IN FORCE

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CARD SETTLEMENT PAYMENT SYSTEM

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1 Card Settlement payment system – general definitions

Card Settlement payment system is a payment system providing the framework for clearing and settling monetary claims and liabilities arising from transactions with MasterCard, Karanta and BA/Maestro payment cards at POS terminals and ATMs, the processing of which is conducted by the company Bankart d.o.o. (hereinafter: Bankart). The calculation of monetary claims and liabilities is carried out by Bankart. The settlement of single net monetary claims and single net monetary liabilities is carried out by the Bank of Slovenia once a day in the settlement accounts of participants in the TARGET2-Slovenija payment system.

1.1. Definition of terms

The terms and acronyms frequently used in this document have the following meaning:

- **Affiliate bank:** a bank who has a calculated mutual monetary liability or claim only vis-a-vis its principal bank, is an affiliate member and as such a party to the single net claim and/or single net liability only based on mutual monetary liability or claim vis-a-vis its principal bank;
- **DOM (domestic) transactions:** transactions conducted in Slovenia with cards of participants-issuers who have acquired a licence from the Bank of Slovenia to perform activities in the territory of the Republic of Slovenia that are processed by Bankart; and at points of sale of the acceptors operating in the territory of the Republic of Slovenia that are not processed by Bankart; and transactions conducted at points of sale processed by Bankart with cards of issuers operating in the territory of the Republic of Slovenia that are not processed by Bankart;
- **Institution:** until acceptance to the Card Settlement payment system, institutions mean banks, savings banks or other provider of payment services based, or having a registered branch, in an EU member state and holding a licence to perform payment services issued by the competent authority;
- **INT (international) transactions:** transactions with cards of participants-issuers that are processed by Bankart, at points of sale of the acceptors outside Slovenia; and transactions conducted at points of sale processed by Bankart with cards of issuers outside Slovenia;
- **Interchange fee:** an interbank fee payable by or to a participant-issuer (depending on the type of transaction) that is settled in the scope of the Card Settlement payment system;
- **Clearing:** a process of calculating single net claim and single net liability of a participant in respect of other participants of the Card Settlement payment system, without resulting in termination of monetary claims and/or liabilities;
- **Committee responsible for adopting and changing the Rulebook of the Card Settlement Payment System (hereinafter: the Committee):** appointed representatives of 5 direct participants of the Card Settlement payment system that are participating in the implementation of activities;
- **Payment card**: an instrument used for performing transactions at POS terminals, manual imprinters, ATMs etc. and for establishing the identity of the card holder;
- **Settlement:** settlement in the Card Settlement payment system is the transfer of funds based on settlement orders resulting in complete termination of monetary claims and liabilities between the Card Settlement payment system participants;
- **Settlement account:** account of a direct participant of the Card Settlement payment system open in the TARGET2-Slovenija payment system. The settlement account is also

used for final settlement of single net monetary claims and single net monetary liabilities of the Card Settlement payment system participants;

- **Settlement agent:** the Bank of Slovenia, which performs settlement of single net monetary claims and single net monetary liabilities arising from the Card Settlement payment system based on a settlement order, by transferring funds between settlement accounts of direct participants;
- **Settlement report:** a report containing the information about single net monetary claims and single net monetary liabilities of the Card Settlement payment system participants, submitted by Bankart to the settlement agent – based on this report, the settlement agent produces orders for settlement in the TARGET2-Slovenija payment system;
- **Principal bank:** a bank who has a calculated mutual net monetary claim or liability independently vis-a-vis all other principal banks in the Card Settlement payment system;
- **Point of sale:** a point allowing for withdrawal of cash or payment by use of payment cards;
- **Single net monetary liability**: a positive difference between the sum of total monetary liabilities and the sum of total monetary claims that a participant of the Card Settlement payment system has to/on all other direct participants of the Card Settlement payment system;
- **Single net monetary claim:** a negative difference between the sum of total monetary liabilities and the sum of total monetary claims that a participant of the Card Settlement payment system has to/on all other direct Card Settlement payment system participants;
- **TARGET2:** a payment system providing real time gross settlement of euro payments in the central bank money. The system is operating on a single shared technological platform and is legally structured as a set of payment systems (components of the TARGET2 system) of central banks of EU member states, which are managing each their own system component;
- **TARGET2-Slovenija:** Slovenian component of the TARGET2 payment system;
- **Participant:** direct or indirect participant in the Card Settlement payment system;
- **Participant-issuer:** a participant of the Card Settlement payment system issuing payment cards who is identified in the payment system by a unique issuer code;
- **Participant-acquirer:** a participant of the Card Settlement payment system who has concluded with points of sale an agreement on the acceptance of payment cards or a participant of the Card Settlement payment system who owns ATMs and is identified in the payment system by a unique acquirer code;
- **WTS (within the system) transactions:** transactions conducted with payment cards of a single participant of the Card Settlement payment system at points of sale of another participant of the Card Settlement payment system processed by Bankart.

1.2. Transactions included in the Card Settlement payment system

The Card Settlement payment system includes the following transactions:

- payment card operations (WTS gross transactions and relevant interchange fees) between principal banks and between the principal bank and its affiliate banks related to the following areas and products:
  - (i) payments with MasterCard, KARANTA and BA/Maestro cards that are processed by Bankart, at points of sale also processed by Bankart;
  - (ii) cash withdrawals with MasterCard cards that are processed by Bankart, at ATMs or in units of the participants that are as point of sale processed by Bankart;

(iii) cash withdrawals with BA/Maestro and KARANTA cards that are processed by Bankart, in units of the participants that are as point of sale processed by Bankart.

- payment card operations (DOM and INT gross transactions and relevant interchange fees) between the principal bank and its affiliate banks related to the following areas and products:
  (i) cash withdrawals at ATMs and in units of the participants that are as point of sale not processed by Bankart, made with MasterCard and BA/Maestro cards of the affiliate bank that is processed by Bankart;
  (ii) payments at points of sale that are as point of sale not processed by Bankart, made with MasterCard and BA/Maestro cards of the affiliate bank that is processed by Bankart;
  (iii) cash withdrawals at ATMs and in units of the affiliate bank that are as point of sale processed by Bankart, made with MasterCard, Cirrus and Maestro cards that are not processed by Bankart;
  (iv) payments at points of sale of the affiliate bank that are as point of sale processed by Bankart, made with MasterCard, Cirrus and Maestro cards that are not processed by Bankart.

The Card Settlement payment system does not include transactions with payment cards between principal banks covering DOM and INT transactions:

(i) cash withdrawals with MasterCard and BA/Maestro cards that are processed by Bankart, at ATMs and in units of the participants that are as point of sale not processed by Bankart;
(ii) payments with MasterCard and BA/Maestro cards that are processed by Bankart, at points of sale that are as point of sale not processed by Bankart;
(iii) cash withdrawals with MasterCard, Cirrus and Maestro cards that are not processed by Bankart, at ATMs and in units of the participants that are as point of sale processed by Bankart;
(iv) payments with MasterCard, Cirrus and Maestro cards that are not processed by Bankart, at points of sale that are as point of sale processed by Bankart.

1.3. Legal basis in the Card Settlement payment system

Legal framework in the Card Settlement payment system regulates the content of the rights and obligations related to participation in the payment system as well as the contractual relationships between payment system participants, between (a) payment system participant(s) and Bankart, between participants and the Bank of Slovenia and between Bankart and the Bank of Slovenia as the settlement agent. The legal framework has to be signed and adopted by all participants of the payment system. To join the payment system, the participant has to sign an Agreement on Processing, accept the Rules of operation of the payment system in ordinary and extraordinary circumstances as well as the acts adopted based thereon and the operational instructions applicable at the time. A participant of the payment system must also obtain international licences and sublicences as well as permissions for use of brand, sign statements on entering into contractual relationship with payment system participants, conclude a contract on ATM servicing with a technically qualified provider – if joining an ATM payment system – and sign a Service Level Agreement for cards with Bankart. Participants are also informed of the rights and obligations arising from the agreement that defines the services performed by the Bank of Slovenia as the settlement agent in the payment system.

2 Participation in the Card Settlement payment system

The Card Settlement payment system may be joined by a bank and a savings bank or other provider of payment services based, or having a registered branch, in an EU member state and holding a licence to perform payment services issued by the competent authority and other legal person holding a licence for issuing payment cards (Karanta, BA/Maestro, MasterCard) and/or a licence to enter into agreements with points of sale and a licence to perform payment services issued by the competent authority.

Participants may join the Card Settlement payment system as direct or indirect participants. A direct participant must have a settlement account opened in the TARGET2-Slovenija payment system. An indirect participant must have a special agreement concluded with the direct participant on the settlement, through the direct participant's settlement account, of single net monetary claims and single net monetary liabilities of the indirect participant arising from the Card Settlement payment system. Under the Rules of operation of the payment system the indirect participant agrees that their single net monetary claim or single net monetary liability be added to the single net monetary claim or single net monetary liability of the direct participant with whom they have concluded the agreement and opened the settlement account.

If a single institution is included in the Card Settlement payment system under several different codes of issuing banks or acquiring banks, it shall be considered that this institution is in each instance an independent participant with a separate bank code, subject to all the provisions defined in the Rules of operation of the payment system and other legal documents. One institution can be included in the Card Settlement payment system by indirect participation only once. If a single institution is participating in the Card Settlement payment system under several different codes of issuing banks or acquiring banks, the institution shall define the issuing bank or acquiring bank code under which it is included in the Card Settlement payment system as a direct participant. Under other issuing bank and/or acquiring bank codes, the institution may be included in the Card Settlement payment system only as an indirect participant. These indirect participants can select as their direct participant only a direct participant of the same institution.

The participants who wish to join the Card Settlement payment system have to accept the Rules of operation of the Card Settlement payment system and fulfil the general conditions for joining, the terms for joining (regulated contractual relationships, ensured compliance with technical conditions) and the conditions for applying to participate (e.g. evidence of opened settlement account in the TARGET2-Slovenija payment system, evidence of a sufficient number of qualified expert personnel to ensure replacement of qualified expert personnel, evidence of international licences and sublicences as well as permissions for use of brand, evidence of contracts on ATM servicing concluded with a technically qualified provider approved by the supplier). The participants have to fulfil the technical conditions for participation (establishment of primary and secondary communication connection with Bankart and between ATMs and Bankart's central computer; ensure hardware and software allowing for inclusion and participation in the Card Settlement payment system; successfully carry out all testing prescribed by Bankart; provide backup capacity for extraordinary circumstances; and meet safety requirements to ensure information security in the Card Settlement payment system required by Bankart).

Bankart has the right to inspect hardware and software used by the participant with the aim of participating in the Card Settlement payment system. While inspecting the information technology of a participant, Bankart may only inspect the data about the Card Settlement payment system and no other data of the participant. Bankart has an obligation to align the annual plan of inspecting the participant's information technology so as not to disturb the operation of the participant.

2.1. Rights and obligations in the Card Settlement payment system

2.1.1. Bankart – Card Settlement payment system administrator

Bankart is the administrator of the Card Settlement payment system and, on behalf of the participants, performs netting of liabilities and/or claims under the clearing principle or, if the participant is blocked in the Card Settlement payment system, under the principle of mutual liability or claim calculation. Bankart formulates and manages a Loss-sharing scheme for the Card Settlement payment system, ensuring financial risk management in the framework of the Card Settlement payment system.

In the name and for the account of direct participants of the Card Settlement payment system, Bankart arranges relationships with the Bank of Slovenia regarding settlement of claims and liabilities between direct participants of the payment system. To the settlement agent, Bankart provides the data necessary for the settlement of single net monetary claims and single net monetary liabilities according to clearing.

Bankart supervises and controls procedures of participants related to the operation of the Card Settlement payment system and the compliance with the Rules of operation of the payment system. Bankart may authorise an auditor selected by an independent auditing firm to conduct specific tasks related to this supervision and control. Bankart ensures that its operations do not jeopardise the secure functioning of the entire Card Settlement payment system. In case the Rules of operation of the payment system are breached by the participants and the operations of other participants are affected, Bankart may fully or partly prevent such participant from executing transactions in the framework of the Card Settlement payment system.

Bankart provides compliance of functioning of the Card Settlement payment system with the requirements of the applicable legislation. The Bank of Slovenia issued a decision on approval of amendment to the Rules of the payment system, which represented the participants' authorisation to establish a payment system and, for Bankart, an authorisation to administer the payment system. If the legal framework is modified, the modification shall be coordinated with all participants and approved by the competent Committee. An authorisation shall be obtained from the Bank of Slovenia, approving the amendment to the Rules of the payment system.

Bankart and the Committee adopt decisions related to the Card Settlement payment system, which are mandatory for all participants of the payment system. Bankart reports to the Bank of Slovenia according to the instructions of the Bank of Slovenia on reporting by payment system administrators applicable at the time, and in line with other requirements of the Bank of Slovenia. Bankart regularly informs the payment system participants of any change or complement to contractual relationships that influence settlement in the Card Settlement payment system and provides a sufficient number of qualified expert personnel possessing knowledge to perform payment services and carry out the activities arising from the Card Settlement payment system administration.

Bankart ensures uninterrupted functioning of the Card Settlement payment system according to applicable agreements, protocols and the SLA. Bankart ensures uninterrupted functioning of the Card Settlement payment system in case of extraordinary circumstances, provides adequate backup and technical solutions and is responsible for its hardware and software that allows for the execution of settlement orders in the Card Settlement payment system.

Bankart ensures compliance with the organisational and technical requirements regarding information security by adhering to the guidelines and recommendations of the information security management standards (ISO/IEC 2700x and PCI DSS) and any specifically defined requirements of the regulator.

2.1.2. Bank of Slovenia – settlement agent

The Bank of Slovenia participates in the Card Settlement payment system as the settlement agent, who based on the settlement report prepared by Bankart carries out the settlement between net debtors and net creditors of the Card Settlement payment system through settlement accounts opened in the TARGET2-Slovenija payment system. The liabilities and claims are settled according to contractual obligations and the legislation applying to payment systems. After settlement, the Bank of Slovenia sends the direct participants and Bankart a notice of the settlement being final. The Bank of Slovenia also carries out certain operational procedures in case the Loss-sharing scheme is activated, on the basis of the Loss-sharing scheme table provided by Bankart. The Bank of Slovenia informs Bankart and the participants if net liabilities of two or more direct participants have not been settled or if at least one participant, whose participation has not been terminated upon activation of the Loss-sharing scheme, fails to provide funds for settling the liabilities of a terminated participant.

The Bank of Slovenia informs Bankart about the supervisory measures imposed, in the scope of performing supervisory function, on the institution that is participating in the Card Settlement payment system, prohibiting the institution from performing banking services and/or payment services and whether the participation of an institution in the TARGET2-Slovenija payment system has been suspended or terminated.

2.1.3. Banks and savings banks – participants of the payment system

The participants of the Card Settlement payment system can be direct participants or indirect participants as long as they fulfil the conditions to participate and the settlement conditions. By joining the payment system, direct and indirect participants accept the rights and obligations arising from the Rules of operation of the payment system, the acts adopted based thereon and contractual relationships. The obligations arising from the Rules of operation of the payment system and agreements created prior to termination of the participation in the payment system survive the termination. In the event of indirect participation, the indirect and direct participants have to conclude an agreement under which the direct participant assumes all obligations and responsibilities arising from the Rules of operation of the payment system on behalf of the indirect participant, and inform Bankart of that fact. Under the Rules of operation of the payment system the direct participant agrees that their single net monetary claim or single net monetary liability be added to the single net monetary claim or single net monetary liability of the indirect participants who have opened with them a settlement account. Direct participant bears all obligations on behalf of the indirect participant arising from settlement, including the settlement of shares and amounts arising from activation of the Loss-sharing scheme. Direct participants authorise Bankart to conclude with the Bank of Slovenia, in the name and for the account of direct participants, an agreement on the method and procedures of settlement to ensure efficient and safe settlement procedures between direct participants.

A direct participant has a responsibility to:

- provide hardware and software, its connectibility with the payment system, and act in such manner that does not jeopardise the functioning of the entire system;
- provide a sufficient number of qualified expert personnel to ensure replacement of qualified expert personnel possessing knowledge to perform payment services and carry out the activities arising from the participation and operation in the payment system;
- comply with all instructions and recommendations on security issued by the administrator with reference to functioning of the payment system;
- protect and treat as confidential the information and all data that it disposes with in relation to the payment system and referring to the activity of other participants in the payment system;
- inform the administrator about any security incidents regarding its technical equipment used in the payment system and to notify the administrator if extraordinary circumstances arise on the part of the participant;
- inform the administrator about change of its legal capacity to participate in the payment system;
- become familiar with and fulfil the obligations referring to legislation on data protection, money laundering and terrorist financing prevention, especially in terms of implementing appropriate measures related to any payments under the payment system that are settled through their settlement accounts;
- successfully and timely carry out all testing prescribed by the administrator and which might be suggested by the participant.

A direct participant may request inspection of Bankart's information technology in the part referring to the performance of services on behalf of the participant, provided that the method and time of the inspection do not affect the functioning of the payment system. Such inspection may only be carried out by authorised persons of direct participants or auditors selected by an independent auditing firm, based on previous arrangement with the participants and provided the proposal for inspection has been approved by the competent Committee. The costs of inspection of Bankart's information technology are equally divided among participants and while conducting the inspection a direct participant may only inspect the data related to their operations in the payment system.

3 Description of design and functioning of the Card Settlement payment system

3.1 Description of infrastructure and logical segments of functioning

The Card Settlement payment system is managing a technical and technological solution involving backup capacity established at a secondary location of Bankart to ensure business continuity. The data processing model used at the primary location is the active processing model and the one used at the secondary location is the backup processing model. The specific nature of the solution and thus the definition of disruptions and failures in operations in emergency cases is reflected in the procedures the implementation of which is necessary for the recovery and restoration of the service and in the impact of the interruptions on the provision of CMS card system services and payment system service within the specified timescale.

The CMS infrastructure, which is presented in Figure 1, is composed of logical sets: CMS card system and communication connections. The IT support to CMS card system comprises server systems, disk array, communication equipment and a set of software packages. All equipment is installed at the primary location and duplicated at the secondary location with the aim of avoiding single points of failure and minimising the possibility of CMS card system down.

A communication transmission system is established between the two locations, enabling the transfer and synchronisation of data between the two locations. The projected level of continuity of operation of the payment system requires – in addition to hardware and software – data that are processed as well as data capturing. Synchronous replication of data is carried out between the primary and secondary locations in order to provide data from the production system to the backup CMS card system. The entire solution has been designed to avoid single points of failure by installation of redundancy systems, which in case of system failure at one location assume the role and implement the activities necessary at the functioning site. This results in greater availability of the CMS card system and smaller possibility of failure.

Daily run of CMS card system is considered as daily processing, involving posting of transactions (input data) and submission of data to international card systems (MasterCard) as well as the provision of all necessary output files/reports to participants (output data). The payment system participants who have established communication connections, in the course of normal functioning:

- submit data for processing to the CMS card system,
- capture data from the CMS card system.

Business partners, who as participants of the payment system exchange data directly, submit the data to and capture them from the payment system by use of the file transfer system. The data exchanged are encrypted.

A communication connection is established by the payment system participants and the CMS card system, representing the exchange of data with participants and business partners as well as international card systems (MasterCard). Bankart is managing communication connections within its network, whereas the part of the communication connection between the payment system participants' network and Bankart is managed by the participants.

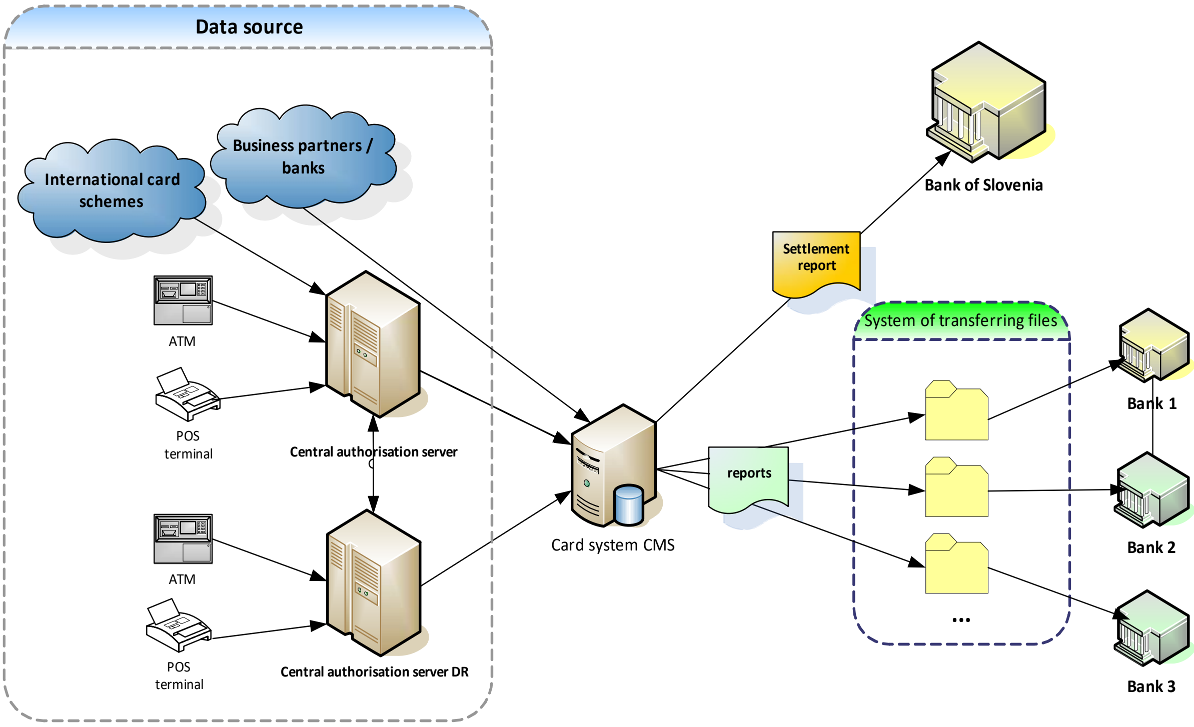

Figure 1: CMS infrastructure

3.2. Method and procedures of clearing and settlement of liabilities

Processing in the framework of the payment system is based on processing of transactions arising from the payment system by Bankart, submission of output reports to participants and notifications about the settlement position, and delivery of settlement report to the Bank of Slovenia. In the scope of daily run of CMS card system, Bankart daily, from Monday until and including Saturday, processes transactions that are included in the settlement of single net monetary claims and single net monetary liabilities of the Card Settlement payment system participants. A settlement order is considered to have entered the payment system, when a purchase or cash withdrawal is successfully executed according to the procedures applying to suitable purchase or cash withdrawal as defined in the Rules on domestic card products and, in case of MasterCard product, the Rules of the MasterCard international card system. From the moment the settlement order is entered the payment system, it is irrevocable.

The outputs of the daily run of the CMS card system, intended to support card settlement execution, are:

- settlement reports, containing mutual net claims and net liabilities, providing the basis for calculating single net monetary claim and single net monetary liability;
- notification for card settlement, containing single net claim and/or single net liability of a participant;
- settlement report sent by Bankart to the Bank of Slovenia.

On the basis of the data about the transactions conducted with payment cards for the past day, Bankart creates output reports containing data about net claims and net liabilities between participants on bilateral basis, which serve for calculating single net monetary claim and single net monetary liability and for preparing the settlement report.

Bankart provides participants monetary claims and liabilities netting services under clearing principle. Bankart produces a settlement report both for transactions between principal participants and the transactions between the principal participant and their affiliate bank. The settlement report includes all direct participants of the Card Settlement payment system, while the positions of indirect participants are integrated in the positions of direct participants, with whom the former maintain settlement accounts.

The output reports, which present mutual claims on and liabilities of a participant to other participants of the payment system, are generated and submitted to the payment system participants according to schedule and are intended to serve participants as analytical data for posting transactions. Mutual and single net monetary claim and/or liability of an indirect participant is also received by the direct participant, with whom the former maintains a settlement account.

Settlement between direct participants, who are net debtors and net creditors of the payment system, is made based on received settlement report. Bankart prepares the settlement report, which includes the data about settlement positions of individual direct participants of the payment system, and submits it to the Bank of Slovenia according to schedule. All reports between the Bank of Slovenia and Bankart are encrypted and electronically signed. The Bank of Slovenia receives the report at the agreed e-mail and sends Bankart a reply confirming receipt and accuracy of individual elements of the report.

3.3. Card Settlement payment system schedule and settlement execution

In the Card Settlement payment system, settlement is made every working day except non-working days in the Republic of Slovenia and the days when the TARGET2-Slovenija payment system is not open for processing. Bankart has to submit the settlement report to the Bank of Slovenia no later than by 12.00 every working day, except on non-working days in the Republic of Slovenia and the days when the TARGET2-Slovenija payment system is not open for processing. If processing is made on such non-working days, Bankart shall submit to the Bank of Slovenia an aggregate settlement report.

Bankart generates and distributes output reports the day after processing, according to the agreed schedule. Bankart distributes single net claim and single net liability to the participants of the Card Settlement payment system every working day by 10.00, except for non-working days in the Republic of Slovenia and for days when the TARGET2-Slovenija payment system is not open for processing.

On the basis of the settlement report, direct participants of the Card Settlement payment system – net debtors have to provide funds in the amount of net liability in their settlement account in the TARGET2-Slovenija payment system by 12.30 at the latest. If Bankart submits the Bank of Slovenia a settlement report by 12.00 and the Bank of Slovenia does not reject it, the Bank of Slovenia shall by 13.30 at the latest, but not before 12.30, debit the settlement accounts of direct participants – net debtors in the amount of their net liabilities and transfer the funds to the settlement account of the Bank of Slovenia. If all debits are successfully executed, the Bank of Slovenia shall by 13.30 credit the settlement accounts of direct participants – net creditors in the amount of their net claims, and send all direct participants and Bankart a notice about the settlement being final. Settlement is executed in the TARGET2 payment system in central bank money, and its execution results in finality of the settlement orders for single net monetary claims and single net monetary liabilities.

3.4. Managing and functioning of the Loss-sharing scheme

The Loss-sharing scheme has been set up as a mechanism for managing financial risks for the Card Settlement payment system in order to ensure the finality of settlement. Bankart creates and manages the Loss-sharing scheme for the Card Settlement payment system, whereas the Bank of Slovenia carries out certain operational procedures if the Loss-sharing scheme is activated on the basis of the Loss-sharing scheme table, provided by Bankart.

Bankart creates the Loss-sharing scheme table indicating the allocated shares of loss of direct participants of the Card Settlement payment system, taking into account certain transactions of each participant-issuer that are settled in the Card Settlement payment system in the agreed period, and the total transactions are used as the basis for calculating the share of a participant. Bankart creates the regular Loss-sharing scheme twice a year, whereas the extraordinary Loss-sharing scheme is made if certain criteria are fulfilled. The Loss-sharing scheme table presents only direct participants, whereas the share of an indirect participant is added to the direct participant with whom the former maintains a settlement account.

If a participant is insolvent, the liabilities of this direct participant – net debtor are settled by dividing the loss among other direct participants of the payment system according to the Loss-sharing scheme. If a direct participant – net debtor fails to provide funds in their settlement account in the TARGET2-Slovenija payment system, the Bank of Slovenia, in its capacity of the settlement agent, by the agreed time informs direct participants and Bankart about the fact that one direct participant cannot settle their liability and about the amount of funds that other non-terminated participants have to provide under the Loss-sharing scheme in their settlement accounts in the TARGET2-Slovenija payment system by the agreed time. If the direct participant, regarding whom the notification was made, provided the funds in their settlement account by the agreed time, the settlement procedure continues as is customary without activation of the Loss-sharing scheme. In such case, the Bank of Slovenia does not activate the Loss-sharing scheme and informs thereof all direct participants and Bankart.

If a direct participant of the Card Settlement payment system fails to settle liabilities by the agreed time, the Bank of Slovenia settles their liabilities by allocating the loss among the remaining direct participants according to the Loss-sharing scheme. If at the same time two or more direct participants fail to settle net liabilities or if at least one participant, who is not a terminated participant upon the activation of the Loss-sharing scheme, fails to provide funds for settling the liabilities of a terminated participant, the liabilities settlement system in the Card Settlement payment system is temporarily halted and the members of the Committee in agreement with Bankart and the Bank of Slovenia agree on the method of settling net liabilities and restoring the liabilities settlement system.

If a direct participant – net debtor fails to provide the funds for settling their net liability by the agreed time in spite of the Bank of Slovenia's request, the Bank of Slovenia shall activate the Loss-sharing scheme and start settling the participant's liabilities by allocating the loss among the other direct participants according to the Loss-sharing scheme. On the basis of the Loss-sharing scheme the Bank of Slovenia calculates the contributions of participants in loss sharing and conducts the activities for execution of orders in the TARGET2-Slovenija payment system. When the orders are executed, the Bank of Slovenia approves direct participants – net creditors and sends all direct participants and Bankart a notice about the settlement being final.

Every terminated direct participant, because of whom the Loss-sharing scheme was activated, must settle, by the agreed deadlines, their liabilities to direct participants who were on behalf of the direct participant covered by other – non-terminated direct participants under the activated Loss-sharing scheme. When Bankart receives notices about the settlement of liabilities from all other non-terminated direct participants, the procedure arising from the activation of the Loss-sharing scheme is concluded. If the net debtor because of whom the Loss-sharing scheme was activated did not fully repay the liabilities arising from the activation of the Loss-sharing scheme or if the net debtors caused temporary halt of the settlement system, Bankart will start the procedure to suspend participation.

Every net debtor, because of whom the Loss-sharing scheme was activated or a net debtor, who caused temporary halt of the settlement system and whose participation in the Card Settlement payment system was suspended, shall by the agreed deadline settle their liabilities (in addition to the principal (the amount covered by the respective direct participant) also the legal default interest accrued on due amount). If the direct participant fails to provide funds by the agreed deadline, Bankart shall start the procedure for final termination of such participant's participation in the Card Settlement payment system. In such case, the direct participant's participation in the Card Settlement payment system is terminated. The procedure of final termination also applies to indirect participants holding a settlement account with their direct participant.

If the direct participant – net debtor settles liabilities arising from the activation of the Loss-sharing scheme or temporary halt of settlement in the Card Settlement payment system, Bankart shall start the procedure for reinstating a suspended direct participant in the Card Settlement payment system.

3.5. Key procedures in ordinary and extraordinary circumstances

3.5.1. Procedures in ordinary circumstances

In the scope of providing the payment system service, Bankart carries out certain ordinary procedures to provide controlled and secure operations of the participants.

- **Committee responsible for adopting and changing the Rulebook of the Card Settlement Payment System**

The first five direct participants of the Card Settlement payment system are appointed to the Committee according to joint and several liability. The Committee conducts the following activities and adopts decisions on the following issues:

- adopting and approving of the legal framework in the form of Rules of operation of the payment system and operational instructions;
- adopting decisions about admitting new participants in the payment system;
- adopting decisions on issuing a warning to a payment system participant because of failure to comply with the Rules of operation of the payment system;
- adopting decisions about suspension of a participant from the payment system and its consequences;
- adopting decisions about reinstating a suspended participant in the payment system;

- adopting decisions about termination of a participant's participation in the payment system and its consequences;
- adopting decisions about changing the status of a participant in the payment system;
- adopting decisions about a new method of settling liabilities of participants in case of temporary halt of the payment system;
- adopting, harmonising and approving procedures for response to emergency situations in the form of Rules of operation of the payment system in exceptional circumstances;
- adopting, harmonising and approving backup procedures in the form of Rules of operation of the payment system;
- adopting, harmonising and approving strategies and policies of risk management for the payment system;
- adopting, harmonising and approving strategies and policies of information security for the payment system;
- addressing risk assessments in the Card Settlement payment system;
- other issues expressly stipulated by the Rules of operation of the payment system with the relevant contractual acts or other legal acts regulating the payment system.

➢ **Admission of new participants in the payment system**

An institution, that wishes to join the payment system, shall submit to the Committee a written application, stating the intention to join the payment system and indicating whether it wishes to join it as a direct or indirect participant. The written application shall be accompanied with all required documentation and evidence of the fulfilment of participation conditions, and submitted to the Committee at least two months before the desired date of admission. The Committee shall notify the institution about its decision approving or rejecting the application for joining the payment system within a specific period after it has received the application. After the procedure for a new participant to join the payment system has been approved by the Committee, the new participant shall sign legal and contractual documents, fulfil general and technical conditions for joining and successfully complete hardware and software testing according to the scenario prescribed by Bankart.

➢ **Suspension/Termination from the payment system**

A participant's participation in the payment system may be suspended or terminated, preventing them – temporarily or finally – from participating in the payment system. The suspension/termination criteria constitute a breach of Rules of operation of the payment system resulting in impact on other payment system participants, a violation of contractual obligations, instances when the conditions for participation and execution of settlement are no longer fulfilled and/or any other measures of supervisory bodies based on which a participant may no longer perform banking services and/or payment services or has exited the payment system. A suspended participant may be reinstated in the payment system after the causes of suspension have been eliminated and the conditions for reinstatement fulfilled.

➢ **Exit from the payment system**

A participant may exit the payment system when they no longer fulfil the participation conditions or for other reasons, in the framework of notice periods specified in contractual relationships. Bankart shall in writing inform other participants of the payment system and the Bank of Slovenia about a planned exit no later than 30 days before the end of the notice period. A participant finally exits the payment system, when all the deadlines prescribed and set by the international card systems (MasterCard) expire and when they have settled all the liabilities arising from card settlement.

➢ **Change of the settlement account**

A change of the settlement account can be reflected in the change of status of the payment system participant, be it either a change of the settlement account or a change of the participant status (from direct to indirect participant or vice versa). A participant shall submit the intention to change the settlement account and the required documentation to the administrator in written form. Bankart shall inform the Committee about the request for change, which shall in turn discuss the issue and adopt a suitable decision, notifying thereof all payment system participants and the Bank of Slovenia.

3.5.2. Procedures in extraordinary circumstances

Procedures are in place for taking action and informing in extraordinary circumstances in the payment system. Failures in any segment of the Card Settlement payment system infrastructure may lead to system down. Before actual actions are taken to ensure business continuity and the implementation of further procedures when system failure is identified, the failure has to be classified in the relevant problem class (E-A) depending on the consequences and further sub-classes or problem levels. The sub-classes define the failure level within a class. The implementation of further procedures depends on the class and level of the failure. In the event of failure, Bankart classifies it into a suitable class and assigns it a sub-class and the problem level. In case of extraordinary circumstances, Bankart can adopt other measures necessary – given the circumstances – to ensure uninterrupted functioning of the payment system, and shall inform the Bank of Slovenia and the payment system participants thereof.

In case of an identified problem, malfunctioning or potential failure on the part of Bankart as the administrator of the payment system, Bankart shall notify the payment system participants and the Bank of Slovenia at the contact addresses provided. When analysing and eliminating the causes of failure of any logical segment of the solution for continuity of operation of the system, Bankart can assess if further extraordinary procedures are necessary.

➢ **Re-submission of data**

Problems and failures of a part of the payment system may in certain exceptional cases represent a loss or corruption of vital data. Vital data of the CMS card system also include the input files submitted by the participants of the CMS card system and the database. If there are any problems or a failure of any logical segment, Bankart shall restore the system to the status existing prior to the problems or failure (recovery point). A series of measures for establishing normal functioning may include an extraordinary measure, whereby Bankart requests the CMS card system participants to re-submit the data.

➢ **Re-preparation of data for collection**

In case of certain problems, Bankart enables re-preparation of data for collection in two ways:

- re-submission of data to the participant's locations in case failure occurs on the part of the participant;

- extraordinary submission of data by means of optical media or through e-mail with PGP key.

If Bankart believes it is necessary, it re-prepares the data from the CMS card system and requests the payment system participants to collect them again. Re-preparation of data for collection can also be required by a payment system participant. The participants of the payment system have to control the data duplicity for the data that are again prepared by Bankart for collection.

In the event of communication connection failure in any segment (on the part of the participant or Bankart) reports can be submitted to the payment system participants according to extraordinary procedures for the submission of reports, i.e. by means of optical media or through e-mail with PGP key. When preparing and submitting data, the participant has to follow Bankart's instructions.

- **Activation of the Loss-sharing scheme**

If a direct participant fails to provide sufficient funds for settling their net liabilities in a certain period, the procedures for activating the Loss-sharing scheme are carried out.

- **Loss of data source**

ATM and POS terminal transactions received by back-office applications at Bankart, transactions received by other POS processing providers and incoming files received by international card systems (MasterCard) are considered to be the source of data of the CMS card system. A loss of data source is either a partial or complete loss of a source of data. A partial loss of a data source does not result in failure of the Card Settlement payment system and has no impact on the progress of regular processing. A complete loss of data source has an impact on the functioning of the Card Settlement payment system, but not on the progress of regular processing. Bankart shall inform the participants and the Bank of Slovenia of such loss.

4 Fees

Fees for the services provided by Bankart as the payment system administrator to the payment system participants are defined in the legal basis of the Card Settlement payment system. The Bank of Slovenia charges the settlement agent fee in accordance with the Contract on provision of services by the settlement agent in the Card Settlement payment system.

Bankart charges the payment system participants for the performance of payment system services according to the price list applicable at the time, which is a component part of the agreement on processing concluded between Bankart and an individual participant. The monthly charge for clearing and calculation of liabilities arising from the Card Settlement payment system is EUR 1,678.93 per card product. The key to distribute the charges is the share of transactions of holders per bank, by card product, compared to other banks in the previous month.

A detailed price list is available to new participants once they demonstrate the intent to join the Card Settlement payment system.

By joining the payment system, direct participants accept the rights and obligations arising from the agreement concluded between the Bank of Slovenia and Bankart. According to the provisions of the Contract on provision of services by the settlement agent in the Card Settlement payment system the Bank of Slovenia charges to Bankart the fees for settlement in the TARGET2-Slovenia payment system, where the Bank of Slovenia has the following costs:

- cost of changes: cost of investments related to provision of services by the settlement agent;
- current costs:
    - costs of maintaining technological support and labour costs for provision of services by the settlement agent;
    - imputed costs as defined in line with the Eurosystem methodology;
    - cost of fees (fee for implementation of transfers of monetary assets in carrying out procedures defined in the contract, fee for implementation of settlement, fee for activation of the Loss sharing scheme, and fee for approach of a participant to settlement or exit/exclusion of a participant from settlement).

The Bank of Slovenia shall inform Bankart about the planned change in the amount of costs referred to in the Contract on provision of services by the settlement agent in the Card Settlement payment system within the agreed deadlines prior to the enforcement of the amendment, and Bankart shall inform the competent Committee or direct participants of the payment system. Bankart is obligated to coordinate all changes of services and fees of the Bank of Slovenia with the Committee and notify all direct participants of the payment system. Bankart shall distribute the fees for settlement services, defined in the provisions of the Contract on provision of services by the settlement agent in the Card Settlement payment system, among direct participants of the payment system, who are obligated to reimburse them according to the contractual relationship between Bankart and the respective participant.