



THE STATUTES OF THE REPUBLIC OF SINGAPORE

**PAYMENT AND SETTLEMENT SYSTEMS (FINALITY AND
NETTING) ACT**

(CHAPTER 231)

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Payment and Settlement Systems (Finality and Netting) Act

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An Act to make provision for the protection of payment and settlement systems from disruptions that may lead to risks to the financial system and for purposes connected therewith.

[9th December 2002]

PART I

PRELIMINARY

Short title

1. This Act may be cited as the Payment and Settlement Systems (Finality and Netting) Act.

Interpretation

2.—(1) In this Act, unless the context otherwise requires —

“Authority” means the Monetary Authority of Singapore established under the Monetary Authority of Singapore Act (Cap. 186);

“book-entry Government securities” means any securities issued by the Government under any written law transferable by a book-entry on a register or otherwise;

“default arrangements” means the arrangements put in place by a designated system to limit systemic and other types of risk which arise in the event of a participant appearing to be unable, or likely to become unable, to meet its obligations in respect of a transfer order, including any arrangements for —

- (a) netting; or
- (b) the closing out of open positions;

“defaulter” means a person in respect of whom action has been taken by a designated system under its default arrangements;

“designated system” means a system that is designated by the Authority under section 3 to be a designated system for the purposes of this Act;

“disposition of property” includes a payment made into or out of an account of a participant;

“netting” means the conversion into one net claim or one net obligation of claims and obligations resulting from transfer orders which a participant either issues to, or receives from, one or more other participants with the result that only a net claim can be demanded or a net obligation be owed;

“operator”, in relation to a designated system, means the person specified in the order referred to in section 3(1) as the operator of the designated system;

“participant” means a party to an arrangement that establishes a system;

“relevant office holder” means —

- (a) the Official Assignee exercising his powers under the Bankruptcy Act (Cap. 20);
- (b) a person acting in relation to a company as its liquidator, receiver, receiver and manager, judicial manager or an equivalent officer; or
- (c) a person acting in relation to an individual as his trustee in bankruptcy or interim receiver of his property or an equivalent officer;

“settlement institution”, in relation to a designated system, means a body corporate providing accounts for the participants of the designated system to hold funds and to settle transactions between participants in the designated system;

“system” means a system established for —

- (a) the clearing or settlement of payment obligations; or
- (b) the clearing, settlement or transfer of book-entry Government securities;

“transfer order” means —

- (a) an instruction by a participant to place at the disposal of a recipient an amount of money by means of a book-entry on the accounts of a settlement institution for a designated system, or an instruction which, when settled, results in the assumption or discharge of a payment obligation as defined by the rules of a designated system; or
- (b) an instruction by a participant to transfer book-entry Government securities.

(2) A reference in this Act to the law of insolvency shall be construed as a reference to —

- (a) the Bankruptcy Act (Cap. 20);
- (b) Parts VIIIA, IX and X of the Companies Act (Cap. 50); and
- (c) any other written law or rule of law whether of Singapore or a place outside Singapore which is concerned with or in any way related to the bankruptcy, winding up or insolvency of a person.

Designation of system

3.—(1) The Authority may, by order published in the *Gazette*, designate a system to be a designated system for the purposes of this Act, subject to such terms and conditions as may be prescribed in the order.

(2) Any order made under subsection (1) shall specify the operator of the designated system.

Revocation of designation

4.—(1) The Authority may, by order published in the *Gazette*, revoke the designation of a designated system if —

- (a) the Authority is satisfied that —
 - (i) the designated system has ceased to operate as a system;
 - (ii) the operator of the designated system has knowingly furnished information or documents to the Authority in connection with the designation of the system which is or are false or misleading in any material particular;
 - (iii) the operator or settlement institution of the designated system is in the course of being wound up or otherwise dissolved, whether in Singapore or elsewhere;
 - (iv) the operator or settlement institution of the designated system has entered into a compromise or scheme of arrangement with its creditors, whether in Singapore or elsewhere;
 - (v) a receiver, receiver and manager, judicial manager or an equivalent officer has been appointed, whether in Singapore or elsewhere, in relation to or in respect of any property of the operator or settlement institution of the designated system; or
 - (vi) any of the terms and conditions referred to in section 3(1) has been contravened; or
- (b) the Authority considers that it is in the public interest to revoke the designation.

(2) Subject to subsection (3), the Authority shall not revoke a designation without giving the operator of the designated system an opportunity to be heard.

(3) The Authority may revoke a designation on any of the grounds described in subsection (1)(a)(iii), (iv) or (v) without giving the operator of the designated system an opportunity to be heard.

(4) A revocation of a designation shall not operate so as to avoid or affect any transaction cleared or settled in the designated system prior to the revocation or preclude the application, in accordance with section 5, of this Act to any such transaction.

Application of this Act

5. This Act shall apply to all transactions cleared or settled in a designated system, subject to such restrictions as the Authority may by order published in the *Gazette* prescribe.

PART II

TRANSACTIONS EFFECTED THROUGH DESIGNATED SYSTEM

Modifications of law of insolvency

6.—(1) The general law of insolvency shall have effect in relation to —

- (a) transfer orders effected through a designated system; and
- (b) action taken under the rules of a designated system with respect to such orders,

subject to the provisions of this Part.

(2) This Part shall apply in relation to bankruptcy, judicial management and winding up proceedings only in respect of a participant.

(3) Notwithstanding that rights or liabilities arising from transfer orders are or may be dealt with in bankruptcy, judicial management or winding up proceedings, this Part shall not apply to such proceedings if they are in respect of any person who is not a participant.

Transactions under rules of designated system are final and irrevocable

7.—(1) This section shall apply where the rules of a designated system provide that —

- (a) the transfer of funds into and out of an account of a participant;
- (b) the settlement of any payment obligation; or
- (c) the settlement and transfer of book-entry Government securities,

is final and irrevocable.

(2) Notwithstanding anything to the contrary in any written law or rule of law, any transfer or settlement referred to in subsection (1) shall not be reversed, repaid or set aside and no order shall be made by any court for the rectification or stay of such transfer or settlement.

Proceedings of designated system shall take precedence over law of insolvency

8.—(1) None of the following shall be regarded as to any extent invalid on the ground of inconsistency with the law for distribution of the assets of a person on bankruptcy or winding up, or on the appointment of a receiver, receiver and manager or an equivalent officer over any of the assets of a person:

- (a) a transfer order;
- (b) any disposition of property in pursuance of such an order;
- (c) the default arrangements of a designated system; or
- (d) the rules of a designated system as to the settlement of transfer orders not dealt with under its default arrangements.

(2) The powers of a relevant office holder and the powers of a court under the law of insolvency shall not be exercised in such a way as to prevent or interfere with —

- (a) the settlement of a transfer order in accordance with the rules of a designated system not dealt with under its default arrangements; or

(b) any action taken under its default arrangements.

(3) A debt or other liability arising out of a transfer order which is the subject of action taken under default arrangements may not be proved in a bankruptcy or winding up until the completion of the action taken under default arrangements.

(4) A debt or other liability which by virtue of subsection (3) may not be proved shall not be taken into account for the purposes of any set-off until the completion of the action taken under default arrangements.

Disclaimer of property, restriction on dispositions of property, etc.

9. Without prejudice to the generality of section 8 —

(a) section 110 of the Bankruptcy Act (Cap. 20) and section 332 of the Companies Act (Cap. 50) shall not apply to a transfer order; and

(b) section 77 of the Bankruptcy Act and section 259 of the Companies Act shall not apply to a transfer order or any disposition of property in pursuance of such an order.

Adjustment of prior transactions

10. Without prejudice to the generality of section 8, no order shall be made by a court under —

(a) section 98 or 99 of the Bankruptcy Act;

(b) section 227T of the Companies Act read with section 98 or 99 of the Bankruptcy Act;

(c) section 329 of the Companies Act read with section 98 or 99 of the Bankruptcy Act, or section 331 of the Companies Act; or

(d) section 73B of the Conveyancing and Law of Property Act (Cap. 61),

in relation to a transfer order or any disposition of property in pursuance of such an order.

Net sum payable on completion of action taken under default arrangements

11.—(1) This section shall apply with respect to any net sum owed by or to a defaulter on the completion of the action taken under default arrangements.

(2) Notwithstanding section 87 or 88 of the Bankruptcy Act and section 327 of the Companies Act, where a court has made an order for bankruptcy or winding up of a participant or a resolution for the voluntary winding up of a participant has been passed, the net sum referred to in subsection (1) shall be —

- (a) provable in the bankruptcy or winding up or, as the case may be, payable to the relevant office holder; and
- (b) taken into account, where appropriate, under section 88 of the Bankruptcy Act or section 327 of the Companies Act.

Transfer orders entered into designated system after insolvency

12. This Part shall not apply in relation to any transfer order given by a participant which is entered into a designated system after the expiry of the day on which —

- (a) a court made an order for bankruptcy, judicial management or winding up in respect of the participant; or
- (b) a resolution for the voluntary winding up of the participant was passed.

PART III

NETTING

Netting

13. Notwithstanding any provision of the law of insolvency, if a court has made an order for bankruptcy or winding up of a participant of a designated system or a resolution for the voluntary winding up of such participant has been passed —

- (a) the operator of the designated system may effect the netting of all obligations owed to or by the participant incurred

before or on the day on which the court made the order for bankruptcy or winding up of the participant or the resolution for the voluntary winding up of the participant was passed;

- (b) the obligations that are netted shall be disregarded in the bankruptcy or winding up proceedings;
- (c) any net obligation owed to or by the participant that has not been discharged —
 - (i) is payable to the participant and may be recovered for the benefit of the creditors; or
 - (ii) is provable in the bankruptcy or winding up, as the case may be; and
- (d) the netting made by the operator of the designated system and any payment made by the participant pursuant thereto shall not be voidable in the bankruptcy or winding up proceedings.

PART IV

MISCELLANEOUS

Law of insolvency in other jurisdictions

14. Notwithstanding any written law or rule of law, a court shall not recognise or give effect to —

- (a) an order of a court exercising jurisdiction under the law of insolvency in a place outside Singapore; or
- (b) an act of a person appointed in a place outside Singapore to perform a function under the law of insolvency there,

in so far as the making of the order or doing of the act would be prohibited under this Act for a court in Singapore or a relevant office holder.

Preservation of rights, etc.

15.—(1) Except to the extent that it expressly provides, this Act shall not operate to limit, restrict or otherwise affect —

- (a) any right, title, interest, privilege, obligation or liability of a person resulting from the underlying transaction in respect of a transfer order which has been entered into a designated system; or
 - (b) any investigation, legal proceeding or remedy in respect of any such right, title, interest, privilege, obligation or liability.
- (2) Nothing in subsection (1) shall be construed to require —
- (a) the unwinding of any netting done by the operator of a designated system, whether pursuant to its default arrangements or otherwise;
 - (b) the revocation of any transfer order given by a participant which is entered into a designated system; or
 - (c) the reversal of a payment or settlement made under the rules of a designated system.

Obligation to notify operator of designated system of insolvency

16.—(1) A participant shall notify the operator of a designated system as soon as practicable after the occurrence of any of the following events:

- (a) the making of an order for bankruptcy, judicial management or winding up of the participant;
 - (b) the passing of a resolution for the voluntary winding up of the participant.
- (2) Any participant who contravenes subsection (1) shall be guilty of an offence and shall be liable on conviction to a fine not exceeding \$20,000.
- (3) A participant does not contravene subsection (1) if —
- (a) he took reasonable steps to comply with that subsection; or
 - (b) the operator of the designated system was already aware of the relevant event referred to in subsection (1)(a) or (b) by the time the participant was required to notify the operator under that subsection.

Composition of offences

17.—(1) The Authority may, in its discretion, compound any offence under this Act which is prescribed as a compoundable offence by collecting from any person reasonably suspected of having committed the offence a sum not exceeding \$10,000.

[9/2003]

(2) On payment of such sum of money, no further proceedings shall be taken against that person in respect of the offence.

[9/2003]

(3) The Authority may make regulations to prescribe the offences which may be compounded.

[9/2003]

(4) All sums collected under this section shall be paid to the Authority.

[16A

[9/2003]

Jurisdiction of District Court

18. Notwithstanding any provision to the contrary in the Criminal Procedure Code (Cap. 68), a District Court shall have jurisdiction to try any offence under this Act and shall have power to impose the full penalty or punishment in respect of the offence.

[16B

[9/2003]

19. *[Repealed by Act 24/2003 wef 01/01/2004]*

Power to make regulations

20.—(1) The Authority may make such regulations as may be necessary or expedient for carrying out the purposes and provisions of this Act and for prescribing anything that may be required or authorised to be prescribed by this Act.

(2) Without prejudice to the generality of subsection (1), the Authority may make regulations for the following purposes:

- (a) ensuring the integrity of and the fair and orderly conduct of designated systems; and

- (b) disclosure and provision to the Authority of such information as may be prescribed by the Authority.

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Settlement system deemed to be designated system under this Act

21. A settlement system operated by the Authority under the repealed section 59A of the Banking Act (Cap. 19, 1999 Ed.) immediately before 9th December 2002 shall be deemed to be a designated system under this Act.

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Consequential amendments to other written laws

22. The Minister may, by order published in the *Gazette*, repeal or amend any written law which appears to him unnecessary having regard to the provisions of this Act or to be inconsistent with any of the provisions of this Act.

[21

Transitional provisions

23. The Authority may, by regulations, prescribe such transitional, savings and other consequential provisions as it may consider necessary or expedient.

[22

LEGISLATIVE HISTORY
PAYMENT AND SETTLEMENT SYSTEMS (FINALITY AND
NETTING) ACT
(CHAPTER 231)

This Legislative History is provided for the convenience of users of the Payment and Settlement Systems (Finality and Netting) Act. It is not part of the Act.

1. Act 39 of 2002 — Payment and Settlement Systems (Finality and Netting) Act 2002

Date of First Reading : 31 October 2002
(Bill No. 41/2002 published on
1 November 2002)

Date of Second and Third Readings : 25 November 2002

Date of commencement : 9 December 2002

2. Act 9 of 2003 — Statutes (Miscellaneous Amendments) Act 2003
(Consequential amendments made by)

Date of First Reading : 20 March 2003
(Bill No. 7/2003 published on
21 March 2003)

Date of Second and Third Readings : 24 April 2003

Date of commencement : 16 May 2003

3. 2003 Revised Edition — Payment and Settlement Systems (Finality and Netting) Act

Date of operation : 31 July 2003

4. Act 24 of 2003 — Monetary Authority of Singapore (Amendment) Act 2003

(Related and consequential amendments made to Act by)

Date of First Reading : 16 October 2003
(Bill No. 21/2003 published on
17 October 2003)

Date of Second and Third Readings : 10 November 2003

Date of commencement : 1 January 2004

COMPARATIVE TABLE
PAYMENT AND SETTLEMENT SYSTEMS (FINALITY AND
NETTING) ACT
(CHAPTER 231)

The following provisions in the Payment and Settlement Systems (Finality and Netting) Act 2002 (Act 39 of 2002) have been renumbered by the Law Revision Commissioners in this 2003 Revised Edition.

This Comparative Table is provided for the convenience of users. It is not part of the Payment and Settlement Systems (Finality and Netting) Act.

2003 Ed.	Act 39 of 2002
17	16A
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