

Spotlight Test: Payments and Payment Systems **Worked Solutions**

Question 1

What is CHIPS?

- (a) the electronic payment system for domestic and international sterling transfers.
- (b) the electronic payment system for incoming and outgoing international US dollar transfers.
- (c) the electronic payment system for high value domestic US dollar transfers.
- (d) the electronic payment system for EU-wide euro transfers.
- (e) don't know.

Answer

The right answer is (b) the electronic payment system for incoming and outgoing international US dollar transfers.

Manual V Ch 12 The Treasurer's Handbook Payment and Payment Systems

Question 2

What is "Herstatt Risk"?

- (a) named after Gerhard Herstatt, it relates to the cost of reconciliation for international payments.
- (b) named after Herstatt GmbH, it relates to a company providing goods believing, wrongly, that it has received payment.
- (c) named after Herstatt Bank, it relates to payment settlements involving two time zones.
- (d) named after Herstatt Inc and its litigation, it relates to fees for international transfers.
- (e) don't know.

Answer

The right answer is (c) named after Herstatt Bank, it relates to payment settlements involving two time zones.

The Treasurer's Handbook 2004 p161

Question 3

Which of the following best describes the TARGET system?

- (a) a purpose built system for RTGS transfer of euros within the euro-zone.

- (b) a purpose built net settlement system for transfer of euros within the euro-zone.
- (c) a system linking national RTGS settlement systems for transfer of euros within the euro-zone.
- (d) a system linking the national net settlement systems for transfer of euros within the euro-zone.
- (e) don't know.

Answer

The right answer is (c) a system linking national RTGS settlement systems for transfer of euros within the euro-zone.

The Treasurer's Handbook 2004 p 162

Question 4

For settlement of foreign currency transactions, which of the following alternative systems would be result in the least risk for the participants?

- (a) RTGS or CLS.
- (b) CLS or CHIPS.
- (c) CHIPS or SWIFT.
- (d) SWIFT or RTGS.
- (e) don't know.

Answer

The right answer is (a) RTGS or CLS

RTGS stands for Real Time Gross Settlement, a system of settlement in which payments are settled gross in real time and are therefore irrevocable. CLS is a newer system in which settlement of both sides of a foreign exchange transaction are settled simultaneously on a payment-versus-payment basis.

CHIPS operates on a net settlement basis, not in real time, so the time zone issue remains. SWIFT is not a payment system but a secure network between banks and payment systems.

The Treasurer's Handbook 2004 pp 160 – 162, The Treasurer April 2004 Setting Higher Standards by Peter Barnes

Question 5

There are three broad categories of Treasury Management System;

- an ERP module – a treasury module of a larger enterprise planning system
- a specialist treasury system
- a custom-designed spreadsheet system

Given the advent of IFRS and Sarbanes Oxley, what is the percentage of treasuries that use a specialist treasury system?

- (a) 65%.
- (b) 75%.
- (c) 85%.
- (d) 95%.
- (e) don't know

Answer

The right answer is (b) 75%.

Interestingly, the proportion is growing; the figure for treasuries expecting to have such a system in the future is 80%.

Treasury Operations Survey 2004 Ernst & Young in conjunction with the ACT

Question 6

Is it possible to acquire a treasury management system to ensure IFRS compliance?

- (a) yes, clear rules enable a systems approach to compliance.
- (b) yes, but judgemental issues must be resolved by human input.
- (c) no, but there are developments to ensure their availability before Dec 2004.
- (d) no, and there is unlikely ever to be such a system.
- (e) don't know.

Answer

The right answer is (d) No, and there is unlikely ever to be such a system.

Firstly, historic accounting treatment based on clear rules have been replace by a dynamic set of accounting options depending on the unique combination of several parameters. Secondly, the general methodology for effectiveness testing for hedges is unclear.

The Treasurer June 2004, All Systems Are Not Go by Sanjay Bibekar.