

**CANADIAN PAYMENTS ASSOCIATION**  
**ASSOCIATION CANADIENNE DES PAIEMENTS**

**Procedural Reference Document PRD-001**

**SETTLEMENT EXCHANGE TRANSACTION (SET)**

**June 2009**

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**PREAMBLE**

1. In an attempt to correct payment flow dislocation between the Automated Clearing and Settlement System (ACSS) and the Large Value Transfer System (LVTS), the LVTS Cash Management User Group (CMUG) has developed a new payment exchange transaction that will facilitate the exchange of LVTS funds for ACSS funds.

**SETTLEMENT  
EXCHANGE  
TRANSACTION**

2. The Settlement Exchange Transaction (SET) is an intra-day exchange of funds transaction whose purpose is to deal with the dislocation of settlement funds between the Automated Clearing and Settlement System (ACSS) and the Large Value Transfer System (LVTS). The SET involves an LVTS Participant sending LVTS funds to another LVTS Participant in exchange for ACSS funds on the same Business Day.

**PARTICIPANTS**

3. Each LVTS Participant wishing to complete a SET is responsible for finding another LVTS Participant with which to complete the desired exchange of funds. Each SET will involve only two LVTS Participants. Each Participant is responsible for ensuring that the transaction amount is within their institutions SET guidelines.

**TRANSACTION  
TIMEFRAME**

4. SETs will take place during the 'Pre-Settlement' cycle state but, if mutually agreed to between Participants, may be performed during the "Open for Payment Processing' cycle state.

**TAPED LINE**

5. Since the conversation establishing the terms of the SET will constitute the contract under which the SET is performed, it is strongly recommended that all discussions regarding terms of any SET be over taped lines, maintained under normal trading procedures.

**MT 205**

6. Once an LVTS Participant has found a counterparty to perform a SET (the Participant which is long LVTS funds initiates the exchange), the Participant will send an MT 205, with field 21 completed confirming that the payment is a SET and reflecting the terms thereof to the receiving Participant (an example of a S.W.I.F.T. MT 205 is attached as Exhibit I). Failure to send an MT 205 will constitute a default in performance under the SET, and the counterparty will have the option not to give an authorization to debit in ACSS.

**MT 299**

7. Upon receipt of the Payment Message (MT 205), the Receiving LVTS Participant shall send a S.W.I.F.T. MT 299 to the Sending LVTS Participant confirming the SET, acknowledging receipt of the LVTS Payment Message and confirming the authorization of the Sending LVTS Participant to enter an inter-member debit in the ACSS for that Business Day (An example of a S.W.I.F.T. MT 299 is set out in Exhibit II).

**ACSS DEBIT**

8. An Inter-Member Debit (paper form) is to be used for the ACSS payment (pre-authorization given verbally when the SET is initially agreed to and confirmed through the MT 299).

**SPLITTING OF SETS**

9. The maximum dollar amount which can be MICR encoded on paper items for settlement in ACSS is \$99,999,999.99. Any SET in the amount of \$100 million or greater must be split into multiple debits to allow for proper MICR encoding. The maximum amount for each Inter-Member Debit is \$90 million. For example, a SET for \$350 million is split into 4 separate debits 3 x \$90 million and 1 x \$80 million.

**LOCATION OF SET STAMP**

10. The LVTS Participant that creates the Inter-Member debit for the ACSS payment shall place a stamp with the word "SET" in the field that corresponds with field 21 (related reference/details) from the MT205. The Participant must also include the LVTS transaction reference number in field 20 (Transaction Reference Number) of the SET. This will ensure that the SET can be easily and consistently identified (an example of an Inter-Member debit along with the recommended placement of the SET stamp is attached as Exhibit III).

**SET CONFIRMATION**

11. LVTS Participants may choose to rely on "post confirmation of the exchange" where time constraints warrant such an approach.

**INTEREST RATE**

12. As a SET is to be used strictly for the correction of payment flow dislocation between ACSS and LVTS, there shall be no interest rate and/or fees applicable.

**EXHIBIT I****EXAMPLE OF SET MT 205**Example - MT 205 Financial Institution Transfer for Settlement Exchange Transaction

Status	Tag	Field Name	Example
User Header	103:108	103 Service Code (CAD) 108 Tranche Designation (1or 2 or blank)	ROYCCAT2 205CIBCCATT 103:CAD 108:2
M	20	Transaction Reference Number	(sender's reference)
M	21	Related Reference	LVTS SET PRD-001
M	32a	Value Date/Currency Code/Amount	961012CAD12000000,00
M	52a	Ordering Institution	ROYCCAT2
O	56a	Intermediary	
O	57a	Account With Institution	
M	58d	Beneficiary	/XXXXXXX* CANADIAN IMPERIAL BANK OF COMMERCE TORONTO
O	72	Sender to Receiver Information	

M – Mandatory

O – Optional

\* a list of the standard settlement instructions is attached as Exhibit IV.

**EXHIBIT II**

**FORM OF SET CONFIRMATION  
AND AUTHORIZATION TO DEBIT**

MT 299

20: \_\_\_\_\_ (SENDER'S REFERENCE)  
21: \_\_\_\_\_ (INSERT FIELD 20: REF# FROM MT 205)

79: CONFIRMATION OF SET AND AUTHORIZATION TO DEBIT ACSS  
VALUE DATE \_\_\_\_\_ CAD\$ \_\_\_\_\_ (amount)

PCRN:

WE CONFIRM OUR AGREEMENT TO ENTER INTO A SETTLEMENT EXCHANGE TRANSACTION WITH **(LVTS Participant Name)** AND CONFIRM THE RECEIPT OF THE ABOVE NOTED LVTS FUNDS. WE AUTHORIZE **(LVTS Participant Name)** TO ENTER AN INTER MEMBER DEBIT IN THE ACSS CLEARINGS ON TODAY'S DATE IN THE AMOUNT NOTED ABOVE.

FOR ANY FURTHER CORRESPONDENCE ON THIS MATTER, CONTACT:

NAME: \_\_\_\_\_ TEL: \_\_\_\_\_

TITLE: \_\_\_\_\_

(insert Appendix III)

**EXHIBIT IV****STANDARD SETTLEMENT INSTRUCTIONS FOR  
RECEIVING LVTS SET MT 205 FUNDS AND DEBITING ACSS FUNDS**

<b>PARTICIPANT</b>	<b>MT 205 ACCOUNT NUMBER</b>	<b>ACSS DEBIT ACCOUNT NUMBER</b>
Alberta Treasury Branches	715-1033611-24	07159:219-103361124
Bank of America (National Association)	<u>Overnight Investments</u> 65043888 <u>SETs</u> 30303994	56792 241
Bank of Montreal	0099-341225	00991:001
Bank of Nova Scotia	N/A	52712:002
BNP Paribas (Canada)	N/A	00111:250:9903400022
La Caisse centrale Desjardins du Quebec	N/A	98000:815-000:003:4
Canadian Imperial Bank of Commerce	803014	09602:010-03-04042
Credit Union Central of Canada	N/A	809
HSBC Bank Canada	N/A	10930:016
Laurentian Bank of Canada	10816041-906	09061:039 499517-901
National Bank of Canada	09756228600100101 **send MT299 to BNDC CA MM INT**	ICOD 15041:006 FX-MM 1504:006-00:585:21
Royal Bank of Canada	36462006443	00762:003 - 7 digit account #
Toronto-Dominion Bank	0360 01 433 2254	00732:004