



**Rules and Administrative Procedures  
January 2009**

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# RULES GOVERNING THE CLEARING HOUSE INTERBANK PAYMENTS SYSTEM

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REFERENCE: SECTION 3.5 OF THE LIMITED LIABILITY COMPANY AGREEMENT OF  
THE CLEARING HOUSE PAYMENTS COMPANY L.L.C.

*(As Amended Through November 2, 2008)*

The Clearing House Interbank Payments System, designed to facilitate payments among its Participants, will receive and transmit payment messages pertaining to the transfer of funds among such Participants in accordance with the rules and regulations that the Board of Directors of The Clearing House Payments Company L.L.C. shall from time to time prescribe. Any change in functional services shall also be approved by the Board of Directors of The Clearing House Payments Company L.L.C.

**1. DEFINITIONS OF TERMS.**

(a) For the purpose of these Rules, the terms listed below have the following meanings:

(1) AVERAGE DAILY CHIPS USAGE: the daily average number of payment messages sent and received by a Participant.

(2) BOARD OF DIRECTORS: the Board of Directors of the Clearing House.

(3) CHIEF EXECUTIVE OFFICER: the Chief Executive Officer of the Clearing House or his or her designee.

(4) CHIPS OR SYSTEM: Clearing House Interbank Payments System.

(5) CHIPS PREFUNDED BALANCE ACCOUNT OR PREFUNDED BALANCE ACCOUNT: a special deposit account established at the Federal Reserve Bank of New York for the joint benefit of all Funding Participants to hold balances pursuant to the CHIPS Prefunded Balance Account Agreement.

(6) CHIPS PREFUNDED BALANCE ACCOUNT AGREEMENT: an agreement dated September 28, 2000, between the Clearing House as agent on behalf of all Funding Participants and the Federal Reserve Bank of New York under which the CHIPS prefunded balance account is established at the Federal Reserve Bank of New York.

(7) CLEARING HOUSE: The Clearing House Payments Company L.L.C.

(8) FUNDING PARTICIPANT: a Participant that has become a party to the CHIPS Prefunded Balance Account Agreement.

(9) NONFUNDING PARTICIPANT: a Participant that is not a Funding Participant and that has designated a Funding Participant pursuant to Rule 12(a)(1).

(10) PARTICIPANT: an entity that may deliver and receive payment messages through CHIPS.

(11) PAYMENT MESSAGE: an electronic message in the format adopted under Rule 8 that, when released by CHIPS, instructs a Receiving Participant to pay, or cause another bank to pay, a fixed amount of money to a beneficiary, which may be the Receiving Participant itself, the Sending Participant itself, or a third party.

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(12) RECEIVING PARTICIPANT: a Participant to which a payment message is addressed.

(13) SENDING PARTICIPANT: a Participant that has delivered a payment message to CHIPS for release.

(14) TIME AS DIRECTED BY THE CHIEF EXECUTIVE OFFICER: unless otherwise specified in these Rules, a time that may be later or earlier or a time period that may be longer or shorter as directed by the Chief Executive Officer.

(b) Other definitions applying to these Rules and the place in which they appear are:

(1)	AGENCIES	Rule 9(b)(1)
(2)	BILATERAL NET BALANCE	Rule 13(b)(2)
(3)	CLOSING POSITION	Rule 13(c)(2)
(4)	CLOSING POSITION REQUIREMENT	Rule 13(c)(2)
(5)	COMBINED POSITION	Rule 12(d)(2)
(6)	CURRENT POSITIONS	Rule 13(b)(1)
(7)	CURRENT PRIMARY POSITION	Rule 12(b)(2)
(8)	CURRENT SUPPLEMENTAL POSITION	Rule 12(c)(2)
(9)	DESIRED OPENING POSITION	Rule 12(b)(1)(A)
(10)	FINAL POSITION	Rule 12(d)(3)
(11)	FRBNY	Rule 12(a)(1)
(12)	FUNDS TRANSFER	Rule 3
(13)	INITIAL END-OF-DAY BALANCE REPORT	Rule 13(c)(2)
(14)	INITIAL SUPPLEMENTAL POSITION	Rule 12(c)(1)
(15)	MAXIMUM CURRENT PRIMARY POSITION	Rule 12(e)(1)
(16)	MAXIMUM CURRENT SUPPLEMENTAL POSITION	Rule 12(e)(2)
(17)	MINIMUM COMBINED POSITION	Rule 12(e)(3)
(18)	MINIMUM CURRENT PRIMARY POSITION	Rule 12(e)(1)
(19)	MINIMUM CURRENT SUPPLEMENTAL POSITION	Rule 12(e)(2)
(20)	MULTILATERAL NET BALANCE	Rule 13(b)(3)
(21)	NONPRIORITY PAYMENT MESSAGE	Rule 2(b)
(22)	OPENING POSITION EFFECTIVE PERIOD	Rule 12(b)(1)(A)
(23)	OPENING POSITION REQUIREMENT	Rule 12(b)(1)(A)
(24)	OPENING PRIMARY POSITION	Rule 12(b)(1)(D)
(25)	PREFERRED PAYMENT MESSAGE	Rule 2(b)
(26)	PRIORITY PAYMENT MESSAGE	Rule 2(b)
(27)	RESERVED SUPPLEMENTAL POSITION	Rule 12(c)(3)
(28)	SUPPLEMENTAL TRANSFER	Rule 12(c)(1)
(29)	URGENT PAYMENT MESSAGE	Rule 2(b)
(30)	WITHDRAWABLE AMOUNT	Rule 12(f)(1)

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**2. DELIVERING, STORING, RELEASING, AND RECEIVING PAYMENT MESSAGES.**

(a) DELIVERING AND DELETING PAYMENT MESSAGES.

A Participant may deliver a payment message to CHIPS for storage and release in accordance with these Rules. A Participant may delete a stored payment message until the System has closed for the delivery of payment messages unless CHIPS has released the payment message to the Receiving Participant. After a payment message has been released by CHIPS, it cannot be deleted by the Sending Participant. Before its release, the Chief Executive Officer may delete from storage any payment message delivered by any Participant or that is in storage to be sent to any Participant.

(b) PRIORITY PAYMENT MESSAGES.

A Participant may designate a payment message as an “urgent payment message” or as a “preferred payment message.” A payment message that has been designated as an urgent payment message or a preferred payment message is a “priority payment message,” and a payment message that has not been so designated is a “nonpriority payment message.” A designation may occur when the Participant delivers the payment message to the Clearing House or while the payment message is held in storage. With respect to a stored payment message, a Participant may instruct the Clearing House to add, change, or remove a priority designation from a payment message at any time up to the time that the payment message has been released. The Clearing House will act on a Participant’s instruction to add, change, or remove a priority designation with respect to a stored payment message if it receives the instruction within a reasonable time before the payment message has been released. Designation, change, or removal of a designation as provided for in this Rule 2(b) must be accomplished using the formats prescribed under Rule 8.

(c) RELEASING PAYMENT MESSAGES.

(1) CHIPS will control the release of each payment message to any Receiving Participant in accordance with procedures described in Rule 13. When a payment message has been released by CHIPS it is deemed to have been sent by the Sending Participant and received by the Receiving Participant.

(2) Unless otherwise directed by the Chief Executive Officer, the Clearing House

(A) will not release any payment message from a Participant as a Sending Participant on any day until the Participant has transferred, directly or indirectly, funds in the amount of its initial opening position requirement to the prefunded balance account; and

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(B) will not release any payment message to a Participant as a Receiving Participant on any day until the Participant has transferred, directly or indirectly, funds in the amount of its initial opening position requirement to the prefunded balance account, and, as a Sending Participant, has begun to deliver payment messages to the Clearing House.

(d) **OBLIGATION OF SENDING PARTICIPANT TO PAY RECEIVING PARTICIPANT.**

A Sending Participant does not become obligated to pay the amount of a payment message to the Receiving Participant until CHIPS has released the payment message to the Receiving Participant. Release of a payment message by CHIPS to the Receiving Participant creates an obligation of the Sending Participant to pay the Receiving Participant the amount of the payment message, and, simultaneously when the payment message is released, this obligation is netted to the extent provided for in Rule 13 and settled in accordance with Rule 13. The completion of settlement of any payment message in accordance with Rule 13 constitutes a final settlement of that payment message and a final discharge and payment of the Sending Participant's obligation to pay the amount of that payment message to the Receiving Participant.

**3. CHOICE OF LAW.**

The rights and obligations of Participants and all other parties to a funds transfer of which a CHIPS payment message is a part, arising from the funds transfer or from these Rules, shall be governed by the law of the State of New York. A "funds transfer" means the series of transactions, beginning with the originator's payment order, made for the purpose of making payment to the beneficiary of the order and includes any payment order issued by the originator's bank or an intermediary bank intended to carry out the originator's payment order.

**4. COMPENSATION.**

Settlement of claims for compensation between Participants arising out of payment messages shall be governed by the Rules on Interbank Compensation established by the Clearing House.

**5. AVAILABLE OFFICER.**

From the time the System opens until final prefunding, netting, and release have been completed, an officer authorized to act on behalf of the Participant with respect to its obligations and operations on CHIPS shall be available for immediate contact by the Clearing House. A Participant may designate one or more officers to be available. At

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least one designated officer must have the authority to make binding commitments for the Participant with respect to the unreleased payment messages it has delivered to the System and to ensure that the Participant pays its opening position requirement and its closing position requirement in a timely fashion. Each Participant must provide the Clearing House with the name, address, and business and emergency telephone numbers of each designated officer and of any alternate for such officer, specifying the period of time when the officer and alternate have each been assigned to be available. At least one designated officer shall both be present and available in the United States of America and be able to provide prompt access to the other designated officers who have been assigned.

**6. LOCATION OF CONNECTION.**

(a) CONNECTION.

A Participant's connection to the System must consist of an electronic connection of a type approved by the Chief Executive Officer. If a Participant uses a leased telecommunications line to connect to the System, the Participant's side of this leased line must terminate at an office of the Participant in the United States of America.

(b) STAFFING AT CONNECTION.

The office in which the primary connection is located must be staffed by personnel fully qualified and authorized at all times to take appropriate action on behalf of the Participant with respect to the connection.

(c) CHANGE TO CONNECTION.

Any Participant wishing to change its connection must obtain the approval of the Chief Executive Officer.

(d) INTERNET CONNECTION.

A Participant may use a secure Internet connection that meets the standards for such a connection established by the Chief Executive Officer to send and receive administrative messages that set, remove, or change a priority designation under Rule 2(b); establish or change a reserve supplemental position under Rule 12(c)(3); request a withdrawal under Rule 12(f); or make an inquiry under Rule 20.

**7. PRIMARY AND BACK-UP COMPUTER FACILITIES.**

(a) COMPUTER INTERFACE STANDARDS.

Documents describing the standards and communication protocols (and other functional requirements) for a Participant's computer interface to the System will be furnished by the Clearing House to any Participant that connects to the System. Each Participant must comply with, and its computer interface

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must function in accordance with, such standards and protocols. No computer interface will be implemented unless it has been approved by the Chief Executive Officer.

(b) ADEQUACY OF COMPUTER FACILITIES.

Each Participant must maintain adequate primary and back-up computer facilities. A back-up computer must be able to emulate fully the primary computer with respect to functions and capacity and must afford the same level of message authentication security as the primary computer. The back-up computer should not be located in the same power grid as the primary computer. Back-up computer facilities should meet relevant second-level contingency standards adopted by the Clearing House.

(c) LOCATION OF COMPUTER FACILITIES.

Any primary or back-up computer linked to the System may be located only in a country in which, as determined by the Chief Executive Officer, there are adequate arrangements for on-site review of a Participant's payment processing and computer facilities, adequate access to digital telecommunications facilities, adequate arrangements for necessary security devices and procedures, and adequate assurances that operation of the System will not be subject to interruption or interference by internal or external political developments. A list of countries as to which this determination has been made will be made available to a Participant on its request. The location of a primary or back-up computer shall not be a valid reason for requesting an extension of CHIPS cutoff. Any Participant wishing to change the location or the operational characteristics of its primary or back-up computer must present a proposed plan describing the change and obtain the approval of the Chief Executive Officer. Both primary and back-up computers must be operated by personnel fully qualified and authorized at all times to take appropriate action on behalf of the Participant with respect to the operation of such computer facilities.

(d) EXPENSES OF COMPUTER FACILITIES.

The Clearing House shall not be responsible for any expense incurred by a Participant in establishing any primary or back-up computer facility connected to the System under this rule.

**8. FORMATS AND REPORTS.**

Documents describing the specifications of message formats, system capabilities, and reports will be furnished from time to time by the Clearing House to each Participant. These specifications are established to implement these Rules and are subject to the approval of the Chief Executive Officer.

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**9. ACCOUNT IDENTIFICATION NUMBERS; CUSTOMER INFORMATION SECURITY.**

(a) ACCOUNT IDENTIFICATION NUMBERS.

The Clearing House will maintain a CHIPS Name and Address File listing accounts that are active on the System and have been assigned a CHIPS Universal Identification Number (“UID”). Each Participant must supply to the Clearing House the name, address, and internal account number of each account that the Participant expects to be listed in the CHIPS Name and Address File, except that no Participant may provide to the Clearing House for listing in the CHIPS Name and Address File the account of any individual that is used primarily for personal, family, or household purposes (“consumer account”). Any Participant that, despite the prohibition in the preceding sentence, provides information on a consumer account for listing in the CHIPS Name and Address File agrees to indemnify the Clearing House and hold it harmless against any cost, charge, expense (including costs of investigation and attorneys’ fees and expenses), liability, damage, loss, judgment, fine, penalty, interest, and amount paid in settlement that the Clearing House may incur as a result of listing the consumer account in the CHIPS Name and Address File.. Information in the CHIPS Name and Address File is available to Participants and to the public to qualify payment messages in accordance with applicable provisions of these Rules and the CHIPS Administrative Procedures. Deletions of accounts and changes in previously supplied information about these accounts must be reported promptly to the Clearing House.

(b) CUSTOMER INFORMATION SECURITY.

(1) The Clearing House shall take appropriate measures designed to meet the objectives of the *Interagency Guidelines Establishing Information Security Standards* issued by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, and the National Credit Union Administration (collectively, “the Agencies”), as amended from time to time. These will include appropriate measures designed to (i) ensure the security and confidentiality of any information of a customer of a Participant obtained by the Clearing House as a result of its processing any payment message; (ii) protect against any anticipated threats or hazards to the security or integrity of such information; and (iii) protect against unauthorized access to or use of such information that could result in substantial harm to any such customer; and (iv) ensure the proper disposal of such information.

(2) The Clearing House shall take appropriate measures designed to meet the objectives of the *Interagency Guidance on Response Programs for Unauthorized Access to Customer Information and Customer Notice* (“*Response Guidance*”) issued by the Agencies, as amended from time to time. These will include appropriate actions to address incidents of

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unauthorized access to information of a customer of a Participant obtained by the Clearing House as a result of its processing any payment message, including notification of the Participant as soon as possible after any such incident, to enable the Participant to expedite the response program it has established pursuant to the *Response Guidance*.

**10. BENEFICIARY IDENTIFICATION; QUALIFICATION OF PAYMENT MESSAGES; INDEMNITY UPON AUTHORIZED PAYMENT.**

(a) BENEFICIARY IDENTIFICATION.

A payment message must identify a beneficiary in accordance with the message formats adopted pursuant to Rule 8. If a Receiving Participant receives a payment message that has no information identifying a beneficiary or other party to be paid or credited by the Receiving Participant, the Receiving Participant is authorized to credit or pay itself as the beneficiary of the payment message.

(b) QUALIFICATION OF PAYMENT MESSAGES .

In order to expedite the automated processing of payment messages, Participants are strongly encouraged to fully or partially qualify payment messages in accordance with the message formats adopted pursuant to Rule 8 and with the procedures provided in the CHIPS Administrative Procedures. If a Receiving Participant receives a fully qualified payment message or a partially qualified payment message, the Receiving Participant is authorized to credit an account of or pay the party in accordance with the CHIPS Administrative Procedures.

(c) INDEMNITY UPON AUTHORIZED PAYMENT.

Upon crediting an account or paying a party as authorized by this Rule 10 and the CHIPS Administrative Procedures, a Receiving Participant shall be indemnified and held harmless by the Sending Participant from and against any and all claims, demands, losses, liabilities, or expenses (including all reasonable legal fees, costs, and disbursements of counsel) arising from any claim that (i) the party paid or credited was not the party intended to be paid or credited by the Sending Participant or any prior party issuing transfer instructions for the funds transfer or (ii) the party paid or credited was not the party that was identified by name, address, account number, or any other identification information in any other portion of the payment message. Notwithstanding the foregoing, the Sending Participant shall not be liable for consequential damages unless such damages would be imposed on the Sending Participant in the absence of this Rule 10 (c).

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**11. MONTHLY ASSESSMENTS AND CHARGES.**

Each Participant shall pay a monthly assessment to be based on the number of computer messages sent or received by that Participant during the preceding month, except that there shall be a minimum assessment for any Participant. The types of computer messages, including payment messages and administrative messages for which charges are to be assessed, the amount of the charge for each message or for messages in excess of an indicated number, and the amount of the minimum assessment shall be as established by the Clearing House from time to time. In addition, each Participant, on a monthly basis, shall reimburse the Clearing House for expenses incurred by the Clearing House to provide telecommunication equipment and services to the Participant, and shall pay the Clearing House for the use of the Clearing House computer facilities for testing at an hourly rate to be established by the Clearing House from time to time.

**12. PREFUNDED BALANCE ACCOUNT AND CURRENT POSITIONS.**

(a) PREFUNDED BALANCE ACCOUNT.

(1) Each Funding Participant must submit, in a form acceptable to the Chief Executive Officer, a letter, pursuant to which it becomes a party to the CHIPS Prefunded Balance Account Agreement under which the CHIPS prefunded balance account is established at the Federal Reserve Bank of New York (“FRBNY”). A Participant may, and if it is not eligible to open its own account at a Federal Reserve Bank must, designate as its Funding Participant another Participant that is eligible to open an account at a Federal Reserve Bank. A Participant designated as Funding Participant must acknowledge the designation and agree to act as Funding Participant pursuant to these Rules. Between the time that Participants may begin to transfer funds in the amount of their opening position requirements to the prefunded balance account pursuant to Rule 12(b)(1)(B) and the time that the Clearing House has completed the transfer of the final positions pursuant to Rule 13(c)(3)(A)(ii) or (B)(iii), no Funding Participant may cease acting as Funding Participant for any Participant for which it has been designated Funding Participant, and no Participant may, without the permission of the Chief Executive Officer, revoke the authority of its Funding Participant to act as its Funding Participant.

(2) FRBNY shall hold all funds deposited in the CHIPS prefunded balance account for the joint benefit of all the Funding Participants and payable exclusively in accordance with the instructions of the Clearing House as agent on behalf of all Funding Participants.

(3) Pursuant to the CHIPS Prefunded Account Agreement, records in the System’s books are not records of FRBNY, and FRBNY will not take any action during the day to adjust its records in connection with payment messages released by CHIPS.

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(4) No Participant shall have a separate, individual claim against FRBNY at any time for any balance or any part of the balance in the prefunded balance account, and FRBNY shall have no obligation to pay any amount except any amount then in the prefunded balance account and except in accordance with the instructions of the Clearing House as agent on behalf of all Funding Participants under the CHIPS Prefunded Balance Account Agreement.

(b) PRIMARY PREFUNDING.

(1) OPENING PRIMARY POSITION.

(A) At intervals determined by the Chief Executive Officer, but no less frequently than once each month, the Clearing House will calculate for each Participant its “desired opening position” in accordance with a formula that is reasonably designed to facilitate the release methodology described in Rule 13(a). The Clearing House shall have exclusive discretion in the design and operation of this formula, and no Participant shall have any claim against the Clearing House based on the design or operation of the formula. The Clearing House shall transmit to each Participant a report showing the desired opening position and the period during which the desired opening position will be effective (“opening position effective period”). A Participant’s “opening position requirement” for any opening balance effective period is the lesser of its desired opening position for the current opening position effective period or the desired opening position for the immediately preceding opening position effective period.

(B) Each day, each Participant must arrange to have funds in the amount of its opening position requirement transferred finally and irrevocably to the prefunded balance account. These funds transfers may be sent directly by the Participant itself or indirectly through another financial institution that has an account at a Federal Reserve Bank. These transfers must be completed by the deadlines established in Administrative Procedure No. 12.

(C) If a Participant transfers to the prefunded balance account funds in excess of its desired opening position for the current opening position effective period, the Clearing House will promptly return to the Participant (or the financial institution that sent the funds transfer to the prefunded balance account on the Participant’s behalf) an amount sufficient to reduce the Participant’s opening primary position to the desired opening position for the current opening position effective period. Any amount so returned will not be included in the calculation of the Participant’s opening primary position as defined in Rule

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12(b)(1)(D) or be used in the calculation of the maximum current primary position as defined in Rule 12(e)(1).

(D) Upon receipt of advices from FRBNY, the Clearing House will make a record in the System's books of the amount that each Participant has transferred, directly or indirectly, to the prefunded balance account (a Participant's "opening primary position").

(2) CURRENT PRIMARY POSITION. Following the recording of a Participant's opening primary position and continuously throughout the day, the Clearing House will record entries on the System's books to adjust a Participant's opening primary position to reflect all decreases and increases in a Participant's opening primary position that are recorded through the operation of Rule 13. The intraday record of each Participant's opening primary position, as adjusted to reflect all decreases and increases recorded through the operation of Rule 13(b) and Rule 13(c), is referred to herein as the Participant's "current primary position."

(c) SUPPLEMENTAL PREFUNDING.

(1) INITIAL SUPPLEMENTAL POSITION. At any time following the transfer of its opening position requirement but before the System has closed for the delivery of payment messages, a Participant may directly or indirectly transfer additional funds to the prefunded balance account (such transfer shall be hereafter referred to as the Participant's "supplemental transfer"). Upon receipt of an advice of credit from FRBNY, the Clearing House will make a record in the System's books of the supplemental transfer as the Participant's "initial supplemental position." If a Participant has not made a supplemental transfer to the CHIPS prefunded balance account but receives one or more payment messages settled in whole or in part by a reduction in the Sending Participant's initial or current supplemental position, the Clearing House will record the corresponding increase in the Receiving Participant's supplemental position resulting from the settlement of the first such payment message as the Receiving Participant's initial supplemental position.

(2) CURRENT SUPPLEMENTAL POSITION. Following the recording of a Participant's initial supplemental position and continuously throughout the day, the Clearing House will record entries on the System's books to adjust the Participant's initial supplemental position to reflect all increases and decreases in its initial supplemental position that are recorded through the operation of Rule 13, through the receipt of additional supplemental transfers to the prefunded balance account by or on behalf of the Participant, or through a withdrawal in accordance with Rule 12(f)(1). The intraday record of each Participant's initial supplemental position, as adjusted to reflect all increases and decreases

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referred to in this paragraph is referred to herein as the Participant's "current supplemental position."

(3) RESERVED SUPPLEMENTAL POSITION. A Participant may, by using a format prescribed under Rule 8, designate that portion of the current supplemental position attributable to it any time that is equal to the sum of all supplemental transfers it has made under Rule 12(c)(1) less the amount of any withdrawals in accordance with Rule 12(f)(1) as its "reserved supplemental position" to be used exclusively for the settlement of payment messages that have been designated as priority payment messages under Rule 2(b).

(d) COMBINED AND FINAL POSITIONS.

(1) The sum of each Participant's current primary position and its current supplemental position is referred to in these rules as its "combined position."

(2) Each Participant's combined position as adjusted to reflect all decreases and increases recorded through the operation of Rule 13(c)(3)(A) or Rule 13(c)(3)(B) is referred to in these rules as the Participant's "final position."

(e) POSITION LIMITS.

(1) MINIMUM AND MAXIMUM CURRENT PRIMARY POSITIONS. No payment message will be released if the decreases to be recorded for the Sending Participant or the increases to be recorded for the Receiving Participant through the operation of Rule 13 would cause the current primary position of the Sending Participant or the Receiving Participant to be less than zero ("minimum current primary position") or, except during the end-of-day closing procedure provided for in Rule 13(c), would cause the current position of the Sending Participant or the Receiving Participant to exceed a multiple of its opening primary position, including any deposits to the prefunded balance account representing the difference between the Participant's opening position requirement and its desired opening position for the current opening position effective period ("maximum current primary position"). The Clearing House may adjust the multiple of the primary opening position that is used to determine a Participant's maximum current primary position from time to time, including during a day, to increase the number or value of payment messages that the system can release and settle.

(2) MINIMUM AND MAXIMUM CURRENT SUPPLEMENTAL POSITIONS. CHIPS will calculate for each Participant a "maximum current supplemental position" in accordance with a formula that is reasonably designed to facilitate the release methodology described in Rule 13(a). The Clearing House shall have exclusive discretion in the design and

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operation of this formula, and no Participant shall have any claim against the Clearing House based on the design or operation of the formula. In addition to the limits described in Rule 12(e)(1), no nonpriority payment message will be released if the decreases to be recorded in the current supplemental position of the Sending Participant and the corresponding increases to be recorded in the current supplemental position of the Receiving Participant through the operation of Rule 13(b) would cause the Receiving Participant's current supplemental position to exceed its maximum current supplemental position. The maximum current supplemental position limit will not apply to payment messages designated as priority payment messages under Rule 2(b). No payment message will be released if the decreases to be recorded for the Sending Participant through the operation of Rule 13(b) would cause its current supplemental position to be less than zero ("minimum current supplemental position").

(3) **MINIMUM COMBINED POSITION.** No payment message will be released if the decreases to be recorded for the Sending Participant through the operation of Rule 13(c)(1) would cause its combined position to be less than zero ("minimum combined position").

(f) **WITHDRAWALS FROM THE PREFUNDED BALANCE ACCOUNT; FUNDING PARTICIPANTS' OBLIGATION.**

(1) **WITHDRAWALS FROM THE CURRENT SUPPLEMENTAL POSITION.** A Participant may request the Clearing House as agent for all of the Funding Participants to transfer funds from the prefunded balance account to that Participant in an amount up to the lesser of (i) the Participant's current supplemental position, or (ii) the sum of all supplemental transfers it has made up to the time of its request less any amount that has already been transferred to the Participant under this section (its "withdrawable amount"). Such a request must be in a form and delivered in a manner prescribed by the Clearing House in accordance with Rule 8. The Clearing House is authorized to act on such a request if it receives and has an opportunity to act on the request before the commencement of the end-of-day closing procedure described in Rule 13(d). If the request is for an amount that is greater than the Participant's withdrawable amount at the time the Clearing House receives the instruction, the Clearing House will notify the Participant that the request is invalid.

(2) **NO OTHER WITHDRAWALS.** Except as provided for under Rule 12(f)(1), no Participant has any right to demand funds from the prefunded balance account and the Clearing House will not act on any request from a Participant to withdraw funds from the prefunded balance account.

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(3) FUNDING PARTICIPANTS' OBLIGATION.

(A) The obligation to pay the withdrawable amount provided for under Rule 12(f)(1) is owed by all Funding Participants jointly, becomes due and payable only upon receipt by the Clearing House of a request for a withdrawal that meets the requirements of Rule 12(f)(1), and is payable solely by the instruction of the Clearing House as agent on behalf of all Funding Participants and solely from the balance in the CHIPS prefunded balance account.

(B) A Participant's current combined position, less its withdrawable amount, at any point in time represents the amount that is to become due to that Participant following the close of business on that day contingent on the event that no additional payment messages to or from that Participant are released and settled. The obligation to pay this amount, when and if it becomes due, is owed by all Funding Participants jointly and is payable solely by the instruction of the Clearing House as agent on behalf of all Funding Participants and solely from the balance in the CHIPS prefunded balance account.

**13. SETTLEMENT.**

(a) RELEASE METHODOLOGY.

(1) CHIPS will use a methodology for controlling the release of payment messages that has the following characteristics:

(A) The methodology will be reasonably designed to ensure that:

(i) no Participant's current primary position is either less than its minimum current primary position or, except during the end-of-day closing procedures provided for in Rule 13(c), more than its maximum current primary position;

(ii) the sum of the current primary positions of all Participants remains the same following the release as it was before the release;

(iii) no Participant's current supplemental position is less than its minimum current supplemental position;

(iv) the release of a nonpriority payment message to a Receiving Participant will not cause the Receiving Participant's current supplemental position to exceed its maximum current supplemental position;

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(v) the sum of the current supplemental positions of all Participants remains the same following the release as it was before the release;

(vi) no Participant's combined position is less than its minimum combined position; and

(vii) if a Participant has designated a portion of its current supplemental position as its reserved supplemental position under Rule 12(c)(3), CHIPS will not use the reserved supplemental position to settle:

(I) nonpriority payment messages; or

(II) preferred payment messages if the Participant has any unreleased urgent payment messages

(B) The methodology will also be reasonably designed to release:

(i) urgent payment messages before preferred payment messages and preferred payment messages before nonpriority payment messages; and

(ii) payment messages that share the same priority designation in the order in which they were received,

although these sequences may be varied depending on the mix of payment messages in each priority designation and the current positions of the Sending and Receiving Participants or to increase the number or value of payment messages that can be released and settled before the close of the System for delivery of payment messages

(2) The methodology may release a payment message as soon as it has been delivered by the Sending Participant or hold it in storage for release at a later time.

(3) The methodology may include individual release of payment messages, bilateral netting and release of payment messages, multilateral netting and release of Payment messages, or any combination of these.

(4) From time to time the methodology used by CHIPS may be adjusted as part of continuing efforts by the Clearing House to increase the number or value of payment messages that can be released and settled before the close of the System for delivery of payment messages.

(5) The Clearing House shall have exclusive discretion in the choice and operation of the methodology, and no Participant shall have any claim against the Clearing House based on the choice or operation of the methodology.

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(b) INTRADAY SETTLEMENT PROCEDURES.

Payment messages released before the close of the System for the delivery of payment messages will be settled in accordance with this Rule 13(b). Payment messages released after the close of the System for the delivery of payment messages will be settled in accordance with Rule 13(c).

(1) INDIVIDUAL RELEASE. If a payment message is released individually, CHIPS will decrease the Sending Participant's current primary position or current supplemental position or both (a Participant's "current positions") by amounts that total the amount of the payment message and increase the Receiving Participant's current positions by amounts that are equal to the decreases in the Sending Participant's corresponding current positions. The release of the payment message and the recording of these entries shall be deemed to be effective simultaneously. Settlement with respect to the payment message is complete when the System has recorded the decreases in the Sending Participant's current positions and the increases in the Receiving Participant's current positions. Completion of settlement constitutes final settlement of that payment message and final discharge and payment of the Sending Participant's obligation to pay the amount of the payment message to the Receiving Participant.

(2) BILATERAL NETTING AND RELEASE. If a payment message is released in a batch that consists of one or more payment messages from a Participant ("First Participant") as a Sending Participant to another Participant ("Second Participant") as a Receiving Participant and one or more payment messages from the Second Participant as a Sending Participant to the First Participant as a Receiving Participant, the obligation of the First Participant to pay the Second Participant for the amount of any payment messages in the batch that the First Participant is sending to the Second Participant will be netted by setting off and applying the obligation of the Second Participant to pay the First Participant for the amount of any payment messages in the batch that it is sending to the First Participant. The balance remaining from this netting is referred to as the "bilateral net balance." The current positions of each Participant with payment messages in the batch will be decreased by amounts that total the amount of each payment message in the batch for which it is the Sending Participant and, for each payment message for which it is the Receiving Participant, increased by amounts that are equal to the decreases in the Sending Participant's corresponding current positions. As a result of these entries, the current positions of the Participant whose bilateral net balance is positive will be increased by an amount equal to the amount of the bilateral net balance and the current positions of the Participant whose bilateral net balance is negative will be decreased by the amount of the bilateral net balance. The release of these

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payment messages, the netting of these obligations, and the recording of these entries shall be deemed to be effective simultaneously. Settlement with respect to all payment messages in the batch is complete when the System has recorded the decreases and increases of the amounts of the payment messages in the batch to the current positions of the Participants. Completion of settlement constitutes final settlement of all payment messages in the batch and final discharge and payment of the obligations of each Participant as a Sending Participant to pay the amount of each payment message in the batch that is released to the other Participant as a Receiving Participant.

(3) **MULTILATERAL NETTING AND RELEASE.** If a payment message is released in a batch that includes payment messages to or from three or more Participants, the obligation of each Participant to pay the amount of each payment message sent by it as a Sending Participant in the batch to another Participant as a Receiving Participant will be netted by setting off and applying against the Sending Participant's obligation the right of the Sending Participant to receive payment from the Receiving Participant of the amount of any other payment message sent to the Sending Participant by the Receiving Participant in the batch. The balance resulting from this netting equals the bilateral net balance between each pair of Participants. The bilateral net balance of obligations owed by each Sending Participant to each Receiving Participant with respect to payment messages in the batch will be netted by setting off and applying against that balance the bilateral net balance of obligations owed to the Sending Participant by other Participants who have payment messages sent through CHIPS in the batch. The balances resulting from this netting are referred to as the "multilateral net balances." The current positions of each Participant with payment messages in the batch will be decreased by amounts that total the amount of each payment message in the batch for which it is the Sending Participant and increased in respect of payment messages for which it is the Receiving Participant by amounts that are equal to the decreases in the Sending Participant's corresponding current positions. As a result of these entries, the current positions of a Participant whose multilateral net balance is positive will be increased by the amount of its multilateral net balance and the current positions of a Participant whose multilateral net balance is negative will be decreased by the amount of its multilateral net balance. The release of these payment messages, the netting of these obligations, and the recording of these entries shall be deemed to be effective simultaneously. Settlement with respect to all payment messages in the batch is complete when the System has recorded the decreases and increases of the amounts of the payment messages in the batch to the current positions of the Participants. Completion of settlement constitutes final settlement of all payment messages in the

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batch and final discharge and payment of the obligation of each Participant as a Sending Participant to pay the amount of each payment message in the batch that is released to another Participant as a Receiving Participant.

(c) END-OF-DAY CLOSING PROCEDURE.

(1) INITIAL CLOSING, NETTING, AND RELEASE. Immediately following the close of the System for the delivery of payment messages, CHIPS will net, set off, and release as many of the payment messages that remain in storage as possible using the procedures described in Rule 13(b), except that CHIPS will combine the current primary position and the current supplemental position of each Participant into the Participant's combined position and will apply no limits to the Participant's combined position other than the minimum combined position. Settlement with respect to all payment messages released as part of this procedure is complete when the System has recorded the decreases and increases to the current combined positions. Completion of settlement constitutes final settlement of all payment messages released as part of this procedure and final discharge and payment of the obligation of a Participant as a Sending Participant to pay the amount of each payment message released as part of this procedure to another Participant as a Receiving Participant.

(2) CALCULATION OF CLOSING POSITIONS. If any payment messages remain in storage following the procedures described in Rule 13(c)(1), CHIPS will calculate a multilateral net balance for all Participants based on the payment messages in storage without actually releasing any of those payment messages. The resulting multilateral net balance for each Participant will be combined with that Participant's current combined position to calculate the amount referred to herein as the Participant's "closing position." If a Participant's closing position is a negative number, it is the Participant's "closing position requirement." Immediately following this calculation, the Clearing House will prepare and send to each Participant an "Initial End-of-Day Balance Report" showing its closing position. The Initial End-of-Day Balance Report of each Funding Participant shall also show the closing position of each Participant for which it has been designated Funding Participant.

(3) FINAL PREFUNDING, NETTING, AND RELEASE. Each Participant with a closing position requirement will be given 30 minutes from the time that the Clearing House sent the Initial End-of-Day Balance Reports to pay the amount of its closing position requirement by transferring funds finally and irrevocably to the prefunded balance account in the amount of its closing position requirement. These funds transfers may be sent directly by the Participant itself or indirectly through another financial institution that has an account at a Federal Reserve Bank.

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(A) FULL FINAL PREFUNDING.

(i) If each of the transfers referred to in the first sentence of Rule 13(c)(3), above, are made, all of the payment messages that remain in storage will be netted, set off, and released using the procedures described in Rule 13(b)(3) except that CHIPS will combine the current primary position and the current supplemental position of each Participant into the Participant's combined position and will apply no limits to the Participant's combined position other than the minimum combined position. The release of these payment messages, the netting of these obligations, and the recording of these entries shall be deemed to be effective simultaneously. Settlement with respect to all payment messages released as part of this procedure is complete when the System has recorded the decreases and increases to the current combined positions. Completion of settlement constitutes final settlement of all payment messages released as part of this procedure and final discharge and payment of the obligations of a Participant as a Sending Participant to pay the amount of each payment message released as part of this procedure to another Participant as a Receiving Participant. A Participant's current combined position resulting from the release of any payment messages and recording of the entries made pursuant to this procedure is the Participant's final position.

(ii) Immediately after the release of all payment messages remaining in storage, the Clearing House will transfer from the prefunded balance account to the account of each Funding Participant whose final position is greater than zero funds in the amount of its final position and to each Funding Participant that has been designated by a Nonfunding Participant whose final position is greater than zero funds in the amount of the Nonfunding Participant's final position. The total of the funds transfers made to the Participants under this Rule 13(c)(3)(A)(ii) shall equal the balance in the prefunded balance account.

(B) PARTIAL FINAL PREFUNDING.

(i) If one or more of the transfers referred to in the first sentence of Rule 13(c)(3), above, has not been made within 30 minutes of the time that the Clearing House sent the Initial End-of Day Balance Reports or within such time as directed by the Chief Executive Officer, or is made

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in an amount that is less than the closing position requirement of the Participant for which it was made, the current combined position of each Participant whose closing position requirement has been paid completely or partially will be increased by the amount so paid, and the Clearing House will net, set off, and release as many of the payment messages that remain in storage as is possible using the procedures described in Rule 13(b), except that CHIPS will combine the current primary position and the current supplemental position of each Participant into the Participant's combined position and will apply no limits to the Participant's combined position other than the minimum combined position, and taking account of the additions to the current combined positions. Settlement with respect to all payment messages released as part of this procedure is complete when the System has recorded the decreases and increases to the current combined positions. Completion of settlement constitutes final settlement of all payment messages released as part of this procedure and final discharge and payment of the obligations of a Participant as a Sending Participant to pay the amount of each payment message released as part of this procedure to another Participant as a Receiving Participant. A Participant's current combined position resulting from the release of any payment messages and recording of the entries made pursuant to this procedure is the Participant's final position.

(ii) Any payment message remaining in storage following the netting, set-off, and release of any payment messages as provided for in this Rule 13(c)(3)(B) shall expire as of the time of the calculation of the final positions, and the Clearing House shall notify the Sending Participant of the expiration under Rule 13(d). Expiration of a payment message shall be effective as the cancellation of the payment message by the Sending Participant.

(iii) After all payment messages have been released or have expired, the Clearing House will transfer from the prefunded balance account to the account of each Funding Participant whose final position is greater than zero funds in the amount of its final position and to each Funding Participant that has been designated by a Nonfunding Participant whose final position is greater than zero funds in the amount of the Nonfunding Participant's

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final position. The total amount of the funds transfers made to the Participants under this Rule 13(c)(3)(B)(iii) shall equal the balance in the prefunded balance account.

(d) NOTICE OF UNRELEASED PAYMENT MESSAGES.

The Clearing House shall promptly notify the Sending Participant identifying any payment message that has not been released because it has expired under Rule 13(c)(3)(B)(ii) or any payment message that will not be released because it has been deleted from storage by the Chief Executive Officer pursuant to Rule 2(a).

**14. RELATIONSHIPS PURSUANT TO CHIPS PREFUNDED BALANCE ACCOUNT AGREEMENT.**

(a) CHIPS PREFUNDED BALANCE ACCOUNT AGREEMENT.

On September 28, 2000, the Clearing House and the Federal Reserve Bank of New York entered into a CHIPS Prefunded Balance Account Agreement, which, among other things, requires each Funding Participant to indemnify and hold harmless FRBNY from any Claim (as defined in the CHIPS Prefunded Balance Account Agreement). In the CHIPS Prefunded Balance Account Agreement, each Funding Participant's pro rata responsibility for a Claim equals the proportion of the average daily CHIPS usage of that Funding Participant and all Participants for which it has been designated as Funding Participant to the average daily CHIPS usage of all Participants.

(b) SIX O'CLOCK BANK.

From time to time the Clearing House will designate a Funding Participant to receive the transfer of funds from the prefunded balance account (the "Six O'clock Bank"). In accordance with the CHIPS Prefunded Balance Account Agreement and the Custody Agreement referred to below, the Six O'clock Bank, as custodian, will hold funds as a special deposit on its books in the name of the Clearing House for the joint benefit of all the Funding Participants. The Six O'clock Bank and the Clearing House, acting as agent for all the Funding Participants, will enter into a custody agreement (the "Custody Agreement") with such changes as may be agreed upon from time to time by the Six O'clock Bank and the Clearing House, acting in its sole discretion, but with notice to the Funding Participants within five business days after any such change is effected. Each Funding Participant hereby authorizes the Clearing House to act as such Funding Participant's agent in entering into the Custody Agreement and any changes thereto, and in observing the terms thereof and performing the obligations of the Clearing House thereunder. Any investment of such funds shall be for the account of the owners of such funds and at the sole risk of such owners.

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For purposes of this Rule 14(b), the “owners” of the funds shall be those Funding Participants that would receive the funds in accordance with these Rules.

(c) INDEMNITY OF SIX O'CLOCK BANK.

Each Participant jointly and severally agrees to indemnify and to hold harmless the Six O'clock Bank from any loss, liability, or expense suffered by the Six O'clock Bank arising from its acts or omissions in connection with the receipt, holding, investment, or disbursement of such funds in accordance with the Custody Agreement (including, but not limited to, reasonable attorneys' fees and expenses of litigation) except for losses, liabilities, and expenses arising from the willful failure of the Six O'clock Bank to comply with the terms of the Custody Agreement. Any loss, liability, or expense suffered by the Six O'clock Bank is referred to herein as a "loss."

(d) DEFENSE OF ACTIONS.

Paragraph 14 of the Prefunded Balance Account Agreement authorizes Funding Participants to undertake the defense of actions brought against FRBNY if certain conditions are met. If the defense of any such action is undertaken, the Board of Directors is hereby authorized to require all Funding Participants to provide FRBNY with the indemnity referred to in Paragraph 14 of the Prefunded Balance Account Agreement. Any indemnity required to be given by all Funding Participants pursuant to this Rule 14 (d) is herein referred to as an “indemnity.”

(e) PAYMENT OF CLAIMS AND INDEMNITIES; CONTRIBUTIONS.

If a Funding Participant makes any payment to FRBNY as a result of a Claim or in respect of an indemnity or a Participant makes a payment to the Six O' Clock Bank in respect of a loss (including, without limitation, in each such case, a payment resulting from the failure of another Participant to make a similar payment), each other Participant (a “Contributing Participant”) shall pay to the Participant making the payment (the “Paying Participant”) promptly on demand that portion of the Paying Participant's payment that is equal to the proportion of the average daily CHIPS usage of the Contributing Participant to the average daily CHIPS usage of all Participants. If one or more Participants fails to make such payments as are required by the first sentence of this Rule 14(e) (each, a “Defaulting Participant”), the obligations thereunder of the Contributing Participants to the Paying Participant shall be determined without regard to the average daily CHIPS usage of the one or more Defaulting Participants. Each Defaulting Participant shall be liable to each other Participant, including the Funding Participant, in the amount by which such other Participant's payment was increased as a result of the Defaulting Participant's failure to make payment, plus interest thereon for each day of such failure at a rate equal to one percent

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above the effective rate for federal funds as published on a daily basis by FRBNY for such day. In the event that any such payments are to be made pursuant to this Rule 14(e) to a Paying Participant, the Clearing House will attempt to calculate the net obligation of each Participant to each other Participant with the objective of limiting the actual number of payments made. For purposes of the Rule 14(e), “average daily CHIPS usage” means the average daily CHIPS usage during the 30-calendar day period preceding the date on which a Claim (as referred to in Rule 14(a)) or a loss (as referred to in Rule 14(c)) or an acknowledged Claim covered by an indemnity (as referred to in Rule 14(d)) is alleged to have accrued or occurred.

(f) SET OFF.

A Participant including a Funding Participant may obtain any amount owing to it from a Participant, including a Funding Participant pursuant to this Rule 14 by charging the Participant’s account on its books.

(g) CONSENT.

Each Participant hereby consents to the provisions of Appendix A of the Prefunded Balance Account Agreement, including, without limitation, the furnishing by a Funding Participant of the debit or credit position of the Participant to FRBNY.

**15. NO LIABILITY.**

(a) GENERAL RULE.

Except as provided in Rule 16, the Clearing House shall have no liability whatsoever to any Participant or any other person for any loss, liability, or expense suffered by such Participant or person arising from the Clearing House’s acts or omissions in connection with the System (a “loss”), including, without limitation, a loss resulting directly or indirectly from a failure to store, release, authenticate, or otherwise process a payment message or administrative message; from the design or operation of the formula for calculating the desired opening position described in Rule 12(b)(1); from the choice or operation of the release methodology described in Rule 13(a); from an error caused by the System; or from the release of a Participant’s internal account numbers contained on the CHIPS Name and Address File. If, notwithstanding the first sentence of this Rule 15, the Clearing House is found liable for a loss or an action or proceeding is brought alleging that the Clearing House should be liable for a loss, each Participant (including any Participant suffering or alleging a loss) agrees (in the proportion set forth below) to indemnify and to hold harmless the Clearing House from any loss arising from such finding, action, or proceeding (including, but not limited to, attorneys’ fees and expenses of litigation). Pursuant to its indemnity, each Participant shall pay to the Clearing House promptly on demand that portion

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of the Clearing House's loss that is equal to the proportion of the average daily CHIPS usage as described in Rule 15(b)) of such Participant to the average daily CHIPS usage of all Participants. If one or more Participants fail to make any such payment (each a "Defaulting Participant"), the obligations hereunder of the remaining Participants shall be determined without regard to the average daily CHIPS usage of the one or more Defaulting Participants. Each Defaulting Participant shall be liable to each other Participant in the amount by which such other Participant's payment or payment obligation was increased as a result of the Defaulting Participant's failure to make payment, plus interest thereon for each day of such failure at a rate equal to one percent above the effective rate for federal funds as published on a daily by FRBNY for such day.

(b) **TIME PERIOD FOR MEASURING AVERAGE DAILY CHIPS USAGE.**

The time period for measuring average daily CHIPS usage in Rule 15(a) shall be the 30 calendar days preceding the date on which the Clearing House has determined a loss occurred.

**16. FRAUDULENT TRANSFERS.**

(a) **BANK ORIGIN.**

Any loss incurred due to a fraudulent transfer originating at a Participant shall be borne by such Participant.

(b) **SYSTEM ORIGIN.**

The Clearing House shall maintain, alone or in conjunction with one or more affiliates, a standard form of financial institution bond with aggregate and single loss limits of \$25 million to cover losses discovered during the bond period resulting from dishonest or fraudulent acts committed by a Clearing House employee alone or in collusion with others, as long as such bonds are reasonably available. Any such loss incurred by a Participant that is not paid under this bond because the loss, taken alone or aggregated with other losses covered by the bond, exceeds any limit of liability or is subject to a deductible, or for any other reason shall be borne pro rata by each Participant based on its average daily CHIPS usage for the 30-calendar day period preceding the notice of loss to the underwriters of the bond.

**17. EMERGENCIES.**

In the event that communications between the Clearing House computer and one or more Participants are halted, the System is closed down, or some other emergency affects its operations, transactions shall be handled in accordance with the decisions of the Chief Executive Officer. Without limiting the discretion of the Chief Executive Officer, he may:

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- (a) extend the hours of operation of the System;
  - (b) extend the time for completing the final prefunding, netting, and release;
  - (c) obtain payment of a Participant's closing position requirement by ordering FRBNY to debit the Participant's account on its books in the amount of the Participant's closing position requirement and crediting the amount to the prefunded balance account;
  - (d) direct any Participant or several or all to not make payments through the System pending resolution of the problem;
  - (e) direct any Participant to continue to operate within the System by using emergency back-up facilities of the Clearing House; or
  - (f) direct such other action as he may deem necessary.

Unless the Chief Executive Officer shall direct otherwise, Participants shall also follow the procedures set forth in the CHIPS Administrative Procedures that apply upon the occurrence of certain events.

## **18. TIME SCHEDULES.**

The hours stated for performance by the Clearing House are for guidance only and may be varied from time to time by the Chief Executive Officer for any reason whatsoever.

## **19. PARTICIPANT REQUIREMENTS.**

- (a) GENERAL REQUIREMENTS.
  - (1) A depository institution may become a Participant if:
    - (A) it carries on the business of a depository institution from an office located in the United States of America,
    - (B) the office in the United States of America is subject to regulation by a federal or state depository-institution regulatory authority,
    - (C) it is a "financial institution" within the meaning of § 402(9) of the Federal Deposit Insurance Corporation Improvement Act of 1991, 12 U.S.C. § 4402(9),
    - (D) it shall transmit payment messages to and receive payment messages from the System only through a connection that meets the requirements of Rule 6, and
    - (E) it shall maintain primary and back-up computer facilities required by Rule 7.

For purposes of this subdivision, the term "depository institution" includes a "depository institution" as defined in section 402(6) of the Federal Deposit Insurance Corporation Improvement Act of 1991, 12 U.S.C. § 4402(6); a private banker licensed under Article IV of the New York

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Banking Law; a corporation chartered under the laws of a state of the United States and licensed to carry on the business of banking in New York pursuant to Article V of the New York Banking Law; and a foreign bank within the meaning of § 1(b) of the International Banking Act of 1978, 12 U.S.C. § 3101.

(2) Each Participant must have access to sources of credit and liquidity sufficient to enable it to pay promptly each day its opening position requirement and its closing position requirement and must be able to manage its operations in a manner that will not delay or complicate the prompt and efficient operation of the System. The Clearing House may evaluate a Participant's or an applicant's access to sources of credit and liquidity by reference to a rating of the Participant or applicant by a recognized ratings agency selected by the Chief Executive Officer.

(b) FOREIGN BANK PARTICIPATION.

If a branch or agency of a foreign bank that meets the applicable requirements of Rule 19(a) applies to become a Participant the foreign bank must also agree that the obligations incurred by the branch or agency pursuant to and in accordance with these Rules are the legal, valid, and binding obligations of the foreign bank as well as the branch or agency in the United States and are enforceable against the foreign bank, acting through its principal office, as well as the branch or agency.

(c) TERMINATION OR SUSPENSION.

A Participant's status as a Participant or a Funding Participant may be terminated or suspended at any time by the Chief Executive Officer. Such termination or suspension shall be effective unless and until it is countermanded by action of the Board of Directors.

(d) CHANGE OF NAME, FORM OF ORGANIZATION, OR CONTROL.

A Participant must inform the Chief Executive Officer, in writing on its letterhead, signed by a senior officer, of any proposed change in its name, form of organization, or in the direct or indirect control of such Participant, at least 31 days before the change becomes effective. For purposes of this Rule 19, "control" of a Participant changes if:

(1) a person acquires control of the Participant or its parent within the meaning of § 2(a)(2)(A) or (B) of the Bank Holding Company Act, 12 U.S.C. § 1841 (a)(2)(A) or (B), with the Participant being deemed a bank and the person (whether an individual, corporation, or other entity) acquiring control being deemed a company for purposes of such section;

(2) the Participant or its parent merges or consolidates with another bank or company and the shareholders of the Participant or its

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parent own less than 60 per cent of the surviving or resulting bank or company;

(3) the Participant must file a notice with the Board of Governors of the Federal Reserve System pursuant to § 211.24(a)(4)(i) of Regulation K, 12 C.F.R. § 211.24(a)(4)(i); or

(4) the Board of Directors or the Chief Executive Officer determine that a person has acquired a controlling influence over the Participant or its parent.

(e) RE-EVALUATION IN CHANGE OF CONTROL SITUATIONS.

Upon receiving a notice from a Participant of a proposed change in its direct or indirect control, the Chief Executive Officer will cause the Participant's continued status on CHIPS (and, if relevant, status as a Funding Participant) to be evaluated by the Clearing House.

(f) AUTOMATIC SUSPENSION FOR FAILURE TO PROVIDE NOTICE OF CHANGE IN CONTROL.

Failure to inform the Chief Executive Officer of a change in name, direct or indirect control, or form of organization in accordance with Rule 19(d), may result in the Participant's termination or suspension from the System by the Chief Executive Officer.

(g) DOCUMENTS AND INFORMATION REQUIRED.

At his discretion, the Chief Executive Officer may require such documents and information as he may deem necessary or desirable from a Participant in connection with any such change in name, form of organization, or direct or indirect control.

(h) MANDATORY TESTS.

At his discretion, the Chief Executive Officer may require Participants to participate in such tests involving the System at such times as he may deem necessary or desirable. If a Participant fails to comply with any such requirement, it may be suspended from the System by the Chief Executive Officer.

(i) FUNDING PARTICIPANT CRITERIA.

(1) To be eligible as a Funding Participant, a Participant must meet the following criteria:

(A) The Participant must meet the criteria established in the CHIPS Prefunded Balance Account Agreement, i.e., it must be a foreign bank, Edge or agreement corporation, or depository institution and have an account on the books of a Federal Reserve Bank.

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(B) The Participant must be able to send and receive “on-line” funds transfers on Fedwire.

If a Participant meets the above criteria and wishes to apply to become a Funding Participant, the Participant shall submit an executed agreement in the form required by the CHIPS Prefunded Balance Account Agreement to FRBNY and forward a copy to the Clearing House.

(2) If a Funding Participant fails to pay promptly its opening or closing position requirement, the Chief Executive Officer may cause the status of the Participant on the System to be reviewed and may order the Participant to cease acting as a Funding Participant.

**20. SYSTEM INQUIRY.**

A Participant may obtain from the System information regarding the aggregate value of payment messages sent by and sent to any other Participants (i) as of the time of the inquiry for the current business day and (ii) as of the close of business of the immediately preceding business day. A Participant may obtain from the System information regarding each unreleased payment message that has been delivered to the System for release to the inquiring Participant as of the time of the inquiry. Inquiries and responses under this rule shall conform to the format specifications adopted under Rule 8.

**21. CHIPS ADMINISTRATIVE PROCEDURES.**

The CHIPS Administrative Procedures, as may from time to time be in effect, are deemed to be incorporated herein and to be a part of these Rules.

**22. FINAL CLEARING GUIDELINE.**

The Clearing House will establish a guideline to monitor the total value of all payment messages that each Participant delivers to CHIPS for storage and release that remains unreleased following the initial closing, netting, and release described in Rule 13(c)(1). Each Participant’s guideline will be established using the procedure described in Administrative Procedure No. 14. The Clearing House will monitor the compliance of each Participant with its guideline on an ex-post basis. Each Participant must furnish information to the Clearing House at the request of the Chief Executive Officer describing the circumstances that cause it to exceed its guideline.

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**ADMINISTRATIVE PROCEDURES  
CLEARING HOUSE INTERBANK PAYMENTS SYSTEM  
(CHIPS)**

*(As Amended Through September 18, 2000; Effective January 22, 2001.)*

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**No. 1**

**Use of the System Following a Breakdown**

Whenever the System becomes operational after a breakdown, it shall be the duty of all Participants in using the System after such breakdown to ensure that the CHIPS facilities are utilized in accordance with any special procedures set forth from time to time by the Clearing House.

**Errors Other than System**

All types of errors not covered by CHIPS Rule 15 are to be referred to the appropriate rules prevalent in the New York marketplace on adjustment of payments made in error; provided, that any two Participants may by written agreement adopt inter se any alternative compensation rules which may apply to claims relating to such errors arising after and while such agreement is in effect.

**Inability to Apply Funds**

If a Receiving Participant receives a payment message in an amount equal to or greater than \$10 million and the Receiving Participant cannot apply the funds as instructed or authorized, the Receiving Participant should give telephone notice to the Sending Participant of such inability. If the Receiving Participant decides to return the funds to the Sending Participant, it should attempt to return the funds on the day of receipt.

Whenever the System is used for the return of funds, such return, regardless of dollar amount, should be qualified by using the appropriate Universal Identification number in the appropriate receiving party field. When funds are being returned on the day of receipt, the Participant returning the funds should use Universal Identification number 200111 (Same-Day Return of Funds); when the funds are being returned on a subsequent day, the Participant returning the funds should use Universal Identification Number 302333 (Previous-Day Return of Funds). A payment message returning funds should also contain the following information about the original, unapplied payment message:

- (1) Payment sequence number;
- (2) Date (required only for a previous day's return of funds);
- (3) Name of the Sending Participant's customer; and
- (4) Reason for return.

**Use of the System to Provide Additional Instructions**

Participants have the option of using the System to request or provide additional information or instructions regarding released payment messages. CHIPS has established structured computer formats for administrative messages known as service messages to expedite and simplify these communications. Some service messages will include offers of indemnity pursuant to applicable Compensation Rules (e.g., paragraph 3c of Appendix A of the Clearing House Compensation Rules). Service messages do not physically alter the record of the original payment message in the CHIPS data base, but request the recipient of the service message to take additional action regarding the related payment

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message. Each Participant must maintain information linking service messages to payment messages.

**No. 4**

**Emergency Procedures; Designated Receiver**

(a) *Emergency Procedures.* If the Chief Executive Officer declares that the System is closed because of an operational failure or some other emergency, a Participant (herein “sending participant”) that wishes to send a payment order to another Participant (herein “receiving participant”) may send the payment order by Fedwire to the receiving participant’s Designated Receiver as listed in the current “Schedule of Designated Receivers” published from time to time by the Clearing House. The Designated Receiver (if other than the Participant itself) will notify the receiving participant that it has received a payment order for it. The availability of this arrangement shall not preclude the sending and the receiving participants from making other arrangements for transferring funds during the emergency which are mutually satisfactory to them.

(b) *Designated Receiver.*

(1) A Designated Receiver may be

(i) the Participant itself,

(ii) the Funding Participant designated under Rule 12(a)(1), or

(iii) any other Participant.

Each Participant must select a Designated Receiver and, if it selects a Designated Receiver other than itself, provide the Clearing House with a letter from the selected Designated Receiver in which the Designated Receiver acknowledges that it agrees to perform the obligations of a Designated Receiver for that Participant under this Procedure. The Clearing House will publish the designations received from Participants in the “Schedule of Designated Receivers.”

(2) A Participant may select a new Designated Receiver by giving 30 days' advance written notice to the Chief Executive Officer. A Participant may not select a new Designated Receiver more than twice in any 12-month period.

(3) A Designated Receiver may cease acting as Designated Receiver for a Participant by giving 30 days' advance written notice to the Chief Executive Officer. Upon receipt of this notice, the Chief Executive Officer will notify the affected Participant, who will be required to select another Designated Receiver in accordance with paragraph (b)(1) of this Administrative Procedure No. 4. A Participant that is listed in the “Schedule of Designated Receivers” as Designated Receiver for another

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Participant shall continue to be the other Participant's Designated Receiver until the new designation is published in a subsequent "Schedule of Designated Receivers."

**No. 5**

**Qualification of Payment Messages; Authorization to Pay Identified Party**

(a) *Fully Qualified Payment Messages.* A "fully qualified" payment message is a payment message in which the Sending Participant has identified the party who is to be paid by, or whose account is to be credited at, the Receiving Participant by supplying, in the appropriate "CHIPS Lookup" field, one of the following:

(1) A CHIPS Universal Identification number ("UID") as assigned under CHIPS Rule 9; or

(2) A SWIFT Address ("SWIFT ID") or a Bank Identification Code ("BIC") as assigned by the Society for Worldwide Interbank Financial Telecommunication ("S.W.I.F.T."); or

(3) An internal account number as assigned by the Receiving Participant.

If a fully qualified payment message is sent, the Receiving Participant is authorized to credit the account identified in the "CHIPS Lookup" field.

(b) *Partially Qualified Payment Message.* A "partially qualified" payment message is a payment message that is not a fully qualified payment message but that identifies an account number to be credited at the Receiving Participant by both (i) an appropriate field tag as provided in the message formats adopted pursuant to CHIPS Rule 8 and (ii) the identifier component "D" in the case of a number identifying an internal account number at the Receiving Participant or the identifier component "B" in the case of a SWIFT ID or a BIC. A Receiving Participant that receives a partially qualified payment message is authorized to credit the account at the Receiving Participant identified by the account number regardless of any other information contained in the payment message that may identify the party to be credited.

(c) *Unqualified Payment Message.* An "unqualified" payment message is a payment message that is not a fully qualified payment message or a partially qualified payment message.

(d) *Inability to Apply Funds as Authorized.* If a Receiving Participant cannot apply the funds in accordance with CHIPS Rule 10 or this Administrative Procedure No. 5, it should act in accordance with CHIPS Administrative Procedure No. 3.

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(e) *Release of Information.* The use of fully qualified payment messages and partially qualified payment messages and of the CHIPS Name and Address File is encouraged to facilitate increased automation of payment processing. In order to enable Sending Participants to fully or partially qualify payment messages more readily, each Participant authorizes the Clearing House to release the internal account numbers and other related information supplied by the Participant for the CHIPS Name and Address File to any other Participant. In addition, each Participant authorizes the Clearing House to make publicly available on a web site or by other means that the Clearing House considers appropriate, information from the Name and Address File, including the name, address, and UID of each account that is assigned a UID, and for banks that are listed in the Name and Address File, the name of each Participant that has advised the Clearing House that it can be attached to the UID (i.e., that it has an account relationship with the listed bank), excluding, however, the internal account number or similar form of access number or access code of any party listed in the Name and Address File. At its option, and as it deems appropriate, the Clearing House may update and distribute the CHIPS Name and Address File, or any part thereof, to Participants on microfiche, magnetic tape, hard copy, or any other medium. Each Participant receiving another Participant's internal account numbers appearing on the CHIPS Name and Address File is required (i) to provide adequate security measures in order to maintain the confidentiality of such internal account numbers appearing on the CHIPS Name and Address file, (ii) not to disclose or use any such internal account numbers appearing on the CHIPS Name and Address file for any purpose other than to qualify payment messages as contemplated by the CHIPS Rules and Administrative Procedures or as required by law, and (iii) to indemnify and hold harmless the Clearing House and each Participant supplying any such internal account numbers from any loss (including attorneys' fees and expenses of litigation) resulting from the breach of clauses (i) or (ii) above.

**No. 6**

**[RESERVED]**

**No. 7**

**Payment Instructions Requesting “Phone, Wire, or Cable Advice” via CHIPS**

A Sending Participant that sends a payment message containing instructions to advise the beneficiary by telephone, wire, or cable that does not adhere to the message formats adopted pursuant to CHIPS Rule 8 indemnifies and agrees to hold harmless a Receiving Participant from and against all claims, demands, losses, liabilities, or expenses (including reasonable legal fees, costs, and disbursements of counsel) suffered by the Receiving Participant as a result of its failure to advise the beneficiary in accordance with the instructions, but the Sending Participant shall not be liable for consequential damages to the Receiving Participant unless such damages would be imposed in the absence of this indemnity.

### **Guidance for Requesting Emergency Extensions of CHIPS Cutoff**

Extensions will not be granted except in unusual circumstances. A request by a Participant for an extension of CHIPS cutoff past the time specified in Administrative Procedure No. 12 must be telephoned to the Chief Executive Officer by a senior official of the requesting Participant (Vice President or above). Any Participant may continue to store and release payment messages during the extension period.

No request for an extension will be considered unless the requesting Participant can give assurances that:

(1) Internal computer systems affecting CHIPS connections are, or have been for an extended period, inoperative or inaccessible. The location of a primary or back-up computer shall not be a valid reason for requesting an extension of CHIPS cutoff.

(2) There is a reasonable probability that the operating problem can be corrected if CHIPS is extended.

(3) Senior management has carefully considered the request, weighed the effect of an extension against the value of the payment messages that otherwise would remain unsent, and concluded that an extension is necessary for the benefit of all of the Participants on the System and not just necessary for the benefit of the requesting Participant. In this connection, the Participant will be asked to state the estimated number of payment messages yet to be processed, the estimated dollar value of the payment messages, and the estimated time needed to complete the outstanding payment messages. In arriving at a judgment that an extension is required for the benefit of all Participants, consideration should be given to whether the dollar amount unpaid could greatly increase the volatility in the federal funds market or hamper another Participant's ability to make settlement.

Participants are expected to so order their CHIPS activity that the normal day's work load will not artificially peak immediately preceding the time the System closes. Participants should know well before cutoff time that they can complete sending their payment messages before the scheduled cutoff. The System will monitor the number of payment messages released and their dollar amount prior to 9:00 A.M. and the number of extensions requested.

Any serious systems problem having the potential to generate a request for an extension must be reported immediately and as early in the day as possible to the Clearing House. Early notification will permit Clearing House personnel to suggest

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remedial action and will mark the length of time a Participant has experienced operating difficulties.

The Chief Executive Officer shall have the sole authority to extend the cutoff time for the System. He must advise the Federal Reserve Bank of New York, at the earliest time possible, of an intention to extend and of any delay this might cause in making settlement over the Fedwire.

**No. 9**

**[RESERVED]**

**No. 10**

#### **Alternate Delivery of Late Receives**

Whenever the Clearing House determines that more than one hour after the cutoff of the current day's operations will be required to notify a Receiving Participant of the payment messages released to it, the Clearing House will use an alternate delivery mechanism to notify that Participant. The alternate mechanism, to be selected by the Receiving Participant, will be (a) delivery of paper copies of such payment messages or (b) delivery of a magnetic tape of such payment messages. In either case, the alternate delivery will include a summary transmittal letter, signed by the Chief Executive Officer, which includes the Receiving Participant's name, the date of the transmittal letter, and the total number of payment messages and total dollar amount of all payment messages contained in the delivery. A copy of the transmittal letter is to be signed by an official of the Receiving Participant and returned to the Clearing House.

**No. 11**

#### **Change of Funding Participant**

Except as otherwise authorized by the Chief Executive Officer, a Participant may designate a new Funding Participant only once in any 180-day period and only upon giving at least 30 days' advance written notice to the Chief Executive Officer.

**No. 12**

#### **Hours of Operation**

(a) *Opening Hours.* Subject to CHIPS Rule 18, the System will open for the delivery, storage, release, and receipt of payment messages at 9:00 P.M. for payment messages with a value date of the next banking day. Participants may begin to transfer funds in the amount of their opening position requirements beginning at 9:00 P.M. These transfers should be completed no later than 7:00 A.M. on the next business day after observation of the following holidays: the third Monday in January (Dr. Martin Luther King, Jr. Day), the third Monday in February (Washington's Birthday), the last Monday in May (Memorial Day), July

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4 (or if July 4 falls on a Sunday, July 5) (Independence Day), the first Monday in September (Labor Day), the first Monday in October (Columbus Day), November 11 (or if November 11 falls on a Sunday, November 12) (Veterans' Day), and the fourth Thursday in November (Thanksgiving Day) and no later than 9:00 A.M. on any other business day.

(b) *Orderly Flow of Payment Messages.* Participants are expected to so order their CHIPS activity that the flow of payment messages through the System will not be impeded and payment messages delivered by other Participants can be released by CHIPS on a timely basis. Unless all Participants connect to the System on a timely basis and begin delivering payment messages as payments messages are received, the release methodology of CHIPS Rule 13(a) may unfairly delay and restrain a Participant that has delivered payment messages from having its payment messages released promptly and orderly before the scheduled cutoff time. To reduce the likelihood of these delays, the following guidelines are established: Each Participant should begin to deliver payment messages no later than 7:00 A.M. on the next business day after observation of the following holidays: the third Monday in January (Dr. Martin Luther King, Jr. Day), the third Monday in February (Washington's Birthday), the last Monday in May (Memorial Day), July 4 (or if July 4 falls on a Sunday, July 5) (Independence Day), the first Monday in September (Labor Day), the first Monday in October (Columbus Day), November 11 (or if November 11 falls on a Sunday, November 12) (Veterans' Day), and the fourth Thursday in November (Thanksgiving Day) and no later than 9:00 A.M. on any other business day, and each Participant should deliver a volume of payment messages before 12:00 noon each day equal to (i) 65 per cent in number and (ii) 55 per cent in dollar amount of the total payment messages delivered by it that day. The Clearing House will monitor compliance with these guidelines by each Participant. Each Participant must furnish information to the Clearing House at the request of the President describing the circumstances that cause any failure to comply with these guidelines.

(c) *Closing Hours.* Except for extensions granted under CHIPS Rule 17 or otherwise in accordance with the CHIPS Rules and Administrative Procedures, the System will close for the delivery by Participants of payment messages at 5:00 P.M.

**No. 13**

### **Alternate Routing of CHIPS Payments**

Participation in CHIPS does not relieve any Participant of the obligation, in the normal course, to receive payments through other means from other Participants after the close of CHIPS. Participants must be in a position to receive payments by Fedwire or other means prior to the cutoff established for such method of payment.

**Procedure for Establishing Final Clearing Guideline**

A Participant's final clearing guideline described in Rule 22 shall be an amount equal to three times the daily average of the gross amount of payment messages that the Participant has delivered to CHIPS for storage and release but that remain unreleased following the initial closing, netting, and release described in Rule 13(c)(1) during the six months prior to first banking day of the month in which the daily average to be used in the above calculation is calculated. Until July 23, 2001, the daily average may be determined on the basis of a time period of less than six months or by using a different formula as approved by the Chief Executive Officer.