



Central Bank of Kenya

NATIONAL PAYMENTS SYSTEM

REAL TIME GROSS SETTLEMENT SYSTEM RULES AND PROCEDURES

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INTRODUCTION

A Real Time Gross Settlement (RTGS) system is defined as a payment system in which both processing and final settlement of funds transfer instructions take place continuously in real time from one bank to another. The transactions are settled in the accounts of the Participants in the Central Bank of Kenya (CBK); (hereinafter referred as 'the Bank'), provided that the instructing Participant has sufficient covering balance or credit (settlement limit). RTGS system mitigates systemic settlement risk inherent in large value settlements.

The Kenyan RTGS system known as Kenya Electronic Payment and Settlement System (KEPSS) is classified as a Systemically Important Payment System (SIPS). The first KEPSS system was implemented on July 29, 2005, and due to technological advances and changes in the payments landscape, it was upgraded on June 5, 2020.

1. PRELIMINARY PROVISIONS

- 1.1. These Rules and Procedures may be cited as the "KEPSS Rules and Procedures"
- 1.2. These Rules and Procedures shall apply to all approved KEPSS Participants for submitting and receiving transactions in the KEPSS and are binding to the 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 KEPSS.
- 1.4. These Rules and Procedures describe how Participants interact at business level with each other and the Bank and should be read in conjunction with the following documents:-
 - a) Security User Manual
 - b) System Administrator KEPSS User Manual
 - c) System Administrator PO User Manual
 - d) Installation and Configuration Manual

2. DEFINITIONS AND INTERPRETATIONS

In these Rules and Procedures, the following words have these meanings unless the context requires otherwise: -

"Account" means established 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.

“Authorized Signatory” means such a Person as may be duly authorized and designated in writing by a KEPSS Participant to execute window extension or message cancellation requests on behalf of the Participant.

“Bank” means the Central Bank of Kenya (CBK).

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

“Business Day” means a day on which banks and the Bank are open for general banking business in Kenya

“Cash Reserve Ratio” definition can be used interchangeably with Minimum Cash Balance

“Clearing House” means the institution(s) in the business of updating the accounts of trading parties and arranging for the transfer of money and/or securities.

“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.

“Common Market for Eastern and Southern Africa (COMESA)” – means a trade block established to promote regional integration through signing of a treaty.

“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:

- a. Individual Participant contingency event
- b. SWIFT contingency event
- c. KEPSS SWIFT Gateway contingency event
- d. KEPSS Central System contingency event
- e. Other contingency events.

Each type of event is dealt with in section 22 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.

“East African Community (EAC)” - means the regional intergovernmental organization of the countries that have signed the treaty for establishment of the EAC.

“East African Payment System (EAPS)” - A cross-border and multicurrency payment system that has enabled cross-border payments to be faster, cheaper and more transparent across the EAC member states.

“Executing Bank” shall mean the participant bank receiving payment instructions from a forwarding bank to apply to the beneficiary account

“Exceptional Business Day” a non-business day for the KEPSS system but the system is available for settlement of transactions.

“Financial institution” has the meaning ascribed by the Banking Act, 1989.

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

“Instructing Party” shall mean a person who has a banking relationship with the Forwarding Bank and authorized by the Originator to initiate a Request for Transfer through the Forwarding Bank. The Instructing Party and the Originator may be the same legal entity.

“Forwarding Bank” shall mean the Participating Bank receiving a Request for Transfer instruction from the Instructing Party and forwarding the Executing Bank.

“KEPSS Settlement System Dispute Resolution Committee” means a committee established by the Bank and Participants to resolve KEPSS disputes.

“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.

“Live Operation Date” means the date on which 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 Participant which is set by the Bank from time to time.

“Net Settlement Instruction” means an Account Transfer involving single or multiple debit(s) and credit(s), initiated by a Net Settlement System to settle net obligations arising from the conduct of a payment or securities clearing system among participants 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. It is making a general assignment for the benefit of, or entering a reorganization, arrangement, or composition with, its creditors; or
- b. It is admitting whether in writing or otherwise its inability to pay its debts as they become due from its own money; or
- c. It is 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 reorganization, 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
- e. The appointment of a receiver, administrator, liquidator or trustee or analogous officer of it over all or any material part of its property;
 - i) 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 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 Central Bank of Kenya to participate in KEPSS in accordance with section 3.2 herein.

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

“Payment Originator” means the KEPSS module used for manual generation of payment instructions by the Bank for settlement in KEPSS.

“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 instantly as received in the system.

“REPSS” Regional Payment and Settlement System is a system designed for effecting cross border payments between countries in the Common Market for Eastern and Southern Africa (COMESA) region. The system allows banks in member countries to transfer funds more easily within COMESA region through their local RTGS in USD and Euro.

“Rules and Procedures” means standards adopted by the Bank from time to time, which govern the operation of 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 the Bank, over which Payment Instruction or 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 KEPSS 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 Participant obligations settled or to be settled in that particular settlement cycle.

“Settlement failure” means; failure by a Participant to fulfill its settlement obligation to one or more Participants after exhausting all means of raising liquidity no later than the end of the settlement cycle during which that instruction was due.

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.

“SWIFT” means Society for Worldwide Inter-Bank Financial Telecommunications

“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 its functions.

“Systemically Important Payment System (SIPS)” means a payment system which has the potential to trigger or transmit systemic disruptions; this includes, among other things, systems that are the sole payment system in a jurisdiction or the principal system in terms of the aggregate value of payments, and systems that mainly handle time-critical, high-value payments or settle payments used to effect settlement in other systems

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

“Universal Serial Bus (USB) Token” is a physical device that is used to establish personal identity to access a network.

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

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

Interpretation

In these Rules and Procedures:

- 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 the KEPSS Rules and Procedures, as they may be amended from time to time in accordance with the KEPSS Rules and Procedures;
- d. headings are inserted for convenience of reference and do not alter the interpretation of these Terms and Conditions; and,
- 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.

Governing Law

- a. These Rules and Procedures are governed by the Laws of Kenya.
- b. If a provision(s) of these Rules and Procedures is/are inconsistent with the Agreement for Participating in KEPSS, the provision of these Rules and Procedures shall prevail.

3. KEPSS ACCESS CRITERIA

The KEPSS system is owned and operated by the Central Bank of Kenya. This notwithstanding, the Bank is also a Participant in KEPSS.

3.1. Applicable Legislation

Institutions licensed under the following legislation are eligible to access the KEPSS system services;

- a. Central Bank of Kenya Act,
- b. The Banking Act,
- c. National Payment System Act
- d. Microfinance Act
- e. Any other law or institution as the Bank may determine at its sole discretion from time to time.

3.2 Eligibility criteria and conditions

Participation in KEPSS is open to a bank, or financial institution or any Participant provided,

- a. They are approved by the Bank, and
- b. They meet all the eligibility criteria and conditions provided in (i) to (v) of this section or as may otherwise be prescribed by the Bank from time to time; -
 - i) It has in the opinion of the Bank, appropriate technical capacity, including adequate contingency arrangements to enable it to participate in KEPSS without hindering the KEPSS smooth operations.
 - ii) It shall execute, undertake and agree to be irrevocably bound by the terms and conditions of the Agreement for Participating in KEPSS, EAPS, REPSS and these Rules and Procedures.
 - iii) Comply with all rules and procedures.
 - iv) Comply with the requirements to participate in KEPSS as per annex 1.
 - v) Comply with all legal requirements as set out in the laws of Kenya.

3.3. Admission of a Participant

- 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 analyze the application by considering the requirements as provided in Annex 1 and must revert to the applicant within thirty (30) working days of the receipt of an application with an appropriate response
- c) If an application for admission is rejected;
 - i) the Bank will inform the applicant of the rejection; and
 - ii) give the applicant reasonable opportunity to amend its application where necessary.

- d) If an application for admission is approved;
 - i) the applicant shall be required to execute the “*Agreements for participation*” agreeing to be irrevocably bound by it and these Rules and Procedures.
 - ii) the applicant shall undertake user acceptance tests to determine systems compatibility and user capabilities to Participant in KEPSS.
 - iii) the applicant shall commit to honor its obligations as stipulated in schedule E of these Rules and Procedures or as it shall be specified and determined by the Bank from time to time.
- 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.

34. Notification of a New Participant

The Bank will advise existing Participants of the admission of any new Participant to the system prior to commencement of any activity by the new member.

35. KEPSS Access Restrictions

- a) The Bank may restrict the right of a Participant to use KEPSS or any feature thereof in the following circumstances;
 - i) Where the Bank determines that the Participant is unable to properly use KEPSS or any feature thereof due to operational or technical challenges with the Participant’s own system or the systems of third parties, or due to events over which the Participant has no control.
 - ii) Where the Bank determines such action is necessary to protect the interests of CBK and in the best interest of the other Participants.
- b) The Bank may remove the restrictions when in its sole discretion determines that the Participant is able to resume normal operations.

4. SUSPENSION, TERMINATION AND WITHDRAWAL

The Bank shall suspend a Participant if it determines, in good faith, based on the information available to it, that the Participant’s financial and / or operating conditions introduces significant disruption risks affecting the stability of the system or interests of CBK or other Participants in KEPSS.

Where a Participant is suspended, all activities in its settlement accounts will be immediately suspended.

- 41. The Bank may suspend any Participant in KEPSS upon occurrence of any but not limited to the following;
 - a) The failure of the Participant to comply with any of the provisions of these Rules and Procedures.
 - b) The Participant breaches a provision of the Agreements to Participate in KEPSS.

- c) The Participant fails to have connectivity that causes it not to be able to communicate with KEPSS within 72 hours or as may be deemed necessary.
 - d) The failure of the Participant to effect payment through KEPSS for six (6) consecutive months.
 - e) In the Bank's opinion, the participation in KEPSS is likely to:
 - i) Cause unacceptable risk to KEPSS or to other Participants; or
 - ii) Cause a system fault or otherwise hinder the proper functioning of KEPSS.
42. The Participant shall be automatically suspended from KEPSS if in terms of the Banking Act, and other applicable laws;
- a) The Participant's license or authorization is cancelled, or
 - b) The Participant is directed to suspend all its banking business, or
 - c) The Participant has been granted the approval by the Bank for voluntary liquidation, or
 - d) The Participant is placed under statutory management by the Bank.
43. Requested Suspension
- a) A Participant can request suspension for a period not exceeding 48 hours due to major technical or operational challenge that temporarily hinder the Participant from fulfilling their obligations under these rules.
 - b) The suspension will be effective once the Bank approves the request.
44. 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.

5. WITHDRAWAL FROM PARTICIPATION

- 51. Any Participant may withdraw from the system subject to giving a minimum of 90 business days prior notice to the Bank.
- 52. The withdrawing Participant must settle any outstanding payment obligations before the notice period expires.
- 53. The Bank has sole authority to determine the existence of cause sufficient to consider termination of an entity's participation in KEPSS.
- 54. The suspension, withdrawal or termination of a Participant from KEPSS 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.

6. REINSTATEMENT

A Participant who has withdrawn or been terminated may be reinstated by the Bank.

- 61. The Participant must;
 - a) Give notice to CBK requesting reinstatement
 - b) Comply with the agreed standards and qualifications for participation

62. The Bank has the sole discretion of approving or rejecting the request for reinstatement.

7. NOTIFIABLE EVENTS

71. The Bank shall notify all other Participants in KEPSS system as soon as practical following such suspension, withdrawal, or reinstatement of a Participant.
72. The Participants shall immediately upon the occurrence, or near occurrence, of a Notifiable Event (as defined in section 2 of the KEPSS Rules and Procedures) shall notify the Bank and;
- a) shall ensure that no further payment instructions are submitted to 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.
73. 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;
- a) During the suspension of KEPSS Procedures, operations will be conducted as determined by the Bank following reasonable consultation with the Participants.
 - b) The Bank shall restore operation of the KEPSS Procedures as soon as practicable under immediate notice to the Participants

8. ROLES AND RESPONSIBILITIES

8.1 The Participant;

- a) A Participant must ensure sufficient funding of its settlement accounts held in KEPSS.
- b) A Participant is responsible for honoring funding arrangements in accordance with any agreements thereto.
- c) A Participant is responsible for the correct generation and transmission of all payment instructions and messages and for the authenticity of such instructions and messages.
- d) A Participant must comply with the conditions of any Service Level Agreement which may be agreed periodically.
- e) A Participant must ensure it has the appropriate technical capacity, including adequate Business Continuity arrangements, to facilitate smooth operations of the system.
- f) A Participant must have the capabilities of sending and receiving payment instructions within KEPSS during the operational hours as set out in the operating schedule.
- g) It is the responsibility of a Participant to ensure that all their instructions are received in KEPSS for settlement purposes.
- h) A Participant must accept all valid payment instructions originating from KEPSS time stamp within the operating sessions as set out in the operating schedule.

- i) A Participant is liable for all charges incurred through the use of the system.
- j) In the event of prolonged payment system challenges, a Participant may request the Bank to suspend it from participating in KEPSS. In such, the Bank will inform other Participants. The requesting Participant is responsible for implementing Business Continuity Procedures to ensure settlement of all large value payments and end of day obligations are accomplished.
- k) A Participant is responsible for its own bank specific payment processes software and for ensuring that any system changes are adequately tested for purposes of maintaining the overall integrity of payment processes in KEPSS.
- l) A Participant must notify the Bank in writing at least thirty (30) days in advance of any changes in its hardware and/or software which will impact the Participant's payment processing.
- m) It is the responsibility of a Participant to check the authenticity and validity of all payment messages.
- n) It is the responsibility of a Participant to avail/submit to the Bank any information relating to its operations in KEPSS within 5 working days of receiving the request in the form that the overseer may require.
- o) All Participants are required to closely monitor their liquidity positions. KEPSS settlement accounts of Participants are required to be funded adequately so that gross and NSI transactions are settled smoothly.
- p) All participants shall comply with all the circulars, notifications, instructions etc. issued by the Bank from time to time.

8.2 The CBK

The CBK is the owner and operator of the KEPSS system as well as a Participant.

As the **owner and operator**, it has the responsibility to;

- a) Control and manage the day -to -day business operations of the system and routine daily activities.
- b) Debit such service charges and/or transaction fees from the Participant's settlement account maintained with the Bank.
- c) Provide detailed user guide and operational procedures.
- d) Invoke contingency arrangements for the payments system.
- e) Oversee the KEPSS system.

8.3 As the KEPSS Overseer, CBK is responsible for;

- a) Implementing the payments system oversight policy in accordance with the NPS Act and best international payment practices
- b) Ensuring that all Systemically Important Payment Systems (SIPS'), designated payment systems and System Wide Important Payment Systems (SWIPS') are operated in a safe and efficient manner.

- c) Enforce compliance with the KEPSS Rules and Procedures and impose administrative actions in the form of:
 - i. Written warning
 - ii. Fines and Penalties
 - iii. Recommending suspension of a Participant from participating in KEPSS
 - iv. Other forms as the Bank may determine in line with the NPS regulatory framework

As a **Participant**, CBK will observe and adhere to the Participant responsibilities as outlined in 8.1 above.

All data on the KEPSS system is the property of CBK

9. KEPSS BUSINESS DAY AND OPERATING SESSIONS

91. KEPSS shall operate on all working days as outlined in Annex 2. Any changes to the operating calendar or any declaration of holidays shall be communicated to the members by means of a broadcast message and/or email.
92. KEPSS shall be available 24/7 on all days of the year with the business hours for settlement of transactions decided by the Bank in consultation with the industry. However, the Bank may, at its discretion, change the operating hours of KEPSS for a particular day or for any period with prior notification.
93. *Gridlock Resolution Mechanism*: The system provides a gridlock resolution mechanism that resolves (to the extent possible) all outstanding queued transactions. This resolution process is automated and runs at a predefined time interval.
94. The Bank may, permanently or temporarily, change the timings of various business phases during the day at its discretion. The Bank shall notify the Participants of the change in operating hours through a broadcast message or email, or both as may be decided by the Bank.
95. Under exceptional circumstances, Participants may request the Bank for time extension of any or both operating session(s) at a cost as prescribed in Schedule E. The request for time extension should be submitted 30 minutes prior to the closing of that operating session.
96. The request for extension should be submitted by authorized signatories to the KEPSS Helpdesk by email rtgssupport@centralbank.go.ke and followed up with a phone call to the helpdesk lines provided under Schedule C. However, the Bank reserves the right to approve or decline such requests.
97. The operating sessions **shall not** be re-opened in KEPSS once the cut-off for that session is over.
98. The Bank **will not** be liable for any consequences, arising out of such extension of the operating session for payments of any other KEPSS member, whether queued or otherwise.

10. ROUTING OF PAYMENTS

10.1. Business Identifier Codes (BIC)

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

10.2 Payment Routing Validation

- a) Payment instructions to a Participant must be precisely sent to the Participant identifier eg BIC code, of the concerned Participant identifying intended beneficiaries of payment messages using account name, number and 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. The sending Participant must ensure this payment identification combined with the amount and the receiver BIC are unique.
- c) The Forwarding bank should release the payment message from their system to the KEPSS central system immediately but not later than 30 minutes of debiting a customer's account. The Forwarding bank should have the facility of time stamping their transactions at various stages for effective oversight and grievance redress mechanism.
- d) Under exceptional circumstances and with prior arrangements, the Bank may initiate interbank transaction/s on behalf of a Participant. Where such transfers are undertaken, Participants will be notified by a debit or credit advice and subsequent charges applied.

10.3. Currency of Payment

- a) KEPSS transactions shall be denominated in Kenya shillings or US dollars or sterling pounds or Euros or EAC currencies.
- b) Transactions under the East African Payment System (EAPS) shall be denominated in the East African Community (EAC) currencies ONLY
- c) REPSS transactions shall be denominated in US dollars or Euros

10.4 Value Dates

- a) KEPSS shall accept transactions with any Value Date format that is accepted by SWIFT.
- b) All payments instructions for settlement in KEPSS must have a value date of the current business day or up to fifteen (15) days in the future as set from time to time by the Bank.

11. FINALITY AND IRREVOCABILITY OF A PAYMENT

11.1. A Participant will submit an instruction to the KEPSS for settlement if the following conditions are met;

- a) Availability of funds from the Debtor.
- b) The instruction has been authenticated.
- c) The instruction complies with the prevailing laws and regulations relevant to payments services.

11.2. Payment instructions in KEPSS are deemed to be final and irrevocable once the Forwarding bank's account is debited and the Executing bank account is credited with the amount specified in the payment instruction.

11.3. A Forwarding bank may withdraw a queued payment instruction from its settlement queue. However, once a payment has been settled across the KEPSS accounts, the Forwarding bank shall not have an ability to cancel the payment.

- a) A Forwarding bank may request return of a payment from the Executing bank by using authenticated messaging channel followed by any other available means of communication open to it.
- b) Reasons for recalling a payment are as below but are not limited to the following;
 - i. The recall request is initiated by the Debtor
 - ii. The payment was made in error by the Forwarding bank
 - iii. The payment is fraudulent
- c) Where the recall is due to b (i) above, the Executing bank will seek a debit authority from the creditor.
- d) Where the recall is due to b (ii) and b (iii) above the Executing bank will seek an indemnity from the Forwarding bank to facilitate the reversal. A sample indemnity is provided in Annex 4.
- e) A return payment shall be initiated as a new payment instruction message in the same currency denomination as the original instruction. The return instruction shall contain related reference number being the reference number of the original instruction and clearly indicated "*Return Payment*".
- f) Any Executing bank that receives a multiple third party (customer) payment and has a problem with one payment must NOT reject the whole message but only return the payment with the problem quoting reason, main and related references of the unapplied message. The other payments in the message shall be applied as requested.
- g) In the event the entire multiple third party (customer) payment is inapplicable, the Executing bank shall initiate a return using an interbank instruction with the total amount quoting reason and the main reference of the unapplied instruction.

12. APPLICATION OF RECEIVED PAYMENT INSTRUCTIONS

12.1. A Forwarding Bank shall credit respective creditor accounts immediately or within **1 hour** of receiving payment instructions.

122. The Executing bank may fail to apply credit to the creditor account as guided in 12.1 above due to, but not limited to the following;
- a) An order by the law/court
 - b) In compliance with Bank issued regulations, circulars, or guidance
 - c) For Executing bank internal compliance reasons
 - d) For AML/CFT compliance
 - e) An agreement at the time of execution between the Instructing Party and the Forwarding bank that is recorded and/or noted in the payments system registry of the Participant
123. In case of any delay in applying credit to the creditor's account, the Executing bank shall inform the customer of the reason for non-application and the requirements to apply the credit.
124. Any unapplied payments must be returned as soon as practical on the same funds' settlement value date.
125. In the event the credit instruction is received less than 1 hour to the relevant cut off and becomes unapplied, the funds shall be returned but not later than 2 hours after KEPSS is availed for the next settlement value date.
126. Unapplied payments shall be handled with priority.
127. The return instruction shall contain related reference number being the reference number of the original instruction and the reason for non-application.
128. Any costs or claims arising thereof shall be dealt with by the Participants outside these Rules and Procedures.

13. PRIORITY OF SETTLEMENT OF PAYMENT INSTRUCTIONS

- 13.1. Payment Instructions are prioritized as follows for settlement purpose
- a) CBK transactions.
 - b) Net Settlement Instructions.
 - c) Third Party Payments (Interbank payments and Customer payments)

14. QUEUE MANAGEMENT

- 14.1. All debit transactions to Participants' accounts in KEPSS shall be checked for funds availability. Transactions shall not be settled 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.
- 14.2. If there are sufficient available funds in the Forwarding bank's account, the accounts of the two Participants involved shall be respectively debited and credited and required system message outputs shall be generated and sent.

143. 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.
144. 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.
145. Only the first transaction in 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.
146. Account Transfers initiated by the Bank shall have settlement priority over all transactions.
147. Instructing Participants shall be able to change priorities of pending outgoing payments held in their queue.
148. A Forwarding bank may cancel any of its pending payments held in its queue.
149. The Bank can cancel pending messages in a Participant’s queue upon receipt of an official request from a Forwarding bank’s authorized signatory.

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

15. INTRADAY LIQUIDITY FACILITIES

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.

151. The ILF must be fully secured by eligible collateral securities, in such manner as shall be prescribed by the Bank.
152. The Bank shall establish the amount and collateral arrangements for the ILF with each Participant.
153. At Initial Cut-off all ILF advanced shall automatically be reversed.
154. A Participant shall provide sufficient liquidity in its account prior to Final Cut-off to allow any outstanding ILF transactions in the queue to be settled. Liquidity may be sourced during the period between Initial Cut-off and Final Cut-off by borrowing from the Bank or from inter-bank market.

16. MINIMUM BALANCE REQUIREMENTS (CRR)

- 16.1. The Bank shall require each Participant to maintain its Settlement Account above a minimum balance that is set and reviewed periodically by the Bank.

162. The general principle in 16.1 above 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(s).
163. The minimum balance set for a Participant, shall be enforced by KEPSS and penalties for non-compliance generated and debited automatically.
164. The Bank shall notify a Participant of any change to its minimum balance.

17.NET SETTLEMENT INSTRUCTIONS

The Bank may introduce additional net settlements at its discretion.

171. The clearing settlements shall be entered into KEPSS through the Liquidity Optimizing Mechanism (LOM) where the instructions will be queued if there are no sufficient funds in the Participant's settlement account.
172. On completion of the settlement of the Net Settlement Instruction, KEPSS shall generate confirmatory debit and credit advice to those Participants that have opted to receive these message types.
173. Participants shall ensure that there are sufficient funds in their account to allow immediate processing of the Net Settlement Instruction.
174. If the instructions are unable to be processed due to insufficient funds, the Contact person(s) provided in Schedule C shall be immediately informed. Participants shall make immediate arrangements to fund their accounts to enable the settlement to complete.
175. No Clearing Entity shall be permitted to cancel an NSI transaction once it has been received by KEPSS. A pending NSI transaction can only be cancelled by the Bank.

18.OTHER FEATURES OF KEPSS

181. Setting bilateral and multilateral limit: The Bank may set bilateral and multilateral counter party limits at the request of the members to discourage free riding on liquidity in KEPSS. The Bank has the right to implement this after due notification to the members, subject to change from time to time.
182. Centralized Anti Money Laundering Filtering: KEPSS shall validate payment transactions with the negative list databases for AML/CFT as per the guidelines issued by the Bank. The Bank has the right to implement this after due notification to the members.

19. OTHER TRANSACTIONS INPUT

The Bank at its discretion shall enter debit and credit transactions that shall be reflected in the Participant's settlement account. Such transactions may include, but are not limited to, transactions arising from:

- a) Maturity of Treasury Bills and Treasury Bonds
- b) Shortages and Excesses - Currency
- c) Advance /overnight lending
- d) KEPSS charges and fees
- e) Interest charges on loans advances by the bank
- f) Penalties

20. CONNECTIVITY SERVICES

20.1. All Participants shall submit their payment instructions to KEPSS system through SWIFT or Bank approved channels.

20.2. A Participant shall notify the Bank 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.

- a) Each Participant must maintain a single current Business 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) Business Identifier Codes of KEPSS Participants are shown in Schedule B.
- d) A sending Participant must include a three-character Service Identifier Code in an outgoing payment message for it to be intercepted and copied by the SWIFT service.
- e) The Service Identifier Code for KEPSS is KPS.

20.3. SWIFT shall charge each Participant directly for messaging costs associated with payment instructions initiated by that Participant. SWIFT determines these charges.

20.4. 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 optional message types as per Annex 3.

20.5. KEPSS may generate optional non-value message types and send to Participants as per SWIFT annex 3. For the optional message, each Participant shall advise the Bank which message it wants to receive and the channel to receive through. KEPSS shall not issue these messages unless Participants have requested them.

20.6. Intra-day balance inquiry can be done by Participants using SWIFT messages and a response in SWIFT format generated by KEPSS as per Annex 3.

21. SECURITY OF KEPSS OPERATIONS

- 21.1. 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 organizations.
- 21.2 To ensure integrity of their SWIFT system, all Participants are required to observe and implement SWIFT Customer Security Controls Framework (CSCF)
- 21.3. Any actual or suspected breach of KEPSS Access security must be reported to the KEPSS Help Desk immediately.
- 21.4 All KEPSS Participants must exchange their Relationship Management Application (RMA)/ Bilateral keys with the Bank and all other Participants in KEPSS. The BIC addresses are contained in Schedule B as shall be amended from time to time.
- a) New keys shall be exchanged immediately if there is any actual or suspected breach of key security.
- 21.5. Participants shall use Webstations for primary access to KEPSS through a Virtual Private Network (VPN). The Webstations, whether attached to proxy servers or directly attached to the network shall support all functions of KEPSS. Line encryption shall be provided over the link between the Participant Webstation(s) and the Bank.
- a) Participants shall each have Webstations installed with Active Client Agent for certificate authentication purposes. Physical security of the USB tokens used by a Participant to access KEPSS shall be the responsibility of the Participant.
 - b) Logon to KEPSS by a Webstation shall require the use of a USB token, which shall establish a secure dialogue with the KEPSS server at the Bank site.
 - c) Secure access to KEPSS shall be through User-IDs, passwords and functionality limitations that are controlled by the system administrators in CBK.
 - d) It is the responsibility of each Participant's Access Administrators to enforce appropriate user access and authorities within their organisation.
 - e) All Participants are required to ensure the integrity and security of interfacing systems (or transaction originating systems)
- 21.6. Participants shall have a secondary option to securely access KEPSS through the internet and have the ability to extend remote access to the KEPSS authorized users through a Participant authorized public internet IP address.
- 21.7. It is the responsibility of each Participant to procure and secure their public internet IP address.

22. BUSINESS CONTINUITY PLAN

- 22.1. 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 unavailability of the first contact point. A list of Contact Points is shown at **Schedule C**.

222. 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.

- a) If a Participant experiences any technical or operational problems that prevent it from processing payments and other KEPSS-related messages, it shall notify the KEPSS Help Desk within 30 minutes of becoming aware of the problem.
- b) Participants must immediately notify the KEPSS Help Desk of any change in their situation in 22.2 (a) above.
- 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 favor of the Participant with network reception problems.

223. 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.

- a) In the event of an outage in a Participant's SWIFT Gateway interface, KEPSS shall continue to process any settlement requests already held or subsequently received from SWIFT. Settled payments in favor of the Participant and other messages shall accumulate in SWIFT pending re-establishment of communication with SWIFT.
- b) It shall be the obligation of each Participant to re-establish its SWIFT Gateway connection.

224. In certain circumstances the Bank may, at its discretion, accept from a challenged 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 on Schedule F, provided always that the Participants shall only submit such listings after obtaining the consent of the Bank.

225. In the event of a prolonged SWIFT outage the Bank shall consult and communicate with Participants via the Emergency Contacts contained in Schedule C and via the designated KEPSS email facility.

- a) The Bank shall invoke Business Continuity arrangements and announce this via email 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 to invoke Business Continuity arrangements within the time remaining for that business day.
 - b) The procedures stipulated in section 22.8 shall apply to KEPSS contingency events.
226. 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 section 22.8.
227. Participants experiencing SWIFT-related problems should make use of their ordinary SWIFT Customer Support Centre facilities, in accordance with the SWIFT User Handbook.
228. In the event of a prolonged outage in KEPSS, the Bank shall consult and communicate with Participants using the Emergency Contacts provided in **Schedule C**.
- a) 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 SWIFT guidelines) requesting SWIFT to amend the KEPSS CUG operating mode to “Closed”. This could take up to 45 minutes from authentication of the emergency call.
 - b) Once transferred to “Closed” mode SWIFT shall abort any further payment instructions submitted by Participants with an Abort Notification.
 - c) In the event of a KEPSS Application Contingency Event Participants shall use alternate means of payment exchange, for instance bank cheques, bilateral exchanges.
229. Each Participant shall maintain incident reports of all contingency events and system problems on KEPSS and SWIFT related systems. The report 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 Oversight and Compliance officers in the Banking and Payment Systems Department within two working days of the end of each calendar month.
2210. The Bank and all the Participants shall test the KEPSS contingency arrangements at least bi-annually or as advised by the Bank from time to time. All Participants shall cooperate and participate in this process.
2211. All Participants are required to have a working fallback to be tested at least Bi-annually in liaison with the Bank

22.12. 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.

- a) It is intended that the transition to the Fallback site shall be largely transparent to Participants.
- b) For the Disaster Recovery Site, Participants shall need to establish a new Log in session from their Webstation(s).

22.13. Participants may arrange, as necessary, with the Bank for conduct of their own contingency arrangement tests at least bi-annually. As a minimum, the Bank should be advised of any testing that could affect a Participant's ability to operate in the system.

22.14. In the event that a Participant requires 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.

22.15. Participants shall perform annual system audit to assess the integrity and resilience of their own internal KEPSS arrangements. This assessment will be done by a reputable firm and the report submitted to the Bank annually by end of March 31st. This report shall be accompanied by a forwarding letter duly signed by authorized signatories of the bank. The scope of the audit shall be guided by **Schedule H** and Annex 5 of these Rules and Procedures

23. SYSTEM ADMINISTRATION AND USER ASSISTANCE

23.1 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.

23.2 Contact details for the KEPSS Helpdesk are provided in **schedule C**

24. SYSTEM CHANGES AND CHANGE CONTROL

The provisions of section 2.16 of the Agreement to participate in KEPSS generally govern the KEPSS system changes.

24.1. The Bank shall control planned KEPSS changes according to the following guidelines;

- a) the Bank shall issue notices and instructions to Participants prior to implementation of planned system changes,
- b) accompanying amendments to the Rules and Procedures and other system documentation shall be issued where appropriate,
- c) any modifications shall be tested in a test environment prior to implementation in a production environment. Participants shall be required to participate in undertaking these tests.

24.2. 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.

- 24.3. 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.
- 24.4. The Bank will decline to ratify any change that does not conform to the KEPSS security and standard configuration requirements.

25. FEES, CHARGES, AND PENALTIES

- a) In accordance with the Agreement for Participating in KEPSS, the Bank shall calculate daily fees and charge these to Participants' accounts. Debiting of Participant settlement accounts in KEPSS shall be undertaken on the following business day.
- b) Participants shall be provided with invoices detailing the KEPSS charges, fees and penalties at the end of the business day.
- c) An annual maintenance fee plus relevant taxes will be charged to Participants on pro-rata basis as outlined in Schedule E on the 2nd business day of the year.
- d) Notwithstanding the foregoing, the Bank shall charge penalties to the Participants upon occurrence of an event that requires penalty in the use of the KEPSS services.
- e) The Bank shall charge fines and penalties to Participants who do not comply with the KEPSS Rules and Procedures as per Schedule E, the NPS Act and NPS Regulations whichever applies.
- f) The Bank shall review the fees, charges and penalties from time to time by giving a prior notice to the Participants.
- g) The above does not preclude the Bank from taking further action as per the NPS Act, NPS Regulations and CBK laws.
- h) A waiver on any of the fees, charges or penalties can be granted at the discretion of the Bank

26. AMENDMENTS

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 it taking effect with a 90 days' notice 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.

27. CONFIDENTIALITY

- 27.1. Subject to these rules, the Bank, and every Participant must;
- a) Comply with the Data Protection Act, 2019
 - b) Apply the normal rules of bankers' confidentiality and other relevant bodies to all payment messages sent through the system; and
 - c) 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.
- 27.2. The 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.
- 24.5. The Bank authorizes the Participant to share information regarding KEPSS;
- a) To the Participant's auditors as may reasonably be required to perform their duties
 - b) To the Participant's legal counsel as may reasonably be required to perform their duties
 - c) As may be legally required from time to time within the Bank's jurisdiction
- 24.6. In all cases, such disclosures must be reported to the Bank
- 24.7. These rules should not be construed to limit applicable Kenyan Laws.

28. DISPUTE RESOLUTION

- 28.1. The Participants shall explore all means to amicably settle any dispute arising between them under or in connection with these rules and procedures.
- 28.2. 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.
- 28.3. The Participant that considers a dispute has arisen must send a notification of intent to dispute to the other Participant and the Overseer, setting out a full description of the matters in dispute within fourteen (14) days of such intention arising.
- 28.4. The Chief Executive Officers of the Participants, or through their nominees shall attempt to resolve the dispute, on the basis that the Participants wish to retain an ongoing relationship
- 28.5. The Bank as the KEPSS operator, and not as a Participant shall arbitrate on disputes in respect of payment of monies due.
- 28.6. 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 to in section (28.7) below to arbitrate the dispute.

- 28.7. There is hereby established a KEPSS Settlement System Dispute Resolution Committee with the mandate of settling through arbitration 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 the Dispute Resolution Committee through the Director, Banking and Payment Services Department. The Committee as established herein shall form its own terms of reference 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.
- 28.8. The KEPSS Settlement System Dispute Resolution Committee shall be constituted of
- a. 2 nominees from each bank tier and 1 nominee from the Micro Finance banks as provided during the first Treasury Managers meeting of each year
 - b. Representation from the Bank (Legal, Payment System operations, Compliance and Oversight)
 - c. The chair of the committee shall be nominated among the committee members by the Bank.
 - d. Quorum shall be 5 members excluding the chair.
- 28.9. The arbitration referred to in clause 28.6 and clause 28.7 shall be held as a matter of urgency, at a time and place decided by the Bank, with a view to the dispute being heard within 7 days after receipt of a formal dispute.
- 28.10. Pending the resolution of the dispute, the Participants shall continue to perform all their obligations of participation in KEPSS.
- 28.11. Without prejudice to the generality of the foregoing, a Participant shall not be entitled to withdraw its participation in KEPSS by reason of being a party to a dispute with another KEPSS Participant.

29. INDEMNITY

- 29.1. The Bank shall endeavor to ensure proper operation, control, maintenance and security of KEPSS. The Bank shall not be responsible for the loss, if any, that may be caused to Participants or their customers or any person, arising out of any action taken in good faith by the Bank's staff or malfunctioning or break down of the computer systems, computer network, telecommunication network or any other equipment (inclusive of hardware and software), used in KEPSS or any force majeure conditions.
- 29.2. Each Participant shall indemnify the Bank and other Participants and their respective employees from and against loss, damage, liability or claim arising from;
- a) Any interruption, malfunction or disruption of KEPSS operations to the extent caused or contributed by negligence, willful fraudulent act or omission of the Participant or its employees while acting in the course of office or access to

information or opportunities afforded by such office.

- b) Any incorrect payment instructions, information or documentation provided by a Participant
- c) Any breach by the Participant of its obligations, under the Agreement to Participate or the KEPSS Rules and Procedures or any applicable laws or regulations

30. PUBLIC DOCUMENT

These Rules and Procedures are public documents and shall be available in the Bank's website for public access.

Annex 1: Checklist to Join KEPSS

1. Apply to the Director, Banking and Payment Services Department to open a Cash Reserve Ratio (CRR) Account with the Banking Services Division and operate it for a minimum period of 6 months without default.
2. Thereafter submit an application to the Director, Bank Supervision Department for a license to transact in foreign currency.
3. Upon receipt of license to transact in foreign currency, apply to the Director, Banking and Payment Services Department to join KEPSS, EAPS and REPSS by forwarding the:
 - Duly completed Schedule A of the KEPSS rules and procedures
 - Duly signed agreements to participate in KEPSS, REPSS and EAPS
4. Once approval is obtained to join KEPSS, EAPS and REPSS, apply to join the Society for Worldwide Interbank Financial Telecommunication (SWIFT)
5. Sign and comply with the CBK Remote Access Policy which defines standards for connecting to Central Bank of Kenya (CBK)'s network from any host remotely
6. Order and install leased line from Telkom, JTL or KDN and request CBK to configure
7. Join SWIFT KEPSS Closed User Group in www.swift.com
8. Exchange secret (SWIFT RMA) keys with all commercial banks in Kenya to facilitate exchange of messages
9. Open accounts in KES, KES ILF, UGX, TZS, RWF, USD, GBP and EUR and provide Account mandates signatures
10. Order USB tokens and register Security Officers and other users using order forms from the payments systems page on the CBK website and send to CBK for implementation
11. Identify a KEPSS Workstation and install Client Access software from the CBK website <https://www.centralbank.go.ke/index.php/KEPSS>
12. Participate in training on the CBK message formats offered by Banking Services, Currency Services, MODM and EP & RM
13. Training on KEPSS administration and performing of tests guided by Digital Payments Division
14. Go live

Annex 2: KEPSS Operating Schedule

Time	Event	Description	Activities and Available Transactions
6.00 am	Start-of-Day (SOD)	This is the first event which triggers basic functions of the system like change of business date and accepting for settlement payment instructions from the internal systems of the Bank. Payments submitted by Participants on the business date are kept in queues, waiting for the next event to be executed.	<ul style="list-style-type: none"> • Value dated futures settle • ILF drawdown and settlement • Previous business day billing debited from Participants accounts
8.25 am - 4.00 pm	Open-for- Business (OFB) Window 1	This event marks the moment when all the functionality of KEPSS is fully available to the Participants. The system starts processing all types of messages. Intra-day liquidity facility (ILF) shall be available to the eligible Participants after Open for Business operation in KEPSS.	<ul style="list-style-type: none"> • Participants can send and receive all payment message types. • Net Settlement Instructions from approved Clearing Houses settle.
4.00 pm	Initial Cut- Off	This event triggers restriction of submission of customer transactions. However, inter-bank and Net Settlement Instructions shall be accepted for settlement after this cut-off.	<ul style="list-style-type: none"> • No further submission of customer payments • Transactions submitted before ICO time pending for settlement shall not be cancelled. • The Intra Day Liquidity facility is reversed after the ICO execution.
4.00 pm - 4.30 pm	Window 2	This cut-off represents the end of submitting customer payments by a Participant for the business day. All pending transactions shall be automatically cancelled by KEPSS and penalty incurred debited to the Participant's respective settlement accounts.	<ul style="list-style-type: none"> • Closed to new payments, except for bank-to- bank and Account Transfers. • Queue clearance may be effected 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.

<p>4.30 pm - 5.00 pm</p>	<ul style="list-style-type: none"> • Cash Reserve Ratio Penalty Processing • Final Cut-Off and System Close 	<ul style="list-style-type: none"> • The execution of this event checks the Participants end of day balances against the Bank approved CRR requirements and if in breach, an approved penalty is levied. • This is the last event of a business day. There shall either be a positive or a zero balance in the settlement accounts as required by the Bank. 	<ul style="list-style-type: none"> • Queue/ Transaction settlement processing ceases All Pending Transactions Cancelled by system and relevant charges levied • Queued Transactions will be rejected • Cash Reserve Ratio Requirement compliance tool executed • Generation of EOD reports
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Annex 3: SWIFT

SWIFT FIN Y- Copy

- 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.
- d) Message formats are contained in the SWIFT User Handbook.
- e) The incoming payment message shall be intercepted, copied and stored pending receipt of a positive or negative response from KEPSS.
- 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.

Optional SWIFT Messages

MT910 Confirmation of Credit	Used by KEPSS to provide advice to Participants of Account Transfers. Receipt is optional
MT900 Confirmation of Debit	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.
MT920 intraday account balance request & MT941 intraday account balance response	Used by Participants for intraday balance inquiry
MT999 Free Format	Used by Bank for sending messages to individual or multiple Participants, eg Broadcast announcement or warnings.

- 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.

Annex 4: LETTER OF INDEMNITY

We *INSERT NAME OF INSTRUCTING AGENT* refer to our request dated *INSERT DATE* recalling the payment of value *INSERT CURRENCY AND AMOUNT IN WORDS AND TRANSACTION REFERENCE* that was remitted *INSERT REASON FOR RECALL* to *INSERT INSTRUCTED AGENT* on *INSERT DATE* for credit to the account *INSERT BENEFICIARY ACCOUNT NUMBER AND NAME*.

Whereas the Indemnifier has requested the Instructed Agent to facilitate the recall of one transaction of *INSERT CURRENCY AND AMOUNT IN WORDS*

We hereby agree and state as follows:

Indemnity

In consideration of the Instructed Agent facilitating release of the maximum available amount out of the balance in the Beneficiary Account, the Instructing Agent covenant and agree to indemnify *INSTRUCTED AGENT* from and against all proved losses, claims, actions, demands, damages proceedings, costs and expenses it may at any time hereafter be put to or sustain by reason of any future claims made against them by the payee or any other person or persons regarding any matter or matters arising from the reversal of the payment.

The Indemnifier also agrees to reimburse the Instructed Agent for proved payments, losses, costs, liabilities, and expenses incurred by the Instructed Agent as a consequence thereof or arising therefrom including reasonable costs and expenses relating to legal proceedings against the Instructed Agent arising from the transaction.

Miscellaneous

This Indemnity shall be governed by and construed in accordance with the Laws of Kenya.

Annex 5 : Scope of a KEPSS interface system security audit

At a minimum, the following broad provisions of the KEPSS Rules and Procedures shall be assessed by an external independent auditor:

1. Notifiable events including identification of incident occurrence, root cause analysis and mitigation measures in place by the participants
2. Finality and irrevocability of payments
3. application of received payment instructions
4. routing of payments
5. processing of NSI files
6. Confirmation of compliance with SWIFT CSP attestation program
7. Security of KEPSS operations. In addition to the provisions of the KEPSS Rules and Procedures, the auditor shall confirm:
 - a. the security and accuracy of the interface between transaction origination and termination, including any third parties involved.
 - b. vulnerability and patch management for KEPSS workstations
 - c. authentication and authorization including token management
 - d. General IT security controls
8. Business continuity planning and management
9. system changes and change control
10. confidentiality

NB: These are minimum requirements, and therefore does not limit the auditor from applying professional judgement in assessing the security of the KEPSS environment.

SCHEDULE A - KEPSS PARTICIPATION APPLICATION FORM

(Name and address of the applicant)

.....

Date

The Director,
 Banking and Payment Services Department,
 Central Bank of Kenya
 P.O. Box 60000, NAIROBI

Dear Sir,

RE: Application for Participation in the Kenya Electronic Payment and Settlement System (KEPSS).

Webank Ltd., do hereby apply to become a Participant in KEPSS and furnish the following particulars of the bank;

No.	Particulars	Comment
1.	Physical Address of Head Office: L.R. No.	
2.	Settlement accounts at the Bank	
3.	Commitment to exchange SWIFT authentication keys with all Participants	
4.	Technical capacity: (a) Webstation capable of effectively communicating with KEPSS (tested and ascertained by the Bank) (b) Have in place contingency arrangements to enable business continuity	
5.	Execute and agree to be bound by the terms and conditions of the Agreement for Participating in KEPSS	
6.	Compliance with the Checklist for Joining KEPSS	

We hereby certify that the information given in this Application is complete and accurate to the best of our knowledge, and that we have not omitted any material facts.

If any information or facts contained in this Application is found to be misleading, the Bank shall nullify the application (if granted).

We shall abide by terms and conditions of the Rules and Regulations of KEPSS.

Yours Faithfully,
 For and on behalf of the bank

Authorised Signatory
 Name
 Designation.....
 Signature
 Company Seal

Authorised Signatory
 Name
 Designation.....
 Signature

SCHEDULE B - KEPSS DIRECT PARTICIPANTS SWIFT CODES

No.	Name	Swift
1	ABSA BANK KENYA PLC	BARCKENX
2	ACCESS BANK (KENYA) PLC	ABNGKENA
3	AFRICAN BANKING CORPORATION LTD	ABCLKENA
4	BANK OF AFRICA KENYA LTD	AFRIKENX
5	BANK OF BARODA	BARBKENA
6	BANK OF INDIA	BKIDKENA
7	BANK OF TANZANIA	TANZTZX
8	BANK OF UGANDA	UGBAUGKA
9	CARITAS MICROFINANCE BANK	CRMFKENA
10	CENTRAL BANK OF KENYA	CBKEKENX
11	CITIBANK N.A.	CITIKENA
12	COMMERCIAL INTERNATIONAL BANK (CIB) KENYA LIMITED	MYBKKENA
13	CONSOLIDATED BANK OF KENYA	CONKKENA
14	CO-OPERATIVE BANK OF KENYA LTD	KCOOKENA
15	CREDIT BANK LTD	CRBTKENA
16	DEVELOPMENT BANK OF KENYA LTD	DEVKKENA
17	DIAMOND TRUST BANK KENYA LTD	DTKEKENA
18	DIB BANK LIMITED	DUIBKENA
19	ECOBANK KENYA LTD	ECOCKENA
20	EQUITY BANK	EQBLKENA
21	FAMILY BANK LIMITED	FABLKENA
22	FAULU MICROFINANCE BANK LIMITED	FAUMKENA
23	GUARANTY TRUST BANK KENYA LTD.	GTBIKENA
24	GUARDIAN BANK LTD	GUARKENA
25	GULF AFRICAN BANK	GAFRKENA
26	HABIB A.G. ZURICH	HBZUKENA
27	HOUSING FINANCE COMPANY OF KENYA LIMITED	HFCOKENA
28	I AND M BANK LIMITED	IMBLKENA
29	KCB BANK KENYA LIMITED	KCBLKENX
30	KENYA WOMEN MICROFINANCE BANK	KWMIKENX
31	KINGDOM BANK LIMITED	CIFIKENA
32	MIDDLE EAST BANK KENYA LTD	MIEKKENA
33	M-ORIENTAL BANK LTD	MORBKENA
34	NATIONAL BANK OF KENYA LTD	NBKEKENX
35	NATIONAL BANK OF RWANDA	BNRWRWRW
36	NCBA BANK KENYA PLC	CBAFKENX
37	PARAMOUNT UNIVERSAL BANK LTD	PAUTKENA
38	PREMIER BANK KENYA LIMITED	IFCBKENA
39	PRIME BANK LTD	PRIEKENX
40	SBM BANK (KENYA) LIMITED	SBMKKENA
41	SIDIAN BANK	SIDNKENA
42	STANBIC BANK KENYA LTD	SBICKENX
43	STANDARD CHARTERED BANK LTD	SCBLKENX
44	UBA KENYA BANK	UNAFKENA
45	VICTORIA COMMERCIAL BANK	VICMKENA

SCHEDULE C - TREASURY MANAGERS CONTACT LIST

a) **Help Desk Contact** details are as follows;

KEPSS Help Desk

Digital Payments Division

Central Bank of Kenya

Central Bank Building Haile Salassie Avenue Nairobi

Landline: 286 3103, 3115, 1519, 3173

Mobile: 0771 108722, 0700327522

E-mail: KEPSSsupport@centralbank.go.ke

b) **Treasury Managers / Authorized Signatories**

#	Name	Institution		Email	Telephone	Mandate (Window Extension Request Authority, Message Cancellation authorisation)

SCHEDULE E: KEPSS FEES, CHARGES AND PENALTIES (AMENDED)

ANNUAL FEE

The annual maintenance fee is US dollar 125,000 + VAT + with-holding tax will be debited from KEPSS Participants' accounts on the 2nd business day after start of the year.

Participant (incoming + outgoing) messages per annum x Annual Maintenance Fees

Total messages processed by KEPSS System in the year excluding CBK messages

DAILY TRANSACTION FEES

Transaction Fees for MT102, MT103 and MT 202 based on Liquidity Optimizing Mechanism (LOM).

Window	Mechanism	Transaction Currency			
		(Kshs)	GBP£	USD\$	EURO€
1	Before ICO	50	0.5	1	1
2	After ICO (MT 202 Only)	140	1	1	2

OPERATIONAL CHARGES

Reason	Charge (Kshs)	GBP£	USO\$	EURO€
Manual input (MT102, MT103, MT202)	2,000	20	20	20
System Cancelled Transaction at FCO	10,000	100	100	100
Request for KEPSS window extension ICO or FCO	100,000	N/a	N/a	N/a

PENALTIES

Reason	Charge (Kshs)
Conversion of an intraday (ILF) collateralized loan into an overnight loan.	1% of the converted amount, in addition to the usual interest on such loans by the Bank
Non-compliance with provisions in the KEPSS Rules and Procedures	As per the NPS Act 2011 and the NPS Regulations 2014

SCHEDULE F - REQUEST FOR KEPSS ACCOUNT TRANSFER (MANUAL ENTRY)

[Requesting Bank Letterhead]

The Director,
 Banking Services and Payment Services Department,
 Central Bank of Kenya
 P.O. Box 60000-00200
 NAIROBI

Attention:

Date:

Dear Sir,

Request for KEPSS Account Transfer from Currency and Settlement Account Number

In accordance with section 22.4 of the Rules and Regulations, we submit the following listing of transactions for input to the KEPSS system on our behalf. We confirm that we have received permission to make this request from [Name of Authorizing Officer at Central Bank of Kenya and time].

Name:..... Time:.....

No	Amount	Participant to be Credited	Transaction Reference Number
1			
2			
3			

Yours faithfully

Authorized Participant Signatories

Name

Name

Designation.....

Designation.....

Signature

Signature



SCHEDULE H - KEPSS Interface System Security Evaluation Form

Name of Bank:				
Interface System Name:		Vendor:	Release Date and Version.	
Business Functions Supported by the System:				
System Vendor Representative Contact Details	Name:	Title	Department:	
	Company Name:	Telephone No.	Email:	
		Yes	No	NA
1.	Has your system being audited by an approved and recognised organization within the past 1 year?			
	If Yes, provide the name of the certifying company, date and standard you have been approved to? Please attach copies of the certification documents			
	If No, Why?			
2.	Provide a list of connected systems			
	Name of System:	Purpose:		
3.	Criticality of System <ul style="list-style-type: none"> • Confidentiality • Integrity • Availability 	Category of Sensitivity (High, Medium, or Low)		

Submit this yearly return with a certified copy of the Audit report before 10th March of the following year to Central Bank of Kenya through NPSReturns@centralbank.go.ke

Signed for and on behalf of Institution Stamp

1. Name..... 2. Name.....

Designation Designation

Signature Signature



Central Bank of Kenya

Haile Selassie Avenue P.O. Box 60000 - 00200 Nairobi | Tel: (+254) 20 - 286 0000 / 286 1000 / 286 3000