 2.1 To be eligible to become and remain a Participant, an entity must:
- 2.1.1 hold a sterling settlement account at the Bank of England which the Bank of England has agreed may be used for the purpose of settling CHAPS payment obligations;
  - 2.1.2 be a participant which falls within the definition of 'participant' in the Regulations;

- 2.1.3 have the ability to comply on a continuous basis with the technical and operational requirements of the CHAPS System as set out in the User Documents from time to time;
  - 2.1.4 if required to do so by the Bank, to pay a single entrance fee as determined by the Bank if required from time to time when first becoming a Participant in the CHAPS System. Such entrance fee is to be based on the cost of technical implementation; and
  - 2.1.5 if required to do so by the Bank, provide a legal opinion issued by an independent legal adviser and in terms acceptable to the Bank regarding, amongst other things, the entity's capacity to execute and be bound by the CHAPS Specifications and its agreement(s) with the Bank relating to participation in the CHAPS System.
- 2.2 The Governor and Company of the Bank of England shall be entitled to be a Participant as of right subject to compliance with the requirements of Rule 2.1.3.
- 2.3 A Participant shall not allocate a sorting code to a Relevant Entity for use in the CHAPS System (or maintain such allocation), unless that Relevant Entity adheres to the eligibility criteria specified for the CHAPS System in Section 3.2 of the Clearing Codes Rules and Procedures (which form part of the Third Party User Documents).

Without prejudice and in addition to the first paragraph of this Rule 2.3, a Participant (acting as a Direct Participant) shall not cause or enable a Payment Message to be entered into the CHAPS System for or on behalf of a Relevant Entity, 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 Relevant Entity.

- 2.4 The Bank's consent to a Participant (as a Direct Participant) causing or enabling Payment Messages to be entered into the CHAPS System for or on behalf of a Relevant Entity (as an Indirect Participant) may either:
- 2.4.1 be given, after application by the Direct Participant, upon written notice to the Direct Participant subject to and in accordance with the requirements of Rule 2.9; or
  - 2.4.2 be deemed given in accordance with Rule 2.5.

The Bank's consent under Rule 2.4 may be withdrawn at any time under Rule 2.7 or 2.8; and may be suspended under Rule 2.10.

If such consent is withdrawn or is suspended in relation to a particular Relevant Entity, the Participant shall not cause or enable any Payment Message to be entered into the CHAPS System for or on behalf of the Relevant Entity concerned after such withdrawal becomes effective or while such suspension is in force.

- 2.5 For the purposes of Rule 2.4.2, the Bank is deemed to consent to a Participant (as a Direct Participant) entering Payment Messages into the CHAPS System for or on behalf of a Relevant Entity (as an Indirect Participant) if:
- 2.5.1 the Direct Participant does so pursuant to a contractual relationship which is or was in place with the Relevant Entity as at 23 April 2012; or
  - 2.5.2 at or about the time the Direct Participant puts or put in place a contractual relationship with that Relevant Entity, the Direct Participant (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 limit specified for this

purpose from time to time in the Tiering Criteria (the ***deemed tiering consent limit***).

- 2.6 A Participant shall:
- 2.6.1 promptly notify the Bank of the identity of each Relevant Entity for which the Participant (as a Direct Participant) acts with the Bank's deemed tiering consent under Rules 2.4.2 and 2.5; and
  - 2.6.2 upon application for consent under Rule 2.4.1, provide such information or other co-operation as the Bank may reasonably require in order to make its determination.
- 2.7 The Bank may at any time notify a Participant, upon such terms as the Bank may determine, that it is withdrawing its consent to that Participant causing or enabling Payment Messages to be entered into the CHAPS System for or on behalf of a Relevant Entity. Such notification shall specify the date and time at which the Bank's withdrawal of consent becomes effective (which may be with immediate effect in the circumstances contemplated by Rule 2.11).
- 2.8 The Participant shall immediately (and within not more than 10 minutes) notify the Bank if the Participant ceases or proposes to cease entering Payment Messages into the CHAPS System for or on behalf of an identified Relevant Entity (otherwise than by reason of the withdrawal of the Bank's consent under Rule 2.7). In such event, the Bank's consent shall be automatically withdrawn from the time the Participant ceases to act for the Relevant Entity concerned.
- 2.9 The Bank shall refuse to give its consent after application by the Participant under Rule 2.4.1 or, as the case may be, shall withdraw its consent under Rule 2.7, unless the Bank determines that such refusal or withdrawal of 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 Participant's relationship (or proposed relationship) with the Relevant Entity concerned.
- 2.10 The Bank shall suspend its consent in relation to a particular Relevant Entity, upon notification to the Participant, if the Participant notifies the Bank (or the Bank otherwise believes in good faith) that a relevant event under Rule 3.7 has occurred in relation to that Relevant Entity; PROVIDED THAT the Bank shall not suspend its consent if it determines that:
- 2.10.1 such suspension is unnecessary or inappropriate to manage the risks that are brought to the CHAPS System as a result of the Participant's relationship with the Relevant Entity concerned; and
  - 2.10.2 there is no other reason to refer the relationship between the Participant and the Relevant Entity concerned for review in accordance with Rule 2.11.
- 2.11 Unless the Participant notifies the Bank under Rule 2.8 that it has ceased or proposes to cease acting for or on behalf of the Relevant Entity in relation to whom the Bank's consent has been suspended under Rule 2.10, 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 Rule 2.7. If the Bank determines to end the suspension, it shall promptly notify the Participant of that decision and the 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 Relevant Entity concerned.

2.12 Before exercising the powers reserved to the Bank under Rules 2.3 to 2.11 inclusive, the Bank shall have due regard and give due weight to: (i) the Tiering Criteria; and (ii) such other matters as the Bank considers relevant to making a proper determination of any matters required to be determined by the Bank under the CHAPS Rules in connection with its exercise of the relevant power.

2.13 The Tiering Criteria:

2.13.1 shall be published in Chapter IV of this CHAPS Reference Manual and shall be made available to a Participant upon request; and

2.13.2 may be amended from time to time by the Bank to reflect new or additional matters that come to be identified by the Bank as properly impacting upon any decision to refuse, withdraw or suspend consent and/or any determination to be made under Rule 2.9, 2.10 or 2.11.

2.14 The Bank may, by written notice, waive the application of Rules 2.3 (other than the first paragraph of Rule 2.3) to 2.11 inclusive (the **Relevant Tiering Rules**) where the Payment Messages to be entered form part of the functions of a financial market infrastructure and:

2.14.1 the 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

2.14.2 the Participant is the operator of that financial market infrastructure.

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 the Relevant Tiering Rules, and/or change their application in a specified way, in relation to the Participant and/or financial market infrastructure concerned.

Upon the expiry of any waiver given under this Rule 2.14, the Bank may (if it determines that it is appropriate to do so) give a new waiver under this Rule on the same or different terms to the expired waiver.

2.15 Notwithstanding any other provision of these CHAPS Rules, Rules 2.3 (other than the first paragraph of Rule 2.3) to 2.13 inclusive shall not apply to Category 0 Participants and Category 3 Participants.

2.16 Notwithstanding any other provision of these CHAPS Rules, the provisions of this CHAPS Reference Manual (including the CHAPS Rules) may be changed from time to time by the Bank at any time upon written notice to each CHAPS Participant to that effect without the agreement of the CHAPS Participant. Any amendment shall apply with effect from such time as may be specified by the Bank, in accordance with the applicable consultation provisions set out in Chapter 4. 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.

### 3. RIGHTS AND DUTIES OF PARTICIPANTS

- 3.1 Each Participant agrees and acknowledges that it accepts responsibilities and liabilities under these CHAPS Rules as principal and not as agent for any other party.
- 3.2 Each Participant must for the purposes of making Payments through CHAPS:
- 3.2.1 comply with the CHAPS Rules and the User Documents;
  - 3.2.2 be a member of SWIFT;
  - 3.2.3 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 Participant may have in order to comply with any applicable law or regulation; and
  - 3.2.4 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). Queue management of payments should take place solely within the RTGS central scheduler, in normal circumstances. In-house schedulers should only be used in contingency and, where not a system-wide issue, Participants must notify the Bank as soon as practicable, providing an explanation as to why this was necessary.
- 3.3 A Participant shall comply with:
- 3.3.1 the CHAPS Risk Mitigation Requirements applicable to it; and
  - 3.3.2 the CHAPS Efficiency Enhancement Requirements applicable to it.
- 3.4 Each Participant agrees and acknowledges that, for the purposes of the Regulations, the Bank in its capacity as operator of the CHAPS may from time to time co-operate (by the sharing of information or otherwise) with:
- 3.4.1 either or both of the Financial Conduct Authority and the Payment Systems Regulator (or such body or bodies which supersede or replace any or all of them);
  - 3.4.2 with other parts of the Bank of England (including, for the avoidance of doubt, the Prudential Regulation Authority) in connection with the performance of its statutory or other public law functions;
  - 3.4.3 HM Treasury;
  - 3.4.4 any relevant office holder (as defined in the Regulations); and
  - 3.4.5 any authority, body or person having responsibility for any matter arising out of or connected with the default of any Participant.
- 3.5 Each Participant agrees and acknowledges that, for the purposes of the Regulations, it must (except if such request is frivolous or vexatious) provide to any interested person who requests it within 14 (fourteen) days of such request and upon payment by such person of a reasonable charge:
- 3.5.1 details of the systems which are designated for the purposes of the Settlement Finality Directive in which such Participant participates; and
  - 3.5.2 information about the main rules governing the functioning of those systems.

- 3.6 Each Participant agrees and acknowledges that, for the purposes of the Regulations, it must upon:
- 3.6.1 the passing of a creditor's voluntary winding up resolution (or analogous procedure in the jurisdiction of incorporation of such Participant); or
  - 3.6.2 a trust deed granted by it becoming a protected trust deed,
- notify the Bank of England (as designating authority of the CHAPS System under the Regulations) 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.
- 3.7 Each Participant undertakes to notify the Bank immediately (and within not more than 10 minutes) upon becoming aware of the occurrence of any of the following events, whether in relation to the Participant or (other than under Rule 3.7.6 or 3.7.8) any Indirect Participant in relation to which the Participant is acting as a Direct Participant:
- 3.7.1 the presentation of any petition for the liquidation or winding-up of the Participant or Relevant Entity concerned or for the appointment of a liquidator or an administrator in relation to the institution or Relevant Entity concerned;
  - 3.7.2 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 Participant or Relevant Entity concerned or any substantial part of the property or assets of the institution or Relevant Entity concerned;
  - 3.7.3 the dissolution of the institution or Relevant Entity 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 Participant or Relevant Entity concerned for its striking off pursuant to Section 1003 of the Companies Act 2006;
  - 3.7.4 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 Participant or Relevant Entity concerned (as each of those terms are defined or used in the 2009 Act);
  - 3.7.5 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 Rules 3.7.1 to 3.7.4 inclusive in relation to the institution or Relevant Entity concerned;
  - 3.7.6 the Participant ceasing to satisfy the relevant participation and access criteria specified in Rule 2.1 or 2.2;
  - 3.7.7 the Participant or Relevant Entity 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
  - 3.7.8 the Participant is or will be:
    - 3.7.8.1 in material breach of any CHAPS Rule;
    - 3.7.8.2 in breach of any Bank Direction; or

3.7.8.3 in persistent breach of any of the other CHAPS Specifications or any of the User Documents.

For the purpose of this Rule 3.7.8, a Participant is (or will be) in ***persistent breach*** of a CHAPS Specification (other than a CHAPS Rule 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.

- 3.8 CHAPS Rules 3.6 and 3.7 form part of the Participant Default Arrangements.
- 3.9 Each Participant agrees to contribute in the manners and proportions decided by the Bank from time to time to the costs, liabilities and expenses incurred by the Bank including operation of the CHAPS System.
- 3.10 Each Participant agrees to notify the Bank as soon as reasonably possible upon becoming aware of any problem or issue which in its opinion is likely materially to affect the integrity of CHAPS. For the avoidance of doubt, this obligation is subject to any legal or regulatory bar on the Participant disclosing the information concerned.
- 3.11 Each Participant agrees:
- 3.11.1 to 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 or its performance or satisfaction of other obligations or requirements under any relevant legislation or to any Regulatory Authority; and
  - 3.11.2 to 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 Participant's compliance with its obligations under Rule.
- 3.12 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 Participant to comply with any of the CHAPS Specifications or any of the User Documents. The power reserved to the Bank under this Rule 3.13 shall not entitle it to:
- 3.12.1 publicise the name of any person other than that of the Participant concerned; or
  - 3.12.2 disclose the affairs of any Customer of the Participant concerned.

#### 4. **PAYMENTS**

##### ***Eligible Payments***

- 4.1 In order for a Payment to be eligible for Clearing it must:
- 4.1.1 comply with the specification of a Payment as outlined in this CHAPS Reference Manual and the User Documents;
  - 4.1.2 not be a Conditional Payment;
  - 4.1.3 be directed between Participants which have been registered in the relevant SWIFT Closed User Group for a FIN Y-Copy Service as Participants; and
  - 4.1.4 not be initiated by a Participant that has been excluded or suspended.

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

- 4.2 For the purposes of the Regulations, and subject to Rule 5.1, 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 shall not be and is not capable of being revoked by the sending 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.

This Rule 4.2 is part of the Participant Default Arrangements.

## **5. PURPORTED PAYMENT MESSAGE INVOLVING A SUSPENDED PARTICIPANT OR AN EXCLUDED PARTICIPANT**

- 5.1 Any purported Payment Message that is:
- 5.1.1 sent by a Participant that is a Suspended Participant or an Excluded Participant at the time that Payment Message would otherwise take effect as having entered the CHAPS System in accordance with Rule 4.2; or
  - 5.1.2 sent by a Participant (that is not a Suspended Participant or an Excluded Participant) relating to an entity that is a Suspended Participant or an Excluded Participant at the time that Payment Message would otherwise take effect as having entered the CHAPS System in accordance with Rule 4.2, shall in either case be void and of no effect.
- 5.2 Upon suspending or excluding a Participant, the Bank shall notify the Participants (including the Suspended Participant or the Excluded Participant) and at and from the moment that such notice is made:
- 5.2.1 the Suspended Participant or the Excluded Participant shall use its best endeavours to cease sending Payment Messages; and
  - 5.2.2 each Participant (excluding the Suspended Participant or the Excluded Participant) shall use its best endeavours to cease sending Payment Messages with respect to the Suspended Participant or the Excluded Participant.

## **6. WITHDRAWAL AND EXCLUSION OF PARTICIPANTS**

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

- 6.1 Any Participant shall be entitled to withdraw from CHAPS by giving written notice to the Bank, specifying, subject to Rule 6.3, a proposed date of withdrawal.
- 6.2 On receiving a notice of withdrawal, the Bank shall notify each other Participant in writing, as soon as reasonably practicable.
- 6.3 The date on which a withdrawal by a Participant shall be deemed to be effective shall be determined as follows:
- 6.3.1 in the event that the withdrawing Participant gives 50 (fifty) or more Banking Business Days' notice of withdrawal (excluding the day on which such notice is received), the date specified in the notice of withdrawal;
  - 6.3.2 in the event that the withdrawing Participant gives less than 50 (fifty) Banking Business Days' notice of withdrawal (excluding the day on which such notice is received) the earliest Banking Business Day on which the Bank determines withdrawal of the withdrawing Participant can be accommodated by the Bank and all the other Participants from a technical perspective without thereby prejudicing the integrity of the CHAPS System; or



6.3.3 in the event that the withdrawing Participant fails to give an effective withdrawal date, the Banking Business Day following the expiry of 50 (fifty) Banking Business Days (excluding the day on which such notice is received) after the date of receipt of the notice by the Bank,

PROVIDED ALWAYS THAT in the case of 6.3.1, 6.3.2 and 6.3.3 above 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.

6.4 Once a notice of withdrawal has been received by the Bank, the withdrawing Participant shall only be entitled to revoke such notice with the prior written approval of the Bank.

6.5 Notwithstanding any withdrawal, a withdrawing Participant shall be fully liable as follows:

6.5.1 (in the event of the withdrawing Participant giving a notice of withdrawal of the type outlined in Rule 6.3.1 or Rule 6.3.3) for the due performance of all its obligations under the CHAPS Specifications incurred prior to the effective withdrawal date from CHAPS; and

6.5.2 (in the event of the withdrawing Participant failing to give an effective withdrawal date as outlined in Rule 6.3.2) for the due performance of all its obligations under the CHAPS Specifications incurred prior to the effective withdrawal date from CHAPS,

in each case as determined by the Bank together with any additional costs arising from the withdrawal incurred by the Bank and/or any other Participant in accommodating the withdrawal of the withdrawing Participant by the date determined by the Bank under Rule 6.3.2 above.

6.6 A withdrawing Participant will, at the reasonable discretion of the Bank, be liable for any direct costs incurred by the Bank and/or any other Participant arising from the withdrawal of the Participant.

6.7 Without limiting the generality of Rules 6.5 and 6.6 above, a withdrawing Participant or successor to its rights and obligations shall make payment of:

6.7.1 its full share of the Bank's annual costs in relation to the CHAPS System for the financial year during which it withdraws;

6.7.2 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

6.7.3 any other costs, fees and expenses arising from the withdrawal of the Participant as reasonably determined by the Bank in its absolute discretion.

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

6.8 The Bank may suspend or exclude a Participant with immediate effect (or with effect from such time and date as the Bank may specify) in respect of the CHAPS System in the following circumstances:

6.8.1 where, in the opinion of the Bank, the Participant is in material breach of any CHAPS Rule or ceases to satisfy the participation and access criteria referred to in Rule 2.1 or 2.2;

6.8.2 where, in the opinion of the Bank, the Participant is in breach of a Bank Direction;

- 6.8.3 where, in the opinion of the Bank, the Participant is in persistent breach of any of the CHAPS Specifications (other than the CHAPS Rules or a Bank Direction) or any of the User Documents;
- 6.8.4 if, in the opinion of the Bank, circumstances have arisen in relation to that Participant which could be prejudicial to the CHAPS System or represent a threat to the security, integrity or reputation of the CHAPS System;
- 6.8.5 if, in the opinion of the Bank, the Participant's participation in the CHAPS System is disruptive to other Participants or the services provided by the Bank or SWIFT in relation to the operation of the CHAPS System;
- 6.8.6 if any of the events set out in Rules 3.7.1 to 3.7.8 inclusive occurs in relation to that Participant; and
- 6.8.7 if in the opinion of the Bank it appears likely that a Participant will become an Insolvent Participant.

For the purpose of Rule 6.8.3, a Participant is in persistent breach of a CHAPS Specification (other than a CHAPS Rule 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.

For the avoidance of doubt, the Bank shall have no power to suspend or exclude a Participant under CHAPS Rule 6.8.6 or 6.8.7 as a result of:

- (i) the exercise of a stabilisation power (as defined under section 1(4) of the 2009 Act);
- (ii) the appointment of a resolution administrator (under section 62B of the 2009 Act);
- (iii) the taking of any other crisis management measure as that term is defined in section 48Z(1) of the 2009 Act;
- (iv) the taking of any crisis prevention measure as that term is defined in section 48Z(1) of the 2009 Act; or
- (v) the taking of any recognised third-country resolution action as that term is defined in section 48Z(1) of the 2009 Act;

in each such case in respect of the Participant or any Associate of the Participant; or

- (vi) 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 Participant is also failing to perform its substantive obligations as a participant in the CHAPS System.

This Rule 6.8 forms part of the Participant Default Arrangements.

### **Exclusion of a Participant**

- 6.9 Where a Participant is excluded by the Bank from CHAPS pursuant to these CHAPS Rules, such Excluded 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.

- 6.10 An Excluded Participant will, at the discretion of the Bank, be liable for any direct costs incurred by the Bank and/or any other Participant arising from the exclusion of the Excluded Participant.
- 6.11 Without limiting the generality of Rule 6.10 above, an Excluded Participant shall make payment of:
- 6.11.1 its full share of the Bank's annual costs in relation to the CHAPS System for the financial year during which it is excluded;
  - 6.11.2 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
  - 6.11.3 any other costs, fees and expenses arising from the exclusion of the Participant as reasonably determined by the Bank in its absolute discretion.

Rules 6.9 to 6.11 (inclusive) form part of the Participant Default Arrangements.

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

- 6.12 A 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:
- 6.12.1 for the orderly withdrawal, suspension or exclusion of the Participant with a view to minimising any disruption to:
    - 6.12.1.1 other Participants;
    - 6.12.1.2 the operation of the CHAPS System;
    - 6.12.1.3 the Bank's provision of its services to other Participants;
    - 6.12.1.4 SWIFT's provision of its services to the Bank or other Participants;
    - 6.12.1.5 any Relevant Entity in relation to which the Participant acts (or has acted) as a Direct Participant; or
  - 6.12.2 in order to comply with any direction, decision or requirement of any Regulatory Authority.

This Rule 6.12 forms part of the Participant Default Arrangements.

## **7. INFORMATION OBLIGATIONS**

### ***Confidentiality***

- 7.1 Each Participant agrees to treat as confidential any information which comes into its possession as a result of its participation in CHAPS where such information is by its nature confidential or which the Participant knows or should reasonably know is confidential. This Rule 7.1 does not apply to information which:
- 7.1.1 is already in the public domain when received;
  - 7.1.2 is subsequently brought into the public domain otherwise than by such Participant;
  - 7.1.3 was already known to the Participant at the time of receipt and was not acquired by the Participant under any obligation of confidence; or

7.1.4 was independently developed by the Participant without any use of confidential information provided by the Bank.

A Participant may disclose such confidential information to its accountants, auditors, legal or other professional advisers, stock exchange, listing authority, any other persons (including Regulatory Authorities) to whom it is required by law to disclose such information, and to other persons approved by the Bank PROVIDED THAT (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.

7.2 The Bank agrees to treat as confidential any information about a Participant and its activities and Customers which comes into its possession as a result of its management of CHAPS where such information is by its nature confidential or which the Bank knows or should reasonably know is confidential (such information being Participant Information).

7.3 Notwithstanding Rule 7.1 and 7.2 the Bank of England shall be entitled to disclose information to the extent required:

7.3.1 to fulfil its obligations as a settlement service provider; or

7.3.2 in its capacity as an overseer or supervisor of payment systems.

and nothing in rule 7.1 or 7.2 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:

7.3.3 to HM Treasury, the Prudential Regulation Authority, the Financial Conduct Authority, HM Revenue & Customs, the Payment Systems Regulator 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;

7.3.4 for the purposes of any criminal investigation whatever 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

7.3.5 for the purpose of enabling or assisting the Bank to discharge its functions as a monetary authority.

7.4 Without prejudice to Rules 7.2 and 7.3, each Participant agrees that its Participant Information 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.

### **Freedom of Information**

7.5 Where information is requested from the Bank under FOIA which:

7.5.1 was obtained by the Bank by virtue of its participation in or operation of CHAPS; and

7.5.2 may include information which:

7.5.2.1 is subject to the confidentiality obligation in Rule 7.1 or 7.2;

7.5.2.2 comprises Personal Data of employees or Customers of other Participants; or

7.5.2.3 is information which, if disclosed, would be prejudicial to the commercial interests of a Participant,

(such information being **Information**),

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

## CHAPTER III

# CHAPS Participation Requirements

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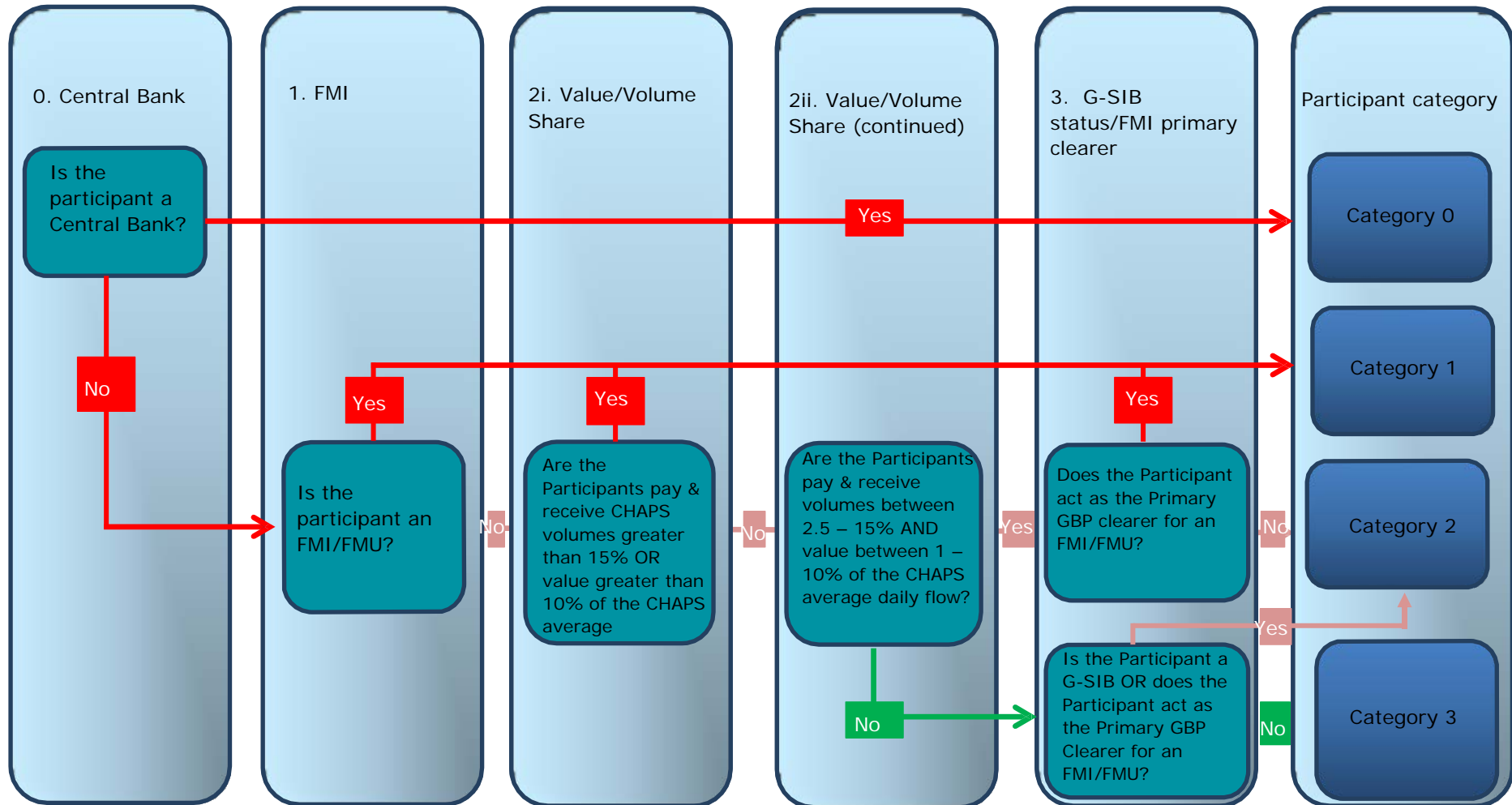
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PARTICIPANT CATEGORISATION FLOWCHART AND TABLE

(to be read in conjunction with Chapter I of this CHAPS Reference Manual)



## CHAPS Participation Requirements

Participant category	Description	Applicable Requirements
Category 0	A Participant that is a central bank.	All CHAPS Participation Requirements apply <b>except</b> section 7E (performance monitoring) and 7F (forward dated payments) of Part A; and section 2 (tiering) of Part B (see also CHAPS Rule 2.15).
Category 1	A 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% <b>or</b> has CHAPS values (send/receive) greater than 10% of the CHAPS average daily flow, <b>or</b></li> <li>(iii) has CHAPS send and receive volumes between 2.5-15% <b>and</b> CHAPS values (send/receive) between 1 - 10% of the CHAPS average daily flow <b>and</b> acts as primary GBP clearer for an FMI/FMU.</li> </ul>	All CHAPS Participation Requirements apply.
Category 2	A Participant that: <ul style="list-style-type: none"> <li>is <b>not</b> an FMI/FMU,</li> <li>(i) <b>does not</b> have CHAPS volumes (send/receive) greater than 15% <b>OR</b> CHAPS <i>values</i> (send/receive) greater than 10% of the CHAPS average daily flow,</li> <li>(ii) <b>does</b> send and receive volumes between 2.5 – 15% <b>and</b> <i>values</i> between 1 – 10% of the CHAPS average daily flow, <b>but</b></li> <li>(iii) <b>does not</b> act as primary GBP clearer for an FMI/FMU.</li> </ul>	All CHAPS Participation Requirements apply.
Category 2	A Participant that: <ul style="list-style-type: none"> <li>(i) is <b>not</b> an FMI/FMU,</li> <li>(ii) <b>does not</b> have CHAPS volumes (send/receive) greater than 15% <b>OR</b> CHAPS <i>values</i> (send/receive) greater than 10% of the CHAPS average daily flow</li> </ul>	All CHAPS Participation Requirements apply.

## CHAPS Participation Requirements

Participant category	Description	Applicable Requirements
	<p>(over the previous calendar year), <b>and</b></p> <p>(iii) <b>does not</b> send and receive <i>volumes</i> between 2.5–15% <b>and</b></p> <p style="padding-left: 40px;"><i>values</i> between 1 – 10% of the CHAPS average daily flow (over the previous calendar year) <b>but</b></p> <p>(iv) <b>is</b> a G-SIB and/or <b>does</b> act as primary GBP clearer for an FMI/FMU.</p>	
Category 3	<p>A Participant that:</p> <p>(i) <b>is not</b> an FMI/FMU,</p> <p>(ii) <b>does not</b> have CHAPS volumes (send/receive) greater than 15% <b>nor</b></p> <p style="padding-left: 40px;">CHAPS <i>values</i> (send/receive) greater than 10% of the CHAPS average daily flow,</p> <p>(iii) <b>does not</b> send and receive volumes between 2.5–15% <b>nor</b></p> <p style="padding-left: 40px;"><i>value</i> between 1 – 10% of the CHAPS average daily flow, <b>and</b></p> <p>(iv) <b>is not</b> a G-SIB and <b>does not</b> act as primary GBP clearer for an FMI/FMU.</p>	<p>All CHAPS Participation Requirements apply except those contained in:</p> <p>section 4 (<i>network and SWIFT connectivity</i>) of Part A, paragraphs 11, 12, 13, 14 and 16;</p> <p>section 6 (<i>resilience and contingency</i>) of Part A, paragraph 17;</p> <p>section 10 (<i>onboarding obligations</i>) of Part A;</p> <p>Part B, section 1 (<i>Indirect Participants</i>), paragraphs 3, 4, 5 and 6; and</p> <p>section 2 (<i>tiering</i>) of Part B (see also CHAPS Rule 2.15).</p>

## INTRODUCTION

### Context

These CHAPS Participation Requirements form part of this CHAPS Reference Manual issued by the Bank. All of the CHAPS Participation Requirements in this Chapter III shall apply to all categorisations of Participant except where specifically noted otherwise (please see the flowchart and table at the beginning of this Chapter III to determine a Participant's categorisation for this purpose). They should be read together with Chapter I (Overview) of this CHAPS Reference Manual. The Overview of this CHAPS Reference Manual contains important information on:

- the CHAPS System;
- how the Bank determines an entity's Participant Category from time to time;
- the law which governs these CHAPS Participation Requirements;
- the jurisdiction of the courts to settle disputes in connection with these CHAPS Participation Requirements and/or any non-contractual obligation arising in connection with them; and
- the definition of terms used in, and the interpretation of, these CHAPS Participation Requirements.

Other provisions of this CHAPS Reference Manual are also relevant to these CHAPS Participation Requirements, including:

- the process by which changes may be made to these CHAPS Participation Requirements as described in Part D of Chapter IV of this CHAPS Reference Manual;
- the procedures described in section 1 (procedures relating to the Tiering Criteria) of Part B of Chapter IV of this CHAPS Reference Manual which set out how the Bank will exercise its discretion under its Tiering Powers; and
- the procedures described in section 1 (procedures relating to the Throughput Criteria) of Part C of Chapter IV under which a Participant may seek a Throughput Adjustment Waiver.

### Structure

The CHAPS Participation Requirements are grouped into two Parts:

- **Part A** sets out those CHAPS Participation Requirements that apply at all times to a Participant in relation to its participation in the CHAPS System – whether that participation is in respect of a Participant's own account business or the payment services it provides to its Customers.
- **Part B** sets out those CHAPS Participation Requirements which, in addition to those set out in Part A, apply to a Participant when it is acting (or is proposing to act) as Direct Participant for a Relevant Entity (acting as an Indirect Participant).

The detail of these is documented in either the CHAPS Operational Reference Manual or the CHAPS Technical Reference Manual as appropriate.

## PART A

# DIRECT PARTICIPATION

### Section 1: Customer terms

1. A Participant shall ensure that its contract with a Customer provides (in easily understandable language and in a clear and comprehensible form):
  - 1.1 sufficient published information to enable the Customer to understand the conditions under which a payment will be made through CHAPS for the Customer's account, the execution times that they can expect for the payment to complete and the mechanism that they can use to dispute a payment transaction; and
  - 1.2 an explanation of when and the basis under which transaction processing points in respect of a payment through CHAPS will occur. For the purposes of this Part A, Section 1 of Chapter III **transaction processing points** are those points in the life-cycle for the processing of a CHAPS payment at which the transaction events set out in paragraphs 3 and 4 below occur and the points at which any other relevant processing event (specified in the PSRs relating to the execution of a payment transaction) occurs.
2. In complying with the requirements of paragraph 1.2 above, the Participant must have regard to the internal processes which it shall put in place to define the relevant transaction processing points.
3. These internal processes shall define for outbound payments the points at which, and the conditions under which, the following transaction processing events occur:
  - 3.1 receipt of a payment instruction;
  - 3.2 acceptance for processing through the CHAPS System;
  - 3.3 approval to make the payment through CHAPS;
  - 3.4 debit to the Customer's account; and
  - 3.5 sent for payment/settlement.
4. Further, these internal processes shall define for inbound payments the points at which, and the conditions under which, the following transaction processing events occur:
  - 4.1 receipt of settled payment;
  - 4.2 approval to apply the payment; and
  - 4.3 credit to the Customer's account.

### Terms relevant to sending Customers

5. A Participant (as a **sending Participant**) shall ensure that its contract with a Customer who wishes to make payments through CHAPS using the sending Participant's payment services provides (in easily understandable language and in a clear and comprehensible form):
  - 5.1 an explanation of the unique identifier that must be provided by the Customer in order for a payment to be properly executed through the CHAPS System;
  - 5.2 that the sending Participant will make a payment solely on the basis of a unique identifier and will not execute it on the basis of the intended recipient's name;
  - 5.3 that the Customer must provide a correct name for the intended recipient of the payment that matches the account name associated with the unique identifier; and
  - 5.4 (in the case of a corporate Customer or other non-natural person) that the Customer confirms that any payment instructed to be made by it through CHAPS is permissible and authorised under its constitutional documents and any applicable law.
6. The requirements of paragraph 5.2 above shall not affect a sending Participant's right or ability to send the intended recipient's name with any Payment Message in order to comply with any legal and regulatory requirements to which it is subject, as well as for their internal risk management processes to either prevent or detect financial crime.

#### **Terms relevant to receiving Customers**

7. A Participant (as a **receiving Participant**) shall ensure that its contract with a Customer who wishes to receive payments through CHAPS using the receiving Participant's payment services provides (in easily understandable language and in a clear and comprehensible form) that:
  - 7.1 the receiving Participant may, where its Customer has received funds in error, only debit the Customer's account with the Customer's permission for any money that has been received in error; however,
  - 7.2 if the Customer disputes that the payment has been made in error, the receiving Participant may provide the Customer's contact details to the person who has sent the payment (and/or the relevant sending Participant);
  - 7.3 in cases where funds have been received by a customer due to a system error (e.g. duplication of payment), then the CHAPS Participant will have automatic right of debit.

#### **The PSRs**

8. In performing its obligations or exercising any rights that it may have under this section 1, a Participant shall comply with all related requirements and obligations to which it is subject as a payment service provider under the PSRs.
9. Nothing in this section 1 is intended to, or shall, affect the obligations or liabilities of a sending Participant or a receiving Participant to a payment service user under or pursuant to the PSRs.

## **Section 2: Operations and continuity**

### **A. Planning**

1. Participants shall identify, monitor and document the operations requirements that their processes, procedures and systems must be able to meet to perform functions as a participant in the CHAPS System.

### **B. Service flexibility**

2. Each Participant, upon reasonable notice, shall design and maintain the systems supporting its CHAPS-related processes, services and activities so as to be capable of handling various potential and foreseeable future operational changes, including but not limited to:
  - 2.1 the admission of new Participants to the CHAPS System;
  - 2.2 changes to the legal or operational structure of Participants (mergers, splits etc.);
  - 2.3 the withdrawal or exclusion of Participants from the CHAPS System;
  - 2.4 the suspension of Participants;
  - 2.5 updated SWIFT message formats;
  - 2.6 (permanent or temporary) changes to CHAPS Business Days and the CHAPS Operating Day;
  - 2.7 the addition of new payment types and settlement mechanisms; and
  - 2.8 changes to the technical identification of a Participant or Participants.
3. Each Participant shall maintain and keep secure the equipment and other processing systems used by it to prepare, send and receive Payment Messages through the CHAPS System.
4. A Participant shall not permit remote access to either the CHAPS System or to its own processing systems by its Customers or any other system users unless:
  - 4.1 it has identified, assessed and documented the related operational and other risks; and
  - 4.2 put in place appropriate controls, policies and arrangements to mitigate the identified risks.
5. A Participant shall carry out regular reviews, at a minimum on an annual basis, to verify that remote access facilities are still required by its Customers and that any retained remote access facilities meet the Participant's internal security policy.
6. A Participant shall ensure that once remote access facilities are no longer required by a Customer or any other system user, the connection is properly terminated.
7. If remote access facilities are made available by a Participant to its Customers or any other system users, the Participant shall ensure that its Customers or any other system users are only able to gain access to the services that they are entitled to utilise, maintain and support.
8. Participants shall ensure that remote access connections, from public or non-bank networks, are properly authenticated and encrypted.

9. Participants shall have a procedure in place to monitor and track security events affecting, arising out of or otherwise connected with remote access facilities which they provide to Customers or any other system users. Participants must have audit logs which facilitate the identification of all transaction types.

#### **C. Business continuity**

10. Each Participant shall have full redundancy built into its network connection arrangements to ensure the continuity of service to its Enquiry Link Webstation Operator or its successors from time to time including Enquiry Link Browse sites in a contingency/emergency situation.
11. The minimum requirement is for Participants to have live and standby sites at different physical locations. There should be at least one Enquiry Link Webstation or its successors from time to time including Enquiry Link Browse at each of these locations.
12. The minimum connection requirement is for two separate ISDN Dial-up connections at each site.
13. Each Participant shall develop, implement and regularly test its plans to maintain or restore operations and critical business processes and ensure availability of information in accordance with the CHAPS Specifications.
14. All such planning will be fully documented such that a reasonable person can understand the risks that the plan is intended to address and how these risks are mitigated.

#### **D. Technical maintenance and updates**

15. Participants shall operate their Bank of England and SWIFT applications and system components in accordance with the most recent operating instructions and guidelines issued by the Bank of England and SWIFT respectively.

#### **E. Operational and personnel controls**

16. Each Participant shall establish, use and maintain appropriate application software and operating system software controls to ensure the safety and integrity of the CHAPS System, including but not limited to:
  - 16.1 ensuring that access to application processing systems is restricted to approved personnel;
  - 16.2 ensuring that all payment transactions are genuine and are authorised;
  - 16.3 ensuring that all payment transactions are uniquely identified;
  - 16.4 ensuring that it has appropriate reconciliation controls in place so that payment transactions are not duplicated;
  - 16.5 ensuring that all payment or related system transactions are processed in the necessary period for the effectiveness of the control to ensure the safety and integrity of the CHAPS System;
  - 16.6 ensuring that Payment Messages and payment transactions cannot be subject to unauthorised amendment;
  - 16.7 ensuring that payment transaction data is protected from unauthorised access and disclosure;



16.8 ensuring the full and no false inclusion of payment transactions in records of account; and

16.9 the establishment of payment transaction audit trails.

17. Each Participant shall ensure that payment transaction audit trails record all of the inbound and outbound transaction processing events.

#### **F. People**

18. Participants shall identify, monitor and document the people risks associated with its CHAPS-related processes, services and activities. People risks are the risks of loss or reduction, deterioration or breakdown of CHAPS-related processes, services or activities resulting from human factors (including those arising from the employment or use of personnel to support CHAPS-related processes, services and activities) or inadequate or failed internal processes or systems put in place to manage the operational risk resulting from human factors.

19. Participants shall establish and operate appropriate policies, procedures and training, to meet the identified people risks and thereby ensure that staff are able to perform competently their CHAPS operational duties in both normal and stressed operating conditions.

20. Participants shall employ or otherwise use skilled and trained people of good standing in the development, operation and maintenance of the systems and other operational processes used to support their CHAPS-related processes, services and activities.

21. Participants shall assess their people risks, as identified and documented within the policies required under paragraph 19 above, and keep such risks under regular review.

### Section 3: Service providers

1. A Participant may use a third party to perform a CHAPS-related process, service or activity which would otherwise be undertaken by the Participant itself (a **service provider**). Examples of the types of sourcing relevant to the use of third party service providers include investigations and reconciliation and repair activity being performed outside of a Participant's domestic or operational jurisdiction.
2. Sourcing from service providers may involve, but is not limited to, the purchasing of:
  - 2.1 business and operations services, whether in whole or in part;
  - 2.2 management services, whether in whole or in part;
  - 2.3 support services, whether in whole or in part;
  - 2.4 system components, whether technology, documentation or application software;
  - 2.5 facilities, whether in whole or in part;
  - 2.6 human resources, whether under managed service or by individual contract; and
  - 2.7 information, whether data or documentation.
3. A Participant shall establish and operate such controls, policies and arrangements as are appropriate to ensure that it can continue to operate and provide its CHAPS- related processes, services and activities in compliance with the CHAPS Specifications in the event that any service provider is unable to continue to perform or provide the relevant process, service or activity to meet the requirements set out in the User Documents in full or in part.
4. A Participant shall, with such frequency as it considers (acting reasonably) is appropriate, validate and obtain assurance that the controls, policies and arrangements it has put in place with or in relation to its service providers are effective and that they continue to be effective.
5. Where a Participant uses a service provider to perform a particular process, service or activity the Participant remains responsible to the Bank for the proper and timely performance of all CHAPS Specifications relevant or related to that process, service or activity. In particular, but without affecting the generality of the foregoing, the Participant (and not the service provider) is and remains responsible for the payment of:
  - 5.1 any fees or other charges payable by the Participant under the CHAPS Specifications; and
  - 5.2 any other sums payable by the Participant under the CHAPS Specifications.
6. Before a Participant uses any service provider, it shall take appropriate steps to determine the standing and ownership of the service provider so as to be satisfied (acting reasonably) that the service provider has the ability, capacity and any authorisation required by applicable law to perform the relevant process, service or activity reliably, efficiently and effectively in compliance with applicable laws and regulations (including the CHAPS Specifications).
7. A Participant shall not appoint or use (or continue to use) a service provider whose ownership or performance of any process, service or activity for the Participant either causes or risks causing damage to the:
  - 7.1 the security, safety or integrity of the CHAPS System; or

- 7.2 the reputation of the CHAPS System.
8. Where a Participant procures or otherwise obtains system components for use in connection with its CHAPS-related processes, services or activities, the Participant shall take reasonable steps to ensure that nothing additional is injected into, onto or beside the procured component over and above the procurement specification during manufacture, transport, commissioning or maintenance.
9. The mechanisms used by a Participant to obtain assurance over their service providers shall be documented, including but not limited to:
- 9.1 assurance planning;
  - 9.2 assurance performance; and
  - 9.3 assurance follow-up.
10. Where a Participant uses or proposes to use a service provider to perform a particular process, service or activity, the Participant shall:
- 10.1 continue to comply with all relevant CHAPS Specifications (but without prejudice to the Participant's ability to perform the relevant functions through a service provider);
  - 10.2 identify, assess and manage the operational (and any other) risks arising from its use of the service provider;
  - 10.3 maintain and be able to provide evidence to the Bank as to the controls, policies and arrangements that it applies to assure that the performance of the process, service or activity by the service provider is consistent with and (where applicable) enables or facilitates the Participant to comply with relevant CHAPS Specifications; and
  - 10.4 monitor, test and validate compliance by the service provider with those contractual or other arrangements put in place with the Participant to assure that the performance of the process, service or activity by the service provider is consistent with and (where applicable) enables or facilitates the Participant to comply with relevant CHAPS Specifications.
11. Where a Participant decommissions (or permits the decommissioning of) system hardware components or subsequently uses system components for non-CHAPS- related purposes, it shall remove or ensure the removal of all data or information relating to CHAPS that either resides in or accompanies such components before (or as part of) such decommissioning or use.

#### Section 4: Network and SWIFT connectivity

1. Each Participant is responsible for the ownership, operation and maintenance of its interfaces to the CHAPS network, in particular, Participants must provide segregation between their live and development networks to limit movement across the network.
2. Each Participant is responsible for providing its own payment processes and for ensuring compliance with CHAPS interface technical documentation.
3. Participants shall identify, monitor and document the network risks that they incur in operating or providing CHAPS-related processes, services and activities and which they must manage including, but not limited to, availability, performance and capacity.
4. Participants shall establish and operate such controls, policies and arrangements as are appropriate to ensure that they can continue to conduct their CHAPS-related processes, services and activities in compliance with the CHAPS Specifications in the event that any of the identified network risks occur.
5. Each Participant shall have documented processes and procedures that describe how network analysis and monitoring tools must be applied on its network.
6. Each Participant shall explicitly authorise and monitor all network analysis and monitoring tool deployments. The authorisation to place these devices on networks shall be reviewed at least quarterly.
7. Participants shall establish, operate and maintain resilient SWIFT network connections with core CHAPS settlement infrastructure. At a minimum these network connections must meet the technical standards set out in the CHAPS Technical Reference Manual (which forms part of the CHAPS User Documents).
8. All CHAPS payments must be FIN Y-Copy enabled and effected via a SWIFT computer-based terminal (**CBT**).
9. Each Participant shall have a defined unique SWIFT identifier for each CBT used to connect to the CHAPS Closed User Group (**CHAPS CUG**).
10. Participants shall secure their messages and network connections using SWIFT Hardware Security Module (**HSM**) clusters. Category 0 Participants, Category 1 Participants and Category 2 Participants shall have at least two HSMs at both their primary and secondary sites. Category 3 Participants shall have at least one HSM at both their primary and secondary sites.
11. Participants must ensure that Live Business Certificates are never loaded onto HSMs in Participant test and training environments and that Live Business Certificates must only be used in the production system.
12. Participants shall ensure that their network connections to the SWIFT FIN Y-Copy service deliver a separate and diverse SWIFT interface configuration. At a minimum this requires Participants to operate different links and lines from both their primary and secondary sites, i.e. primary and secondary SWIFT interfaces. This paragraph 12 does not apply to Category 3 Participants.
13. Participants are required to implement a Tertiary SWIFT Connection that would be used in the event that their primary and secondary connections are inoperable. This paragraph 13 does not apply to Category 3 Participants.
14. The Tertiary SWIFT Connection Principles defined in the CHAPS Technical Reference Manual must be adhered to for a Participants Tertiary SWIFT Connection solution. This paragraph 14 does not apply to Category 3 Participants.

15. A Participant shall, at least annually, validate and obtain assurance that the controls, policies and arrangements that it has put in place over its network connectivity solutions are effective and that they continue to be effective.
16. Participants shall undertake capacity testing of all of their SWIFT connectivity interfaces (or alternative configuration) at least quarterly. The level of additional transactions tested must ensure that at a minimum the SWIFT interface can accommodate a 100% increase over normal capacity for its planned purpose. This paragraph 16 does not apply to Category 3 Participants.
17. Participants shall address their payments to one of the Participant Bank Identifier Codes (**BICs**) registered in the CHAPS CUG for the receiving Participant.
18. Category 0 Participants, Category 1 Participants and Category 2 Participants shall use SWIFT's "Enhanced Support Service". A Category 3 Participant shall, as a minimum, ensure that it has sufficient users registered on swift.com as "Network Engineer "or as "Operational Helpdesk". This will ensure that the Category 3 Participant will be notified at least one week in advance of the specific planning for a Virtual Private Network (**VPN**) firmware upgrade.
19. Upon receiving notification of a VPN firmware upgrade, a Participant shall:
  - 19.1 carry out an availability risk assessment; and
  - 19.2 prepare a mitigation plan to resolve any issues that might arise during the upgrade.

Participants shall adhere to the annual list of amendments to SWIFT message formats, within the timeframes published by SWIFT.
20. Network connections with the core CHAPS settlement infrastructure must demonstrate both separacy and diversity of both networks and applications.
21. At a minimum network connection shall meet the following criteria:
  - 21.1 there must be 2 (two) permanent leased line connections into two separate VPN boxes that are provided in an active/passive arrangement;
  - 21.2 both permanent leased lines must be continually tested with SWIFT to ensure that the secondary line is available when required;
  - 21.3 in the event that a failure occurs on either the active VPN or primary leased line, the secondary connection/VPN must be configured to automatically take over with no interruption of service;
  - 21.4 the 2 (two) permanent leased lines and the 2 (two) separate VPN boxes must be logically presented to the SWIFT Network Line as a single entity;
  - 21.5 the connections from the managed customer premises equipment (**MCPE**) at a Participant's site must connect to separate geographic Points of Presence (**PoPs**) at its network provider;
  - 21.6 the permanent leased line connections from the 2 (two) VPN connections must go to geographically separate locations; and
  - 21.7 all permanent leased line connections must have separacy and diverse routing from the Participant's site to the PoPs.
22. Each Participant shall as a minimum ensure that:

- 22.1 all payment messages that it transmits to or through the CHAPS System are encrypted;
  - 22.2 authentication of the following payment messages takes place:
    - 22.2.1 sending Participant to the RTGS Central System;
    - 22.2.2 sending Participant to receiving Participant; and
    - 22.2.3 RTGS Central System to receiving Participant;
  - 22.3 SWIFT's security services are applied to CHAPS payments:
    - 22.3.1 message authentication (PKI);
    - 22.3.2 Participant authentication to SWIFT and HSMs (secure login and select);
    - 22.3.3 Relationship Management Application (RMA) (SWIFT contingency); and
    - 22.3.4 message encryption (VPN/SNL);
  - 22.4 SWIFT's security scheme (PKI) for the SWIFTNet network is used for the Enquiry Link application service or its successors including Enquiry Link Browse;
  - 22.5 an HSM is only used to store the certificate that is used for secure login and message authentication;
  - 22.6 management information (**MI**) is used to monitor, detect and communicate unusual activity;
  - 22.7 its CBT conforms to all of the SWIFT security features concerning:
    - 22.7.1 secure login and select;
    - 22.7.2 digital signatures; and
    - 22.7.3 support for FIN Y-Copy;
  - 22.8 appropriate physical and logical security controls to prevent unauthorised access are applied to its chosen CBT, when it is logged onto the SWIFT network when CHAPS is being accessed;
  - 22.9 its CBTs are correctly configured, bearing in mind appropriate parameter settings (which applies particularly to the service identifier to be placed in field 103);
  - 22.10 it has registered at least 3 (three) Participant Security Officers (**PSOs**) with the SWIFTNet Registration Authority; and
  - 22.11 it has appointed a Certificate Administrator who shall be responsible for the identification and management of the Participant's Enquiry Link Webstation Operators.
23. Participants acknowledge and agree that they are responsible for the security (physical and logical) of the Enquiry Link Webstation PCs and related equipment such as Hardware Security Modules, SWIFT Access Gateways, Enquiry Link application service or its successors including Enquiry Link browse and Box HSMs as well as network security if the Webstation is connected to a Local Area Network. This must conform to the SWIFT User Handbook.

## **Section 5: Security**

### **A. Risk assessment and mitigation**

1. Participants shall identify, monitor and document their physical and information security risks arising in connection with their participation in the CHAPS System. Cyber risks shall be identified, monitored and documented separately from other types of security risk.
2. Each Participant shall establish and operate such controls, policies and arrangements as are appropriate to mitigate the identified physical and information security risks, as well as its cyber risks, so that it is able to continue to conduct its CHAPS-related processes, services and activities in compliance with the CHAPS Specifications.
3. Each Participant shall, at least annually, validate and obtain assurance that the controls, policies and arrangements that it has put in place to mitigate its identified physical and information security risks, as well as its cyber risks, are and continue to be effective.

### **B. Security policy**

4. Each Participant shall have and operate a management-approved information security policy. Each Participant shall communicate this policy to all CHAPS System relevant employees, contractors and other relevant service providers.
5. Each Participant shall review its security policy at regular intervals, at least annually, and when significant changes or security-related events occur.
6. Each Participant shall ensure that its security policy mitigates all of the identified physical and information security risks, separately identifying cyber risks. At a minimum, its security policy must cover the following matters:
  - 6.1 internal security organisation;
  - 6.2 security asset management;
  - 6.3 the compromise of security assets;
  - 6.4 information classification;
  - 6.5 physical and environmental security;
  - 6.6 connectivity and operations;
  - 6.7 configuration management;
  - 6.8 systems activity and administration;
  - 6.9 access control;
  - 6.10 information systems acquisition; and
  - 6.11 business continuity.

### **C. Internal security organization**

7. Each Participant shall ensure that all security responsibilities within its organisation are clearly defined and documented under its internal procedures.

8. Each Participant shall arrange to have its approach to managing information security reviewed independently at regular intervals, at least annually, and when significant changes occur.
9. Each Participant shall identify and assess risks to its information and information processing facilities that are impacted by third party involvement. The Participant shall introduce and operate appropriate controls to mitigate this risk.
10. No Participant shall give any third party access to its information or information assets without identifying and assessing the security risks created by such access. A Participant shall put in place and operate appropriate controls, policies and arrangements to manage the identified security risks.

#### **D. Asset management**

11. Each Participant shall maintain and observe an asset management system to ensure that all assets, including but not limited to security tokens, are securely stored.
12. Each Participant shall document and monitor its procedures and requirements for acceptable use of assets.
13. Each Participant shall maintain and make available a contingent supply of security tokens and ensure that there are available means to configure them.

#### **E. Compromise of security assets**

14. A Participant shall have in place and operate procedures such that, if the Participant suspects or knows that one (or more) credential certificate(s) and/or the keys it contains has been compromised, it can take the following actions:
  - 14.1 the Participant must immediately (and not later than 10 minutes) upon becoming aware revoke the certificates of the lost or stolen credential certificate;
  - 14.2 all at risk payment transactions must be identified;
  - 14.3 the Participant must communicate the problem, including impacted payment transaction details to CHAPS Operations;
  - 14.4 the Participant must suspend the sending or receipt of payment or other relevant messages until it has identified, assessed and resolved all consequential and related security issues; and
  - 14.5 the Participant must not restart its sending or receipt of messages until the error condition has been identified and resolved.
15. Each Participant shall ensure that sufficient credential certificates to maintain continuity of service are available at the Participant's designated standby sites for Participant Security Officers (**PSOs**) and Enquiry Link Webstation Operators service or its successors including Enquiry Link Browse.
16. Each Participant shall ensure that credential certificates, as well as blanks that are not allocated to a given Enquiry Link Webstation Operator service or its successors including Enquiry Link Browse, are held in secure storage.
17. In the event of credential certificates being lost or stolen, a Participant shall procure that its PSOs immediately (and within not more than 10 minutes) upon becoming aware take the following actions:



17.1 revoke the certificates of lost or stolen credential certificates - which can be done on-line or, in an emergency, SWIFT can be asked to perform this task; and

17.2 inform RTGS System Control.

All reports of stolen or lost credential certificates should be confirmed in writing by an authorised signatory of the Participant to RTGS System Control. This will result in the Enquiry Link Webstation Operator service or its successors including Enquiry Link Browse being disabled immediately on the RTGS System.

18. After revocation of the Enquiry Link Webstation Operator Certificate, the certificate can be set up for recovery using the SWIFTNet Intervention requests via the SWIFT Secure Channel.

19. The Enquiry Link Webstation Operator Certificate can be recovered onto a new credential store, i.e. a new Enquiry Link Webstation Operator Certificate can be generated for the same identity.

#### **F. Information classification**

20. Each Participant shall have suitable information classification policies which allow for information/data to be classified under the following key criteria: legal requirements, sensitivity and criticality.

#### **G. Physical and environmental security**

21. Each Participant shall identify, assess and document its physical and environmental security risks.

22. Participants shall establish and operate such controls, policies and arrangements as are appropriate to mitigate their identified physical and environmental risks so that they are able to continue to conduct their CHAPS-related processes, services and activities in compliance with the CHAPS Specifications.

23. Participants shall, annually or when significant changes take place, validate and obtain assurance that their controls, policies and arrangements put in place to mitigate identified physical and environmental risks are effective and that they continue to be effective.

24. Each Participant shall have uninterruptible power supply (**UPS**) equipment to protect physical and environmental resources from power failures.

#### **H. Connectivity and operations**

25. Participants shall have in place and operate appropriate controls to protect equipment from malicious code.

26. Each Participant shall ensure that any unattended equipment involved with CHAPS payments or other CHAPS-related messaging has appropriate logical and physical security protection.

27. Participants shall employ firewalls to protect their internal networks used to process CHAPS payments. In this case, firewalls must only allow those protocols strictly required for the SWIFT Network Link to operate properly, as defined in the SWIFT User Handbook.

28. A Participant shall ensure that anything it connects to the CHAPS System is uniquely identified, authenticated and confirmed (to determine genuineness). Each connection made by or attributable to a Participant must be unique. Any credentials used for access must not be shared.

29. All access to the production authentication, secure IP Virtual Private Network devices and other security elements within a Participant's CHAPS environment shall be secure and subject to the highest standard of policies and controls (either the Participant's own or other policies and controls (whichever is higher)).

#### **I. Configuration management**

30. Each Participant shall segregate resources used by its Development Systems team/unit from those used by its Production Systems team/unit.
31. Each Participant shall put in place systems for the appropriate segregation of duties and areas of responsibility so as to reduce opportunities for unauthorised or unintentional modification or misuse of the Participant's security assets.
32. In particular, a Participant shall separate development, test and configuration management items so as to reduce the risk of unauthorised access or changes to the CHAPS System.
33. Each Participant shall ensure that appropriate security controls definitions are included in its service delivery agreement for services, processes or activities implemented, operated and maintained by a third party service provider.
34. A Participant shall:
- 34.1 regularly monitor and review services, processes and activities performed by a service provider for the Participant; and
  - 34.2 carry out a regular audit of such services, processes and activities, at least annually.
35. Each Participant shall regularly, at least annually, review its system capacity management resources to ensure the maintenance of requisite system performance.
36. Each Participant shall put in place and operate appropriate acceptance criteria for new systems, upgrades and versions; and suitable tests must be carried out prior to acceptance and implementation.
37. Participants shall take back-up copies of information and software used in connection with their CHAPS-related processes, services and activities. Participants shall annually test such back-up copies in accordance with their agreed back-up policies in force from time to time.

#### **J. Systems activity and administration**

38. Each Participant shall take appropriate steps to manage and control its or its Customers' and other system users' use of connected networks where misuse of such networks could represent a threat to the integrity or security of the CHAPS System or to messages sent to or through the CHAPS System.
39. A Participant shall only permit its Customers or other system users access to services or processes which they have been specifically authorised by the Participant to use or have access to.
40. Each Participant shall ensure that its audit logs are kept fully secure and protected from modification.
41. Every Participant shall regularly monitor its audit logs (in line with the risk appetite of the Participant and the perceived impact of the event) and any exceptions reported to an

identified person. Each Participant shall maintain its audit logs so that transaction logs can be understood by a reasonably competent third party.

42. Each Participant shall record and maintain information on the time of all payment transactions executed by it and such information must not be changed.
43. All clocks of critical infrastructure components must be automatically synchronised with a trusted time source no less frequently than weekly. Furthermore, 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.
44. Where a Participant maintains processes for the logging of critical events, the Participant must review those processes regularly and at least annually.
45. Each Participant shall identify and document the auditable events that must be recorded for application software or systems management software systems. This list must include, but is not limited to:
  - 45.1 successful log-on and log-off events;
  - 45.2 unsuccessful log-on attempts;
  - 45.3 user creation, suspension or deletion;
  - 45.4 any change or transformation of user identity;
  - 45.5 user initiated updates to authentication data (PINs or passwords);
  - 45.6 password resets including forced resets by a system administrator;
  - 45.7 changes to access rights on system resources or files;
  - 45.8 successful or failed connections to other systems;
  - 45.9 successful or failed file transfers to or from the host system;
  - 45.10 cryptographic key management;
  - 45.11 if not prevented in other controls, user "cycling of passwords "to permit a password to effectively remain the same; and
  - 45.12 remote access and activity.
46. Each Participant shall ensure that system administrator and system operator activities are logged and monitored regularly; and that any inappropriate behaviour is detected and investigated.
47. Each Participant shall carry out regular audits, at least annually, on the process of recording, monitoring and investigating system administrator account activity.
48. Each Participant shall archive audit logs and retain related records for such periods as are in line with its internal policies.
49. Each Participant shall ensure that system administrator account passwords are under dual control. This may involve two people at the time of use or controls that allow emergency single use to be identified and checked ex post.
50. Each Participant shall ensure that its Enquiry Link User's password policy meets the Participant's own internal security requirements. Each Participant acknowledges and

agrees that generic credential certificates and Enquiry Link Webstation Operator IDs/passwords are only permitted for use for the trialling service.

51. Each Participant shall ensure that system administrator accounts are only used in emergency circumstances and that all such account activity is recorded and monitored.
52. Each Participant shall carry out an appropriate risk assessment on any system administrator account with a default username.
53. Where a Participant uses an emergency access account, it must ensure that the relevant account(s) are disabled immediately (and not later than 10 minutes) upon becoming aware after use and all relevant passwords changed.

#### **K. Access control**

54. Each Participant shall ensure that all operators (including contingency operators) log on at least once a month to ensure that passwords are kept up-to-date.
55. Each Participant shall ensure that the allocation of privileges is restricted and controlled. Access rights must be reviewed by a Participant's management at regular intervals.
56. Each Participant shall ensure that access to production environments and systems is limited to named individuals. For live system maintenance, this also requires:
  - 56.1 four-eyes capability;
  - 56.2 all temporary access authority to be backed out/rescinded on the next CHAPS' Business Day;
  - 56.3 all emergency live system changes to be subsequently replaced by changes that have gone through formal change control, and
  - 56.4 staff access permissions (for both production use and live system maintenance), IDs and passwords must be configured and managed in order to be able to identify and distinguish when individuals are accessing remotely and when they are accessing within the Participants' network.
57. Participants shall review, at least annually, their access permissions and roles. Participants must have appropriate policies and procedures in respect of how roles are assigned to new staff, changed for existing staff and revoked for staff leaving the Participant.
58. Remote access to IT services must be subject to at least two factor authentication e.g. via tokens or passwords under dual control.
59. Remote maintenance/support staff must be advised to ensure that their equipment has a logical timeout to prevent unauthorized access and is capable of being logically locked when they leave the terminal unattended.
60. All Participants are required to meet the mandatory SWIFT Customer Security Programme controls that are applicable to their architecture and, if relevant, compliance with the advisory "Back Office Data Flow Security" control objective. Where full compliance with these controls cannot be met, Participants must have a management approved and funded work-plan to address the control(s) by the end of 2018. Progress on this work-plan must be provided by the Participant to evidence that this goal will be achieved.
61. Participants must provide visibility of their annual attestation to CHAPS, through the SWIFT KYC portal.

## L. CHAPS Requirements for Aggregator and Cloud Based Technology

62. Each Participant shall ensure that appropriate security principles and control definitions are included in their Third Party provider service delivery agreements for the use of Cloud technology and/or Payment Aggregator services or activities. This shall apply to both new Participants who wish to join CHAPS utilising these technologies or existing Participants who wish to migrate to them.

The Participant shall carry out sufficient due diligence of their critical outsourced service providers to ensure appropriate security, financial, ownership and governance.

The Participant shall ensure that third party providers comply with the CHAPS Rules and underlying Manuals (CHAPS Reference Manual, CHAPS Operational Reference Manual and CHAPS Technical Reference Manual).

The use of Payment Aggregator or Cloud technology services is limited to CHAPS category 3 Direct Participants only. CHAPS will re-evaluate a Participants risk profile and adapt the assurance and attestation process should the re-categorisation of a Participant occur.

Where Payment Aggregators or Cloud Service Providers are used, the Direct Participant shall ensure that the CHAPS connected infrastructure complies with the current versions of the following standards or certifications:

- SWIFT Shared Infrastructure Programme (SIP)
- SWIFT Standard Operational Practice (SOP)
- SWIFT Customer Security Controls Framework (CSP)
- ISO 27001
- ISO 27002
- ISO 27017

The Direct Participant shall encrypt payment messages between itself and a Third Party Provider Payment Aggregator in accordance with SWIFT Customer Security Programme Advisory Control 2.4A.

The Third Party Provider Payment Aggregator must connect to SWIFT using SWIFT Alliance Gold leased line connectivity.

Resilience of connectivity must be provided between the Direct Participant and the Payment Aggregator using encrypted and authenticated connections that withstand single point of failure.

Where a Participant that uses a Third Party Provider of Payment Aggregator or Cloud Technology cannot demonstrate compliance to the above security controls on an ongoing basis then CHAPS reserves the right to ask other questions related to these standards to seek appropriate assurance of risk mitigation. Any non-compliances must be declared to CHAPS accompanied by realistic action plans to address them within an acceptable time-scale.

## Section 6: Resilience and contingency

### A. Abnormal operating conditions

1. Participants shall identify, monitor and document the conditions (**abnormal operating conditions**) in relation to their technical systems and operating components against which they must mitigate in order to ensure the continuity of their provision or operation of CHAPS-related processes, services and activities.
2. Participants shall establish and operate such controls, policies and arrangements as are appropriate to ensure that they can continue to operate and provide their CHAPS-related processes, services and activities in compliance with the CHAPS Specifications in the event that identified abnormal operating conditions occur.
3. In developing and putting in place such controls, policies and arrangements Participants shall consider at a minimum the impact and their intended response to the following abnormal operating conditions, which therefore include but are not limited to:
  - 3.1 significant reductions in staff;
  - 3.2 significant loss of access to external physical infrastructure;
  - 3.3 significant loss of access to the operating locations;
  - 3.4 significant loss of access to external utilities;
  - 3.5 significant loss of technology or applications;
  - 3.6 the initiation of any recovery or resolution procedure in relation to the Participant (and other Participants and relevant institutions); and
  - 3.7 any requirements relating to the carrying on of core activities or core services (and the prohibition from carrying on excluded activities) by a Participant under ring fencing provisions or rules under any applicable law or regulation.
4. A Participant shall review such controls, policies and arrangements at least annually.

### B. Site contingencies

5. Participants shall establish, maintain and operate resilient operating environments for the operational sites from which they conduct their CHAPS-related processes, services and activities. At a minimum this means an on-site primary and an off- site secondary contingency site configuration.
6. Participants shall ensure that the level of security for their secondary contingency site is at least equivalent to that for their primary site.
7. Participants shall undertake sufficient risk analysis and risk mitigation i.e. risk assessment to ensure that if an incident occurs at one site, that it will not affect the other site(s).

The risk assessment should consider all risks that are relevant to the Participant and their location and should include, but is not limited to, areas such as supporting infrastructure (power, telecommunications, transport links, staff requirements, etc.) and possible hazards that could affect both sites (i.e. flood plains, fault lines, flight paths etc.).

Participants shall have the risk assessment fully documented and signed off by senior management.

Each Participant shall share their risk assessment with CHAPS either:

7.1 when requested or;

7.2 where major emerging risks or concerns are identified by the Participant.

8. Participants shall document their site contingency arrangements and identify and assess site contingencies, and establish and operate such controls and arrangements as are necessary for them to continue providing their CHAPS-related processes, services and activities (**Activities**). Such Activities must be in compliance with the CHAPS Specifications in the event that any of the identified site contingencies occur.
9. Participants must be able to receive payments at their contingency site within the period specified below in order to invoke their contingency arrangements:

Category of Participant	Period of Time
Category 0 Participants Category 1 Participants Category 2 Participants	1 hour
Category 3 Participants	2 hours

10. Participants shall regularly test all of the technical and operational aspects of their site contingency arrangements at least twice a year.

#### C. Continuity and capacity

11. Each Participant shall identify, monitor and document the risks to the continuity of its CHAPS-related processes, services and activities.
12. Each Participant shall have documented and tested continuity and recovery plans in place.
13. Each Participant shall establish and operate such controls, policies and arrangements as are appropriate to ensure that it can continue to conduct its CHAPS-related services in compliance with the CHAPS Specifications in the event that any of the identified continuity risks occur.
14. Each 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 Participant, averaging them and then multiplying by 2 (two).
15. Each Participant shall design and operate its continuity arrangements so as to ensure on-going compliance with the Throughput Criteria, unless an abnormal operating condition has occurred or in the sole opinion of the Bank, financial stability is at risk.
16. Each Participant shall periodically (at least annually) test its capacity arrangements. Each 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 17 does not apply to Category 3 Participants.

#### D. Hardware

17. Participants shall have and operate appropriate failure prevention plans for the hardware used to undertake their CHAPS-related processes, services and activities. Such plans must be underpinned by effective support and maintenance agreements.
18. Participants shall ensure that all hardware used to undertake their CHAPS-related processes, services and activities is subject to an annual maintenance review.

19. Participants shall ensure that all key hardware and application processing systems used to undertake their CHAPS-related processes, services and activities are protected by an uninterruptible power supply (**UPS**).

**E. Market Infrastructure Resiliency Service (MIRS)**

20. Participants must be able to operate their CHAPS-related systems, processes and procedures in accordance with the CHAPS Specifications whether the central settlement infrastructure is operating in either:

- 20.1 MIRS dormant mode; or

- 20.2 MIRS active mode.

When MIRS is in active mode, Participants must have a means to schedule their payments locally to accommodate the unavailability of the central scheduler (LSM).



## Section 7: Day to Day operations

### A. CHAPS Operating Day

#### *Hours of operation*

1. All times specified below are references to London time.
2. Participants may use the CHAPS System from 06:00, but Participants must be fully operational and ready to receive Payments on every CHAPS Business Day:
  - 2.1 (if a Category 0 Participant, Category 1 Participant or a Category 2 Participant) as from 07.00; or
  - 2.2 (if a Category 3 Participant) as from 08.00.
3. Participants shall send all of their accepted MT103 and MT202 payments on any given CHAPS Business Day by 18:00.
4. 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 and must include SETT in Field 72 of the payment message. Payments made in the reserves account settlement period must include reference to the reserves account holder.

#### *Start of day*

5. Participants must be ready to, and must, support different types of opening as notified to them by CHAPS Operations. These include, but are not limited to:
  - 5.1 **Normal Start** - where no conditions are placed on sending and receiving Payments between Participants;
  - 5.2 **Managed Start** - Participants may request a Managed Start to manage identified operational risk or, to fulfil Participants' internal policies by opening their systems early and exchanging low-value Payments with another Participant to ensure that their systems are operating correctly; Participants shall not unreasonably withhold support to another Participant in respect of a Managed Start; and
  - 5.3 **Controlled Start** - where all Participants open their systems early and exchange low-value Payments to ensure that every Participant's system is operating correctly.

#### *Abnormal issues, risks or threats (e.g. cyber attacks)*

6. A Participant shall immediately (and not later than 10 minutes) notify CHAPS Operations of any issue, imminent risk, or credible threat to payment confidentiality, integrity or availability that leads the Participant to believe that:
  - 6.1 the CHAPS System should not open as normal at the CHAPS Start of Day;
  - 6.2 the CHAPS System may be at risk of abnormal operation at any time during the CHAPS Operating Day; or
  - 6.3 the CHAPS operations or systems of any other Participant(s) may be at risk of abnormal operation at any time during the CHAPS Operating Day.
7. Participants shall reconcile the "Settled CHAPS Payment Summary" on the Enquiry Link each CHAPS Business Day to their own data records. If any discrepancy is identified by this reconciliation process, a Participant shall immediately (and not later than 10 minutes) investigate and advise RTGS System controllers first, followed by CHAPS Operations.

### Operational access restrictions

8. Participants shall identify, monitor and document the operational access restriction risks relevant to their provision of CHAPS-related processes, services and activities.
9. Participants shall establish and operate such controls, policies and arrangements as are appropriate to ensure that they can continue to conduct and provide their CHAPS-related services in compliance with the CHAPS Specifications in the event that the identified operational access restriction risks occur.
10. In developing and putting in place such controls, policies and arrangements Participants shall consider at a minimum the impact and their intended response to the following operational access restrictions, which therefore include but are not limited to:
  - 10.1 the Participant or any party to a payment transaction with the Participant is made the subject of a procedure under a special resolution regime under applicable law or regulation;
  - 10.2 the Participant or any party to a payment transaction with the Participant is removed from the CHAPS CUG; and
  - 10.3 the Participant or any party to a payment transaction with the Participant cannot access a Settlement Account/reserves account at the Bank of England.

### B. Extensions

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

### Extending normal operating hours

13. Extensions may be called by Participants in the following circumstances:
  - 13.1 the Participant is unable to send all of the Payments that it has accepted from its Customers, for payment that same CHAPS Business Day;
  - 13.2 a Participant shall at the earliest opportunity notify CHAPS Operations that it either will or may request an Extension from the Bank where it:
    - 13.2.1 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;
    - 13.2.2 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
    - 13.2.3 has insufficient time to invoke any planned recovery or continuity procedures and to complete its existing accepted payments.
14. A Participant which 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) notify CHAPS Operations that it is experiencing operational difficulties that may give rise to a request for an Extension from the Bank.
15. Participants 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.
16. A Participant may, after requesting an Extension, request that the Extension be cancelled. A cancelled Extension will be treated as an Incident by the Bank.
17. The Bank may call an Extension on the Participant's behalf in the following circumstances:
  - 17.1 at or after 17:30 if the Participant has not requested an Extension and an outage is ongoing;
  - 17.2 an Incident exists and a Participant's attempt to rectify it has already failed;
  - 17.3 an Incident exists and the cause of the Incident remains unknown;
  - 17.4 the Participant does not provide assurance satisfactory to the Bank that the Participant is managing an Incident effectively;
  - 17.5 the Participant's operational staff are insufficiently contactable by the Bank;
  - 17.6 there are systemic or multi-scheme elements to the Participant's issue that require an Extension to retain the good order of the market; or
  - 17.7 the integrity or reputation of the CHAPS System or the Bank is at risk.

#### *Approving an Extension*

18. Participants acknowledge and agree 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 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:
  - 18.1 it would be unlawful to do so;

- 18.2 it would be a breach of any regulatory requirement, direction or guidance to which the Bank is subject to do so; or
- 18.3 the Bank reasonably considers that to provide any such reason would compromise the integrity, security or stability of the CHAPS System or the Bank.
19. Without prejudice to paragraph 17 above, Participants acknowledge and agree that the Bank may instruct any type of Extension for reasons including but not limited to:
- 19.1 to protect the safety, reputation or integrity of the CHAPS System; or
- 19.2 to manage systemic or other material risks which may include multi or cross-scheme elements relating to a CHAPS System issue.
20. Participants shall ensure that they are operationally resilient by designing and operating their risk management, with a view to ensuring that the calling of an Extension is a highly unlikely event. In doing so, all Participants shall contemplate the implications on other Participants of their risk management decisions.

### C. Static data and routing

21. Each Participant shall ensure that a suitable senior officer of the Participant whose identity or ex officio position is notified to the Bank) authorises all Bank Reference Data forms to be provided in accordance with the industry standard example found in the PN5005 Bank Reference Data Participants Guide (which forms part of the Third Party User Documents).
22. Participants shall procure and maintain access to the Extended Industry Sorting Code Directory (the **EISCD**).
23. A Participant (as a Direct Participant) shall ensure that before providing payment services for or on behalf of an Indirect Participant, and for the period during which such services are provided to the Indirect Participant, the Indirect Participant is correctly reflected in the EISCD.
24. Participants shall update their internal reference data systems when changes are made to the EISCD. At the latest, revisions should be updated within a Participant's internal reference data systems at the earlier of either:
- 24.1 the start of the next CHAPS Business Day; or
- 24.2 24 (twenty-four) hours from the date of publication of a change to the EISCD.
25. Participants shall have sufficient systems, processes and procedures to ensure that their internal sort code reference data is always consistent with the data on the EISCD.
26. Participants shall ensure that their CHAPS routing details are either sent to VocaLink Ltd for processing updates to the EISCD, or amended directly via the website available to those Participants who have chosen this method for processing updates to the EISCD.
27. Each Participant shall define the (8 character) SWIFT destination address(es) which it intends to use as a participant within the CHAPS System.
28. Each Participant and Indirect Participant, that sends a CHAPS payment or receives a settled CHAPS payment, must be identified in the relevant CHAPS payment message by its BIC. End Users and Customers must be identified as a party to a payment transaction by account number if a UK End User or Customer or by using an IBAN or equivalent if a non-UK End User or Customer.

29. A Participant which has more than one SWIFT destination for its CHAPS-related activities shall inform the Bank of England which of these destinations is to be used to receive Payment Messages addressed to it from the RTGS Central System.
30. Each Participant shall have only one 'Primary BIC' for routing payments through CHAPS. This Primary BIC must match its Settlement Account/reserve account BIC.
31. Each Participant shall establish a means to deal with repairs, specifically a 'repair' BIC (a sort code must also be assigned for every sterling BIC in the EISCD). All return payments (see sub-section G of this section 7) must identify this BIC or sort code in either field 57A or 57D respectively.
32. Participants shall use, adhere to and maintain support for the technical and message standards that are used to send and receive CHAPS payments. The CHAPS technical and message standards are set out in the CHAPS Technical Reference Manual and the CHAPS Operational Reference Manual (which form part of the CHAPS User Documents). This covers various SWIFT messages that are used by or in CHAPS in the following domains:
  - 32.1 Payment Messages;
  - 32.2 system messages;
  - 32.3 FIN messages; and
  - 32.4 settlement messages.
33. Participants shall put in place and operate procedures to correct messages that do not fully meet the CHAPS technical and message standards.
34. Each Participant shall ensure that all entity registration or maintenance is completed in accordance with the procedures documented in the PN5005 Bank Reference Data Participants Guide (which forms part of the Third Party User Documents).
35. Each Participant shall ensure that all relevant bank reference records are present in the EISCD and that CHAPS Operations are notified of any changes to these records. A Participant must advise CHAPS Operations at the time of the changes and with sufficient notice so as to give other Participants sufficient time to accommodate the changes.
36. A Participant which is changing its name shall inform CHAPS Operations in advance of making a name change on the EISCD. If pre-notification is not possible, then any such changes must be advised within 5 (five) CHAPS Business Days of the change taking place.
37. A Participant shall check that the new name on the EISCD is the name registered with the appropriate supervisory body or bodies, as applicable.
38. Each Participant shall ensure that a suitable senior officer of the Participant whose identity or ex officio position is notified to the Bank in accordance with paragraph 81.2 below) authorises all Bank Reference Data forms for Participant registration or for maintenance on the EISCD.
39. If a UK Participant withdraws from another payment scheme, it shall inform CHAPS Operations in writing prior to any consequential changes being made to the EISCD and in sufficient time to allow CHAPS Operations to conduct a risk assessment of the proposed change.
40. A Participant (which is acting or is proposing to act as a Direct Participant) shall register and maintain the details of its Indirect Participants with Payments UK using the forms and providing the information set out in Chapter 1 of the PN5005 Bank Reference Data Participants Guide.

41. A Participant (which is acting or is proposing to act as a Direct Participant) must check that the name of any Relevant Entity (as an Indirect Participant) which is being registered or updated is the exact same name registered with the relevant supervisory body or bodies, as applicable, before the Direct Participant sends the completed forms to Payments UK for processing.
42. All changes of details relating to sorting codes must be completed in accordance with the PN5005 Bank Reference Data Participants Guide.
43. Sorting codes must be registered on Bank Reference Data and in at least one payment scheme (Bacs, CHAPS, FPS (**Faster Payments Scheme**) or C&CCC (**Cheque & Credit Clearing Company**) including BBCC (the **Belfast Bankers' Clearing Company Limited**)) at least 6 (six) weeks before any accounts are issued to Customers.
44. The reissue of a sorting code previously used by one Relevant Entity to another Relevant Entity is not permitted within a 10 (ten) year period after the initial closure. The only exception to this is where one Relevant Entity is taken over by another and the sorting code is transferred to the acquirer.
45. A CHAPS office (being a department of a Participant or Indirect Participant, identified by a sorting code and/or a BIC) is permitted to have only a sorting code or both a sorting code and a BIC.
46. A main bank office (as defined in the PN5005 Bank Reference Data Participants Guide) must have a BIC.

#### **D. Service levels**

47. Participants shall adhere to the CHAPS service levels. The **CHAPS service levels** are:
  - 47.1 outbound payments shall be submitted to the RTGS Central System within 90 (ninety) minutes of receipt of the sending Customer's payment instruction by the sending Participant or within 60 (sixty) minutes of acceptance of that payment instruction by the sending Participant, whichever is the shorter period; and
  - 47.2 inbound payments shall be credited to the intended recipient's account with the receiving Participant within 90 (ninety) minutes of the amount of the payment being credited to the receiving Participant's Settlement Account at the Bank of England.
48. Sub-section F below sets out those CHAPS service levels that apply to forward dated payments.
49. Participants shall test and validate their systems, processes and procedures with such frequency as they consider (acting reasonably) to be appropriate to ensure that the CHAPS service levels are being met.
50. A Participant is not required to apply the CHAPS service levels to its processing of a payment in the following circumstances:
  - 50.1 the relevant payment instruction received by the sending Participant from its sending Customer does not contain the information which the Customer is contractually required to provide to enable the sending Participant to execute the instruction;
  - 50.2 insufficient information has been provided to the receiving Participant to enable it to complete the payment transaction;

- 50.3 the unique identifier provided to the receiving Participant does not conform to the required standards or does not match an account held by the receiving Participant;
- 50.4 the relevant customer has not accepted the minimum CHAPS Terms and Conditions set out in section 1 (Customer terms) of Part A of this Chapter III in respect of the Participant's processing of the payment;
- 50.5 the payment instruction from the sending Customer fails to satisfy the risk management processes adopted by the sending Participant in compliance with applicable law or market level industry standards, including but not limited to anti-money laundering checking or sanctions checking;
- 50.6 where there is actual or reasonable evidence that a financial crime may be being perpetrated in relation to the giving, execution or completion of the Customer's payment instruction or execution or that completion of the payment transaction would otherwise be unlawful;
- 50.7 if for any other reason the Participant is entitled to refuse to execute the relevant payment instruction in accordance with the terms of its contract with the Customer (and regulation 66 of the PSRs);
- 50.8 any of the circumstances contemplated by regulation 79 of the PSRs apply to the payment transaction so as to prevent its processing in compliance with the CHAPS service levels; or
- 50.9 if the Customer fails to have sufficient funds to satisfy the relevant payment instruction.

#### **E. Performance monitoring**

- 51. All Participants shall establish and validate such systems, processes or procedures as may be required to enable them to measure, monitor and control the provision of their CHAPS-related services as against the requirements of the CHAPS service levels.
- 52. Participants shall, from time to time, and as requested, provide to CHAPS Operations their CHAPS service level performance statistics. At a minimum, the following information shall be provided in such statistics:
  - 52.1 the number of customer complaints that have been received about their CHAPS-related services with a summary of the reason for the complaint;
  - 52.2 the inbound payment rejection rates by reason; and
  - 52.3 the inbound repair rates by reason.
- 53. A Participant shall treat, record and report instances where its processing of a payment does not comply with the CHAPS service levels on any given CHAPS Business Day as an Incident subject to its Incident management (see subsection H (incident management) of this section 7).

#### **F. Forward dated payments**

- 54. A sending Participant may accept and execute a forward dated payment instruction from its Customer. For the purpose of complying with the CHAPS service levels forward dated payments shall be treated as being received by the Participant on the value date for payment.
- 55. A Participant shall send all forward dated payments (subject to passing the relevant sanctions 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, no later than 60 (sixty) minutes after the opening of its systems for CHAPS business.

56. The requirements set in this sub-section F form part of the CHAPS service levels for the purposes of sub-section D of this section 7 (service levels) above.

#### **G. R transactions**

57. Each Participant shall ensure the recognised return format is used for each 'R' transaction sent by it, as detailed in the CHAPS Technical Reference Manual and the CHAPS Operational Reference Manual.
58. Each Participant shall allocate a repair sort code for its returns. All return payments, except for continuous linked settlement (CLS) Bank-related payments, shall identify this sort code in field 57D. CLS Bank will not be allocated a specific repair BIC or sort code; all return payments to CLS Bank should identify the BIC used by CLS Bank (as sender of the original payment).
59. Receiving Participants shall distinguish returned payments. Participants should refer to the CHAPS Technical Reference Manual and the CHAPS Operational Reference Manual with regard to notification of returns.
60. If a Participant is unable to apply an inbound CHAPS payment, it shall return the payment to the nominated repair BIC of the Participant who sent the payment (or, in the case of CLS Bank, to the BIC used by CLS Bank as sender of the original CHAPS payment).
61. Participants shall make their returns as soon as it is practicable to do so, but in any case no later than 11:00 on the next CHAPS Business Day (unless the receiving Participant is CLS Bank). If the receiving Participant is CLS Bank, the unapplied CHAPS payment must be returned to the BIC of the Participant who sent the payment (and not the nominated repair BIC of the Participant).
62. Participants shall use the return reason codes that are shown in the CHAPS Technical Reference Manual and the CHAPS Operational Reference Manual.
63. Participants shall make returns in MT202 format only.

#### **H. Incident Management**

##### *Incident management approach*

64. Each Participant shall design and operate its CHAPS incident management processes so as to ensure, so far as it is within its control to do so, that Incidents are addressed with the necessary urgency and capability required to avoid the need for the Participant to request an Extension from the Bank.
65. A Participant shall take immediate (and not later than 15 minutes) and appropriate steps to assess the risks arising from an Incident which is affecting it or the CHAPS System.
66. A Participant shall take immediate (and not later than 15 minutes) action to resolve, so far as it is within its control to do so, an Incident that:
- 66.1 affects or could affect the processing of CHAPS payments; or
- 66.2 affects or could affect the safety, integrity or predictability of the CHAPS System;  
or



- 66.3 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 Rule 13.2.1; or
- 66.4 In accordance with Paragraph 66.3, the affected Participants shall provide the total number and value of payments that are not paid 'same day'
67. A Participant shall regularly update CHAPS Operations about the status of each Incident affecting it, the Participant's progress in resolving it and the likelihood of having to request an Extension from the Bank using the CHAPS probability metrics. At a minimum, a Participant shall provide an update to CHAPS Operations at hourly intervals (every 60 minutes up to 14:00 and at intervals of no more than 30 (thirty) minutes (up to an including 2 hours before closing MT103s) and at each major decision point in the Incident's resolution.
68. A Participant shall utilise the **Incident Management Form** (being the form set out in the CHAPS Operational Reference Manual or such other CHAPS User Document to be completed by Participants in respect of Extensions) with respect to analysing root cause analysis of all Incidents affecting the Participant according to the root cause guidance issued by the Bank.

#### *Reporting Incidents*

69. A Participant shall inform CHAPS Operations at the first available opportunity of an Incident in accordance with paragraphs 71 to 74 (inclusive) below.
70. A Participant shall notify its Incidents to CHAPS Operations within 15 minutes of the Incident being recognised. Notification in the first instance should be by telephone with the relevant Incident Management Form to follow.
71. A Participant shall submit an initial Incident Management Form to CHAPS Operations within 2 (two) CHAPS Business Days of an Incident occurring.
72. A Participant shall report to CHAPS Operations within 10 (ten) CHAPS Business Days of an Incident occurring of the date by which the Participant will deliver its final Incident Management Form to CHAPS Operations.
73. A Participant shall submit to CHAPS Operations a final Incident Management Form by the date agreed between the Participant and the Bank. The Bank shall treat and record any delay in meeting this date as a process failure.
74. A Participant shall co-operate with CHAPS Operations to identify any collaborative lessons that should be learned from any Incident affecting the Participant.

#### *Sharing information*

75. Participants shall:
- 75.1 work collaboratively with CHAPS Operations regarding Incident management to achieve successful root cause analysis;
  - 75.2 incorporate the Bank's Incident management processes into their own processes; and
  - 75.3 share their internal Incident best practices with CHAPS Operations.

#### *Signature verification failure*

76. A receiving Participant shall immediately (and not later than 15 minutes) notify:

76.1 CHAPS Operations; and

76.2 the sending Participant,

when an inbound Payment sent to the receiving Participant fails PKI signature verification. Such notification shall also provide sufficient details of the failed Payment.

77. A sending Participant which has been informed of a signature verification failure in respect of a Payment sent by it shall:

77.1 take such steps as may be required to prevent further such payments being sent until the issue has been resolved; and

77.2 record the issue as an Incident and carry out the appropriate Incident management procedures to determine the reason for the failure.

78. A Participant shall immediately (and not later than 10 minutes) inform CHAPS Operations if its access to its Settlement Account/reserve account at the Bank is restricted in any way.

#### **I. Operational communications**

79. Participants shall ensure that there are effective means of operational communication and escalation with CHAPS Operations during normal operating times and also out of hours.

80. At a minimum, Participants shall have in place, maintain, secure and provide to the Bank the following:

80.1 the telephone numbers that are required to support the day to day operational requirements of CHAPS Operations, including but not limited to the 'voice blast' processes and procedures;

80.2 Authorised Contact Personnel List, which includes an escalation tree and contact details for the most senior individual at the Participant who is responsible for running its CHAPS-related services, processes and activities; and

80.3 its CHAPS operations structure and organisation chart, (together the **Operational Contacts**).

81. An 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 a Participant's CHAPS-related operations:

81.1 Extension and Incident Management; Notification and Authorisation

81.2 CHAPS Day to Day General Payment Operations and Queries

81.3 Operational Risk and Scheme Management

81.4 CHAPS Emergency Contacts

81.5 Disablement & Suspension Contacts

81.6 Fraud Contacts

82. Each Participant shall inform CHAPS Operations of any proposed changes to the Operational Contacts in sufficient time prior to such changes taking effect and so as to ensure that the list held with the Bank is always up-to-date.

83. Participants shall regularly review, and at least annually test, the correctness of the Operational Contacts. Participants shall also support tests of the Operational Contacts as they are carried out by CHAPS Operations from time to time.

## J. Change Management

### *Application software*

84. Each Participant shall ensure that any changes to systems, applications or processes that are used by it to operate or provide its CHAPS-related processes, services and activities do not:
- 84.1 adversely affect the safe and efficient operation of the CHAPS System;
  - 84.2 adversely affect the stability or resilience of the CHAPS System;
  - 84.3 adversely affect the integrity of the CHAPS System; or
  - 84.4 introduce operational risk or information security risk to the CHAPS System.
85. Each Participant shall conduct appropriate risk assessments of material changes to systems, applications or processes that it uses to operate or provide its CHAPS-related processes, services and activities, as and when required.
86. In doing so, the risk assessment and the risk assessment process undertaken by the Participant shall:
- 86.1 have due regard to the operation of the central services operated by the Bank; and
  - 86.2 support the Bank in assessing the aggregate change risk to other infrastructure providers, Participants (and their Customers), service users and the Bank.
87. Each Participant shall disclose its key technical and operational components to allow the preparation of a profile (the **Technical and Operational Profile**), so that the Bank can identify, assess and manage any risks to the CHAPS System arising from such Technical and Operational Profile.
88. A Participant shall maintain and notify CHAPS Operations in writing of any changes to its Technical and Operational Profile.
89. Technical and Operational Profiles shall, as a minimum, detail any significant changes to a Participant's systems that may introduce risk to the CHAPS System.
90. A Participant shall provide at least one month's prior written notice to the Bank of any major planned system changes that may impact the CHAPS System, the infrastructure providers, other Participants or the Bank or where support from Participants is required. However, the amount of notice to be provided to the Bank shall be commensurate with the perceived (increased or decreased) level of risk associated with any such changes.

### *Testing assurance*

91. Each 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, services and activities (**CHAPS Production Environment**) so as to evidence:
- 91.1 the correct functioning and operation of the change in accordance with the CHAPS Specifications;
  - 91.2 the correct operation of internal and application processing controls;

- 91.3 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.
92. Each Participant shall ensure that any changes to its CHAPS Production Environment are fully acceptance tested in a controlled testing environment, prior to introduction to live processing.
93. Each Participant shall:
- 93.1 document 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 the CHAPS Specifications;
- 93.2 conduct 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
- 93.3 ensure that test results are documented and compared to the pre-defined acceptance criteria.
94. Each Participant shall ensure that the testing process checks that no extraneous code is present, which could impact the correct operation of its systems and operations to function normally.
95. Each Participant must be able to separate "test" payments from "live" payments, which means at a minimum that each Participant shall ensure that:
- 95.1 there is a clear segregation between live, test and training environments;
- 95.2 all test and training messages have a "TNG" training tag to alert the receiving Participant that they are not live payment requests; and
- 95.3 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 Participant.
96. Each Participant shall conduct, at least annually, vulnerability testing against their CHAPS-related processes, services and activities or after any major system upgrade using either external parties or parties independent of their CHAPS-related business areas.
97. Each Participant shall share the key results of its stress, scenario and vulnerability testing with the Bank:
- 97.1 when requested; or
- 97.2 by exception, where major risks or concerns are identified.
98. Each Participant shall support mandatory CHAPS System level tests. The Bank will notify Participants of these tests from time to time and they are described in the CHAPS Operational Reference Manual (see under "Contingency Testing").
99. Participants shall maintain their software applications and system components in accordance with the most recent release and maintenance schedules issued by the Bank of England and SWIFT, to the extent that it relates to software or hardware anticipated by these CHAPS Participation Requirements.
100. Participants which wish to deviate from the most recent release and maintenance schedules issued by the Bank of England and SWIFT must:

100.1 identify and assess the risks of doing so; and

100.2 obtain the prior written consent of the Bank before doing so.

**K. Routine testing**

101. Participants shall test and support testing as set out in the CHAPS Technical Reference Manual and the CHAPS Operational Reference Manual and as notified by CHAPS Operations from time to time.

**L. Archiving, retention and access to data**

102. Participants shall maintain payment transaction records and books of account for a minimum of 7 (seven) years after the underlying transactions have occurred.

103. Participants must be able to access stored records and archives in respect of relevant data, including but not limited to:

103.1 any CHAPS Payment successfully sent to, or received from, the SWIFT network;  
and

103.2 details of any unsuccessful payment messages (for example naks ).

**M. Interest claims, return payments and redirected payments**

104. Interest claims, return payments and redirected payments shall be handled in accordance with the requirements and procedures described in the CHAPS Operational Reference Manual.

## Section 8: Throughput

### A. Throughput Criteria

1. The Throughput Criteria are made in accordance with Rule 3.3.1 of the CHAPS Rules (the "**Rules**"). Terms used in this document, but which are not defined, shall have the meaning given to them in the Rules.
2. The Throughput Criteria set out certain criteria, principles, expectations and other matters to which the Bank, as operator of the CHAPS payment system, is required to have due regard and give due weight in accordance with CPMI-IOSCO Principles 3, 4 and 7 and with respect to managing overall systemic and other risks that may affect the financial stability of the payments system as a whole.
3. For the purposes of Rule 3.3.1, a Category 0, 1 and 2 bank is required to have settled (by value and averaged over each calendar month excluding '**Excluded Payments**') the 'target' detailed in table 'A'. The de-minimus value that must be achieved by a Category 3 bank (by value and averaged over each calendar month excluding Excluded Payments) is detailed in table 'B':

Table A				Table B
Quantum	Target	Category 0/1 Tolerance	Category 2 Tolerance	Category 3 Target
12:00	50%	Amber 0.5% Red 2%	Amber 1.5% Red 6%	De- minimus 20%
15:00 (see paragraphs 16 -19)	75%	Amber 0.5% Red 2%	Amber 1.5% Red 6%	N/A
17:00	90%	Amber 0.56% Red 2%	Amber 1.5% Red 6	De- minimus 80%

4. An Excluded Payment is a payment made by a Direct Participant to:
  - (ii) Its own Settlement Account/Reserves account held at the Bank .
  - (iii) The Reserves Account held at the Bank by an Indirect Participant in relation to whom they themselves are acting as a Direct Participant for.
  - (iv) Another Direct Participant which is an '**Associate**'.
5. Based on the Participant Categorisation model and a value based ratio calculation, Category 0, 1 and 2 have pre-defined Amber and Red tolerances to the approved Throughput Criteria set as detailed in Table A.
6. The Amber and Red tolerances are derived from a value based ratio evaluated from the total value settled by all banks in each Participant Category for the previous year. These

ratios are reviewed annually by the Bank in parallel with Participant Categorisation to re-assess any necessary changes to the Amber and Red tolerances.

7. Any changes to the tolerances are solely at the Bank's discretion and will be communicated for noting at the Technical & Operational Committee and Bank of England FMID Supervision.
8. Any deviation from target that flags 'Red' will cause an immediate breach of the Throughput Criteria. Any breach will invoke the non-compliance process outlined in Part C of Chapter IV, unless paragraphs 14 and 16 through 19 are applicable.
9. In the event of three consecutive Ambers or six Ambers in a 12 month rolling period across any of the Throughput quanta, a breach of the Throughput Criteria will be recorded. Any breach will invoke the non-compliance process outlined in Part C of Chapter IV, unless paragraphs 14 and 16 through 19 are applicable.
10. Whilst the impact to financial stability caused by Category 3 banks is proportionally small, the potential for contagion and/or operational risk must continue to be addressed due to customer/reputational impact. Therefore Category 3 banks have a de-minimus target across two of the quantum (12:00 and 17:00).
11. In the event that any Category 3 bank is unable to meet the de-minimus values, then a breach will be recorded and the non-compliance process outlined in section C of these Throughput Criteria will be invoked.
12. In certain limited circumstances, a Throughput Adjustment Waiver may be applied for by a Direct Participant who is either a category 0, 1 or 2 bank in the event that their business profile prohibits them achieving the set targets in table A. Details of the application process can be found in Part C of Chapter IV of the CHAPS Reference Manual.
13. Notwithstanding any Throughput Adjustment Waiver that may be granted, non-compliance with the Throughput Criteria will attract the escalation process outlined in Part C of Chapter IV of the CHAPS Reference Manual.
14. The Throughput Criteria do not apply for the first six months to any newly on-boarded Direct Participant. An observation period will apply for the first six months of Direct Participation such that a business profile can stabilize and sufficient data is available in the event that a Throughput Adjustment Waiver is required or, in the case of a Category 3 bank, in the event that a review of the de-minimus is undertaken by the Bank (Chapter IV, Part C, paragraph 4).
15. A twelve month cyclical review of Throughput will be undertaken by the Bank to ensure that the mechanics, quanta and targets are still relevant in light of potential market changes.
16. The new quantum at 15:00 will remain an interim monitoring point for the first six months of Extended Settlement Day implementation and will not be subject to the full non-compliance process in Part C of Chapter IV until the 1<sup>st</sup> January 2017.
17. The 15:00 quantum will remain an observation period for these six months. However, if the Bank becomes aware of any material issues affecting a Direct Participant and/or witnesses significant deviations from the 75% target, then the Bank will investigate bilaterally to understand the Direct Participant profile and request mitigation/remediation if appropriate.
18. For the avoidance of doubt, the Bank may share any or all communications/decisions in regard to paragraph 17 with other line regulators as appropriate.

## Section 9: Self-certification

1. Participants shall either:
  - 1.1 certify their compliance with the CHAPS Specifications and relevant associated requirements in key risk areas without exceptions; or
  - 1.2 certify their compliance with CHAPS Specifications and associated requirements in key areas, subject to specific exceptions which are identified in their certification (see paragraphs 7 to 9 inclusive below).
2. Participants shall support their self-certification by completing a self-certification questionnaire provided by the Bank that either:
  - 2.1 demonstrates how they comply with the relevant requirements of the CHAPS Specifications and associated requirements in key risk areas; or
  - 2.2 explains how they are failing to comply with any of the relevant requirements of the CHAPS Specifications or associated requirements in key risk areas (see paragraphs 7 and 8 below).
3. Under the self-certification questionnaire, Participants must assess the effectiveness of their procedures, policies and arrangements to meet the CHAPS Specifications and associated requirements in key risk areas.
4. A Participant's self-certification must be signed on its behalf by its 'Head of Key Business Area' (Payments) (or other senior officer) as defined by the PRA and relevant internal audit executive (acting without personal liability).
5. By signing a Participant's self-certification:

the individual specified in paragraph 4 above and the relevant internal audit executive confirm (acting without personal liability) for and on behalf of the Participant either:

  - 5.1.1 that the Participant meets all CHAPS Specifications and associated requirements in key risk areas; or (as the case may be)
  - 5.1.2 that the Participant meets those CHAPS Specifications and associated requirements in key risk areas which are not expressed to be subject to an exception, but is failing to comply with those CHAPS Specifications or associated requirements which are expressed to be subject to an exception; and
  - 5.1.3 the Participant's 'Head of Key Business Area' (Payments) (or other senior officer) as defined by the PRA and relevant internal audit executive confirm (acting without personal liability) for and on behalf of the Participant that the responses provided in the accompanying questionnaire are true and accurate to the best of the Participant's knowledge and belief.

### *Evidential requirements*

6. Participants shall ensure that all of the assertions that they make about the existence, operation or recording of controls or mitigants is supported by evidence of sufficient quality, which evidence shall be made available to the Bank upon request, if required.

### *Exceptions*

7. Participants shall disclose all instances where controls or mitigants are either missing, not conducted or conducted ineffectively. These are to be reported as exceptions.



8. Participants shall produce and provide to the Bank a remediation plan for each identified exception, which sets out:
  - 8.1 the nature of the exception;
  - 8.2 the implications of the exception;
  - 8.3 the date by which the exception will be remediated; and
  - 8.4 any interim risk management measures.

*Monitoring and reporting*

9. Participants shall actively monitor the resolution of all exceptions and bring to the attention of the Bank any risks arising. Where planned remediation dates are missed or no longer deemed achievable, then these must be reported to the Bank upon becoming aware.

## Section 10: Onboarding obligations

### *Shepherding and buddying*

1. Participants shall provide reasonable support for existing or on-boarding Participants, by providing for example "Buddy Bank" and "Shepherding" services.
2. Each Participant (as the **first Participant**) shall, with such frequency as may be agreed with the Bank, undertake:
  - 2.1 **Buddy Bank testing** - under which the first Participant (as a **Buddy Bank Participant**) supports another Participant by sending and receiving CHAPS test payment messages; and
  - 2.2 **Shepherding** - under which the first Participant (as a **Shepherd Bank**) supports the whole front-to-back on-boarding process of a new or prospective participant, including but not limited to testing support.
3. Each Participant shall not unreasonably withhold its consent to provide Buddy Bank or Shepherding services to another Participant (or new or prospective participant) as and when requested to do so by the Bank.
4. This section 10 does not apply to Category 3 Participants. However, in cases where a Category 3 Participant wishes to or agrees to be a Buddy Bank or Shepherd, they shall do so on the same terms as Category 1 and 2 Participants.

## PART B

# INDIRECT PARTICIPATION

### *Section 1: Indirect Participants*

#### *General*

1. Where a Participant (as a Direct Participant) provides access to the CHAPS System to a Relevant Entity (as an Indirect Participant), the Direct Participant shall ensure that at a minimum, the following provisions will apply.

#### *Due Diligence and Risk Assessment*

2. A Participant which proposes to act as a Direct Participant for a Relevant Entity (as an Indirect Participant) shall identify, assess and document the risks associated with its provision of CHAPS-related services to the Indirect Participant (with due regard to the Direct Participant's obligations under the CHAPS Specifications and under general law). This assessment should be informed by the relevant provisions of the PSRs, and any relevant direction or requirement of the Payment Systems Regulator, and the Bank in its requirements concerning systemic risk management (under consultation) in force at the time of acceptance of the Relevant Entity as an Indirect Participant.

#### *Due Diligence*

3. A Participant (acting as a Direct Participant) 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-related services to its Indirect Participants. This paragraph 3 does not apply to Category 3 Participants.
4. A Participant acting as a Direct Participant shall ensure that Indirect Participants for which it acts comply at all times with the requirements of the Clearing Codes Rules and Procedures (forming part of the Third Party User Documents), and at a minimum shall ensure that Indirect Participants meet the requirements set out in the PN5005 Bank Reference Data Participants Guide (which forms part of the Third Party User Documents). This paragraph 4 does not apply to Category 3 Participants.
5. A Participant acting as a Direct Participant 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 paragraph 3 above are effective and that they continue to be effective. This paragraph 5 does not apply to Category 3 Participants.
6. Participants shall take reasonable steps to ensure that the Indirect Participants to whom they provide operational services (as Direct Participants) do not jeopardise the safety, integrity or reputation of the CHAPS System.

#### *Payment Systems Regulator*

7. In providing indirect access to the CHAPS System to a Relevant Entity (as an Indirect Participant), a Participant shall comply with:

- 7.1 any direction or requirement of the Payment Systems Regulator applicable to the Participant; and
- 7.2 any commitment to which it has agreed in any industry code of practice approved by the Payment Systems Regulator,

in either case as relating to the Participant's provision of such indirect access services to such Relevant Entity.

## **Section 2: Tiering**

### *Summary*

1. This section 2 impacts all Direct Participants who process Payments on behalf of a Relevant Entity. More than 4,500 (four thousand, five hundred) Relevant Entities access CHAPS as Indirect Participants through an agreement with one or more of CHAPS' Direct Participants. This section 2 does not, however, apply to Category 0 or Category 3 Participants; or to a Category 1 Participant or Category 2 Participant to the extent it benefits from a waiver granted by the Bank made under CHAPS Rule 2.14.

### *New Indirect Participants*

2. If Participants plan to bring on new Indirect Participants with daily flows (or projected daily flows) in excess of £150,000,000 (one hundred and fifty million pounds), they must notify the Bank of this intent and supply the relevant information to the Bank so that a determination may be made on this matter in accordance with CHAPS Rule 2.4.
3. The Bank will then undertake analysis (as detailed in section 1 (procedures relating to the Tiering Criteria) of Part B of Chapter IV of this CHAPS Reference Manual) as to whether the indirect access of the Relevant Entity 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 Relevant Entity concerned.

### *Existing Indirect Participants*

4. Due to the Bank's obligations towards managing systemic and other risk to its system and the wider financial system, Direct Participants must supply the Bank with all relevant information on their existing Indirect Participant liquidity flows at such frequency as specified by the Bank.
5. The Bank will then undertake analysis (as detailed in section 1 (procedures relating to the Tiering Criteria) of Part B of Chapter IV of this CHAPS Reference Manual) 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 Direct Participant shall take the necessary mitigation steps to address this matter or the Bank may withdraw its consent.

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

6. Under the Tiering Criteria set out in section 1 (procedures relating to the Tiering Criteria) of Part B of Chapter IV of this CHAPS Reference Manual, 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 Direct Participant. After receipt of such a Warning Notice, the relevant Direct Participant shall:
  - 6.1 promptly give a copy of the Warning Notice to the affected Indirect Participant(s);

- 6.2 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
  - 6.3 ensure that the manner in which the Direct Participant 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 Direct Participant to the Bank in response to the Warning Notice including, for the avoidance of doubt, where those views conflict with the views of the Direct Participant.
7. In the Tiering Criteria set out in section 1 (procedures relating to the Tiering Criteria) of Part B of Part IV of this CHAPS Reference Manual, it is explained in what circumstances a Direct Participant may invoke the Review Process in response to a decision by the Bank to refuse or withdraw its consent to an indirect relationship in exercise of its Tiering Powers (a **Relevant Decision**). In connection with a Relevant Decision, the Direct Participant shall:
- 7.1 promptly inform any affected Indirect Participant(s) of their right to require the Direct Participant to invoke the Review Process;
  - 7.2 invoke the Review Process if any affected Indirect Participant wishes the Direct Participant to do so, provided that the affected Indirect Participant is prepared to fund its and the Direct Participant's costs associated with the Review Process; and
  - 7.3 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 Direct Participant 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 Direct Participant.
8. A Direct Participant shall have no further obligation under paragraph 7 above at any time after:
- 8.1 the Bank's consent is automatically withdrawn in accordance with CHAPS Rule 2.8; or
  - 8.2 the Participant terminates its contractual relationship, or does not otherwise have such a relationship, with the Relevant Entity or Relevant Entities concerned which governs the entry of Payment Messages into the CHAPS System for or on behalf of that Relevant Entity or those Relevant Entities.
- In such circumstances, the inability of the affected Relevant Entity or Relevant Entities to access the CHAPS System via the 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 Relevant Entity in accordance with its contractual or other rights to do so.
9. This section 2 (and the Tiering Criteria) does not affect any right of a Relevant Entity to apply to the Payment Systems Regulator to require a Participant to give the Relevant Entity indirect access to the CHAPS System.
10. However, the PSR has indicated (see paragraph 8.3 of its Powers and Procedures Guidance) that it will expect applicants to have first sought to resolve any dispute through an available alternative dispute resolution process (e.g. the Review Process) before making any such application. Further, in reviewing and assessing any such application,

the PSR can be expected (in light of sections 49(3), 98 and 100 of the 2013 Act) to give due weight to the financial stability and systemic risk considerations at the basis of any decision by the Bank to refuse or withdraw consent to a particular tiered relationship.

*Monitoring contractual obligations*

11. Participants (as Direct Participants) 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.

### Section 3: End User terms

1. This section 3 applies to a Participant which acts as a Direct Participant in relation to a Relevant Entity (as an Indirect Participant) which (indirectly) accesses the CHAPS System to enable or facilitate its provision of CHAPS payment services to End Users.
2. The Direct Participant shall ensure that the contract between the Indirect Participant and its End Users provides (in easily understandable language and in a clear and comprehensible form) all those matters specified in section 1 (Customer terms) of Part A of Chapter III of this CHAPS Reference Manual. For this purpose, references in section 1 (Customer terms) of Part A of Chapter III to:
  - 2.1 the **Participant** shall be read as references to the Relevant Entity concerned (as the Indirect Participant); and
  - 2.2 the **Customer** shall be read as references to the End User to whom the Indirect Participant is providing payment services.

## **CHAPTER IV**

### **CHAPS Procedures**



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## INTRODUCTION

### *Context*

These CHAPS Procedures form part of this CHAPS Reference Manual issued by the Bank. They should be read together with Chapter I (Overview) of this CHAPS Reference Manual. The Overview of this CHAPS Reference Manual contains important information on:

- the CHAPS System;
- the law which governs these CHAPS Procedures;
- the jurisdiction of the courts to settle disputes in connection with these CHAPS Procedures and/or any non-contractual obligation arising in connection with them; and
- the definition of terms used in, and the interpretation of, these CHAPS Procedures.

### *Structure*

These CHAPS Procedures are grouped into five Parts.

- **Part A** sets out the key operational procedures that operate as part of or in connection with the CHAPS System, including a description of the principal direct and indirect costs of participation in the CHAPS System.
- **Part B** sets out how the Bank will exercise certain key discretions reserved to it under or in connection with the performance of its regulatory or other functions as operator of the CHAPS System.
- **Part C** sets out the procedures that are adopted by the Bank in relation to:
  - waivers of certain requirements set out in or contemplated by other parts of this CHAPS Reference Manual; and
  - the Review Process.
- **Part D** sets out the procedures that are adopted by the Bank in relation to changes to this CHAPS Reference Manual (or any component part of this CHAPS Reference Manual); as well as temporary changes to the CHAPS Timetable.

# PART A

## KEY OPERATIONAL PROCEDURES

### Section 1: CHAPS Timetable

A Clearing for Payments denominated in sterling takes place on each CHAPS Business Day.

The daily timetable for each CHAPS Business Day is set out in this section 1.

All references to time are to London time.

#### CHAPS Operating Day: Overview

Start Time	End Time	Period	Description
05:00	06:00	Funding period	The sterling payment settlement accounts are funded and liquidity bridges are opened.
06:00	17:40	Payment processing period	The CHAPS System infrastructure is available to Participants for payment and settlement processing.
17:40	18:00	Settlement processing period	The CHAPS System infrastructure is restricted to Participants for settlement processing.
18:00	19:00	Defunding period	The sterling payment settlement accounts are cleared and liquidity bridges are closed.

## CHAPS Operating Day: Cut-offs and Deadlines

Deadline	Event	Rule
06:00	Start of CHAPS Operating Day	The RT settlement infrastructure is available to Participants for payment and settlement processing.
07:00	Category 0 Participants, Category 1 Participants and Category 2 Participants must be ready to receive	The latest time by which all of the Category 0 Participants, Category 1 Participants and Category 2 Participants must be ready to receive.
08:00	Category 3 Participants must be ready to receive	The latest time by which all of the Category 3 Participants must be ready to receive.
06:00 to 10:00	All Participant Categories must be sending by the time notified and agreed by CHAPS Operations.	The latest time by which all Participants must be sending.
17:40	All 'same day' and 'that day' MT 103s must have been submitted. All 'same day' and 'that day' MT 202s on behalf of users must have been submitted.	The deadline by which user payments for 'same day' or 'that day' settlement must be submitted to the RTGS Central System.
17:40	Latest time to receive cancellations	Latest time an MT103 or MT 202 on behalf of users can be cancelled prior to settlement.
17:45	New 'same day' and 'that day' MT103s or MT202s are rejected	The time after which MT103s and MT 202s on behalf of users will not be processed.
18:00	Last Time to send inter-bank settlement MT202	All settlement payments that are required to be made by Participants that day must be submitted to the RTGS Central System.
18:05	Queued inter-bank settlement MT202s are rejected	The time after which inter-bank settlement MT202s will not be processed.
19:40	Latest time that Participants must be able to process CHAPS payments if requested	The time to which Participants must be able to keep their CHAPS-related systems open until in a contingency situation.

## Section 2: Participation costs

### Introduction

This section sets out the principal direct and indirect fees and costs as are in force from time to time associated with participation in the CHAPS System.

Bank of England: CHAPS System	
<b>Joining Fee</b>	<p><b>One off</b></p> <p>There is currently no joining fee. However, any external legal fees and onboarding costs as identified and incurred by the Bank may be recovered from the new Participant.</p> <p>The joining fee is subject to annual review by the Bank.</p>
<b>Participation Charge</b>	<p>Ongoing: based upon each Participants' prior year volumes Participants will individually pay a contribution fee based upon the volume of payments transmitted in the twelve month period October to September, to the September prior to the commencement of the budget year. These are adjusted pro rata for new joiners and leavers during and after this period.</p> <p>This equates to 13.9p per Transaction Charge based upon the volumes from 2016.</p>
Bank of England: RTGS	
<b>Account Management Fee (per annum)</b>	<p><b>Ongoing: £15,000</b></p> <p>The Bank of England Tariff for 2017/2018.</p> <p>Any legal fees incurred in opening a Settlement Account/reserve account or in becoming a Direct Participant may be recovered from the (new) Participant.</p> <p>There is also an annual charge per Participant for each of the net payment schemes that the Bank settles for.</p>
<b>Debit Item Charge</b>	<p><b>Ongoing: £0.195</b></p> <p>The Bank of England Tariff for 2017/2018.</p>
SWIFT	
<b>FIN Charge</b> <b>FIN Y- Copy Charge</b>	<p><b>Ongoing</b></p> <p>Subject to Participants' own SWIFT Tariff fees.</p>
Enquiry Link Workstation	
<b>SWIFTNet Webstation Two active Web Stations Profile</b>	<p><b>One off</b></p> <p>Required if the new Participant does not have existing SWIFT infrastructure. The actual costs are subject to negotiation between the new Participant and SWIFT.</p>

Hardware	
Subject to minimum configuration for both CHAPS and Enquiry Link requirements and Participants' own pricing with suppliers.	
Vocalink	
Charge for changing status on Extended Industry Sorting Code Directory (EISCD)	<p><b>One off</b></p> <p>Covers the cost of Vocalink making the change, this is dependent on the complexity of the bank reference data associated with the on-boarding institution.</p>
PSR	
Regulatory Fees	<p><b>Payment System Regulatory Fees</b></p> <p><b>Annual</b></p> <p>Calculated in accordance with the approved methodology and as published by the PSR at:</p> <p><a href="https://www.handbook.fca.org.uk/handbook/FEES/9/Annex1.html">https://www.handbook.fca.org.uk/handbook/FEES/9/Annex1.html</a></p>

## PART B:

# EXERCISE OF DISCRETIONS RESERVED TO THE BANK

### *Section 1: Procedures relating to the Tiering Criteria*

#### **A. Introduction**

1. This section 1 contains background and other explanatory material in sub-sections A to C and H; and contains the Tiering Criteria in sub-sections D to G.
2. The Tiering Criteria are made in accordance with Rule 2.13 of the CHAPS Rules (the Rules). Terms used in this section 1, but which are not defined, shall have the meaning given to them in the Glossary to this CHAPS Reference Manual.
3. The Tiering Criteria set out certain criteria, principles, expectations and other matters to which the Bank will have due regard and give due weight in accordance with Rule 2.12. These matters relate to the exercise by the Bank of the powers reserved to it under the Rules:
  - 3.1 to consent or to refuse to consent to a Participant causing or enabling Payment Messages to be entered into the CHAPS System for or on behalf of a Relevant Entity (in accordance with Rule 2.4.1);
  - 3.2 to withdraw its consent at any time to a Participant causing or enabling Payment Messages to be entered into the CHAPS System for or on behalf of a Relevant Entity (in accordance with Rule 2.7); and
  - 3.3 to suspend its consent to a Participant causing or enabling Payment Messages to be entered into the CHAPS System for or on behalf of a Relevant Entity (in accordance with Rule 2.10), or to lift any such suspension (in accordance with Rule 2.11).

These are the ***Tiering Powers*** for the purposes of this section 1. They are relevant to those arrangements under which Participants provide (or propose to provide) payment services to Relevant Entities to allow them to access the CHAPS System indirectly (so-called ***tiering arrangements***).

4. In certain circumstances, the Bank is deemed to consent to a Participant causing or enabling Payment Messages to be entered into the CHAPS System for or on behalf of a Relevant Entity: see Rule 2.5. This does not affect the Bank Tiering Power to withdraw any such deemed consent in accordance with Rule 2.7. For the purposes of Rule 2.5.2:
  - 4.1 the ***deemed tiering consent limit*** is £150,000,000 (one hundred and fifty million pounds); and
  - 4.2 where the Relevant Entity:
    - 4.2.1 is in, or proposes to be in, a contractual relationship with one or more of the Participant's Associates for the provision of CHAPS payment services; or
    - 4.2.2 is associated with one or more Relevant Entities which are in, or propose to be in, a contractual relationship with the Participant and/or one or more of the Participant's Associates for the provision of CHAPS payment services (the Relevant Entity and such of its Associates being together the ***Relevant Entities***),

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 Participant and/or its Associates for or on behalf of the Relevant Entity or (as the case may be) the Relevant Entities.

**B. The structure of this section 1**

5A. This section 1 is divided into eight sub-sections.

5A.1 Sub-section A sets out the basis upon which the Tiering Criteria are published, their scope and their purpose in the context of the Bank's exercise of the Tiering Powers.

5A.2 Sub-section B describes the structure of this section 1.

5A.3 Sub-section C explains:

5A.3.1 the nature of the determination that must be made by the Bank before it may exercise the relevant Tiering Powers; and

5A.3.2 the circumstances in which the Tiering Powers are exercised.

5A.4 Sub-section D outlines the nature of the risks that are or may be brought to the CHAPS System, or to the financial stability of the financial system of the United Kingdom, as a result of tiering arrangements under which Participants cause or enable Payment Messages to be entered into the CHAPS System for or on behalf of Relevant Entities.

5A.5 Sub-section E describes certain "presumptive criteria" and related procedures that will be applied by the Bank when exercising the Tiering Powers.

5A.6 Sub-section F describes certain "other factors" that will or might be taken into account by the Bank and that, if of sufficient weight, may enable the Bank to determine that it should not refuse, withdraw or suspend consent.

5A.7 Sub-section G describes the procedural steps that the Bank can be expected to adopt before it refuses or withdraws consent under the Tiering Powers.

5A.8 Sub-section H provides guidance on the Review Process.

5B. Nothing in this section 1, the CHAPS Rules or the CHAPS Participation Requirements is intended to affect any right of a Relevant Entity to apply to the PSR to require a Participant to give the Relevant Entity indirect access to the CHAPS System.

5C. However, the PSR has indicated (see paragraph 8.3 of its Powers and Procedures Guidance) that it will expect applicants to have first sought to resolve any dispute through an available alternative dispute resolution process before making any such application. Further, in reviewing and assessing any such application, the PSR can be expected (in light of sections 49(3), 98 and 100 of the 2013 Act) to give due weight to the financial stability and systemic risk considerations at the basis of any decision by the Bank to refuse or withdraw consent to a particular tiered relationship (see further sub-section D below).



## C. Tiering Powers: determination and circumstances of exercise

### *Nature of determination*

5. Under Rules 2.4.1 and 2.9, the Bank is required to refuse consent under its Tiering Powers:

*"unless the Bank determines that such refusal... of 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 Participant's relationship (or proposed relationship) with the Relevant Entity concerned"*.

6. Under Rules 2.7 and 2.9, the Bank is required to withdraw consent under its Tiering Powers:

*"unless the Bank determines that such... withdrawal of consent is unnecessary or inappropriate to manage the risks that are brought to the CHAPS System, or to the financial stability of the financial system of the United Kingdom, as a result of the Participant's relationship with the Relevant Entity concerned"*.

7. Under Rule 2.10, the Bank is required to suspend consent under its Tiering Powers, upon notification to the Participant, if the Bank is notified (or otherwise believes in good faith) that a relevant insolvency event under Rule 3.7 has occurred in relation to an indirect participant; PROVIDED THAT the Bank shall not suspend its consent if it determines that both of the following conditions are satisfied:

*"2.10.1 such suspension is unnecessary or inappropriate to manage the risks that are brought to the CHAPS System as a result of the Participant's relationship with the Relevant Entity concerned; and*

*2.10.2 there is no other reason to refer the relationship between the Participant and the Relevant Entity concerned for review in accordance with Rule 2.11"*.

Any suspension of consent, where the Participant proposes to continue to act for the Relevant Entity, must be reviewed by the Bank in accordance with Rule 2.11. Upon such review, the Bank may decide either to withdraw the Bank consent under Rule 2.7 or to lift the suspension.

8. If the Bank's consent is refused, withdrawn or suspended in relation to a particular Relevant Entity, the Participant is prohibited from causing or enabling any Payment Message to be entered into the CHAPS System for or on behalf of the Relevant Entity concerned. In the case of a withdrawal, the prohibition takes effect immediately upon such withdrawal becoming effective; and, in the case of a suspension, the prohibition takes effect for so long as the suspension is in force. A determination made (or to be made) by the Bank, in accordance with the Rules outlined in paragraphs 6 to 8 above, that it will consent or lift the suspension of consent to an indirect relationship (or will not withdraw or suspend its consent) is a **Positive Determination** for the purposes of this Section 1.

### *Two different types of Tiering Powers*

9. The Tiering Powers are exercisable by the Bank in two distinct circumstances:

- 9.1 where the Bank has been notified (or otherwise becomes aware) that an insolvency event specified in any of Rules 3.7.1 to 3.7.5 inclusive and 3.7.7 has occurred in relation to the Relevant Entity concerned (the **Insolvent Tiering Powers**); and

- 9.2 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 Rules 3.7.1 to 3.7.5 inclusive and 3.7.7 has occurred in relation to the Relevant Entity concerned (the **Solvent Tiering Powers**).

#### D. Risks arising in tiering arrangements

##### *The oversight context*

10. The Financial Market Infrastructure area of the Bank will be supervising the CHAPS System on a non-statutory basis and, therefore, the Bank is expected to have regard to the Principles in operating CHAPS.

11. Principle 19 provides:

*"An FMI should identify, monitor and manage the material risks to the FMI arising from tiered participation arrangements."*

##### General observations

12. 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:

12.1 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 Participants provide payment services to Relevant Entities to allow them to access CHAPS indirectly, including:

12.1.1 efficiency benefits for Participants, in particular as a result of the economies of scale arising from processing additional volumes of Payments and the potential pooling of liquidity;

12.1.2 as certain Relevant Entities will or may not satisfy the participation and access criteria set out in Rule 2, 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>;

12.1.3 even if a Relevant Entity 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 Participant; and

12.1.4 an adverse consequence of the points outlined in paragraphs 12.1.2 and 12.1.3 above might be that, if a Relevant Entity 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.

12.2 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 Participant and the Relevant Entity concerned, and where appropriate their regulators, but the Bank must

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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 its Rules (and the Tiering Criteria) promote fair and open access not only for Participants, but also for Relevant Entities that are not Participants (i.e. as Indirect Participants).

<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.

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*

13. The CHAPS System holds each 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 Rule 3.1. The Participants will, therefore, incur credit risk on Indirect Participants where they extend intraday credit to them in respect of Payments made by the Participant (as a Direct Participant) for the account of their Customer-Indirect Participants. Similarly, Indirect Participants incur credit risk upon Participants to the extent of any credit balances they hold with the Participants (as Direct Participants) in support of their payment activities through the CHAPS System.
14. In the interests of the safe and efficient operation of CHAPS, the Bank expects 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>.
15. The Bank expects 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 Rules 3.7 and 3.11.
16. The Bank is concerned to identify, understand and manage where material credit exposures might arise which could lead to a failure of a Participant. It takes into account the fact that even if a Participant is provided with financial collateral to collateralise credit granted to a Customer-Indirect Participant, the 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 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*

17. In tiered arrangements, liquidity risk can occur for both the 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 Participant and its Customer-Indirect Participant, and unusual patterns of payment flows within CHAPS. A 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 Participants reliant upon payment inflows to fund Payments – and further undermine market

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<sup>3</sup> See the Financial Conduct Authority's Good Practices for Settlement Bank management of potential risk exposures to customer banks (January 2011).

confidence more generally. Equally, the Customer-Indirect Participant would face liquidity risk if the Participant were to cut its credit limit at short notice<sup>4</sup>.

#### *Operational, legal and systemic risks*

18. The principal operational risk faced by Indirect Participants is that disruption at the Participant (acting as Direct Participant) – whether financial or operational – may leave them unable to make or receive Payments through the CHAPS System. Where a large number of Indirect Participants settle Payments through a small number of Participants (acting as Direct Participants), or an Indirect Participant sends Payments through a smaller Participant (acting as a Direct Participant), an operational outage or a shortage of liquidity at a Participant may disrupt the financial system of the United Kingdom more widely. Although CHAPS has a well- developed settlement bank liquidity scheme to manage the system-failure of a Participant, 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.
19. The settlement asset of the CHAPS System, as between the Participants, is a claim on the Bank of England. However, where two Indirect Participants are Customers of the same Participant (acting as Direct Participant), 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 Direct Participant – rather than across accounts maintained at the Bank of England. In such cases, the settlement asset is not central bank money, but commercial bank money.
20. As the Indirect Participant is a Customer of the Participant, the credit risk created by such commercial bank money is unlikely of itself to be of direct concern to the Indirect Participant.
21. 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 Regulations, to receive the full protections of the Regulations. In fact, such protections will not extend to **internalised payments**<sup>5</sup>, as the Participant's Settlement Account at the Bank of England 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 the Rules: see Rule 4.2. 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 Regulations. 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 Participant appears to be unable, or likely to become unable, to meet its obligations in respect of a Payment Message.
22. The absence or reduction in protection under the Regulations 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.

#### *Observance of other Principles*

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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.

<sup>5</sup> An internalised payment is, for the purpose of this section 1, 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 Participant.

23. The Bank is also concerned to ensure that the risks created by particular indirect relationships do not adversely affect the Bank's full observance of the following Principles published:

*Principle 1*

*An FMI should have a well-founded clear, transparent and enforceable legal basis for each material aspect of its activities in all relevant jurisdictions.*

*Principle 3*

*An FMI should have a sound risk-management framework for comprehensively managing legal, credit, liquidity, operational and other risks.*

*Principle 9*

*An FMI should conduct its money settlements in central bank money where practical and available. If central bank money is not used, an FMI should minimise and strictly control the credit and liquidity risk arising from the use of commercial bank money.*

*Principle 23*

*An FMI should have clear and comprehensive rules and procedures and should provide sufficient information to enable participants to have an accurate understanding of the risks, fees and other material costs they incur by participating in the FMI. All relevant rules and key procedures should be publicly disclosed.*

**E. "Presumptive criteria" and related procedures**

24. Taking into account the risks described in sub-section D above, 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 other words, if any or all of the features described in this sub-section E are present, the burden of proof will fall on the relevant Participant to establish that:

- 24.1 there are countervailing "other factors" that favour consent; and
- 24.2 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 paragraph 26 below) when making its determination.

25. It should be emphasised that the absence of any of the "presumptive criteria" described in this sub-section E (as applicable to the exercise of the Solvent Tiering Powers<sup>6</sup>) does not mean that the Bank will consent to a particular indirect relationship. It remains the purpose and effect of the CHAPS 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; or that the presence of countervailing "other

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<sup>6</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 Rule 3.7, 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 paragraphs 40 and 41 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 paragraph 26 to its exercise of the Solvent Tiering Powers only.

factors" (see sub-section F below) outweigh the relevant risks so as to allow a Positive Determination.

26. In assessing whether the 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:
- 26.1 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
- 26.2 other reasonable steps might properly be taken (whether by the Bank or the 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.
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*

28. The Bank will exercise its Solvent Tiering Powers so as to withdraw consent to a particular indirect relationship, unless the 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 paragraph 26 above, if in the period of 12 (twelve) months prior to the relevant determination (the **relevant period**):
- 28.1 the average<sup>7</sup> daily value of Relevant Payments<sup>8</sup> sent and received for or on behalf of the Indirect Participant Group<sup>9</sup> exceeded 2% of the average daily value of Relevant Payments sent and received by all Participants (the Total Value Threshold); and
- 28.2 the average daily value of Relevant Payments sent and received by the **Participant Group**<sup>10</sup> for or on behalf of the Indirect Participant Group exceeded 40% of the aggregate of the average daily value of:
- 28.2.1 **own account payments**<sup>11</sup> sent and received by the Participant Group through the CHAPS System; and

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<sup>7</sup> References in this paragraph 29 to average values are to the mean average.

<sup>8</sup> Relevant Payments comprise both Payments (as defined in the Rules) sent and received through the CHAPS System and internalised payments (as defined in paragraph 22 above).

<sup>9</sup> The Indirect Participant Group consists of the Indirect Participant concerned and (if applicable) any other Relevant Entity which at the time a Relevant Payment is sent or received is both: (i) an Indirect Participant (under a contractual relationship with any Direct Participant); 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 paragraph 29.1 or 29.2. A relevant own account payment is, for this purpose, a Payment or an internalised payment that is sent or received by a Participant (acting as a Direct Participant) for or on behalf of an Indirect Participant which is associated with the Participant.

<sup>10</sup> The Participant Group consists of the Participant concerned and (if applicable) any other entity which at the time a Relevant Payment is sent or received is both: (i) a Participant; and (ii) associated with the Participant concerned. Where the Participant is a ring-fenced bank under the definitions of the Financial Services (Banking Reform) Act 2013, the Participant Group consists of the Participant only, or, the institutions within the "ring-fenced bank sub-group" as recognised by the Prudential Regulatory Authority (PRA Policy Statement PS20/16) (bracketed wording effective from January 2019).

28.2.2 **relevant internalised payments**<sup>12</sup> sent and received by the Participant Group,  
(the **Relative Value Threshold**).

In assessing whether either or both of these "presumptive criteria" apply, no account shall be taken of any Relevant Payment sent by a Participant to correct or reverse a misrouted or otherwise mistaken payment received by the Participant for the account of an Indirect Participant.

29. 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 Relevant Entity concerned) that any or all of the "presumptive criteria" outlined in paragraph 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 Participant can establish "other factors" that are of sufficient weight to make a Positive Determination appropriate (with regard to the considerations outlined in paragraph 26 above).
30. 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>13</sup>. For this reason, internalised payments are included in the thresholds described in paragraph 28 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*

**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 paragraph 33 below are not yet in operation. Until such time as those systems are in place, paragraphs 31 to 38 (inclusive) will not have effect. Paragraphs 31 to 38 (inclusive) will, accordingly, come into effect from such date as may subsequently be notified by the Bank to the Participants. However, consistent with the Bank's broader regulatory concern to understand and manage liquidity and credit risks as outlined in paragraphs 13 to 17 above, the Bank will continue to monitor (on the basis of management information available to it) the CHAPS payments activity of 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.**

31. As explained in paragraphs 13 to 17 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:
- 31.1 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 CPMI-IOSCO *Principles for financial market infrastructures*); and

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<sup>11</sup> An own account payment is a Payment sent or received by a 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 Participant; or (iii) for the account of its customer which is not a Relevant Entity. In contrast to a "relevant own account payment", the term "own account payment" does not include an internalised payment for the purpose of paragraph 29.2.

<sup>12</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.

<sup>13</sup> In particular, internalised payments: (i) create the same operational reliance by a Relevant Entity on the operational and financial stability of the Participant; (ii) do not attract the protections of the Regulations; and (iii) do not involve use of central bank money as the settlement asset.

- 31.2 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 Relevant Entities within their respective corporate groups), and the measures that are or might be taken by the Participant or the Indirect Participant concerned to mitigate or otherwise manage those risks.
32. 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:
- 32.1 a positive net cumulative position - which is one indicator of the extent of the intraday credit exposure of the Indirect Participant to the Participant and one indicator of the extent of the Participant's reliance upon the Indirect Participant as a source of intraday liquidity;
- 32.2 a negative net cumulative position - which is one indicator of the extent of the intraday credit exposure of the Participant to the Indirect Participant and one indicator of the extent of the Indirect Participant's reliance on the Participant as a source of intraday liquidity.

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 Participant (acting as a Direct Participant) and the Indirect Participant under their tiered arrangements.

33. 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 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 Participants from time to time). If the market information provided by a 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 Participant.
34. The procedures outlined in paragraph 33 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.
35. 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 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 Participant and/or the Indirect Participant to manage those risks.
- 35.1 Following this, the Bank may conclude:



- 35.1.1 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
- 35.1.2 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).
36. If the Bank concludes that no action is required as outlined in paragraph 35.1.1 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.
37. If the Bank concludes that consent should be withdrawn as outlined in paragraph 35.1.2 above, then the Bank (with due regard to the considerations outlined in paragraph 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. Upon being notified (or otherwise becoming aware) that any event described in Rules 3.7.1 to 3.7.5 inclusive or 3.7.7 has occurred in relation to an Indirect Participant, the Bank will immediately suspend consent to the Participant continuing to enter Payment Messages into the CHAPS System for or on behalf of the Relevant Entities concerned under Rule 2.10. The Bank will not suspend its consent if both of the following conditions are satisfied:
- 38.1 the Participant provides evidence which establishes to the satisfaction of the Bank that:
- 38.1.1 the relevant notification was made by the Participant in error (or the information otherwise received by the Bank is incorrect or inaccurate);
- 38.1.2 any relevant petition or application is frivolous, vexatious or otherwise an abuse of the process of court;
- 38.1.3 the appointment of the relevant insolvency office-holder was invalid or otherwise void for any reason under applicable law;
- 38.1.4 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
- 38.1.5 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
- 38.2 the Bank consider that there is no other reason why the indirect relationship should be referred for full review by the Bank under Rule 2.11 – 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.
39. When exercising its Insolvent Tiering Powers under Rules 2.7 and 2.11 to withdraw consent or to lift the suspension of consent, the Bank will withdraw its consent unless the 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 paragraph 26 above). If the Bank determines that

withdrawal of consent is "unnecessary" or "inappropriate", it will promptly notify the Participant of its decision to lift the suspension.

**F. "Other factors"**

40. In sub-section E above, 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 Participant can establish countervailing "other factors" which are of sufficient weight to make a Positive Determination appropriate.
41. 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 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 paragraph 26 above.
42. In this sub-section F, 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:
  - 42.1 the "other factors" identified in this sub-section F 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
  - 42.2 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 paragraph 26 above.

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*

43. 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:
  - 43.1 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 Participant (acting as a Direct Participant), is not such as to create material risks for the CHAPS System or the financial stability of the financial system of the United Kingdom;
  - 43.2 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 Participant or Relevant Entity concerned, including:
    - 43.2.1 collateralisation with suitably liquid, high-quality financial collateral;
    - 43.2.2 hard credit limits upon the Relevant Entity concerned, or intra-day caps on the value of net or gross Payments to be made by the Participant (acting as a Direct Participant) for or on behalf of the Relevant Entity concerned;

- 43.2.3 pre-funding requirements for the Relevant Entity concerned;
- 43.2.4 ensuring access to the payment facilities of another Participant (acting as a Direct Participant) in the event of an operational or other disruption affecting the Participant that is the primary provider of CHAPS-related payment services to the Relevant Entity concerned;
- 43.2.5 making appropriate disclosures to the Relevant Entity 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
- 43.2.6 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 Participant (acting as a Direct Participant),

(although where any or all of the "presumptive criteria" apply to a particular indirect relationship, the factors described in paragraph 45.2 above are unlikely to result in a Positive Determination in the absence of additional countervailing other factors that are of sufficient weight);

- 43.3 with regard to the considerations outlined in paragraph 12.1.2 to 12.1.4 above, if certain types or sizes of Relevant Entity 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;
- 43.4 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;
- 43.5 if there is a group relationship between the 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;
- 43.6 if the Indirect Participant has relationships with a number of different Participants (acting as Direct Participants) 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 Participant (acting as a Direct Participant);
- 43.7 the historical data upon which the quantitative "presumptive criteria" described in paragraph 28 above are based no longer reflect the current or likely future values of Relevant Payments to be sent and received by the Participant (or the Participant Group) for the Indirect Participant concerned (or the relevant Indirect Participant Group);
- 43.8 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 paragraph 28 above are assessed for the 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
- 43.9 any actual or potential adverse impact on the advancement of any one or more of the payment systems objectives of the Payment Systems Regulator 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*

44. The Bank considers any of the factors described in paragraph 40.1 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 Rule 2.11.

#### **G. Procedural matters**

45. 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:
- 45.1 it will give written notice to the Participant concerned stating that the Bank proposes to refuse or (as the case may be) withdraw its consent in relation to an identified Relevant Entity or identified Relevant Entities (a Warning Notice);
- 45.2 the Warning Notice will give reasons for the proposed refusal or (as the case may be) withdrawal of consent;
- 45.3 the Warning Notice will specify a reasonable period (which may not be less than 21 (twenty one) days) within which the 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**);
- 45.4 a copy of the Warning Notice will be given to other parts of the Bank of England, including the PRA and the Financial Market Infrastructure supervision area, as well as other regulators;
- 45.5 the Representation Period may be extended by the Bank upon its own volition, or upon the written request of the Participant concerned;
- 45.6 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 Participant;
- 45.7 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 Participant (a Decision Notice) which either:
- 45.7.1 confirms that the Bank is refusing or withdrawing its consent to the Participant acting as a Direct Participant for the other Relevant Entity or Relevant Entities concerned (or any one or more of the other Relevant Entities concerned); or
- 45.7.2 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);
- 45.8 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 Participant shall permanently cease to cause or enable Payment Messages to be entered into the CHAPS System for or on behalf of the other Relevant Entity or Relevant Entities concerned); and
- 45.9 in any event, a Decision Notice shall give notice to the 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.

46. 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:
- 46.1 the security, integrity and reputation of the CHAPS System and the wider financial system of the United Kingdom is protected;
  - 46.2 the termination of the relationship between the Participant and the Relevant Entity or Relevant Entities 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;
  - 46.3 the process for termination should not unnecessarily or inappropriately create or increase risks for the Participant and/or the Relevant Entity or Relevant Entities concerned or be unduly disruptive to them or their respective businesses;
  - 46.4 the right of the Participant to invoke the Review Process, and to conduct an effective appeal before the appeal Panel, is not adversely affected; and
  - 46.5 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 Relevant Entity or Relevant Entities, 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 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 paragraph 45 above.
47. Where the Bank makes a Positive Determination in respect of a particular indirect relationship, he shall notify the Participant concerned that such a determination has been made.

#### **H. Review Process**

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 the CHAPS Rules, in relation to which the affected Participant is entitled to invoke the Review Process.

#### **Section 2: Bank Directions**

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

As a general matter, the Bank will only give such a Bank Direction to ensure the efficient operation of the CHAPS System, to deal with particular issues relating to the operation or use of the CHAPS System that have arisen and to remedy or avoid a breach of the CHAPS Specifications.

The Bank may not give any such Bank Direction to a Category 0 Participant or apply a general Bank Direction, or a Bank Direction given to a group of Participants, to a Category 0 Participant.

## PART C: WAIVERS

### Section 1: Procedures relating to the Throughput Criteria

#### *Introduction*

1. Section 8 (Throughput) of Part A of Chapter III of this CHAPS Reference Manual sets out certain obligations on Participants in relation to the Throughput Criteria. The Throughput Criteria are designed to minimise liquidity and credit risks for Participants (and the CHAPS System) as a result of Participants' settlement activity in CHAPS.
2. In certain instances, a Participant may consider that mitigating circumstances apply which justify an alleviation of the strict application of the Throughput Criteria to its settlement activity in CHAPS. In such circumstances, the affected Participant may apply for a temporary Throughput Adjustment Waiver (an Adjustment Waiver) utilising the TAW Procedure set out below in this section 1.
3. If a Participant is in breach of either or both of the Throughput Criteria, or if the Participant applies for an Adjustment Waiver (and irrespective of whether or not the Adjustment Waiver is granted), the Bank will adopt the Throughput Escalation Process described below.

#### *TAW Procedure*

4. Where a Direct Participant considers that there are mitigating circumstances outside of their control that prevent that Direct Participant from meeting these Throughput Criteria, they can apply for an Adjustment Waiver. If successful, the Adjustment Waiver bi-laterally amends the Throughput targets required to be met by that Direct Participant for a period defined by the Bank.
5. The defined period for a Throughput Waiver is wholly at the Bank's discretion based on their analysis of the proven stability of a Direct Participants business profile.
6. The Bank reserves the right to unilaterally amend the duration of an Adjustment Waiver or its target at any time based on a consistent (three consecutive months) business profile.
7. The Adjustment Waiver application must be completed using the required template and be supported by a comprehensive data analysis of the three most recent months payment data.
8. A decision will be made by the Bank. The decision will be communicated in writing to the Direct Participant. Notwithstanding a Direct Participants right to submit a Throughput Adjustment Waiver application, Direct Participants remain subject to the Throughput Criteria at all times.
9. Where the Direct Participant disagrees with the initial decision regarding the Throughput Adjustment Waiver application, they may choose to appeal that decision to the Bank. The appeal must be submitted in writing in the first instance to the Bank within 14 days of the original notification.
10. The Bank decision will be final and will be communicated to the Direct Participant in writing. Where a Direct Participant has previously submitted an unsuccessful Throughput Adjustment Waiver application, any further applications will only be considered where material circumstances have changed since the previous application.

#### *Throughput Escalation Process*

11. Notwithstanding any Throughput Adjustment Waiver that is granted by the Bank, any Direct Participant who breaches the Throughput Criteria outlined in paragraph 4 of the Throughput Criteria in Chapter III will invoke the process outlined in this Section:
  - (i) The Bank will formally write to the Direct Participant asking them to provide a written explanation with supporting evidence as to why the breach occurred. The Direct Participant will also be asked to confirm whether the breach is expected to last longer than one calendar month;
  - (ii) If remediation of the breach requires longer than one calendar month, the Direct Participant must also supply a copy of their proposed remediation plan outlining actions and timelines;
  - (iii) In cases where a remediation plan is presented and agreed by the Bank, the Direct Participant must provide progress updates at least bi-weekly to the Bank.
12. If there is little or no improvement following the remediation plan timelines, the Bank will then ask the affected Direct Participants TOC Representative to initiate discussions between the Bank and the Direct Participants most appropriate senior business contact.
13. If satisfactory improvement does not occur after the Bank's discussion with the Direct Participants senior contact and any relevant further remediation plans, then the matter may be referred to the appropriate regulator.
14. Specific only to any Category 3 bank successfully proving mitigating factors as to why they are unable to meet the de-minimus target, the Bank will evaluate a new 'target' percentage applicable to all Category 3 banks. Any such change may be communicated for noting at the Technical & Operational Committee and the Bank's FMI Division.
15. For the avoidance of doubt, the Bank's FMI Division will be copied in for information purposes on all breaches of the Throughput Rules, remediation plans and progress updates.
16. Additionally, if the Bank becomes aware of any significant operational factors or other material issues affecting a Direct Participant causing Throughput breaches as a result of outages or liquidity issues, then the Bank as operator of the CHAPS System will contact the Bank's FMI Division who may in turn, consult the matter will be referred to the Prudential Regulation Authority and/or other line regulators as appropriate.



## Section 1: Review Process

Each Participant or prospective Participant shall be entitled to invoke the Review Process in respect of a Relevant Decision affecting it.

### Review Process

1. Within 30 (thirty) days after the Bank has notified the Participant or prospective Participant of a Relevant Decision, the Participant or prospective Participant may give written notice to the Bank of its wish to initiate the Review Process.
2. Within 20 (twenty) working days following the receipt of the notice referred to in paragraph 1 above, the Bank shall convene a panel consisting of one or more of the non-executive members of the Board (the Review Panel) and request such panel to review the Relevant Decision.
3. Following receipt of the request referred to in paragraph 2 above, the Review Panel shall consider the reasons given for the Relevant Decision and shall notify both the Bank and the affected Participant or prospective Participant of its findings.
4. 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.
5. 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.
6. If the decision is remitted to the Bank by the Review Panel, the Bank shall notify the Participant or prospective Participant of its final decision following the conclusion of its further review of the remitted decision.
7. If the Review Panel affirms the Relevant Decision, the Relevant Decision shall stand.
8. Without prejudice to Part D (changes to this CHAPS Reference Manual and the CHAPS User Documents) of Chapter IV 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.

## **PART D: CHANGES TO THIS CHAPS REFERENCE MANUAL, THE CHAPS USER DOCUMENTS AND THE PARTICIPATION AGREEMENT**

### *Changes to the CHAPS Reference Manual and the CHAPS User Documents*

1. The provisions of this CHAPS Reference Manual (or any component part of this CHAPS Reference Manual, including the CHAPS Rules) and any CHAPS User Document may be varied by the Bank at any time upon written notice to each Participant to that effect without the concurrence of any of the Participants. Any such 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 necessary.

### *Changes to the CHAPS Timetable*

2. Without prejudice to paragraph 1 above, the Bank generally seeks to operate the CHAPS System in accordance with the CHAPS Timetable. 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 Participants. The Bank shall notify Participants of any such changes in accordance with the communication procedures specified from time to time in the CHAPS Operational Reference Manual.

### *Consultation*

3. In maintaining the CHAPS Reference Manual and CHAPS User Documents, the Bank's primary objectives are aligned with its mission and the governance objectives set out in the Overview.
4. Pursuant to paragraphs 1 and 2 above the Bank reserves the right to make changes to the CHAPS Reference Manual without prior consultation and to introduce any amendments with immediate effect, if necessary.
5. However, the Bank will normally consult with Participants in respect of proposed changes to the CHAPS Reference Manual and/or any of the CHAPS User Documents
6. In respect of prospective changes, the Bank may, but is not under any obligation to, consult Participants and other relevant stakeholders. The Bank will determine in its absolute discretion the period of any consultation, and whether the consultation should be on either or both of the substance of the proposed changes and on the literal text of the proposed changes.
7. In determining the period for any consultation the Bank will consider a number of factors including: (i) the extent, materiality and complexity of the proposed changes; (ii) whether the proposed changes will require Participants to amend their own systems or revise existing legal arrangements with Customers or otherwise; (iii) whether the proposed changes will require Relevant Entities (as Indirect Participants) to amend their own systems or revise existing legal arrangements with End Users or otherwise; and (iv) the period of notice that the Bank proposes to give.
8. The Bank would not normally consult on changes of a clarificatory, minor or non-material nature or which correct any inaccuracy. Such changes will be made from time to time when a new CHAPS Reference Manual is published or a revised version of the relevant CHAPS User Document is issued by the Bank.
9. The Bank may initiate changes to the CHAPS Reference Manual and CHAPS User documents and Participants may propose changes to the Bank.
10. The Bank will, where appropriate, publicly disclose changes on its website.

11. Paragraphs 3 to 10 inclusive shall apply *mutatis mutandis* to changes to the Participation Agreement.

#### **PART E: DATA PROTECTION**

1. This Part E sets out the obligations of both parties arising from the applicable Data Protection Legislation and related applicable laws, as it applies to the processing of personal data by either party as a result of, or in connection with the CHAPS Participation Agreement and/or the CHAPS Reference Manual.
2. For the purposes of this Part E “personal data”, “processing”, “data controller” and “data processor” shall have the meanings ascribed to them in the Data Protection Legislation. The use of the term “European Economic Area” in this context includes the United Kingdom.
3. Both parties agree and acknowledge that they will duly observe all their obligations under the Data Protection Legislation which arise in connection with this Part E.
4. Each 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 the CHAPS Reference Manual, it may be necessary for the Bank to process DPA Data. Notwithstanding clause 6 below, the parties 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 the CHAPS Reference Manual.
5. The personal data that the Bank may process pursuant to and for the purposes of the CHAPS Participation Agreement and/or the CHAPS Reference Manual may include names, e-mail addresses, work addresses, home addresses, phone numbers, job titles, relating to the Participant Staff or individual customers, and/or account and transaction details relating to individual customers of the CHAPS Participant.
6. Notwithstanding any other provision of this Part E, the parties agree that the Bank shall act as a data controller when it processes the personal data received pursuant to and for the purposes of the CHAPS Participation Agreement and/or the CHAPS Reference Manual:
  - (i) for its own purposes including in its role as the operator of CHAPS and/or its capacity as a monetary authority;
  - (ii) for it to comply with applicable laws and legal requirements;
  - (iii) for conducting risk tiering and analysis for the purposes of HVPS services and CHAPS operation;
  - (iv) for it to make disclosure as necessary to comply with a legal or regulatory requirement or as the Bank thinks reasonably necessary; and
  - (v) for the purposes of crime reduction including:
    - a) the prevention or detection of crime, or
    - b) the apprehension or prosecution of offenders.

In such cases, the Bank shall determine solely the manner and processing of the personal data.

7. The Bank may retain the personal data for as long as reasonably necessary or as required in order to comply with a legal requirement.

8. As data controller, both the Bank and the Participant agree and acknowledge that they shall be responsible for their own compliance obligations as a data controller, including to:
- (i) implement such measures and perform or receive the HVPS Services (as applicable) in compliance with the Data Protection Legislation;
  - (ii) 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
  - (iii) where appropriate, promptly refer to the other party any requests, from: (i) data subjects in regards 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.
9. Where DPA Data is shared between the Participant and the Bank each acting as a data controller:
- (i) 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 Part E; and
  - (ii) the Data Recipient will process the DPA Data in accordance with the Data Protection Legislation and this Part E.

## **Annex A –Transitional Specification Arrangements<sup>14</sup>**

This Annex A to CHAPS Reference Manual (**'Annex A'**) comprises of three Parts:

- Part 1 – Purpose of Annex A
- Part 2 – Annex A Glossary
- Part 3 – Annex A Terms and Conditions

### **Part 1 – Purpose of Annex A**

#### **Background**

In the United Kingdom the Financial Services (Banking Reform) Act 2013 ('the Act'), which amended the Financial Services and Markets Act 2000, introduced a ring-fence around retail deposits held by UK banks, with the aim of separating certain core banking services ('core services' as defined under Part 9B of the Act) from wholesale and investment banking services. UK Banking groups are required to make all the necessary arrangements in order to comply with the respective ring-fencing requirements by 1 January 2019 at the latest.

A number of CHAPS Direct Participants (hereinafter the 'Ring Fencers') fall under the ring fencing regime and have to separate their banking activities between into separate legal entities, one or more of which would be a 'Ring-Fenced body' ('RFB') (as defined under section 142A of the Act) and Direct Participants to CHAPS.

The Ring Fencers have formulated RF Technical Implementation plans to allow them to test the operational robustness and efficiency of the settlement arrangements that are intended to apply once RFBs commence their core services as CHAPS Direct Participants.

#### **Purpose of Annex A**

Annex A performs the following functions:

- It describes the additional requirements and obligations that the Ring Fencers need to comply with in order to operate within the CHAPS System until their legal separation into two or more entities (one or more of which would be a RFB);
- It describes the RF Technical Implementation plans that the Ring Fencers have formulated; and
- It defines the duration for the RF Technical Implementation plans.

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<sup>14</sup> For the avoidance of doubt, this Annex A relates only to those entities identified as "Ring Fencers".

## **Part 2 – Annex A Glossary**

For the purposes of this Annex A, all the definitions set out in CHAPS Reference Manual apply along with the additional definitions set out below. In the event of a conflict, these Annex A definitions will take precedence.

### **Core services**

Core services are the banking services defined in section 142C of Act. The Act uses the term 'Core services' to refer to those banking services that are considered so important that their uninterrupted provision must be protected through the ring-fence.

### **Ring-Fenced body ('RFB')**

A Ring-Fenced body ('RFB') is a UK institution which falls under the definition of section 142A of the Act in terms of the banking services it provides.

### **Ring Fencer**

A CHAPS Direct Participant that has to comply with the ring fencing regime and therefore has to separate its banking activities between separate legal entities, one or more of which would be a RFB and Direct Participants in the CHAPS System.

### **RF Technical Implementation period**

The period before 1 January 2019 during which a Ring Fencer's RF trialling plans will operate. The period will end with the legal separation of the Ring Fencer into separate legal entities, one or more of which would be a RFB.

### **RF Technical Implementation plans**

The plans that a Ring Fencer has formed in order to be able to test the operational robustness and efficiency of the settlement arrangements that it intends to apply once its RFB/s commence/s its/their operation as CHAPS Participant/s.

## **Part 3 – Annex A Terms and Conditions**

### **A. RF Technical Implementation plans**

In accordance with paragraph 30 of Section 7, Part A, Chapter III of this CHAPS Reference Manual each Participant can have only one 'Primary BIC' for routing payments through CHAPS, which must match its Settlement Account BIC. Exceptionally and only for the RF Technical Implementation period, each Ring Fencer will be allowed to hold an additional 'Primary BIC' for routing payments through the CHAPS System, which must also be linked to a separate Settlement Account owned by that Ring Fencer at the Bank of England.

For the introduction of a second 'Primary BIC' the standard testing and deployment approach of onboarding would be followed. This will include go-live and contingency weekend activities with associated Controlled Starts.

### **B. Sortcode & Account Migration**

Following the RF Technical Implementation, sort codes and underlying customer accounts will be re-associated between the two Participations (i.e. the sortcode to BIC alignment will change) over a period of time using the standard existing EISCD process to notify changes to the CHAPS Participants.

### **C. Relevant Legal and Regulatory Approvals**

Each affected Ring Fencer hereby warrants:

- (iii) that it has received no proposed or actual objection, formal or otherwise from the Prudential Regulatory Authority or any other relevant Regulatory Authority in respect of its ring-fencing arrangements, and
- (iv) that it will provide and continue to provide upon reasonable request, notification to the Bank with respect to any regulatory or court authorisations and/or consents received in relation to its ring-fencing and structural reform activities.

### **D. Precedence and Expiration of Annex A**

This Annex A applies only to Ring Fencers and only during the RF Technical Implementation period.

In the event of a conflict between this Annex A and CHAPS Reference Manual and/or any of the User Documents, this Annex A will take precedence. For the avoidance of doubt, this Annex A will be deemed to have expired as at 1st January 2019.