

“Approved”
The Central Bank
of the Republic of Azerbaijan

Resolution № 33/1

“18” “July” 2016

Regulations
on organisation of settlements in interbank centralized payment systems
in the Republic of Azerbaijan

1. General provisions

These Regulations have been developed in accordance with Articles 44 and 45 of the Law of the Republic of Azerbaijan on the Central Bank of the Republic of Azerbaijan and govern rules for conducting settlements between participants of interbank centralized payment systems in the Republic of Azerbaijan – the Large-value Payment System (hereinafter – AZIPS) and the Retail Payment System (hereinafter – BCSS).

2. DEFINITIONS

2.1. The definitions used herein shall bear the following meanings:

2.1.1. **participant** – a bank that conducts payment transactions in AZIPS and/or BCSS and another legal entity whose bank accounts are serviced by the Central Bank of the Republic of Azerbaijan (hereinafter – the Central Bank);

2.1.2. **issuer participant** – a sender of funds;

2.1.3. **beneficiary participant** – a recipient of funds;

2.1.4. **value date** – date of execution of a payment instruction on participant’s account;

2.1.5. **participant BIC** – unique identification number issued by the Society for Worldwide Interbank Financial Telecommunication (SWIFT) to member participants or issued by the Central Bank to non-SWIFT member participants;

2.1.6. **priority code** – number identified by a payment instruction sender and used to manage the order of priority on payment instruction processing.

2.1.7. **payment instruction** – payment instruction or direct debit respectively issued by issuer and beneficiary participants to conduct payment transactions in AZIPS and BCSS;

2.1.8. **batches** – payment instructions grouped by participants at BCSS;

2.1.9. **payment file** – specific format file created on the basis of one or several batches and used to share payment instructions among BCSS participants;

2.1.10. **message type (hereinafter - MT)** – format of electronic payment instructions, reports, inquiries and notifications in interbank centralized payment systems;

2.1.11. **clearing account** – account opened with BCSS for a participant;

2.1.12. **net position** – difference between total funds credited to a clearing account and total funds debited from a clearing account;

2.1.13. **debit limit** – size of funds blocked in a participant's correspondent account to conduct settlements on net debit position as a result of a clearing session;

2.1.14. **clearing** – process of transformation of claims and liabilities emerging on amounts one or several participants give to or receive from another or several participants to one net claim or one net liability that is their difference during a clearing session in BCSS;

2.1.15. **clearing session** – period of acceptance and execution of participants' batches, and calculation of their net positions on settlements on the basis of a set reglament at BCSS during a day;

2.1.16. **mandate** – agreement registered with the BCSS to conduct direct debit based transactions between beneficiary and issuer participants;

2.1.17. **real time mode** – mode implying immediate conduction of payment transactions and relevant data sharing in interbank centralized payment systems;

2.1.18. **main center** – where AZIPS and/or BCSS host servers are located;

2.1.19. **backup center** – where AZIPS and/or BCSS backup servers are located;

2.1.20. **emergency cases** – geologic, natural fires, meteorological explosions, fires, collapse of buildings and devices, problems in electro-energetic systems and other type natural and techno genic disasters;

2.1.21. **systemically important participant** – the participant that has over 2% (two) share in total value of transactions conducted by participants over one year in AZIPS.

3. Execution of payment instructions

3.1. Settlements among participants in AZIPS and BCSS shall be conducted through correspondent, current and clearing accounts opened with the Central Bank.

3.2. Payment instructions shall be accepted and executed in AZIPS and BCSS when:

3.2.1. the payment instruction meets the requirements of the Guidelines on Cashless Settlements and Money Remittances in the Republic of Azerbaijan approved by Resolution# 19/1 of the Management Board of the Central Bank dated 17.09.2013;

3.2.2. there is no decision (order) on seizure of accounts of issuer and beneficiary participants or suspension of transactions;

3.2.3. payment instruction's value date conforms to the timeframe set in Items 3.7 and 3.8 herein;

3.2.4. sufficient funds are available in issuer's account to execute a payment instruction.

3.3. A participant's payment instruction shall be considered irrevocable from the moment funds are written off from its account.

3.4. A statement or other data from a participant's relevant account shall be delivered to it by the Central Bank in soft- or hardcopy.

3.5. MTs used in AZIPS and BCSS, as well as their operating reglaments shall be approved by the Management Board of the Central Bank. The reglament shall determine time intervals on sending, acceptance and processing of payment instructions, queries, notice and data over a transaction day, the procedure for temporary suspension of systems' operating time, as well as the number of clearing sessions in the BCSS per day and maximum amount per accepted payment instruction.

3.6. In the event of any changes to the reglament, the Central Bank shall send a relevant notification to participants in soft- or hardcopy at least 3 (three) days prior to the day the changes have been introduced.

3.7. The payment instruction, whose value date coincides with the transaction day, sent in AZIPS and BCSS by a participant shall be accepted and processed the same day by the Central Bank on the basis of the reglament established on the relevant payment system.

3.8. A participant may send a payment instruction to AZIPS or BCSS not more than 10 (ten) calendar days prior to the value date. That being the case, information on the payment instruction shall be kept by AZIPS or BCSS respectively and executed on the value date.

4. Settlements in AZIPS

4.1. AZIPS is used for settlements on correspondent and current accounts among participants in real time mode.

4.2. Settlements in AZIPS may be conducted using the following information sharing facilities:

4.3.1. via Closed Telecommunications Network (hereinafter – CTN);

4.3.2. via SWIFT (if a participant is a SWIFT member).

4.4. A participant may use the CTN or SWIFT platform for information sharing with AZIPS upon notifying the Central Bank (in soft- or hardcopy).

4.5. To conduct transactions via CTN in AZIPS, a participant shall be connected to a dedicated telecommunication network launched for information sharing in payment systems.

4.6. To conduct transactions via CTN in AZIPS, a participant should install an “STP-Adapter” module introduced by the Central Bank in relevant servers taking into consideration technical and system requirements of software.

4.7. A participant may send the following payment instructions to AZIPS via CTN or SWIFT in the following SWIFT message formats:

4.7.1. customer payments (MT102, MT103);

4.7.2. bank payments (MT205).

4.8. The following shall be verified when a payment instruction is accepted in AZIPS for execution:

4.8.1. compliance of the value date with Items 3.7 and 3.8 herein;

4.8.2. nonrecurrence of the payment instruction’s number over a transaction day;

4.8.3. compliance of a payment instruction with electronic payment instructions format established across AZIPS;

4.8.4. accuracy of participant BICs;

4.8.5. accuracy of correspondent (current) accounts;

4.8.6. compliance of participant BIC and correspondent (current) account.

4.9. In case of discrepancy from the requirements established in Item 4.8 herein or termination of operations of any or both of the participants, a payment instruction shall be rejected by AZIPS and a notice shall be sent to the participant indicating the reason for rejection (MT298/SMT900 or MT298/SMT701 respectively).

4.10. In case of non-discrepancy from the requirements established in Item 4.8 herein:

4.10.1. AZIPS debits issuer participant’s and credits beneficiary participant’s accounts;

4.10.2. AZIPS sends a payment instruction to a beneficiary participant, and a notice on payment execution to an issuer participant (MT298/SMT012), if required.

4.11. To manage payment's order of priority, the issuer participant should indicate payment instructions' priority codes in their headings. The priority code is set from 30 to 99.

4.12. A payment order sent by an issuer participant with the value date as of the current date, shall be stored by AZIPS in "Standby Mode" without execution when:

4.12.1. there is a decision (order) on seizure of accounts of issuer and beneficiary participants or suspension of their transactions;

4.12.2. there are insufficient funds in the issuer participant's account;

4.12.3. operation of AZIPS is suspended temporarily.

4.13. In the event of the cases specified in Item 4.12 herein, AZIPS delivers a notice (MT298 /SMT700) to an issuer participant stating the reason.

4.14. The issuer participant may change the pending payment instruction's priority code, sending a notice (MT298/SMT202) to AZIPS.

4.15. In the event the priority number cannot be changed for whatever reason, AZIPS sends a notice to the participant (MT298/SMT252) stating the reason.

4.16. The issuer participant may reject a pending payment instruction. In this case, the issuer participant shall send a notice (MT298/SMT200) to AZIPS.

4.17. In the event a payment instruction cannot be annulled for whatever reason, AZIPS sends a notice (MT298/SMT250) to the participant stating the reason.

4.18. In the event of insufficient funds for settlements on the participant's account, the pending, non-executed payment instruction with the value date as of the current date is annulled at the end of the transaction day and a notice is sent to the participant (MT298/SMT701).

4.19. AZIPS sends a notice to the participant on transactions conducted in its account (MT900 in case of debiting, MT910 in case of crediting).

4.20. Sending a query (MT920) to AZIPS the participant may obtain general (MT941) and interim information (MT942) on its account in a real time mode over a transaction day.

4.21. Sending a query (MT298/SMT800) to AZIPS the participant may obtain information on payment instructions incoming to and written off from the account, as well as payment instructions to be written off (MT298/SMT850) over a transaction day.

4.22. Sending a query to AZIPS (MT298/SMT801) the participant may obtain real time general information (MT298/SMT851) on pending payment instructions, and the status of correspondent or current accounts over a transaction day.

4.23. Sending a query to AZIPS (MT298/SMT804) the participant may obtain detailed information on pending payment instruction (MT298/SMT854) over a transaction day.

4.24. In case of improper filling of queries by the participant, AZIPS sends a notice (MT298/SMT900) to the participant stating the reason.

4.25. AZIPS sends a statement from the account (MT950) at the end-transaction day.

4.26. Information sharing security in AZIPS is maintained as follows:

4.26.1. if SWIFT is used for information sharing, information security is maintained on the basis of regulations established by this telecommunications network;

4.26.2. if CTN is used for information sharing, electronic certificates of the Central Bank's Bank Certificate Services Center (BCSC) are used to maintain information security. In this case to be protected from unauthorized external interventions, data transmission channels in use are encrypted and authenticated across participants' registration codes.

4.26.3. The participant verifies integrity and accuracy of data received from AZIPS via CTN using options of electronic signature facilities issued by the BCSC. The Central Bank is immediately notified (in soft- and hardcopy) on any shortfalls revealed with respect to electronic signatures of accepted data.

4.27. In the event of technical problems with respect to use of AZIPS the Central Bank should be notified (in soft- and hardcopy). In this case based upon the participant's appeal it participates in AZIPS via a dedicated workstation at the Central Bank. If the participant informs the Central Bank accordingly (in soft- and hardcopy) upon troubleshooting, its operation in the system is restored immediately.

5. SETTLEMENTS IN THE RETAIL PAYMENT SYSTEM (BCSS)

5.1. The BCSS is used for collection and clearing of batches sent by participants and conduct settlements in AZIPS on derived net positions.

5.2. A BCSS participant should be connected to CTN launched for information sharing in interbank centralized payment systems.

5.3. A BCSS participant, depending on the information sharing scheme it chooses, should install one of the "STP-Adapter" or "Payment gateway" modules introduced by the Central Bank in one of its relevant server equipment in view of technical and system requirements of the software.

5.4. Information sharing security in the BCSS is maintained in the following order:

5.4.1. BCSC's electronic certificates are used to maintain information security. In this case to be protected from unauthorized external interventions, data transmission channels in use are encrypted and authenticated across participants' registration codes;

5.4.2. The participant verifies integrity and accuracy of data received from BCSS using options of open key infrastructure issued by the BCSC. The Central Bank is immediately notified (in soft- and hardcopy) on any shortfalls revealed with respect to electronic signatures of accepted data.

5.5. In the event of technical malfunction with respect to use of BCSS a participant should notify the Central Bank (in soft- and hardcopy). In this case based upon the participant's appeal it participates in BCSS via a dedicated workstation at the Central Bank. If the participant informs the Central Bank accordingly (in soft- and hardcopy) upon troubleshooting, its operation in the system is restored immediately.

5.6. Settlements in BCSS shall be provided through participants' clearing accounts.

5.7. Settlements in BCSS are conducted on the basis of payment files (MT150) sent by participants. Payment files may include two types of batches:

5.7.1. batches, that include payment instructions (MT102);

5.7.2. batches, that include direct debits (MT104);

5.8. Batches included to payment files sent to the BCSS are executed in the first in first out order.

5.9. BCSS participants may manage debit limits on their clearing accounts as follows:

5.9.1. Participants may set debit limit for the clearing account sending a relevant format bank payment (MT205) in the AZIPS. In this case a limit is set on the basis of indicated amount without any write offs from participant's correspondent account and any amount, implied on the basis of every bank payment sent, is added to clearing account's debit limit. Real time information is delivered to the BCSS per order processed on changes made to participant's clearing account's debit limit in the AZIPS.

5.9.2. Participants may set debit limits for clearing accounts using a relevant format query (MT999) in BCSS. A query on debit limit management is initially processed in BCSS. If the query is meant for initial setting of a debit limit, or ordered amount is larger than the participant's current debit limit, the query is transmitted to AZIPS in real time mode. If the amount ordered in the query is implied to decrease the current debit limit, when the current position of participant's clearing account falls behind the newly set debit limit, a relevant notice is transmitted to AZIPS. Otherwise, a rejection notice (MT996) is sent to participant's query to decrease debit limit. A query received by AZIPS on changing debit limit is processed in accordance with the size of funds in the participant's correspondent account and resulting information is transmitted to BCSS. If the amount ordered in the query meets the requirements in this Item, clearing account's debit limit is set equal to that amount.

Depending on the result of query processing in AZIPS, the participant is sent a notice (MT996) on debit limit changes.

5.10. A participant can create a batch by using BCSS's Payment Gateway workstation or via internal General Ledger.

5.11. A participant may create and sent to BCSS a payment file on the basis of batches in the following order:

5.11.1. a batch is created from batches developed in the 'Payment Gateway' and sent to the BCSS;

5.11.2. batches created in General Ledger are transmitted to the 'Payment Gateway' and a payment file is created on their basis and sent to the BCSS;

5.11.3. A payment file created in General Ledger is transmitted to the Payment Gateway and sent to the BCSS;

5.11.4. A payment file created in General Ledger is sent to BCSS using 'STP-Adapter'.

5.12. Direct debit based settlements may be conducted in BCSS in a mandated and unmandated order. Unmandated direct debit based settlements in their turn may be conducted in clearing sessions or in a real-time mode.

5.13. To make mandated payments a beneficiary participant sends a query (MT998) to BCSS on the basis of funds recipient's order for the registration of the query. After initial verification of compliance with the formats established by the Central Bank under Item 3.5 herein on the entered mandate, an issuer participant receives a relevant notice (MT998). The mandate takes effect only upon confirmation (MT995) by the issuer participant.

5.14. Batches, that include mandated direct debits (MT104), are prepared by the beneficiary bank and sent to BCSS within the payment file (MT150). Every direct debit includes a unique number of the mandate it is referred to. In BCSS direct debit's requisites are reconciled with total amount, maximum amount per payment instruction, and the number of payments to be made set with the relevant mandate and only in case of compliance is accepted for processing. Otherwise, a beneficiary participant receives a rejection notice (MT196).

5.15. To make unmandated payments a beneficiary participant prepares batches (MT104) that include direct debits and sends in the payment file (MT150) to the BCSS.

5.16. Batches (MT104) are prepared on the basis of direct debits received and accepted for processing by BCSS and sent to issuer participant in payment file (MT150).

5.17. Participants may work on direct debits in BCSS in a statutory authorization or authorization-free manner. Initially a statutory authorization regime is established for all

system participants. Every participant may appeal to the Central Bank (in soft- and hardcopy) and establish and change the authorization mode regime.

5.18. If an issuer participant, that operates in a statutory authorization mode, wants to reject execution of tasks included to a batch comprising direct debits received from BCSS a relevant notice (MT198) should be sent to the system. The batch, that includes at least one direct debit to be executed, is authorized by the issuer participant and a notice (MT195) is sent to BCSS.

5.19. If no authorization notice is received on batches, that include direct debits, sent to the issuer participant, operating in a statutory authorization mode by the final clearing session of the transaction day, the system rejects execution of those batches and a relevant notice (MT198) is sent to the beneficiary participant.

5.20. If a rejection notice (MT198) to a batch or direct debits in the batch sent to BCSS from the issuer participant that works in statutory authorization free mode is not sent during a session, the system includes them to the following session's clearing process. If the issuer participant does not reject execution of batches sent to BCSS during the last clearing session, these batches are included to the clearing process of that session.

5.21. Every batch on unmandated direct debits may include only one payment instruction in real time mode. Irrespective the issuer participant's work regime, confirmation is required for execution of these batches. The system automatically rejects execution of batches not confirmed by the issuer participant until the last session of the transaction day.

5.22. Unmandated direct debit approved by the issuer participant in real time is immediately transmitted to AZIPS and processed in case of availability of required funds in participant's correspondent (current) account disregarding the debt limit set for the clearing account.

5.23. BCSS immediately sends a notice (MT198) to issuer and beneficiary participants on the status of unmandated batch whose processing has been finalized in real time.

5.24. Accepting the payment file by the participant for execution the BCSS shall verify:

5.24.1. whether mandatory fields of the payment file and batches are filled in;

5.24.2. compliance of the value date of the batch with Items 3.7 and 3.8 herein;

5.24.3. recurrence of the batch number;

5.24.4. compliance of the batch with the format of electronic payment instructions established by the Central Bank;

5.24.5. accuracy of the participant BIC;

5.24.6. accuracy of clearing accounts;

5.24.7. accuracy of correspondent accounts;

5.24.8. compliance of the participant BIC and correspondent account;

5.24.9. whether the amount per payment instruction in batches exceed the maximum amount for one payment instruction set in the BCSS.

5.25. In the event of discrepancy from the requirements in Item 5.24 herein the following information is sent to the issuer participant stating the reasons:

5.25.1. notice (MT896) on rejection to execute the payment file;

5.25.2. notice (MT196) on rejection to execute the batch;

5.25.3. notice (MT158) on rejection to execute the payment document.

5.26. In the event of absence of discrepancies in the payment file the BCSS sends a notice (MT896, MT196) to the participant on acceptance of the payment file and batches included there for execution.

5.27. Sending a query to the BCSS (MT920) a participant may obtain general information (MT941) on total amount of debit and credit transactions on the clearing account and outstanding amount.

5.28. Sending a query (MT195) to BCSS the participant may obtain the following information:

5.28.1. notice (MT896) on the status of the payment file;

5.28.2. notice (MT196) on the status of batch or payment document included therein;

5.28.3. copy of the payment file (MT156);

5.28.4. copy of the batch or the payment document included therein (MT196).

5.29. Sending a query (MT198) to the BCSS a participant may obtain information (MT198) on the status and copy of several payment documents included to the batch.

5.30. Payment operations in the BCSS are based upon clearing sessions. Clearing sessions are divided into the following periods:

5.30.1. document sharing;

5.30.2. pre-clearing;

5.30.3. clearing;

5.30.4. approval of clearing results;

5.30.5. clearing results;

5.30.6. clearing reporting.

5.31. The BCSS sends a notice (MT999) to participants on commencement of clearing session periods on the basis of BCSS reglament.

5.32. From the moment the document sharing starts, a participant may send queries to the BCSS to obtain payment files, as well as other queries with respect to setting debit

limits, queries on deletion of payment files, batches and payment instructions and various reports and notices related to the system operation.

5.33. During exchange of documents, a notice (MT196) is sent to the participant on results of initial processing and status of each batch in payment files sent by the participant to BCSS.

5.34. In pre-clearing BCSS calculates initial net position on each participant's clearing account, a notice (MT986) is sent to it on executed and non-executed payment instructions, and amount that falls short to execute payment instructions. In this phase, the participant is allowed to increase clearing account's debit limit.

5.35. A relevant notice (MT196) is sent if in pre-clearing the status of batches is pending due to funds shortfall in participant's clearing account.

5.36. In the clearing period, participants' net positions on clearing accounts are estimated in the current clearing session.

5.37. During clearing results approval, a batch of participants' net positions on clearing accounts (MT971) are sent to AZIPS for final settlements. The following reports and notices are sent to participants after final settlements on clearing results are finalized in AZIPS:

5.37.1. report on payments executed in the current clearing session (MT970);

5.37.2. report (MT971) on clearing account's net position in current clearing session;

5.37.3. report on total amount of debit and credit operations on clearing account in the current clearing session (MT986);

5.37.4. notice on the current status of batches (MT196).

5.38. In the clearing results phase payment files (MT150) are sent to participants.

5.39. In clearing reporting phase participants receive a final statistic report (MT986).

5.40. In the current clearing session in the BCSS unexecuted batches whose value date is as of that day are translated to the following clearing session of that day. If no following clearing session is implied, unexecuted batches are annulled. In that case, the BCSS sends a notice to the participant (MT196).

5.41. At the end of the transaction day in the BCSS a statement from the clearing account is sent to the participant (MT950).

5.42. Notices on transactions conducted in the BCSS and queries are sent to participants in real time mode.

5. Settlements in paper-based carriers

6.1. In the event of technical malfunction related to use of AZIPS and BCSS, payment instructions are delivered to the Central Bank in hardcopy. The Central Bank

accordingly notifies other participants electronically and participant's transactions in AZIPS and BCSS are conducted on behalf of the Central Bank.

6.2. When payment instructions are delivered in hardcopy, settlements are conducted according to the Guidelines on Cashless Settlements and Money Remittances in the Republic of Azerbaijan approved by Resolution# 19/1 of the Management Board of the Central Bank dated 17.09.2013.

6. Organization of business continuity of systemically important participants in emergency cases

7.1. The Central Bank identifies systemically important participants based upon previous year indicators no later than January 25 of the following year and notifies related participants in writing accordingly.

7.2. To ensure business continuity in AZIPS and BCSS in emergency cases a systemically important participant should have business continuity and recovery plans in emergency cases in place. Business continuity and recovery plans in emergency cases should be updated annually.

7.3. The recovery plan in emergency cases should cover various possible scenarios, including process break during natural disasters and equipment malfunction, system break as a result of terror attack, outsider intrusion and cut of communication channels and other possible cases. Each of these scenarios should allow to resume operation of AZIPS and BCSS within no later than two hours.

7.4. A systemically important participant should create a back-up center and provide the facility with the main infrastructure equipment similar to the one used in the main center, system configuration (updates and changes to hardware and software), alternative communication lines, UPS, and fire extinguishers. Technical condition of equipment should be reviewed and updated periodically. The back-up center should stand ready to conduct operations any moment, and the staff should be provided with necessary conditions to continue operations until the emergency case is eliminated.

7.5. A systemically important participant should ensure its participation in payment systems via the back-up center in a real time mode quarterly to check how prepared they are to emergency cases.

7.6. In the event of failure of operations specified in Item 7.5 herein, a systemically important participant should ensure real time operations in the backup center during the following two months.

7.7. A systemically important participant should notify the Central Bank 5 (five) days prior to providing the operation specified in Items 7.5 and 7.6 herein. A systemically important participant should deliver a Report on results of operations in the backup center (Annex №1) to the Central Bank in writing during 7 (seven) business days.

7.8. A systemically important participant should designate and instruct persons responsible (main and substitutes) to respond to queries and share information for business continuity in emergency cases and inform the Central Bank on these employees (first and last names, position and contact numbers) no later than February 25 of each year. If responsible employees are replaced a written notification on newly appointed persons should be delivered to the Central Bank within 5 (five) business days.

7.9. A systemically important participant should register the cases that caused break of its operations in AZIPS and BCSS. Detailed information on the case, including the date it occurred, the period it was eliminated and explanation of the work done should be delivered to the Central Bank in writing within 3 (three) days at the latest after these cases occurred.

7.10. A systemically important participant should deliver a topological diagram on organisation of data exchange between the backup and main centers and the address the backup center is located to the Central Bank no later than February 25 of every year.

to Regulations on organisation of settlements in
interbank centralized payment systems
in the Republic of Azerbaijan

REPORT

on organisation of systemically important participant's operations in interbank centralized
payment systems

Name of the centralized payment system: _____

I. General information			
Participant name			
Name of the plan			
Content			
Place of execution			
Registration # of translation			
II. Translation to the backup center			
Purpose			
Scenario			
Implementation date and time			
Period of translation to backup center			
Areas covered			
Areas not covered			
III. Outcome			
1. Normal operation observed:			
2. Needs improvement:			
IV. Persons responsible for translation to the back-up center:			
1 st and last names	Structural unit	Position	Signature
The responsible person who developed the report:			
_____	_____	_____	
(1 st and last names and position)	(signature)	(date)	