



CENTRAL BANK OF KENYA

**KENYA ELECTRONIC PAYMENTS AND SETTLEMENT SYSTEM
(KEPSS)**

RULES AND PROCEDURES

REAL TIME GROSS SETTLEMENT SYSTEM

JULY 2005

TABLE OF CONTENTS

PAGE

1. PRELIMINARY PROVISIONS	2
2. PARTICIPATION PROCEDURES	8
3. WITHDRAWAL AND SUSPENSION FROM PARTICIPATION	10
4. OPERATING SCHEDULE.....	12
5. ROUTING OF PAYMENTS	13
6. FINALITY AND IRREVOCABILITY OF PAYMENT	15
7. QUEUE MANAGEMENT	15
8. INTRADAY LIQUIDITY FACILITIES	16
9. MINIMUM BALANCE REQUIREMENTS	17
10. NET SETTLEMENT INSTRUCTIONS	17
11. OTHER TRANSACTIONS INPUT	18
12. SWIFT SERVICES	19
13. SECURITY OF KEPSS OPERATIONS.....	24
14. BUSINESS CONTINUITY PLAN.....	25
15. SYSTEM ADMINISTRATION AND USER ASSISTANCE.....	29
16. SYSTEM CHANGES AND CHANGE CONTROL.....	30
17. FEES CHARGES, AND PENALTIES.....	31
18. AMENDMENTS	31
19. CONFIDENTIALITY	32
20. DISPUTE RESOLUTION.....	32
21. PUBLIC DOCUMENT	33
1. PRELIMINARY PROVISIONS	

- 1.1 These Rules and Procedures may be cited as the “KENYA ELECTRONIC PAYMENT AND SETTLEMENT SYSTEM (KEPSS) Rules and Procedures”
- 1.2 These Rules and Procedures shall apply to all Kenya Electronic Payment and Settlement System (KEPSS) participants for the transactions in the KEPSS and are binding to the KEPSS participants by the “Agreement for Participating in KEPSS” signed by the KEPSS participants.
- 1.3 The purpose and objective of these Rules and Procedures is to provide a framework for governing settlement of funds between the participants by setting up participation rules and operating procedures of the KEPSS, which is a System that transfers funds between banks in Kenya on a gross basis in real time with finality and irrevocability using settlement accounts of banks and other authorised participants’.
- 1.4 KEPSS uses three main components:
 - A. SWIFT including the FIN Y-Copy Service, the FIN Network and SWIFT Gateway
 - B. The Participant Webstation
 - C. The KEPSS Central System with the associated Webstation facilities at the Bank.
- 1.5 In these Rules and Procedures unless the context requires otherwise:-

“**Account**” means settlement account maintained by the participant with the Bank.

“**Account Transfer**” means an accounting entry that debits one account and credits another within KEPSS.

“**Abort Reason Code**” means a SWIFT or KEPSS assigned code for instructions that have been aborted or rejected.

“**Agreement for participating in KEPSS**” refers to KEPSS Bilateral Agreement.

“**Bank**” means the Central Bank of Kenya.

“**bank**” has the meaning ascribed by the Banking Act, 1989

“**Business Day**” means a day on which participant banks and the Bank are open for general banking business in Kenya and on which the Bank’s KEPSS is operating to process Payment Instructions and Account Transfers.

“Clearing House” means the Nairobi Automated Clearing House.

“Closed User Group (CUG)” means service user groups which the Bank establishes to provide settlement services, with the Bank acting as the CUG Administrator. Closed User Group must be SWIFT members, signatories to the Agreement for Participating in KEPSS and must be approved by the Bank

“Contingency event” means any event that disrupts or has the potential to disrupt the normal exchange and settlement of transactions in KEPSS. Five main potential types of Contingency Event are envisaged:

- Individual Participant contingency event
- SWIFT contingency event
- KEPSS SWIFT Gateway contingency event
- KEPSS Central System contingency event
- Other contingency events.

Each type of event is dealt with in section 14 herein.

“Court” means a Kenyan court of competent jurisdiction.

“Dispute” means a disagreement or difference between the Bank and a Participant(s) or between two or more Participants, arising out of, or in any way connected to the use and /or the operations of KEPSS.

“Financial institution” has the meaning ascribed by the Banking Act.

“KEPSS Settlement System Dispute Resolution Committee” shall be established by the participants.

“LOM” means Liquidity optimizing mechanism whereby settlement is only made for items that can be covered by existing balances and those whose payment exceeds the account balance are queued until the account is funded.

“Gridlock resolution” means the process of unblocking the backlogs or standstill of queued payments.

“Live Operation Date” means the date on which the KEPSS starts live operation for and in respect of all its operations, and Settlement is undertaken on a real time basis.

“Minimum Account Balance” means the minimum level of balance required in the settlement account of each participants, which is set by the Bank from time to time.

“Net Settlement Instruction” means an Account Transfer involving multiple debits and credits, initiated by a Net Settlement System to settle net obligations arising from the conduct of a payment or securities clearing system as described in these Rules and Procedures.

“Net Settlement Systems” means a funds transfer system whose settlement operations are completed on a bilateral or multilateral net basis

“Notifiable Event” means, in respect of the Participant:

- a) Its making a general assignment for the benefit of, or entering into a reorganisation, arrangement or composition with, its creditors; or
- b) Its admitting whether in writing or otherwise its inability to pay its debts as they become due from its own money; or
- c) Its seeking, consenting to or acquiescing in the appointment of any trustee, administrator, receiver or liquidator or analogous officer of it or any material part of its property; or
- d) The presentation or filing of an application in respect of it:
 - (i) In any court or before any agency alleging or for its bankruptcy, winding up or liquidation (or any analogous proceeding) unless it can be demonstrated by the Participant to be vexatious or that it is otherwise unlikely to result in the liquidation of the Participant, in either case within a period of time to be specified by the Bank;
 - (ii) Seeking any reorganisation, arrangement, composition, readjustment, administration, liquidation, dissolution or similar relief, under any present or future statute, law or regulation, such application (except in the case of an application for liquidation or any analogous proceeding) not having been stayed or dismissed within 30 days of its filing; or
 - (iii) The appointment of a receiver, administrator, liquidator or trustee or analogous officer of it over all or any material part of its property;
- e) The appointment of a Manager / Receiver under the Banking Act or the Companies Act.

- f) The occurrence of any event having a substantially similar effect to any of the events specified in (a) to (e) above under the law of any applicable jurisdiction.
- g) A system failure that renders the Participant unable to send its normal level of payment message through the KEPSS
- h) If the Participant has good reason to doubt its authority or ability to continue to make payments or send payment messages through KEPSS,

“Participant” or “ Participants” means a bank or institution approved by the Bank to participate in KEPSS in accordance to section 2.2 herein.

“Payment Instruction” means, in respect to a Participant, an instruction to debit its Account and credit the account of another Participant received via the SWIFT network.

“Procedures” means the procedures and standards adopted by the Bank from time to time which govern the operation of KEPSS and the conduct of inter-bank Settlement.

“Real-Time Gross Settlement” means the processing and settlement of payment obligations in real time on a gross basis.

“RTM” means Real Time Mechanism which enables the participant to release payment instructions for immediate settlement without having to queue.

“Rules and Procedures” means standards adopted by the Bank from time to time, which govern the operation of the KEPSS and the conduct of inter-bank Settlement.

“Settlement” means, in respect of a Payment Instruction or Account Transfer, the successful posting for value of debits and credits to the relevant Accounts for the amounts notified in the Payment Instruction or Account Transfer.

“Settlement account” means an account maintained by a participant with Central Bank, over which account transfers will be processed.

“Settlement cycle” means the period between two moments in time within a calendar day or across two or more calendar days commencing with the moment from when the KEPSS system is open for settlement, until it is closed for settlement for the particular value date;

“Settlement cycle date” means the value date applicable to the settlement of settlement obligations settled or to be settled in that particular settlement cycle;

“Settlement failure” means, in relation to a participant, failure by such a participant to fulfill its settlement obligation to one or more participants within a reasonable time after exhausting all means of raising liquidity as determined by the Settlement Provider but in any event by no later than the end of the settlement cycle during which that instruction was due, and in respect of which the Bank has declared a settlement failure;

Settlement obligation” means an indebtedness that is owed by one participant to another resulting either from a single payment instruction processed and submitted for settlement on a gross basis, or from multiple payment instructions originating from an approved payment clearing house;

“Settlement Provider” means the Bank, in its role as settlement authority, providing settlement services to the participants as contemplated in this agreement;

“SWIFT” means Society for Worldwide Inter-bank Financial Telecommunications s.c. having its registered address at Avenue Adele 1, B-1310 La Hulpe, Belgium.

“SWIFT Network” means the telecommunications network and services provided by SWIFT to individual Participants and the Bank.

“System Fault” means a fault, malfunction or error in KEPSS such that the System is unable to perform the functions it is required to perform for the time being.

System Service Provider” means the Bank as an Operator of the KEPSS rendering such services as stipulated in these Rules and Procedures.

“Valid Instruction” means an instruction received by KEPSS, which is:

- from a source approved by the Participant and or
- in a form which provides the Bank with a clear instruction to transact.

1.6 These Rules and Procedures describe how participants interact at business level with each other and Bank. Separate documentation describes how the KEPSS and SWIFT systems support these interactions at the operator level. Participants should make reference to the following associated documentation as necessary;

- SWIFT FIN Copy Service Description
- SWIFT User Handbooks
- KEPSS Participant User Guide.

1.7 If a provision of these Rules and Procedures is inconsistent with the Agreement for Participating in KEPSS, the provision of these Rules and Procedures shall prevail.

1.8 If a provision of these Rules and Procedures is inconsistent with any mandatory requirements of SWIFT, the SWIFT requirement shall prevail to the extent of that inconsistency.

1.9 Interpretation

In these Terms and Conditions:

- a) words importing one gender include the other gender;
- b) the plural number includes the singular and vice versa;
- c) references to clauses and schedules are references to clauses and schedules in these Terms and Conditions, as they may be amended from time to time in accordance with these Terms and Conditions;
- d) headings are inserted for convenience of reference and do not alter the interpretation of these Terms and Condition;
- e) a reference to any legislation includes any statutory regulations, rules, orders or instruments made or issued pursuant to that legislation and any amendments to, re-enactment of, or replacement of that legislation.

1.10 **Governing Law**

Kenya Law governs these Terms and Conditions and the performance of them.

2. PARTICIPATION PROCEDURES

2.1 The KEPSS system is owned and operated by the Central Bank. This notwithstanding, the Bank is also a participant in KEPSS.

2.2 Participation to the KEPSS is open to a bank or financial institution or any participant provided they meet all the eligibility criteria and conditions provided

in the subsection (a) to (f) of this section or as may otherwise be prescribed by the Bank from time to time;-

- a) It has a settlement account at the Bank,
- b) It meets the SWIFT connectivity requirements for Real Time Gross Settlement System,
- c) It exchanges SWIFT authentication keys with all participants and any other components of the KEPSS necessary for proper authentication of messages,
- d) It has in the opinion of the Bank, appropriate technical capacity, including adequate contingency arrangements to enable it to participate in the KEPSS without hindering the KEPSS's smooth operations,
- e) It shall demonstrate and undertake to ensure that in the event of a problem with its system it shall be able to resume payment processing through the system within a period acceptable to the Bank, and
- f) It shall execute, undertake and agree to be irrevocably bound by the terms and conditions of the Agreement for Participating in KEPSS and these Rules and Procedures.

2.3

- a) An applicant seeking admission to participate in KEPSS shall be required to apply to the Bank for admission in the prescribed form in **schedule A** of these Rules and Procedures.
- b) The Bank shall analyse the application by considering the eligibility criteria provided in section 2.2 above.
- c) The Bank may accept or reject an application. Provided that before a rejection is made the Bank would have informed the applicant its intention to reject and had given the applicant reasonable opportunity to amend its application where necessary and must revert to the applicant within thirty (30) days of the receipt of an application with an appropriate response.
- d) If an application is granted;
 - i) the applicant shall be required to execute the Agreement for KEPSS participation agreeing to be irrevocably bound by it and these Rules and Procedures,
 - ii) the applicant shall pay and Charges stipulated in **schedule E** of these Rules and Procedures as it shall be specified and determined by the Bank from time to time, and

- iii) the Bank shall notify all KEPSS participants.
- e) The Bank may delay the admission date of the applicant until it is satisfied that the applicant has fully complied with the subsection (d) above.

3. WITHDRAWAL AND SUSPENSION FROM PARTICIPATION

- 3.1 KEPSS participant may withdraw from participation in KEPSS in such manner and upon such terms as the Bank shall permit or require. Provided that a ten (10) day notice of intention to withdrawal shall be submitted to the Bank.
- 3.2 The Bank may suspend any participant in KEPSS upon occurrence of any of the following;
 - a) The failure of the participant to comply with any of the provisions of these Rules and Procedures,
 - b) The Participant fails to have SWIFT connectivity that causes it not to be able to communicate with KEPSS
 - c) The failure of the participant to effect payment through the KEPSS for six (6) consecutive months
 - d) The participant breaches a provision of the Agreement to Participate in KEPSS
 - e) In the Bank's opinion, the participation in KEPSS is likely to:
 - i) Cause unacceptable risk to the KEPSS or to other participants; or
 - ii) Cause a system fault or otherwise hinder the satisfactory functioning of the KEPSS
- 3.3 The Participant shall be automatically suspended from the KEPSS;
 - a) If in terms of the Banking Act, and other relevant Acts;
 - i) The Participant's registration is cancelled, or
 - ii) The Participant is directed to suspend all its banking business, or
 - iii) The Participant has been granted the approval by the Bank for voluntarily liquidation, or
 - iv) The Participant is placed under statutory management of the Bank.
- 3.4 The Bank shall notify all other Participants in KEPSS as soon as practicable following such suspension or withdrawal.

- 3.5 The Participants shall immediately upon the occurrence, or threatened occurrence, of a Notifiable Event (as defined in section 1.5 above) shall notify the Bank and;
- a) shall ensure that no further Payment Instructions are submitted to the KEPSS and
 - b) shall also inform the Bank the steps (if any) it is taking to ensure that it continues to have the authority and ability to issue Payment Instructions.
 - i) The Bank may suspend the KEPSS Procedures in whole or part in circumstances where continued operation of the Procedures would undermine the operation and stability of the system
 - ii) During the suspension of KEPSS Procedures, operations will be conducted as determined by the Bank following reasonable consultation with the participants.
 - iii) The Bank shall restore operation of the KEPSS Procedures as soon as practicable under immediate notice to the participants
- 3.6 In the event a Participant is suspended it shall not participate in KEPSS in any way whatsoever, except to the extent that the Bank permits it to do so.
- 3.7 The withdrawal or suspension of a participant shall not entitle the Participant to a refund of any fee it has paid in terms of these Rules and Procedures or the Agreement for participating in KEPSS.

4. OPERATING SCHEDULE

4.1 The Bank shall operate KEPSS on a fixed schedule from Monday through Friday except on public holidays for purposes of sending payments and settlement instruction according to the KEPSS operating schedule described in the table below;

Time	Event	Activities and Available Transactions
8.30 am	Start-of-Day	KEPSS start-of-day
8.45am- 2.00 pm	Operating Day Commences Window 1	<ul style="list-style-type: none"> • Participants can sent and receive payments. • The Bank shall enter Net Settlement Instructions from approved Clearing Houses. • Account transfers and its own payments.
2.00pm- 4.00 pm	Initial Cut-off Window 2	<ul style="list-style-type: none"> • Closed to new payments, except for bank-to-bank (MT2XX series) and Account Transfers. • Queue clearance may be effected by application of gridlock resolution tools by the Bank and by deletion of queued payments by Participants. • Participants must arrange to have sufficient available funds to allow reversal of ILF drawings prior to Final Cut-off.
4.00 pm	Final Cut- Off	<ul style="list-style-type: none"> • No further inputs accepted. • After final cut-off queue/settlement processing will cease and any transactions still in queues will be rejected with MT097 issued to SWIFT and passed by SWIFT to the relevant Participant.
4.30 pm	System Close	End-of-day processes, such as reports, archiving.

- 4.2 Participants are required to be connected to the KEPSS so as to receive and send KEPSS Payment Instructions and other KEPSS-related messages whenever KEPSS is operating.
- 4.3 The operating schedule is subject to change from time to time due to occurrence of an adverse circumstance or a need for ad hoc adjustments, such changes would be made to deal with these unforeseen contingencies, in so doing the Bank shall extend or reduce the operating schedule and sessions at its sole discretion, however any change of the operating schedule shall be notified to the participants, and shall not extend past midnight of the business day.
- 4.4 The Bank may in notifying the participants upon occurrence of a need to change the operating schedule stipulated in subsection (4.3) above and may also provide a facility in KEPSS to enable participants to enquire on the next scheduled business day and a forward date.
- 4.5 Requests by participants for an extension of the operating schedule or session may be considered at the discretion of the Bank only if there is a likelihood of causing a systemic crisis which may arise if such an extension is not granted. Provided that any extension to the operating schedule shall not exceed midnight of the reference business day.

5. ROUTING OF PAYMENTS

5.1

- a) For the purpose of routing of payments in KEPSS each Participant shall be required to have a single SWIFT Bank Identifier Code (BIC) on which all KEPSS payments shall be routed to.
- b) A participant shall not initiate any change to its BIC with SWIFT, without prior notification to the Bank and upon such change as approved by SWIFT the participant shall immediately notify the Bank.
- c) Current BICs of KEPSS Participants are recorded in **Schedule B** of these Rules and Procedures.

5.2

- a) Payment instructions to a participant must be precisely sent to the address of the concerned participant identifying intended beneficiaries of payment messages using account name, number, and the branch of the bank or financial institution at which the beneficiary's account is domiciled.

- b) Participants must ensure that all KEPSS payments contain a reference number. This reference number combined with the amount and the receiver SWIFT BIC must be unique within the business day for the sending Participant.
- 5.3 KEPSS shall accept transactions with any Value Date that is accepted by SWIFT.
- 5.4 KEPSS transactions shall be denominated in Kenya shillings or US dollars or sterling pounds or Euros.
- 5.5 A sending participant may withdraw a queued payment instruction from its settlement queue, however once a payment has been settled across the KEPSS accounts, the sending participant shall not have an ability to recall the payment.
- a) A participant may request return of a payment from a receiving party by using any available means of communication open to it.
 - b) A return payment shall be initiated as a new MT202 Financial Institution Transfer message instruction. The return instruction shall contain related reference number being the reference number of the original instruction and clearly indicated "*Return Payment*".
 - c) A bank that receives an MT102 and has a problem with one payment must NOT reject the whole message but only return the payment with the problem and apply the other payments in the message.
- 5.6 a) A participant shall credit respective customer accounts within 2 hours of receiving payment instructions or within such time prescribed by the Bank.
- b) Any unapplied payments must be returned less charges (if any) as soon as practical on the same funds settlement value date but not later than 2 hours after KEPSS enters the next funds settlement value date.
 - c) Any costs or claims arising thereof shall be dealt with by the participants outside these Rules and Procedures.
- 5.7 CBK transactions shall have priority over other payments.
- 5.8 Unapplied payments shall be handled with priority.

6. FINALITY AND IRREVOCABILITY OF PAYMENT

Payment instructions in KEPSS are deemed to be final and irrevocable once the sending participant's account is debited and the receiving participant is credited with the amount specified in the payment instruction.

7. QUEUE MANAGEMENT

7.1

- a) All debit transactions to Participants' accounts in KEPSS shall be checked for funds availability. Transactions shall not be processed unless there are sufficient available funds in the account at the time of checking. Availability of funds shall be determined with reference to account balance as well as any other parameters set on the account such as minimum balances.
- b) If there are sufficient available funds in the sending participants account, the accounts of the two Participants involved shall be respectively debited and credited and required message outputs shall be issued.

7.2 Transactions for which there are insufficient available funds shall be queued by KEPSS. Queued transactions are rechecked when account conditions change, for instance when an account has been credited with funds or other account constraints are changed.

- a) All transactions shall be queued and re-submitted for funds availability checking on a First-In-First-Out (FIFO) basis, that is all transactions shall be queued in the order in which they were received and the "oldest" transaction in each Participant's queue shall be checked first.
- b) Only the transaction at the head of each Participant's queue shall be checked for funds availability. The FIFO order of queues shall only be overridden by use of the queue management facilities described in the sections below.

7.3 SWIFT payments can be assigned two priority classes;

- Normal and
 - Urgent.
- a) Normal or Urgent priority is assigned to a payment instruction by the Participant as part of the SWIFT message header.
 - b) Within KEPSS, Urgent payments shall be processed ahead of Normal payments. All transactions shall be tested in FIFO order within these two classes except where a Participant elevates a queued payment (Urgent or Normal) to the head of the respective section of the queue.

7.4

- a) Account Transfers initiated by the Bank shall have settlement priority over all transactions.
- b) Account transfers shall always take precedence over other transactions in a Participant's queue.

7.5 Sending Participants shall be able to change priorities of outgoing payments held in their queue by promoting individual payments to the head of the payment queue via the KEPSS Webstation facility.

7.6

- a) A sending Participant may cancel any of its payments held in its queue using the KEPSS Webstation. KEPSS shall return an MT097 to SWIFT Fin-Copy. KEPSS shall append a code indicating the reason for rejection.
- b) A Participant cannot cancel a message on its queue that it has not originated. The Bank can however cancel any message on any queue.

7.7

- a) The KEPSS provides the Bank with tools to resolve significant backlogs of queued payments. This is called gridlock resolution.
- b) The KEPSS shall apply an algorithm to select those payments that can be settled on an offset basis. This shall change the FIFO ordering of settlement.
- c) Gridlock resolution can be scheduled for automatic activation at set times or intervals as specified by the Bank and can also be manually invoked by the Bank. Gridlock resolution is most likely to occur in the period between Initial and Final Cut-Off.

7.8 Transactions that are not settled by the end of the business day shall be rejected with an appropriate Abort Reason code appended to the MT097 and incur a penalty to be determined by the Bank from time to time.

8. INTRADAY LIQUIDITY FACILITIES

8.1

- a) The Bank shall, at its discretion, extend Intraday Liquidity Facility (ILF) to Participants at no charge to assist them meet their intraday liquidity

requirements under KEPSS. The ILF must be fully secured by eligible collateral securities, in such manner as shall be prescribed by the Bank.

- b) The Bank shall establish the amount and collateral arrangements for the ILF with each Participant.

8.2

- a) A Participant shall provide sufficient liquidity in its account prior to Final Cut-off to allow any outstanding transactions in the queue to be settled.
- b) Additional liquidity may be sourced during the period between Initial Cut-off and Final Cut-offs by borrowing from the Bank or from inter-bank market.

9. MINIMUM BALANCE REQUIREMENTS

9.1

- a) The Bank may require each Participant to maintain its Settlement Account above a minimum balance that may be set by the Bank. Initially this minimum balance shall be set to zero for every Participant.
- b) As a general principle, over an extended period, as Participants become used to operating in the KEPSS environment, the Bank may increase the minimum balance to a figure greater than zero but not without first notifying the Participants.
- c) The general principle stated in subsection (9.1(b)) of this section does not prevent the Bank from changing the minimum balance of a Participant should the Bank consider a situation has arisen, or is likely to arise, which warrants the Bank making a change to the minimum balance of a particular Participant or particular Participants.
- d) The minimum balance set for a Participant, shall be enforced by KEPSS, that is transactions that would reduce the balance below the minimum shall be rejected to the Participant's queue for later rechecking against the minimum balance.

9.2 The Bank shall notify a Participant of any change to its minimum balance.

10. NET SETTLEMENT INSTRUCTIONS

10.1

- a) A Net Settlement Instruction (NSI) is an Account Transfer involving multiple debits and credits, initiated by the Net Settlement Systems to settle net obligations arising from the conduct of a payment clearing system, for instance cheque clearing or Point Of Sale (POS) clearing.

- b) The Bank may introduce additional net settlements at its discretion.

10.2

- a) The Nairobi Automated Clearing House (ACH) cheque and EFT clearing settlement shall be entered into KEPSS through the Liquidity Optimising Mechanism (LOM) where the instructions will be queued if there are no sufficient funds in the participant's settlement account.
- b) On completion of the settlement of the Net Settlement Instruction, KEPSS shall generate MT900 and MT910 debit and credit advices to those Participants that have opted to receive these message types.
- c) On settlement failure, KEPSS shall generate MT097 to ACH and the participant (s) causing the settlement failure shall be charged a penalty as set out in schedule E.

10.3

- a) Participants shall ensure that there are sufficient funds in their account to allow immediate processing of the Net Settlement Instruction.
- b) Each Participant shall nominate a senior officer and his alternate that the Bank shall contact in the event that a settlement fails as a result of insufficient funds. These contacts are listed on **Schedule C**. Participants shall make immediate arrangements to fund their accounts to enable the settlement to complete.
- c) KEPSS shall not accept Net Settlement Instructions after 1.00pm unless with prior arrangement.

11. OTHER TRANSACTIONS INPUT

11.1

- a) The Bank at its discretion shall enter debit and credit transactions that shall be reflected in the Participant's settlement account.
- b) Such transactions stipulated in subsection (a) above may include, but are not limited to, transactions arising from:
 - Maturity of Treasury Bills and Treasury Bonds
 - Shortages and Excesses - Currency
 - Advance /overnight lending
 - KEPSS charges and fees
 - Interest charges on loans advances by the bank
 - Penalties

12. SWIFT SERVICES

12.1 The Bank shall enter into a contract with SWIFT for the provision of FIN Y-Copy services to support the settlement of KEPSS payment instructions exchanged between Participants.

12.2

- a) The FIN Y-Copy service uses the facilities of the FIN messaging service, which it enhances by copying selected information to the Bank for settlement authorization. This Store-Copy-Authorise-Forward facility requires that all Participants be members of the KEPSS Closed User Group (CUG).
- b) The Bank shall administer the FIN Y-Copy service, including the determination of the membership of the CUG, the message types to be supported by the KEPSS CUG and various other aspects of the FIN Y-Copy service.
- c) SWIFT is responsible for implementing the Bank's FIN Y-Copy requirements.

12.3 A Participant shall seek Bank approval prior to submitting any requests to SWIFT for any amendment to its SWIFT identity or capabilities that may impact on its participation in the KEPSS CUG.

12.4

- a) Each Participant must maintain a single current Bank Identifier Code (BIC) for use in KEPSS.
- b) Participants who maintain multiple identities in SWIFT for related or subsidiary entities may only nominate one BIC as a destination for KEPSS payments.
- c) Bank Identifier Codes of KEPSS Participants are shown in [Schedule B](#).

12.5

- a) A sending Participant must include a three character Service Identifier Code in an outgoing SWIFT payment message for it to be intercepted and copied by the SWIFT Y-Copy service.
- b) The Service Identifier Code (placed in Field 103 of the user header) for KEPSS is KPS.

12.6

- a) The following SWIFT Message types will be available for use in the KEPSS CUG.

MT102	Multiple Customer Credit Transfer
MT103	Single Customer Credit Transfer
MT202	General Financial Institution Transfer

- b) Message formats are contained in the SWIFT User Handbook.
 c) MT202 is used for the exchange of bank-to-bank payment instructions.

12.7

- a) The FIN Y-Copy service uses the following message types to carry out the settlement leg of the process.

MT096	FIN Copy to Central Institution Message
MT097	FIN Copy Message Authorisation/Refusal Notification from central institution

- b) The incoming payment message shall be intercepted, copied and stored pending receipt of a positive or negative response from KEPSS.

The Y-Copy service operates in partial-copy mode, that is only some information is included in the MT096 sent to KEPSS for settlement processing. The following extra Fields are included in the MT096 to KEPSS.

Message Type	Field Tags to be Copied
MT 102	20, 32A, 50A, 50K, 59, 59A 72
MT 103	20, 32A, 50A, 50K 59 59A 72
MT 202	20, 21, 32A, 58A, 58D, 72

- c) The Header and Trailer data shall also be copied.
 d) KEPSS shall process the MT096 and respond to FIN Y-Copy with an MT097. The MT097 shall either authorise or reject the MT096 request for settlement depending on the outcome of KEPSS testing processes.

- e) A positive MT097 authorisation response from KEPSS shall contain the following settlement-related information;
 - i) Timestamp of settlement completion, and
 - ii) KEPSS transaction reference number.
- f) FIN Y-Copy shall forward the successfully settled payment instruction to the receiving Participant with these details contained in the header block of the message.

12.8 If KEPSS rejects the payment instruction, a negative MT097 rejection response shall be returned to FIN Y-Copy. KEPSS shall append a two-digit code to Field 432 of the MT097. This Abort Notification Code describes the reason for the rejection of the settlement request by KEPSS.

12.9

- a) If FIN Y-Copy is unable to complete processing of a payment instruction, it shall send an Abort Notification (MT019) to the sending Participant, advising the reason for the rejection.
- b) Reasons for rejection shall be assigned a two-digit Abort Reason Code, which shall appear in Field 432 of the Abort Notification (MT019). The Abort Reason Code may be assigned by SWIFT or KEPSS depending on the reason and point in the process at which rejection occurred.

12.11 The tables below list SWIFT and KEPSS assigned Abort Reason Codes.

Code	Reason
60	Failed security validation at KEPSS (MAC/PAC check failed)
61	Failed message format validation at KEPSS
62	Duplicate Transaction reference (for this date)
70	Invalid Value Date - not equal to current value date
71	Customer Payment Received after Initial Cut-off
72	Payment Received after Cut-off
72	KEPSS Closed
73	Beneficiary Bank does not exist
74	Bank suspended
80	Payment cancelled from Settlement Queue at your own request
81	Payment unsettled at Final Cut-off

Table 1. SWIFT Assigned Codes

12.12 On receipt of a positive MT097 Authorisation response from KEPSS, the FIN Y-Copy has the capacity to send a Sender Notification (MT012) to the sending Participant. Sender Notification (MT012) is an optional FIN Y-Copy service and this notification is only sent to the sender on request.

12.13

- a) SWIFT shall charge each Participant directly for messaging costs associated with FIN Y-Copy treatment of payment instructions initiated by that Participant. SWIFT determines these charges.
- b) Messages initiated by KEPSS to Participants shall also be charged to Participants by SWIFT under a “reverse billing” arrangement, although SWIFT charges are normally levied against the sender of a SWIFT message. Messages subject to reverse billing shall be limited to those described at section 12.13 below.

12.13

- a) The following non-value message types may be generated by KEPSS and sent to Participants;

Table 2. KEPSS Generated Abort Codes

Code	Reason
01	Message too old (remained undelivered for 5 days)
02	Too many unsuccessful delivery attempts
03	Destination disabled
04	Operator aborted
05	Message could not be recovered after a major system failure because it was user encrypted
06	Message Type incompatible with SWIFT Terminal mode
11	Message is too old, but was authorized
12	Too many delivery attempts, but message was authorized
13	Destination is disabled, but message was authorized
14	Message is too long, but was authorized
21	Message is too old and was bypassed
22	Too many delivery attempts and the message was bypassed
23	Destination is disabled and message was bypassed
24	Message is too long and was bypassed
32	Message is too old and was not authorized
33	Copy message to the copy service server was aborted
99	Other

Non-Value Message Type	KEPSS Treatment
MT900 Confirmation of Debit	Used by KEPSS to provide advice to Participants of Account Transfers. Receipt is optional.
MT910 Confirmation of Credit	Used by KEPSS to provide advice to Participants of Account Transfers. Receipt is optional
MT950 Statement Message	Generated at end-of-day to provide account statement information to Participant. Receipt is optional.
MT999 Free Format	Used by Bank for sending messages to individual or multiple Participants, eg Broadcast announcement or warnings.

- b) For the optional message shown in the table above, each participant shall advise the Bank which message it want to receive. KEPSS shall not issue these messages unless Participants have requested them.

13. SECURITY OF KEPSS OPERATIONS

13.1 Both SWIFT and KEPSS provide security facilities to protect data, payments in transit, and to control user access. Participants are responsible for ensuring the integrity of transactions, data and user access within their own organisations.

13.2 Any actual or suspected breach of security must be reported to the KEPSS Help Desk immediately.

13.3

- a) SWIFT security and control arrangements are described in the SWIFT FIN Copy Service Description and in the FIN Security Guide of the SWIFT User Handbook.
- b) Participants shall ensure that all payment messages passed through KEPSS must be double-authenticated, by utilizing the SWIFT Standard FIN messages which uses an authentication mechanism based upon Bilateral Key Exchange (BKE) between the sender and receiver.
- c) The KEPSS Bank Identifier Code (BIC) address must be used by Participants for bilateral key exchange with KEPSS. The KEPSS BIC address is contained in **Schedule B** - Bank Identifier Codes.

13.4

- a) Key exchanges between Participants and between KEPSS and Participants will be required at six monthly intervals. The Bank may require more frequent or ad hoc key exchanges to take place.
- b) New keys shall be exchanged immediately if there is any actual or suspected breach of key security.

13.5

- a) Participants shall use Webstations to access KEPSS through a Virtual Private Network (VPN) . The Webstations, whether attached to proxy servers or directly attached to the network shall support the enquiry, queue management and e-mail functions of KEPSS. Line encryption shall be provided over the link between the Participant Webstation(s) and the Bank.

- b) Participants shall each have one or more Webstations with an attached secure card reader at their choice. Physical security of these devices in Participant premises shall be the responsibility of the Participant.
- c) Logon to KEPSS by a Webstation shall require the use of a Smartcard, which shall establish a secure dialogue with the KEPSS server at the Bank site. KEPSS shall have facilities to generate keys and create Smartcards.
- d) KEPSS shall provide access security with User-IDs, passwords and functionality limitations that may be controlled by the appropriate authority in each Participant organisation. It is the responsibility of each Participant to establish and enforce appropriate user access and authorities within their organisation.

13.6

- a) Participants shall perform a periodic self-assessment of the integrity and resilience of their own internal KEPSS arrangements. This self-assessment will be in the form described at **Schedule D**, the self-assessment shall cover such issues as;
 - i) physical site security
 - ii) system problems and downtime
 - iii) occurrences of fraud
 - iv) adequacy of throughput capacity
 - v) adequacy of contingency arrangements and facilities.
- b) The self-assessment report is to be submitted to the Bank biannually on January 31st and June 30th, by two authorised signatory of the Participant.

14. BUSINESS CONTINUITY PLAN

14.1 Each Participant shall nominate a first contact point for responding to enquiries or exchanging information in the event of processing problems; and a second contact point to act in case of the unavailability of the first contact point. A list of Contact Points is shown at **Schedule C**.

14.2 An inability to access the Central System using the KEPSS Webstation facility for the purposes of enquiry, queue management or non-value message exchange, shall only constitute a Contingency Event where such an inability effectively prevents the exchange and settlement of payments.

14.3

- a) If a Participant experiences any technical or operational problems that prevent it from processing payments and other KEPSS-related messages, it shall advise the KEPSS Help Desk within **15 minutes** of becoming aware of the problem.
- b) Participants must immediately notify the KEPSS Help Desk of any change in their situation.
- c) The Bank shall notify other Participants at its discretion where the problem appears likely to be protracted or potentially disruptive to the overall operation of the system, for instance, close to end-of-day Cut-off.
- d) Each Participant shall make its own judgment as to whether to continue to send payments in favour of the Participant with network reception problems.

14.4

- a) If a Participant is experiencing problems that result in it being able to receive but not to send payments, for instance, a back office system rather than a SWIFT Gateway failure, it shall continue to allow receipt of payments to its SWIFT Gateway.
- b) In the event of an outage in a Participant's SWIFT Gateway interface, KEPSS shall continue to process any MT096 settlement requests already held or subsequently received from SWIFT. Settled payments in favour of the Participant and other messages shall accumulate in SWIFT pending re-establishment of communications with SWIFT.

14.5 It shall be the obligation of each Participant to re-establishing its SWIFT Gateway connection.

14.6 In certain circumstances the Bank may, at its discretion, accept from a disabled Participant a listing of critical transactions for input by the Bank as Account Transfers, these would be;

- a) Restricted to critical bank-to-bank transactions,
- b) Only basic accounting information shall be accepted for input, that is beneficiary Participant, amount and transaction reference and
- c) The Listings must be in the form shown at **Schedule F**. Provided always that the Participants shall only submit such listings after obtaining the consent of the Bank.

14.7

- a) In the event of a prolonged SWIFT outages the Bank shall consult and communicate with Participants via the Emergency Contacts contained in **Schedule C** and via the KEPSS email facility.

- b) Participants shall remain logged on to their KEPSS Webstations in the event of a SWIFT system outage to allow for receipt of contingency warnings and instructions over the KEPSS email facility.
- c) The Bank shall invoke Business continuity arrangements and announce this via fax to Emergency Contact points as well as broadcasting it via the KEPSS email facility in the event it forms the view, following consultation with SWIFT and the Participants, that;
 - i) SWIFT shall not be able to restore communications for the rest of that operating day; and
 - ii) that Participants have a critical mass of uncompleted transactional business that cannot be completed by alternate means or deferred to the next business day; and
 - iii) it shall be operationally feasible invoke business continuity arrangements in time remaining for that business day,
- d) SWIFT-based operations cannot be reinstated for the business day once diskette-based processing has been invoked.

14.8

- a) In the event of a prolonged outage in KEPSS SWIFT Gateway, the Bank shall consult and communicate with Participants using the Emergency Contacts at Schedule D and KEPSS email facility.
- b) Participants must remain logged on to their KEPSS Webstations in the event of a KEPSS SWIFT Gateway outage to allow for receipt of contingency warnings and instructions over the KEPSS email facility.
- c) The Bank shall invoke Business continuity arrangements and announce this via fax to Emergency Contact points as well as broadcasting it via the KEPSS email facility in the event that it forms the view, following consultation with Participants, that;
 - i) it shall not be able to restore communications for the rest of that operating day; and
 - ii) that Participants' have a critical mass of uncompleted transactional business that cannot be completed by alternate means or deferred to the next business day; and
 - iii) it shall be operationally feasible to invoke business continuity arrangements

- d) SWIFT-based operations cannot be reinstated for a business day once business continuity processing has been invoked.
- e) The procedures stipulated in section 14.9 shall apply to KEPSS contingency events.

14.9

- a) KEPSS Central System contingency event occurs when KEPSS is unable to process transactions to Participant's accounts. The outage shall be in the KEPSS application itself rather than in its SWIFT interface.
- b) If the contingency event involves both the KEPSS SWIFT Gateway and the KEPSS Central System, it shall be treated according to the procedures set out in this section.
- c) In the event of a prolonged outage in the KEPSS Central System, the Bank shall consult and communicate with Participants using the Emergency Contacts at [Schedule C](#).
- d) In the event that the Bank forms the view that it shall not be able to restore KEPSS operations for the rest of that operating day, the Bank shall submit an emergency request to SWIFT by Authenticated Telephone Call (as per C.2.3 and P8 of the FIN Copy Service Description) requesting SWIFT to amend the KEPSS CUG operating mode to "Closed". This could take up to 45 minutes from authentication of the emergency call. Once transferred to "Closed" mode SWIFT shall abort any further payment instructions submitted by Participants with an MT019 Abort Notification.
- e) In the event of a KEPSS Application contingency Event Participants shall use alternate means of payment exchange, for instance bank cheques, bilateral exchanges.

14.10 Each participant shall maintain a written record of all contingency events and system problems. The record shall;

- a) include details of date, time, nature of problem, action taken to rectify and time of rectification,
- b) be reviewed by the Bank on monthly basis.
- c) be copied and such copies are to be forwarded to the KEPSS Help Desk Supervisor (refer to section 15.3(b) hereunder) within two working days of the end of each calendar month. A template for recording this information is set out at [Schedule G](#).

14.11

- a) The Bank shall test the KEPSS contingency arrangements at least annually. All Participants are required to cooperate and participate in this process.
- b) Participants may arrange, as necessary, with the Bank for conduct of their own contingency arrangement tests. As a minimum, the Bank should be advised of any testing that could affect a Participant's ability to operate in the system.

14.12

- a) In the event that it proves necessary to move KEPSS operations to the Bank's Fallback facilities, Participants shall be advised of any action that needs to be taken.
- b) It is intended that the transition to the Fallback site shall be largely transparent to Participants. Participants shall need to establish a new Logon session from their Webstation(s) to the Bank's Fallback site.

14.13 In the event that a participant needs to move to its Fallback site for any reason during the day, it should be able to do this without impacting the other Participants or the Bank. It should, however, notify the Bank of its intention to transfer and also of its successful transfer.

15. SYSTEM ADMINISTRATION AND USER ASSISTANCE

15.1

- a) Participants shall ensure that there are sufficient available funds in their account to allow immediate processing of the Net Settlement Instruction. Each Participant must nominate a senior officer that the Bank shall contact in the event that a settlement fails as a result of insufficient available funds. These contacts are listed on [Schedule C](#).
- b) If the instruction is unable to be processed by 1.00pm due to insufficient funds, the Net Settlement Instruction Failure Contact set out in [Schedule C](#) shall be immediately informed. Participants shall make immediate arrangements to fund their accounts to enable the settlement to complete.

15.2 Participants experiencing SWIFT-related problems should make use of their ordinary SWIFT Customer Support Centre facilities, in accordance with the SWIFT User Handbook.

15.3

- a) The Bank shall establish and maintain a KEPSS Support Desk to assist Participants with their use of the KEPSS system and to address any service difficulties encountered. The KEPSS Support Desk shall be available throughout the KEPSS Operating Day.

b) Help Desk Contact details are as follows;

KEPSS Help Desk
Central Bank of Kenya
Central Bank Building
Haile Salassie Avenue
Nairobi
Tele: 2861130/1109
Fax: 224406
email: kepss@centralbank.go.ke

c) All requests or enquiries regarding provision of liquidity by the Bank should be directed to the following;

xxxxxx
Central Bank of Kenya
Central Bank Building
Haile Salassie Avenue
Nairobi
Attention: KEPSS Administrator
Tele: 2861130/1109
Fax: 224406

16. SYSTEM CHANGES AND CHANGE CONTROL

16.1

- a) The provisions of section 2.16 of the Agreement to participate in KEPSS generally govern KEPSS system changes.
- b) The Bank shall control planned KEPSS changes according to the following guidelines;
 - i) the Bank shall issue notices and instructions to Participants prior to implementation of planned system changes,
 - ii) accompanying amendments to the Rules and Procedures and other system documentation shall be issued where appropriate,
 - iii) any modifications shall be tested in a test environment prior to implementation in a production environment. Participants may be required to assist the Bank in conducting this test.

16.2 The Bank shall review SWIFT advance information on upcoming SWIFT applications and standards. The Bank shall determine whether an upcoming

change is likely to impact on KEPSS operations. The Bank shall notify the Participants of these changes and advise what action shall be taken by Participants. Participants shall implement any SWIFT changes that impact on the operations of KEPSS.

16.3

- a) Any proposed change to the operating environment of the KEPSS Webstation or changes to the KEPSS telecommunications links at Participant sites shall require prior approval of the Bank before implementation.
- b) The Bank may, at its discretion, refuse to ratify any change that does not conform to KEPSS standard configuration requirements.

17. FEES CHARGES, AND PENALTIES

17.1

- a) In accordance with the Agreement for Participating in KEPSS, the Bank shall calculate fees and charge these to Participants' accounts. Charging shall be undertaken at the end of **each day**.
- b) Notwithstanding the forgoing, the Bank shall charge penalties to the participants upon occurrence of an event that requires penalty in the use of KEPSS services, as per **Schedule E** to these Rules and Procedures
- c) Participants shall be provided with invoices providing detail of KEPSS charges and penalties. **Schedule E** sets out current KEPSS fees, charges and penalties
- d) The Bank shall review the fees charges and penalties from time to time by giving a prior notice to the participants.

18 AMENDMENTS

18.1 The Bank may, at its sole discretion, amend the KEPSS Rules and Procedures provided that;

- a) Participants are notified of any such amendment in advance of its taking effect with sufficient notice so as to allow reasonable time for the amendment (if any is required) of the participant's internal systems and procedures; and
- b) the Bank makes a reasonable effort to consult with other participants in respect of any procedural change likely to impact on each participant's systems and internal procedures.

19 CONFIDENTIALITY

19.1 Subject to these rules, the Central Bank, and every participant must;

- a) Apply the normal rules of bankers' confidentiality and other relevant bodies to all payment messages sent through the system; and
- b) Keep confidential all aspects of the System's operation the disclosure of which might facilitate fraud or endanger the security of the System and must ensure that their employees, consultants and agents take all reasonable care to maintain that confidentiality.

19.2 The Central Bank, may disclose or publish: -

- a) Aggregate or summary data on payment messages sent through the system; and
- b) Educational and descriptive information about the System.

19.3 Participants may discuss and exchange information with other participants regarding any aspect of the operation or administration of the System.

19.4 These rules should not be construed to limit any sections of the Kenyan Law.

20. DISPUTE RESOLUTION

20.1

- a) The participants are required to settle any dispute between themselves amicably.
- b) If the participants fail to settle a dispute amicably the dispute shall be referred to a dispute resolution process as provided in the following sections.

20.2 The participant that considers a dispute has arisen must send a notice to the other party setting out full description of the matters in dispute.

20.3 In the event of a dispute arising between the Bank as the KEPSS Operator and a participant in respect of any changes to a service, the KEPSS Settlement System Dispute Resolution Committee referred in section (20.4) below shall refer the dispute to arbitration.

20.4 In the case of any dispute or difference arising between the parties hereto with regard to the construction of these Rules and Procedures or the rights, duties or obligations of either party hereunder or any matter arising out of or concerning such rights, duties or obligations, or any other dispute or matter, including any

- dispute in respect to and including the termination of the Agreement to Participate in KEPSS, save for a dispute in respect of payment of monies due, such dispute shall be referred to arbitration by the **KEPSS Settlement System Dispute Resolution Committee**. The Committee once established shall form its own rules in accordance with the Arbitration Act for the time being in force in Kenya. The decision of the Committee shall be binding on the parties.
- 20.5 The arbitration referred in clause 20.4 shall be held as a matter of urgency, at a time and place decided on by the duly appointed arbitrator, with a view to being completed within 14 (fourteen) days after the appointment of the arbitrator.
- 20.6 The Bank as the KEPSS operator, and not as a participant shall arbitrate on disputes in respect of payment of monies due.
- 20.7 Pending the resolution of the dispute, the participants shall continue to perform all their obligations in participation in KEPSS.
- 20.8 Without prejudice to the generality of the foregoing, a participant shall not be entitled to withdrawal its participation in KEPSS by reason of to a dispute with another KEPSS Participant.

21. PUBLIC DOCUMENT

These Rules and Procedures are public documents and shall be kept open for public inspection at the offices of the Bank and the head offices of every participant.