

CSD Drafting for P249 'Revision of Banking Arrangements under the BSC'

This document sets out proposed drafting to the relevant Code Subsidiary Documents (CSDs) to support P249. Please note that this drafting includes a housekeeping change to the FAA URS, which we would implement at the same time as P249 should it be approved by the Authority.

FAA Service Description

Add a requirement into section 6.1 'Establishment of Accounts' for the FAA to enable monies to be invested in Investment Accounts:

6.1 Establishment of Accounts

The FAA shall manage the operation of the BSC Accounts, including (without limitation):

- (a) the Clearing Account (which includes the daylight exposure facility) to and from which all payments determined under this Service Description are to be made;
- (b) the Reserve Account to which all Cash Deposits and proceeds of Letters of Credit are paid, settled and/or reduced and from which funds are transferred to and back as Overnight Deposits;
- (c) a Collection Account to which payments from Trading Parties are made;
- (d) a Borrowing Account from which the FAA may make permitted Drawings under the Credit Facility; and
- (e) any other account that the BSC Clearer establishes with the BSC Banker on the recommendation of the FAA, to enable the BSC Clearer to perform any obligations imposed on it by the BSC.

The FAA shall also establish on behalf of the BSC Clearer the means by which to facilitate and manage the transfer of Reserve Account monies between the Reserve Account and Investment Accounts.

For the avoidance of doubt, the Clearing Account is the only BSC Account from which payments to Payment Parties can be made; subject to paragraph 6.2 all other accounts under paragraph 6.1 (b) to (e) inclusive are used solely for the purpose of transfer of funds to the Clearing Account from which payments are made. The FAA shall not at any time instruct the BSC Banker to transfer any sum from a BSC Account to any other account unless such account is a Settlement Account or such account is otherwise authorised by BSCCo.

In Section 6 'Operate Banking Arrangements', insert a new paragraph 6.2.3 into 6.2 'Banking Activities' after the existing paragraph relating to discretionary Overnight Deposits:

6.2 Banking Activities

6.2.1 The FAA shall, in consultation with the BSC Clearer, agree with the BSC Banker a process of daily sweeps at the end of each Working Day in the following order:

- (a) Sweep the Collection Account into the Clearing Account; and
- (b) in the event that there is a debit balance on the Clearing Account after a) above, sweep such an amount as is necessary from the Borrowing Account to the Clearing Account in order that the closing balance on the Clearing account is nil.

For the avoidance of doubt, if, following a) and b) above, there is a credit balance on the Collection Account, the FAA shall instruct the BSC Banker to refrain from further sweeping.

6.2.2 The FAA may, at its sole discretion, instruct the BSC Banker to place such amounts as it may determine from time to time, from the Reserve Account on Overnight Deposit for the purposes of earning interest.

6.2.3 The FAA shall, upon instruction from BSCCo being received by 12:00 on a Working Day, -and within the same Working Day as receiving the instruction, instruct the BSC Banker by 14:00 the same Working Day to place such amounts as determined by BSCCo from the Reserve Account into an Investment Account.

6.2.~~43~~ The FAA shall ensure that payments to BSC Creditors are made by way of overdraft prior to receipt of funds using the daylight exposure facility.

6.2.~~54~~ The FAA shall manage the BSC Accounts, including daily reconciliation of each such account and prompt clearing of all reconciling items

Note that 'Investment Account' will be defined in the BSC.

P249 intends that the investment return is apportioned in the same way as normal interest on the Reserve Account, that is, in proportion to each Party's amount of cash lodged in the Reserve Account. It will be paid out to Parties in accordance with section 10.2 'Interest'.

FAA User Requirements Specification

The FAA URS does not currently describe the existing process whereby the FAA makes discretionary overnight deposits of monies in the Reserve Account. However, in Appendix I the URS makes an assumption (drawn from the FAA Service Description) that the FAA 'will actively seek to maximise return on the cash deposits held as Credit Cover'.

For completeness the URS will be modified to reference the existing process for overnight deposits.

Add requirement for FAA to maintain suitable arrangements for Investment Accounts:

2.1.9 Maintain BSCCo Bank Accounts

Requirement ID: FAA-R009	Status: M	Title: Maintain BSCCo Bank Accounts	Source: FAA SD <u>68.1</u> RETA Sch 4
Mechanism: Manual User entered parameters	Frequency: On-going	FAA Interface Ref: FAA-I008 FAA-I009 FAA-R014 FAA-R015 FAA-R016 FAA-R017 FAA-R045 <u>FAA-R076</u>	
Requirement: The current Clearing account, Reserve account and Collection accounts arrangements will remain in place. Barclays will act as the BSCCo Clearing Banker and as such will manage the clearing and reserve accounts on behalf of the FAA. Collection Accounts will be held at the following banks: <ul style="list-style-type: none">• Barclays Bank Plc• Lloyds Bank Plc• National Westminster Bank Plc• HSBC• Royal Bank of Scotland The FAA will arrange for BSC debtor payments to be paid into one of the five Collection Accounts. Once funds due have been received, the FAA will instruct the Collection Banks to transfer the monies to the BSC Clearing Account. BSC creditor payments will then be made to the creditor BSC Parties from the Clearing Account. Mandates will be signed with each of the banks detailing authorised account signatories. All instructions to the banks will be made in accordance with the mandate. <u>The FAA shall also establish on behalf of the BSC Clearer the means by which to facilitate and manage the transfer of Reserve Account monies between the Reserve Account and Investment Accounts.</u>			

Add a new requirement FAA-R076 for investment of Credit Cover:

Requirement ID: FAA-R076	Status: M	Title: Invest Credit Cover	Source: FAA SD 6.2
Mechanism: Manual		Frequency: Ad-hoc	FAA Interface Ref: FAA-I038
<p>Requirement:</p> <ol style="list-style-type: none"> The FAA will seek to maximise return on the cash deposits held in the Reserve Account by the following means: <ol style="list-style-type: none"> At its own discretion, the FAA may instruct the BSC Banker to place amounts as it may determine from the Reserve Account into an Overnight Deposit with the BSC Banker for the purposes of earning interest. Upon instruction from BSCCo, the FAA shall, within <u>by 14:00 on</u> the same Working Day as receiving the instruction, instruct the BSC Banker to place such amounts as determined by BSCCo into an Investment Account. The FAA will consider any return as being part of the overall interest determined for the Reserve Account. 			

Modify the URSs' description of compound interest in Appendix I to better reflect the process followed by the FAA in accordance with the Code and Service Description. This is an opportune housekeeping change logged following the implementation of P235 'Aligning BSC requirements with the calculation of reconciliation interest performed by the Funds Administration Agent'. Similar changes have been implemented in the FAA Service Description as part of the February 2010 release.

APPENDIX I – ASSUMPTIONS

15. ~~Compound interest calculated on a daily basis will be applied to the reconciliation adjustment amounts payable or receivable, at BSC Banker's Base Rate from the initial calendar Payment Date up to but not including the current reconciliation calendar Payment Date.~~

Interest will be applied to the reconciliation adjustment amounts payable or receivable, and this interest will be calculated on a compound daily basis in respect of the period from (and including) the initial calendar Payment Date up to (but not including) the current reconciliation calendar Payment Date by applying the BSC Banker's Base Rate:

(a) As prevailing at 00.00 hours on the relevant day on a daily basis up to (but not including) the Advice Note Date; and

(b) As prevailing at 00.00 hours on the Advice Note Date on a daily basis up to (but not including) the current reconciliation calendar Payment Date.

EPFAL IDD Part 2

Create new interface requirement for the instruction between BSCCo and the FAA:

Requirement ID: FAA-I038	Source: BSCCo	Title: Investment Instruction	ITT Reference: FAA SD 6.2
Mechanism: Manual, e-mail		Frequency: Ad-hoc	Volumes: Medium – up to 8 instructions per month
Interface Requirement: BSCCo issues an instruction to the FAA to transfer a portion of monies in the Reserve Account to an Investment Account for the purposes of earning interest. Information will include: <ul style="list-style-type: none">• Bank details• Investment Account details• Amount to be transferred• Term of deposit			

Add a new row to the table of Inbound Interfaces in section 3.2:

Agent-ID	Name	Dirn	User	Type
FAA-I038	Investment Instruction	From	BSCCo	Manual, e-mail

BSC Agent Process Model

Within the diagram FAA 3 'Manage Banking Arrangement' is the process 'FAA request Transfer Funds to Overnight Deposit'. This diagram needs to be modified so as to reference the process for Investment Accounts, as follows:

- add a new external event 'BSCCo investment instruction' that feeds into the existing 'FAA Manage Banking Facilities';
- modify the description of 'FAA Manage Banking Facilities' to reference both the Overnight Deposit and the Investment Account facilities relating to the Reserve Account;
- link this to a new process in the FAA Banking Systems section for 'FAA request Transfer Funds to Investment Account'; and
- modify the description of the existing external event 'FAA Funds Transferred' to reference Investment Accounts as well as Overnight Deposits.