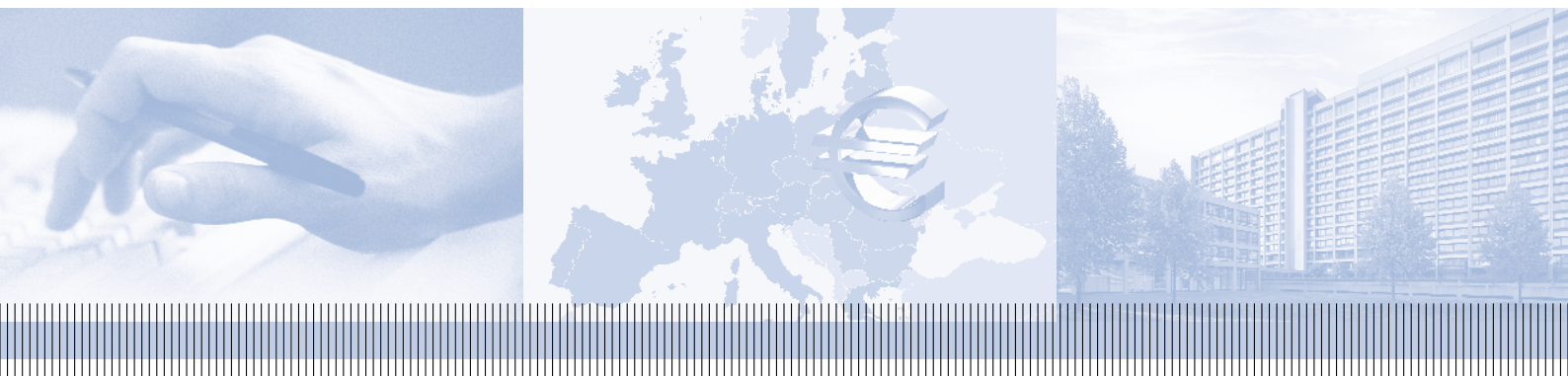


RETAIL PAYMENT SYSTEM (RPS)



Department Payments and Settlement Systems

Retail Payment System (RPS)

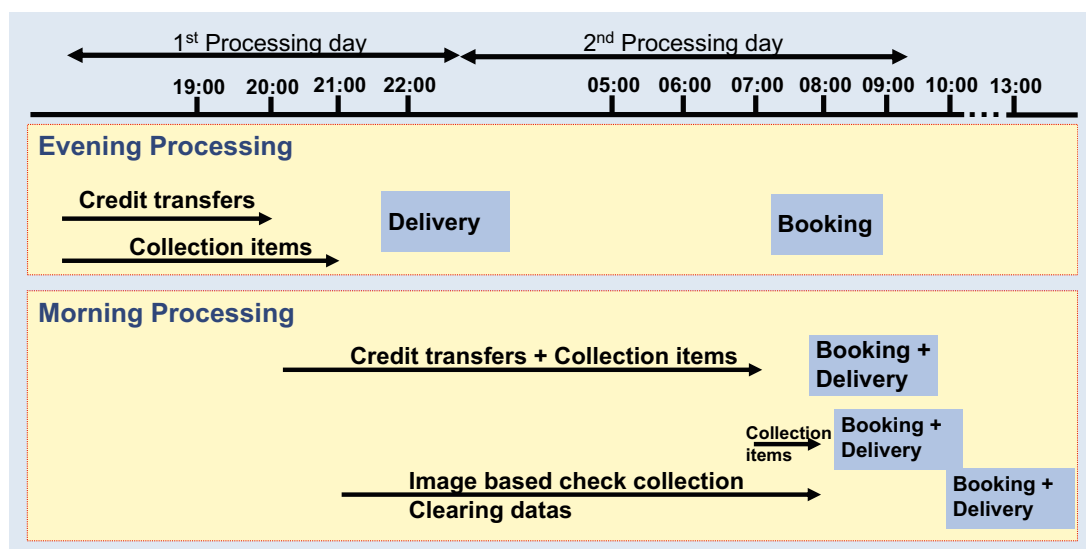
With its Retail Payment System (RPS), the Bundesbank provides a high performance and cost-effective payment infrastructure for the settlement of non-urgent domestic and cross-border retail payments. Small and medium-sized institutions, in particular, are active users of RPS for the settlement of credit transfers, cheques and direct debits. Notwithstanding the competition from other payment settlement agents the Bundesbank is held in high esteem by the banking industry as a reliable and neutral partner.

Since 3 November 2003, the Bundesbank has also offered its customers the opportunity to carry out cross-border retail payments quickly, efficiently, and cost-effectively using the national RPS communication infrastructure. For this purpose it linked its RPS to the STEP2 procedure of the Euro Banking Association (EBA).

All Bundesbank account holders are eligible to participate in the file-oriented RPS system. The gross settlement used in RPS prevents the payee from running any credit risk. The settlement of payments is float-free. In cooperation with the banking industry, the RPS procedure is constantly being enhanced. Each working day it is used to settle around 9.5 million transactions (amounting to almost € 7 billion) of which approximately 43% are credit transfers and roughly 57% are collection orders for direct debits and converted cheques.

Settlement of domestic retail payments using RPS

From a technical point of view, RPS is based on the procedures usually applied for the exchange of retail payments between credit institutions in Germany. Hence, domestic payments have to be available in DTA format (exchange of data media). Credit institutions



may only submit and deliver payment orders in file format via data telecommunication. The deployed communication protocols are FTAM, OFTP, SWIFTNet File Act and, as of February 2009, EBICS.

Payments are processed in several processing windows. Those submitted between 07.00 and 20.00 (cut-off time for credit transfers) or 09.00 and 21.00 (cut-off time for direct debit collection) are processed during the evening processing window. The equivalent values of the credit transfers received are blocked in the submitter's account from 19.00 onward, with recourse to available collateral where applicable. Actual processing of the payments is effected in the late evening. Once processing has been completed – at around 22.00 – the files with payments are sent to the participants via data telecommunication. On the next business day after submission, the blocks are lifted for credit transfers and the amounts are booked (submitted credit transfers and delivered collection items are debited, submitted collection items and received credit transfers are credited).

Payments submitted via data telecommunication between 20.00 and 07.00 (cut-off time for credit transfers) or 21.00 and 09.00 (cut-off time for direct debit collection) are processed during the morning processing window. This gives the participants the opportunity to immediately forward payments which arrive very late (for example, card payments). On this basis, it is even possible to achieve same-day processing as payments in the morning processing window can be settled, booked and transferred directly on the day they are received.

Clearing data records for payments from the image-based cheque collection procedure can only be transmitted from 21.00 on the previous day up to the 10.00 cut-off time on the current day. These payment transactions are booked and delivered from 13.00 on the current day.

Cut-off times

Evening processing	
■ Credit transfers	20.00
■ Collection items	21.00
Morning processing	
■ Credit transfers	07.00
■ Collection items	09.00
Clearing data records for payments from the image-based cheque collection procedure	10.00

All amounts are calculated gross in the RPS using the account held at the Bundesbank and show the individual sums of the submitted or delivered files.

Settlement of cross-border STEP2 payments (MT103+) using RPS

Since 3 November 2003, the Bundesbank's RPS has been linked to the STEP2 procedure of the Euro Banking Association (EBA) as a direct participant for the settlement of cross-border retail payments. STEP2 is a pan-European clearing system used for settling cross-border euro credit transfers which are compliant with the Pricing Regulation (Council Regulation 2560/2001) within the European Union. Cost-effective settlement is achievable

thanks to a high degree of automation and the use of market standards. STEP2 payments in MT103+ SWIFT message format must satisfy the following conditions:

- Cross-border payments between EEA member states
- Amount of up to €50,000
- Fee code is "SHA" (shared)
- Specification of the beneficiary's current (valid) IBAN (International Bank Account Number) and the BIC (Bank Identifier Code) of the beneficiary credit institution.

As indirect participants in STEP2, credit institutions participating in RPS are also able to effect cross-border euro payments by taking advantage of the communication infrastructure that is already used for processing domestic RPS payments.

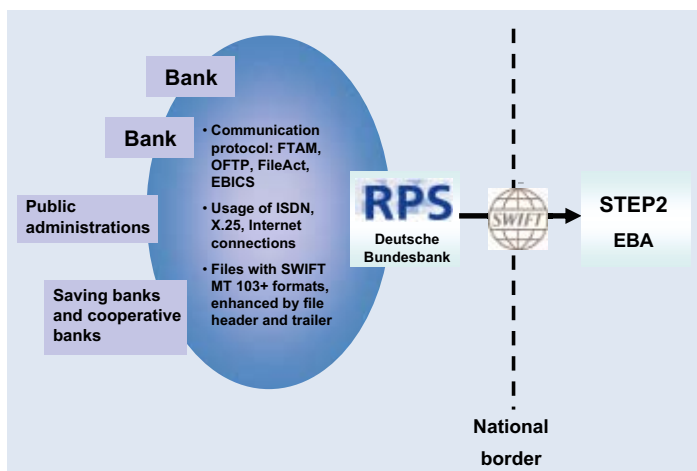
In this manner, economies of scale are realised from which participants can benefit in terms of synergy effects and reduced costs. Alongside credit institutions, STEP2 is also used by non-bank customers of the Bundesbank (eg public administrations) for making cross-border euro payments. In order to meet the aforementioned requirements, the Bundesbank has issued BICs and IBANs to its non-bank customers. The Bundesbank regards its active participation in STEP2 as its own competitively neutral contribution towards promoting European retail payments and offers this service primarily for smaller banks which do not have their own correspondent network.

The Bundesbank exercises two functions within STEP2. Firstly, as a direct participant, the Bundesbank offers other institutions the means to be an indirect participant in that it acts as an intermediary, submitting payments from these banks in STEP2 and receiving payments for them, then forwarding them on. Currently, 91 credit institutions (as at September 2008) are connected to STEP2 via the Bundesbank as indirect participants. The public administrations are also making great use of the RPS link to STEP2 to process their cross-border euro retail payments throughout Europe.

In addition to its function as a direct STEP2 participant, the Bundesbank acts, alongside other institutions, as an "entry point" for incoming STEP2 payments in Germany. It also delivers payments via RPS for recipients in Germany which are not registered as direct or indirect STEP2 participants.

Banks which decide to participate indirectly via the Bundesbank and which meet the technical requirements and successfully complete the usual authorisation tests can submit STEP2 payments in separate files until 20.00. The Bundesbank forwards these payments on the submission day itself to STEP2, where they are processed overnight and then delivered to the recipient or – if the recipient is not a direct participant – to his collection office on the morning of the next business day. The equivalent values of the submitted payment orders are blocked on the submission day on the submitter's account and at the start of the next business day the block is converted into a debit.

Payments received by the Bundesbank from STEP2 for their indirect participants as of around 08.30 are delivered in the morning (starting from around 12.00) of the day of receipt via data telecommunication as SWIFT MT 103+ messages and are simultaneously credited to the account of the indirect participant. Furthermore, it is possible to set up a separate SWIFT routing in RPS.



As part of its “entry point” function the Bundesbank also receives payments for other banks from STEP2 as of around 08.30 and forwards these before noon to the receiving bank, where the account is simultaneously credited. Prior to delivery, payments which are processed as part of the STEP2 procedure in the SWIFT MT103+ format are converted into the domestic DTA format, usually in accordance with procedural rules agreed within the Central Credit Committee (CCC) by Germany’s central banking associations. The converted DTA payments are then delivered via the defined DTA routing in a separate file, ie separated from “exclusively” domestic payments. At the participant’s request, files may also be delivered in SWIFT MT103+ format

using a separate SWIFT routing via data telecommunication.

Cheque collection procedure for credit institutions

With its cheque collection procedure, the Bundesbank offers credit institutions the opportunity to settle payment transactions arising from the paperless cheque collection procedure (BSE) and from the image-based cheque collection procedure (ISE) quickly, efficiently and cost-effectively. Thus, in its basics the cheque collection procedure is a completely paperless procedure without any need for the original cheque to be presented at the drawee credit institution. Although the use of cheques in Germany is on the decline, there remains an economic need for their continued use, especially in the case of large-value cheques. During the first six months of 2008, no fewer than 30,000 cheques with a combined value of € 1.6 billion were submitted for collection each working day and processed using the ISE procedure.

Paperless cheque collection procedure (BSE)

The paperless cheque collection procedure (BSE procedure) is used solely for cheques worth less than € 6,000. In this procedure, the countervalues of the cheques are collected in paperless form without any need for the original cheques to be presented. As a general

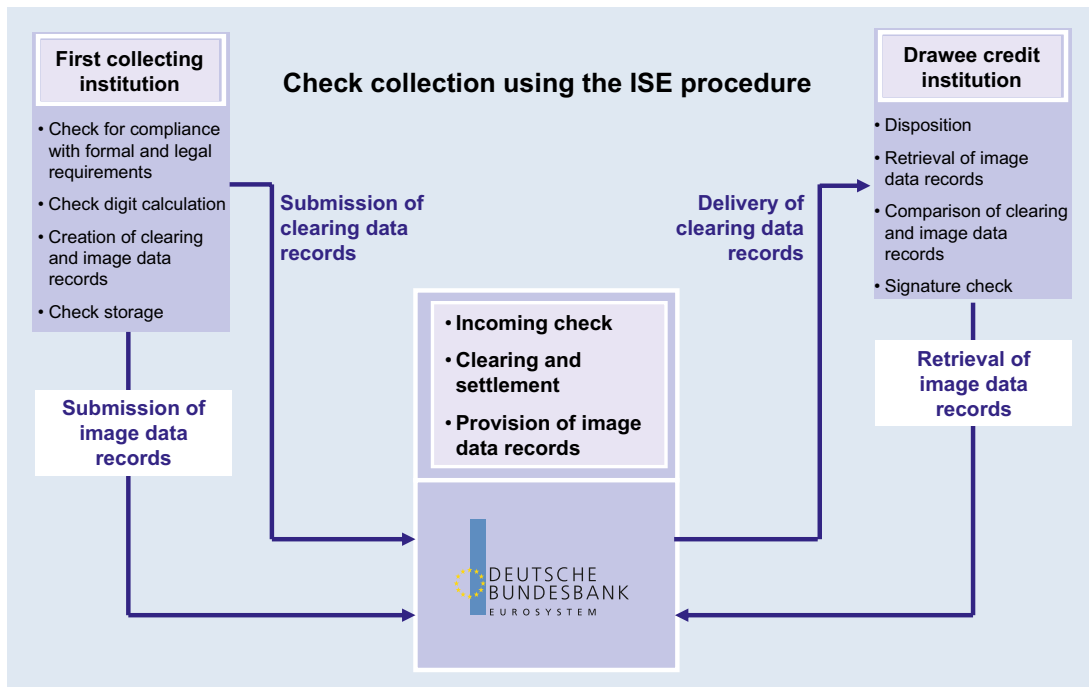
rule, cheque data has to be recorded and converted into electronic datasets by the first collecting institution. This first collecting institution also has to examine these cheques for compliance with formal and legal requirements. Credit institutions can collect the countervalue of BSE cheques either as a bilateral exchange through the Bundesbank's RPS or by using their own giro networks.

to the drawee credit institutions as participants in the clearing transactions and debits the equivalent values using the clearing data records in the RPS.

Image-based cheque collection procedure (ISE)

The amendment to the 1953 Regulation concerning clearing houses for cheque payments (Abrechnungsstellenverordnung), which was adopted on 13 October 2005, put in place the legal requirements for the introduction of the ISE procedure in Germany. According to this regulation, submission of a cheque in the form of an electronic image to the Bundesbank as the clearing house is equivalent to submitting the original.

In the ISE procedure, the Bundesbank acts as the clearing and settlement house in accordance with Article 31 of the Cheque Act (Scheckgesetz). Cheques for € 6,000 or more – as well as other collection items which do not meet the BSE criteria – must be submitted by the credit institutions as electronic images (ie completely displaying both the front and reverse side of the cheque) into the Bundesbank's ExtraNet. The corresponding clearing data records must also be submitted into the Bundesbank's RPS. The Bundesbank makes the submitted cheque images available



Further information can be obtained from: www.bundesbank.de > Payment systems
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