

# RULE K5

## U.S. BULK EXCHANGE SYSTEM MANUAL BALANCING AND SETTLEMENT

2018 CANADIAN PAYMENTS ASSOCIATION

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## IMPLEMENTED

September 20, 1989

## AMENDMENTS PRE-NOVEMBER 2003

September 23, 1992, September 29, 1994, March 23, 1995, March 25, 1996, April 7, 1997, May 26, 1997, October 7, 1999, May 7, 2000, July 24, 2000, December 4, 2000 and November 29, 2001.

## AMENDMENTS POST-NOVEMBER 2003

1. Section 9(a) approved by the Board June 29, 2004, effective January 5, 2005.
2. Amendments to allow Direct Clearers to designate the Region to perform the manual balancing procedures for the National Electronic Bulk Exchange Point and to remove the requirement for manual balancing totals to be rounded to the nearest thousand, approved by the Board June 6, 2007, effective August 6, 2007.
3. Consequential amendments to Appendix III to remove references to US Dollar EDI, resulting from the removal Rule K7, approved by the Board November 27, 2008, effective January 26, 2009.
4. Amendments to reduce the number of mandatory USBE Manual Balance Simulations per year, approved by the Board October 14, 2010, effective December 13, 2010.
5. Amendments to Appendix III, Page 1 to add Stream I and R, approved by the Board October 11, 2012, effective December 10, 2012.
6. Amendments to accommodate the removal of "L" stream, approved by the Board October 3, 2013, effective January 2, 2014.
7. Consequential amendments to accommodate the use of ISO 20022 Messages, approved by the Board February 18, 2016, Effective April 18, 2016.
8. Amendments to section 6 to replace operational committee names ('National Clearings Committee' to 'Senior Operational Committee') to reflect the restructuring of operational committees. Approved by the Board December 1, 2016, effective January 3, 2017.
9. Amendments to add Stream O and S, approved by the Board September 28, 2018, effective November 27, 2018.

## Introduction

1. This Rule outlines procedures applicable in the event of a National Failure of the USBE system necessitating manual balancing and Settlement at any or all Bulk Exchange Points.

## Definitions

2. In this Rule,
  - a. "Bulk Exchange Point" means a Regional Settlement Point at which all Direct Clearers have agreed to receive U.S. dollar paper Items; or the National Electronic Bulk Exchange Point;
  - b. "Clearing Log" or "Log" means a report recapping Payment Items exchanged between Direct Clearers;
  - c. "Direct Clearer" means each Member that (i) meets the requirements of section 10.01 or 10.02 of the CPA Clearing By-law, (ii) settles for Items drawn on or payable by it through a settlement account at the Bank of Canada, and (iii) is a Participant at one or more Regional Settlement Points; Direct Clearer includes a Group Clearer unless the context otherwise requires; (CPA By-law No.3)
  - d. "Item" means a Payment Item;
  - e. A "National Failure" is deemed to be in effect when the USBE host computer is inoperative or the complete communications link affecting all USBE regions has failed;
  - f. "Payments Contact" means the designated individual or department at a Direct Clearer responsible for effecting USBE Settlement in accordance with Rule K1;
  - g. "Regional Clearing Association" or "RCA" means, with respect to a Regional Settlement Point, the association of Members established pursuant to section 2 of CPA By-law No. 3 (CPA By-law No.3);
  - h. "Regional Settlement Point" means each location in Canada designated by the Board for the establishment of a Regional Clearing Association (CPA By-law No. 3)

## Scope

3.
  - a. The manual balancing and Settlement procedures contained in this Rule shall be invoked by an officer of the CPA where a National Failure is in effect and the CPA determines that migration to manual balancing for the purpose of Settlement is required.

- b. Once invoked, these procedures shall be in force at least until Settlement for that day has been effected and until further notice is received from the CPA.

### **National Electronic Bulk Exchange Point**

4. Each Direct Clearer shall designate the Region that will carry out the manual balancing and Settlement procedures for the National Electronic Bulk Exchange Point.
5. The Region designated in section 4 shall perform separate manual balancing and settlement procedures for the National Electronic Bulk Exchange Point as set out in this Rule.

### **Simulations**

6. RCAs at U.S. Bulk Exchange Points shall concurrently undertake a simulation of the manual system, in parallel with the automated system. National USBE simulations shall be co-ordinated by the CPA, in consultation with RCA Chairpersons at U.S. Bulk Exchange Points, at pre-determined points in time. The number of the National USBE simulations shall be determined by the CPA each year in consultation with the Senior Operational Committee, but shall occur at least once per calendar year.

### **CPA Notification**

7. An officer of the CPA shall immediately notify an officer of each RCA (i.e., Chairperson, Vice-Chairperson or Secretary) at every Bulk Exchange Point upon the invoking of the manual balancing and Settlement procedures.

### **Forms Required**

8. The forms required from each participating Direct Clearer at a Bulk Exchange Point for the manual balancing and Settlement function include:
  - a. Clearing Logs (sample attached as Appendix I).
  - b. USBE Exchange Statement (refer to Appendix II).
  - c. USBE Paper Exchange Report (refer to Appendix III).
  - d. USBE Electronic Exchange Report (refer to Appendix III).

### **Manual Balancing and Settlement Procedures**

9. In the event of a National Failure of the USBE system, each participating Direct Clearer at a Bulk Exchange Point shall:

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- a. Ensure that Clearing Logs continue to be prepared and included with its U.S. dollar Item deliveries to other Direct Clearers. Clearing Logs may be generated off-line via a USBE terminal or prepared manually in accordance with Rule B2.
- b. Prepare, for each other participating Direct Clearer, and non-participating Direct Clearer which receives its Items outsourced from those of its Exchange or Settlement Agent, a "recap" Clearing Log representing the total value and volume of U.S. dollar Items delivered to that Direct Clearer at that Bulk Exchange Point for the exchange period.
- c. Prepare a USBE Exchange Statement as follows:
  - i. From the "recap" Clearing Logs prepared pursuant to subsection 9(b), record the total value of Items delivered to each Direct Clearer in the "TOTAL DOLLARS SENT" column of the USBE Exchange Statement.
  - ii. From the Clearing Logs it received in that exchange period, enter the total value of Items accepted from each Direct Clearer in the "TOTAL DOLLARS RECEIVED" column of the USBE Exchange Statement.
  - iii. For each Direct Clearer, subtract the "TOTAL DOLLARS SENT" from the "TOTAL DOLLARS RECEIVED" column and record the difference in the "NET SETTLEMENT DUE" column of the USBE Exchange Statement.

Where a Direct Clearer acts as Exchange Agent or Settlement Agent for one or more other Direct Clearers, it shall prepare a USBE Exchange Statement on behalf of each of its client Direct Clearers.

- d. For each USBE Exchange Statement prepared, verify the net settlement figures obtained pursuant to subsection 9(c)(iii) with the other participating Direct Clearers at that Bulk Exchange Point and resolve any discrepancies no later than 14:15 hours Ottawa time at the Montreal, Toronto, Winnipeg and Calgary Bulk Exchange Points and 14:30 hours Ottawa time at the Vancouver Bulk Exchange Point.
- e. Forward the "Net Settlement Due" amounts (from Appendix II) to its designated Payments Contact and, where the Direct Clearer acts as an Exchange Agent, the Payments Contact(s) of its client Direct Clearer(s). The "Net Settlement Due" amounts may be forwarded via facsimile transmission of the USBE Exchange Statement(s) or by telephone.

### USBE Paper and Electronic Exchange Reports and Report Preparation

10. a. While the manual balancing and Settlement procedures are in effect, each

participating Direct Clearer at a Bulk Exchange Point shall maintain manual daily records of the exchanges in which it participated using the USBE Paper and Electronic Exchange Reports contained in Appendix III. These records shall be maintained for a period of two years.

- b. The daily USBE Paper and Electronic Exchange Reports are to be completed in the following manner:
  - i. Maintain two separate reports, one for Items delivered and one for Items received.
  - ii. Transcribe information from the relevant Clearing Logs.

### **National Summary U.S. Bulk Exchange - Completion of Form**

11. Upon receipt of all required "Net Settlement Due" amounts pursuant to subsection 7(e), each Payments Contact shall complete the USBE National Summary Report (refer to Appendix IV) in order to determine its net settlement value position with respect to each other Direct Clearer across all Bulk Exchange Points. Where a Direct Clearer acts as Settlement Agent for another Direct Clearer(s), its Payments Contact shall complete a USBE National Summary Report for each of its client Direct Clearer(s).

### **Settlement**

12. Based on the net settlement values calculated pursuant to section 11, Settlement shall be completed as detailed in Rule K1, section 26.
13.
  - a. Copies of all USBE Paper and Electronic Exchange Reports delivered during the National Failure and USBE National Summary Report shall be forwarded to the CPA on the day of the manual balancing and Settlement function. Clearing Logs prepared during the manual balancing shall be retained by the Direct Clearer for future reference.
  - b. The CPA shall input to the statistical database those records of exchanges that it receives relating to the period that the system was inoperative.

APPENDIX I - SAMPLE CLEARING LOG

REGION: TORONTO EXCHANGE: yy/mm/dd  
SENDER: BANK OF MONTREAL DELIVERY: 1  
RECEIVER: BANK OF NOVA SCOTIA SOURCE: 1

----- DETAILS ----- TOTALS -----

VOLUME	STREAM	VALUE	VOLUME	STREAM	VALUE
1,000	E	10,000	1,000	E	10,000
50	U	5,000	50	L	5,000
		TOTAL	1,050		15,000

WARNING: THIS IS A LOCALLY GENERATED CLEARING LOG.

APPENDIX II - SAMPLE USBE EXCHANGE STATEMENT

U.S. BULK EXCHANGE POINT		DIRECT CLEARER		EXCHANGE DATE	
SETTLEMENT AMOUNTS  NAME OF DIRECT CLEARERS	TOTAL DOLLARS SENT	TOTAL DOLLARS RECEIVED	NET SETTLEMENT DUE		
			RECEIVE FROM THEM	WIRE PAY OR TO THEM	
			+	-	
			+	-	
			+	-	
			+	-	
			+	-	
			+	-	
			+	-	
			+	-	
			+	-	
			+	-	
			+	-	



**APPENDIX III - USBE PAPER EXCHANGE REPORT**

ITEMS DELIVERED/RECEIVED (*indicate delivered or received*)  
 BY: \_\_\_\_\_ (Direct Clearer) IN \_\_\_\_\_ BULK EXCHANGE POINT  
 FOR THE FOLLOWING EXCHANGE DATE(S): \_\_\_\_\_

DIRECT CLEARER ADHÉRENT	QUALIFIED QUALIFIÉE (E) NUMBER/NOMBRE VALUE/VALEUR	UNQUALIFIED NON ADMISSIBLES (U) NUMBER/NOMBRE VALUE/VALEUR	COMPUTER REJECTS REJETS (Z) NUMBER/NOMBRE VALUE/VALEUR	TOTAL PAPER DEBITS NUMBER/NOMBRE VALUE/VALEUR
001 Bank of Montreal				
002 Bank of Nova Scotia				
003 Royal Bank of Canada				
004 Toronto-Dominion Bank				
006 National Bank of Canada				
010 C.I.B.C.				
016 HSBC Bank Canada				
039 Laurentian Bank				
219 Alberta Treasury Branches				
815 La Caisse centrale Desjardins				
869 Central 1 Credit Union				
TOTAL NUMBER/NOMBRE Total Value/Valeur				

**APPENDIX III (CONT'D) – USBE ELECTRONIC EXCHANGE REPORT**

ITEMS DELIVERED/RECEIVED (*INDICATE DELIVERED OR RECEIVED*)

BY: \_\_\_\_\_ (Direct Clearer) AT NATIONAL BULK EXCHANGE POINT:  
FOR THE FOLLOWING EXCHANGE DATE(S):

Direct Clearer Adhérent	AFT/TAF				*Image (ICP)/Image (PSI)				Total Electronic Debits & Credits  Number/Nombre Value/Valeur	Grand Total (Paper and Electronic) Debits & Credits  Number/Nombre Value/Valeur
	Debits (D) Number/Nombre Value/Valeur	ISO AFT Debits (AFTD) Number/Nombre Value/Valeur	Credit (C) Number/Nombre Value/Valeur	ISO AFT Credit (AFTC) Number/Nombre Value/Valeur	Image (I) REGIONAL Number/Nombre Value/Valeur	Image Return Image Retour (R) REGIONAL Number/Nombre Value/Valeur	Image (O) NATIONAL Number/Nombre Value/Valeur	Image Return Image Retour (S) NATIONAL Number/Nombre Value/Valeur		
001 Bank of Montreal										
002 Bank of Nova Scotia										
003 Royal Bank of Canada										
004 Toronto-Dominion Bank										
006 National Bank of Canada										
010 C.I.B.C.										
016 HSBC Bank Canada										
039 Laurentian Bank										
219 Alberta Treasury Branches										
815 La Caisse centrale Desjardins										
869 Central 1 Credit Union										
TOTAL NUMBER/NOMBRE  Total Value/Valeur										

\*ICP items are considered electronic solely for the purpose of manual balancing

APPENDIX IV - USBE NATIONAL SUMMARY REPORT

DIRECT CLEARER		EXCHANGE DATE					
DIRECT CLEARERS							
BULK EXCHANGE POINT							
TO MONTREAL FROM	-	-	-	-	-	-	-
	+	+	+	+	+	+	+
TO TORONTO FROM	-	-	-	-	-	-	-
	+	+	+	+	+	+	+
TO WINNIPEG FROM	-	-	-	-	-	-	-
	+	+	+	+	+	+	+
TO CALGARY FROM	-	-	-	-	-	-	-
	+	+	+	+	+	+	+
TO VANCOUVER FROM	-	-	-	-	-	-	-
	+	+	+	+	+	+	+
NATIONAL ELECTRONIC BULK EXCHANGE POINT	-	-	-	-	-	-	-
	+	+	+	+	+	+	+
RECEIVE FROM THEM							
	+	+	+	+	+	+	+
WIRE PAY TO THEM							
	-	-	-	-	-	-	-

CPA FAX NUMBER: 1 (613) 233-3385