Subject: RE: Proposal to recommend that HVCS is designated submission

Hello,

I don't agree with the statements or the proposal, for these following reasons and comments below.

1) As PNZ is a limited liability company, with the shareholders being the big banks - what level of financial liability insurance and assets does it have to be maintained as a player within the Financial Market? How does this reflect PNZ under the FMI act?

"The HVCS is a pure payment system operated by Payments NZ and has not been regulated before. The HVCS processes large payments that cannot be reversed, such as house settlements. "

2) Please clarify what you mean by a "pure payments system" as they do not operate any payments infrastructure, the HVCS rules are guidelines and processing guidelines and in no way interact directly with the payments chain.
    a. It's the banks that process the payments through ESAS using the RBNZ payments rails and infrastructure.
    b. ESAS provides the fundamental irrevocable settlement through the RTGS system.
    c. The banking participants provide the clearing through their back office systems, once the settlement notification has been received.
3) At what level or what capacity does the RBNZ supervision teams have oversight of Payments NZ?
4) HVCS is an exclusive club, supported by the big banks. The definition of their guidelines does not create an inclusive payments community with much flexibility.
5) The RBNZ already supports open exchange between all ESAS account holders and run's the three payments rails AVP, SBI and AVPMX (ISO20022)
    a. Both AVP and AVPMX services operate as 'open' payment rails which is available to all ESAS account holders.
    b. The RBNZ operate SBI, however PNZ governs who has access.
    c. The RBNZ have a problem with PNZ as they are registered with Swift as SBI's owner.
        i. PNZ do not technically fit Swift's definition as they are not an infrastructure operator or a market infrastructure.

ii. Nothing technically has changed since SBI's initial implementation over 12 years ago, showing no willingness to grow and change as technology advances. The RBNZ had proposed a technical change as part of the ISO20022 in 2023 which would support alignment with the new standard(s), but this was dismissed as additional work.

6) The ESAS Account holder terms and conditions ensures all account holders are operating in a way that promotes a sound and efficient financial system.

7) Your feedback proposal should include all financial or business stakeholders and not by definition limit respondents to those involved in HVCS.

"We would like feedback on this proposal from:

- Payments NZ and the participants of the HVCS. This includes indirect participants of the HVCS, for example those that have an arrangement with either the HVCS, its operator or participants.
- Any other stakeholders of the HVCS."

8) HVCS are member only based rules and do not apply to all participants of ESAS, ESAS sets the base rules for wholesale settlement across the New Zealand RTGS (ESAS). There are participants of ESAS like the government Treasury which are significant to the financial system who are not part of HVCS.

9) I am not able to draw any conclusion that HVCS meets the definitions beyond the clearing terminology under section 5 of the Act.

   a. The systems operate between the Banks and Institutions that are ESAS account holders, these are the FMI monitored bodies. FMI and HVCS are mutually exclusive in their representation.

   b. Rules for payments mechanisms would be better served through a central government entity like the RBNZ, in order to continue to support a sound and efficient financial system.

   c. Increasing the mandate for the current operations & scope of ESAS and NZClear would put the RBNZ & FMI in a better position to facilitate this.

10) Figure 2: The HVCS process

   a. An AVP payment is a payments rail provided by the RBNZ for ESAS account holder settlements.

   b. The RBNZ governs the members of the Swift AVP group or as referred to as a closed user group (CUG)

   c. ESAS governed rules apply to all transactions submitted to ESAS for settlement. An ESAS account holder does not need to be a member of HVCS to send a payment or rather a transaction to ESAS, nor do they need to be a member of PaymentsNZ.

11) The Operator – Payments NZ Limited

a. Yes Payments NZ maintains or administers the rules of the HVCS, however this does not legitimise them as an operator of an FMI. They do not contribute to the central processing or handling of information, payments or transactions in any way.

b. The test of an FMI should also be it's financial standing and accountability for its involvement in the payment(s) process. If PNZ did not exist, settlements would still occur over ESAS.

12) The HVCS is systemically important

a. Payments data is shared from the RBNZ to Payments NZ; the reasons for this is limited and historical in nature. The RBNZ technically shouldn't share this information.

b. The assessments of the values settled in ESAS is not represented and analysis of ESAS data should have been used to derive quantifiable figures.

c. The volume of clearing is representative of the big banks clearing in the markets.

d. New market participants can effectively clear outside of the HVCS group using ESAS and their own bi-lateral settlement agreements thus creating more competition in the market, rather than conforming to an old standard.

e. The ESAS Terms and Conditions cover the same aspects of the HVCS rules. Supervision and Regulation supports the obligations the ESAS account holders have to their customers.

f. 3LC is a function of ESAS to bypass the Swift infrastructure for those affected by a Swift or related network outage. Due to the levels of Swift resiliency this event is rare and more often a likely product of change at the participant level.

g. HVCS is limited to local transactions only based on the participants and has no connection to International participants. ESAS account holders have their own bi-lateral relationships with parent, partner and counter party settlement agreements, as do local banks, nbdt's, commercial and other financial institutions.

h. HVCS could be easily replaced with more up to date and flexible specifications, like those used by the RBNZ. Like ISO20022, which could in turn be further developed to become more consumable across the financial system.

i. As noted PNZ (as an operator) is easily substitutable – able to be substituted, as HVCS is also able to be substituted.

j. The RTGS settlement model can be changed so all messages are directly exchanged with ESAS and not copied to the SWIFT network, thus reducing risks and recording transactional details centrally for supervision, regulation and fraud/AML purposes. A change to the RBNZ mandate would be required in this instance.

k. Is Payments NZ suitable to be designated as an FMI under the act?

    i. Are you working on the Act terminology definition alone or have full financial and legal assessments be performed?

    ii. If there was a legal challenge to PNZ over its handling of HVCS, BECS, CECS or API's and Open banking what financial provision would it have to be able to maintain its viable position?

    iii. If one of the five big banks pulled out of HVCS or PNZ membership, what signal would that send to the other participants in the financial community?

13) Designation

a. I agree PNZ should be subject to Regulatory requirements as should other 3rd party entities involved with ESAS and NZClear.

b. I don't believe the designation of HVCS and regulation of PNZ will have any positive effect on the financial system, as the burden of risk and resiliency is with the financial institutions which are it's paid up membership.

    i. Underlying this, the financial system participants must still meet the ESAS terms and conditions, which also covers these aspects/obligations.

    ii. Who will provide the legal protection to the HVCS rules, PNZ or the FMI body?

    iii. When the rules benefit the shareholders of HVCS, how does designation then ensure it also promotes and facilitates the development of fair, efficient and transparent financial markets for all participants in an open market?

c. "Without the enforceability of HVCS rules, any disruption to high-value payments could play out in the ESAS…" This is an ambiguous statement, highly theoretical in nature. It has existed this long and is applied at the participants backend systems. Most significant disruptions come from technology failures, HVCS information is additional in the payment chain and does not affect the settlement across ESAS. Liquidity is so high in ESAS the likelihood of affecting the settlement of other transactions is low to unlikely.

d. Participants must notify the RBNZ (ESAS terms and conditions) if they are unable to fulfil their obligations and the RBNZ is the actor that removes a participant from one or all payments rails (AVP, SBI, AVPMX).

e. PNZ would be unlikely to be registered as a Financial Institution or a Market Infrastructure under SWIFT. Hence the reason why the RBNZ runs the payments systems, CUG's and operates the SWIFT technology.

f. "… to have sufficient financial independence to operate, maintain, and develop the HVCS to the expectations of its participants and other stakeholders. This requirement is likely achievable for Payments NZ." This point is very vague – likely achievable – if they don't have to change rules then they won't, that's why they "already seeks non-objections from us on material changes to the HVCS Rules". The rules only change if they have to and it's not an open book while they are in control. It's the same with the other standards, that's why they haven't constantly evolved & improved.

Thank you for your consideration.

Kind Regards,

s 9(2)(a)

From: s 9(2)(a)
Sent: Monday, 4 August 2025 2:20 pm
To: FMI Consultation mailbox
Subject: Proposal to recommend that HVCS is designated submission

Follow Up Flag: Follow up
Flag Status: Flagged

Hi

My concern is that NZ is going to have complex systems.

Has the Reserve Bank looked at the Pix payment system from Brasil?

It is so successful that Italy and other countries are looking at it.

Run by Banco do Brasil, the Brasil Reserve Bank, it has reduced the number of cash transactions, reduced the number of card transactions and transactions can be as small or large (multi million) securely.

Fraud is reduced.

https://en.m.wikipedia.org/wiki/Pix_(payment_system)

I hope that you look at this system. Having Banco do Brasil managing the software for it could save NZ development and running costs. Transactions cost is a fraction of eftpos and credit card costs by banks.

Regards

s 9(2)(a)

s 9(2)(a)

s 9(2)(a)

Regulatory Affairs
s 9(2)(a)

Private Bag 39806, Wellington Mail Centre, Lower Hutt, 5045

20 March 2026

Reserve Bank of New Zealand
2 The Terrace
PO Box 2498
Wellington 6140
Email: fmiconsultation@rbnz.govt.nz

Dear Sir or Madam

Bank of New Zealand's response to the Reserve Bank of New Zealand's open letter to Payments New Zealand regarding the costs of compliance and High Value Clearing System rules.

1 Introduction

1.1 E mihi ana a Te Pēke o Aotearoa ki te whai wāhitanga ki te tuku i tētahi urupare anō hei kaiuru ki te pānui tūwhera a te Pūtea Matua i tuhia i te 23 o Kohitātea 2026, e pā ana ki te High Value Clearing System (HVCS) me ngā panga pea o te whakatūnga hei pūnaha kua tohua.

1.2 Bank of New Zealand (BNZ) welcomes the opportunity to provide a participant response to the Reserve Bank of New Zealand’s Open Letter of 23 January 2026 regarding the HVCS and the potential impacts of designation.

1.3 BNZ supports the broader objectives of maintaining clear governance, fair access, and effective crisis management arrangements. We also reiterate the views set out in our previous submission of 30 September 2025 which provides some broader context about our perspective on designation.

1.4 The following submission points focus on participant impacts raised in the Open Letter. Our comments are intended to provide practical insight from a HVCS participant perspective and to support ongoing dialogue on how any designation framework could be implemented in a way that achieves regulatory objectives while minimising cost and operational complexity.

2 Broad participant perspective

2.1 BNZ acknowledges the majority of incremental compliance costs associated with designation will sit with Payments NZ in its role as operator of the HVCS. From a participant perspective, we believe designation will likely result in ongoing indirect financial, operational, and governance impacts for HVCS participants. While these impacts may not necessarily require major new systems or transformation programmes within participant organisations, they are likely to introduce some direct internal costs.

2.2 We anticipate that these impacts will contribute to increased complexity, slower delivery, high overall cost of participation and a further incremental loss in productivity over time. We consider these impacts relevant to the Act's objective of avoiding unnecessary compliance costs and unnecessary constraints on innovation. Therefore, BNZ recommends continued engagement between RBNZ, Payments NZ, and industry participants to explore ways these impacts can be appropriately managed or mitigated.

3 Direct BNZ impacts

3.1 We submit that if the HVCS is designated, we are likely to feel some incremental direct impacts:

3.1.1 Additional legal, risk, and compliance effort to support participation in a designated system, and ensuring internal policies, controls and documentation remain aligned with designated-FMI expectations.

3.1.2 Incremental operational and assurance effort (including technology, cyber, incident management, and control assurance functions) to support heightened regulatory expectations and potential supervisory queries.

3.2 While these impacts are not expected to require material new systems or programmes, we submit these impacts represent additional internal effort and co-ordination beyond current arrangements. BNZ considers it appropriate that these and other incremental participant impacts are recognised when considering the overall participant impact of designation.

4 Indirect financial impacts

4.1 We believe indirect financial impacts are the most material participant-level effect of designation. In particular:

4.1.1 Increased Payments NZ operator costs associated with external legal opinions, enhanced governance and disclosure obligations, operational and cyber assurance, and supervisory engagement. We believe these increased Payments NZ operator costs are likely to be passed through to participants via higher levies.

4.1.2 We acknowledge individual cost elements appear modest. We would however like to highlight their ongoing and cumulative nature is likely to result in a more significant impact. These costs are expected to be structural, rather than transitional, and will form part of the enduring cost of participation in the HVCS.

4.2 BNZ therefore welcomes further discussion with RBNZ on whether there may be opportunities to minimise these impacts or manage their introduction in a way that smooths these impacts over time.

5 Operational and delivery considerations

5.1 BNZ believes that designation will have operational and delivery impacts for participants, including:

5.1.1 Increased senior subject-matter expert and governance engagement in regulatory interactions, information requests, and supervisory processes.

5.1.2 Opportunity cost arising from the diversion of specialist expertise away from risk-based resilience initiatives, industry collaboration, and customer focused delivery.

5.1.3 A further loss in productivity addressing the requirements of the designation.

5.1.4 Slower implementation of HVCS rule changes due to the additional procedural steps associated with the statutory rule change process.

5.2 We note that while designation is not expected to increase the frequency of the rule changes, even modest increases in process and approval time can be material in a high-value, time-critical payments environment.

5.3 For completeness, BNZ has provided the requested information regarding its HVCS operational costs below:

5.3.1 s 9(2)(b)(ii)

5.3.2 s 9(2)(b)(ii)

5.3.3 s 9(2)(b)(ii)

6 HVCS rules and rule-change framework

6.1 BNZ supports the Payments NZ view and does not see sufficient merit in producing a separate HVCS rule set.

7 FMI standards and incremental benefit

7.1 We note that Payments NZ already observes the Principles for Financial Market Infrastructures, which underpin the FMI standards. To the extent that designation introduces additional requirements, these appear primarily focused on formal assurance, disclosure and reporting.

7.2 From a participant perspective, this suggests that designation may deliver limited incremental resilience benefit, whilst introducing additional compliance formality, cost, and operational overhead.

7.3 BNZ would welcome further clarity on how designation is expected to materially improve outcomes beyond those already achieved under existing arrangements.

Should the RBNZ have any questions in relation to this submission, please contact Paul Hay on the details below:

Yours sincerely

Paul Hay
Āpiha Matua: Waeture me te Tūtohu (Chief Regulatory and Compliance Officer)
Bank of New Zealand

DDI: s 9(2)(a)
Mobile:
Email:

Regulatory Affairs
s 9(2)(a)

Private Bag 39806, Wellington Mail Centre, Lower Hutt, 5045

30 September 2025

Reserve Bank of New Zealand
2 The Terrace
PO Box 2498
Wellington 6140
Email: fmiconsultation@rbnz.govt.nz

Dear Sir or Madam

Bank of New Zealand's response to the Reserve Bank of New Zealand's proposal to recommend the designation of the High Value Clearing System.

1 Introduction

1.1 E mihi ana te Pēke o Aotearoa ki te whai wāhi ki Te Pūtea Matua mō te arotake i te proposal to recommend the designation of the High Value Clearing System. E tautoko ana mātou i te ūpoko pakari a Te Pūtea Matua kia mau tonu ai te kaha o te pūnaha tahua o Aotearoa.

1.2 Bank of New Zealand (BNZ) appreciates the opportunity to respond to the Reserve Bank on their proposal for designation of the High Value Clearing System (HVCS). BNZ supports the Reserve Bank's commitment to ensuring New Zealand's financial system remains sound and efficient.

1.3 BNZ supports the objective of maintaining clear governance, fair access, and effective crisis management arrangements. We submit that existing arrangements through Payments NZ already achieve the intended outcomes and the Reserve Bank's constructive regulatory engagement in this area has positioned New Zealand well in relation to payment system resilience. We encourage the Reserve Bank to build on these strong foundations rather than introducing additional designation requirements which we believe may not add material value.

1.4 BNZ believes the additional regulatory burden may have a negative effect on customers and current Payments NZ arrangement.

1.5 In relation to increasing the Reserve Bank's oversight over Payments NZ rule change we note that these rule changes occur frequently, with several changes happening each year. We appreciate the Reserve Bank's interest in ensuring strong oversight; however we are concerned an approval requirement for each HVCS rule change will slow down the delivery of the outcomes the rule change seeks to put in place and add cost of their delivery.

1.6 BNZ notes Payments NZ's well-established process is to send the Reserve Bank material rule changes for no objection review. We believe this process has worked effectively. We would welcome clarity on what additional attention, scrutiny and input into the rules of HVCS the Reserve Bank envisages under a designation framework.

1.7 We note the designation proposal implies HVCS rules may not fully align with global norms, or may raise questions about access, enforceability, or effectiveness. Our experience has been that the rules are robust and have evolved to reflect industry needs and regulatory expectations. It would be helpful to clarify which rules require attention if the Reserve Bank has identified specific areas of concern. We believe this will enable Payments NZ and participants to collaborate with the Reserve Bank to address those matters directly. We believe the Reserve Bank's long run observations regarding the rules will ensure any solution will be fit for purpose.

2 Is the HVCS an FMI and pure payment system as per the definition in the Act?

2.1 BNZ believes that HVCS does not neatly align with the statutory definition. We submit that HVCS is a body of rules, rather than an infrastructure operator, and does not own or control the systems used for processing payments. BNZ considers ownership or control of infrastructure is intrinsic to any designation as a Financial Market Infrastructure.

2.2 HVCS is not yet designated as a Financial Market Infrastructure or as a pure payment system and we question whether it would qualify under 10(2)(a).

2.3 We believe the Reserve Bank as owner of ESAS is closer to the definition.

3 Is the HVCS a systemically important FMI in New Zealand as per the definition in the Act?

3.1 We acknowledge that systemic importance is ultimately determined by the regulator, taking into account section 24. It would be helpful to clarify the specific criteria to be applied when assessing HVCS against this test.

4 Would designating the HVCS promote the maintenance of a sound and efficient financial system by allowing us to enforce requirements in the Act and FMI Standards?

4.1 BNZ's believes that designation is unlikely to deliver material new benefits beyond the arrangements already in place. Payments NZ operates a transparent rules framework, and the Reserve Bank already reviews material changes under a no-objection process.

4.2 BNZ recommends continuing this process, with the option of further targeted enhancements if the Reserve Bank identifies specific gaps, we submit this is more likely to achieve the intent of the Act without creating unnecessary cost and delay.

4.3 BNZ values the Reserve Bank's longstanding oversight of HVCS where Payments NZ has always sent material rules for a no-objections review. We believe this collaborative approach has served the industry well and recommend continuing this process to ensuring that rule changes are responsive to evolving needs whilst maintaining process efficiency.

4.4 We submit that the current framework allows the Reserve Bank to request to review the HVCS at any time and designation is not required to do so.

5 Would designating the HVCS provide further certainty and confidence to participate in the system? For example, if a participant defaults, designation provides legal protections to the validity and enforceability of the HVCS Rules relating to settlement, and to the statutory obligation on participants to inform the operator.

5.1 We believe the current framework already provides certainty to participants, including legal enforceability of settlement arrangements. BNZ is not aware of any concerns from industry participants about confidence in HVCS. We would welcome further discussion regarding any specific risks or concerns the Reserve Bank has in this regard.

6 Would designating the HVCS help us avoid significant damage to the financial system by using our crisis management powers in the event of a failure or disruption of Payments NZ or the HVCS?

6.1 We recognise the Reserve Bank's central role in crisis management. We believe that this role is well understood and exercised in practice. We submit designation is unlikely to strengthen crisis management arrangements. The discussions underway with Payments NZ recognise the Reserve Bank should run crisis management under the Industry Incident Management Plan (IIMP) arrangements that are already defined and understood.

7 Do you agree with the rules that we have identified as the HVCS Rules for the purposes of designation? Are there any rules that do not apply to the HVCS that can be excluded from the proposed rules in Annex B?

7.1 We acknowledge the effort in compiling the list; however we consider the Payments NZ list better distinguishes between rules of systemic importance, and those that are operational in nature. We anticipate that designating an unfiltered list would introduce inefficiency, further reducing timeliness.

7.2 We encourage the Reserve Bank to re-assess the Payments NZ rules that are in place and the rationale they provided with their selection.

8 Do you have any comments on the capabilities and capacity of Payments NZ to comply with the Act and FMI Standards?

8.1 BNZ does not have any comments at this time.

9 Do you have any comments on the next steps following the publication of this proposal?

9.1 BNZ does not have any comments at this time.

10 Do you have any other comments or feedback related to the proposal and the reasons for the proposal?

10.1 BNZ does not have any comments at this time

Should the Reserve Bank have any questions in relation to this submission, please contact Paul Hay on the details below:

Yours sincerely

Paul Hay
Āpiha Matua: Waeture me te Tūtohu (Chief Regulatory and Compliance Officer)
Bank of New Zealand

DDI: s 9(2)(a)
Mobile:
Email:

From: s 9(2)(a)
Sent: Saturday, 16 August 2025 4:20 pm
To: FMI Consultation mailbox
Subject: Info

Follow Up Flag: Follow up
Flag Status: Flagged

Sir/Ma'am,

Quick question, will you be using XRP, XLM, XDC, and HBAR or which ones and/or which combination of them for your HVCS and how will it work? Also will QNT be involved in any way for legacy systems?

Thanks.

From:	s 9(2)(a) [redacted]
Sent:	Tuesday, 5 August 2025 3:31 pm
To:	FMI Consultation mailbox
Subject:	Re: Consultation on regulating the High Value Clearing System opens
Follow Up Flag:	Follow up
Flag Status:	Flagged

<u>My Submission</u>
I agree that the HVCS should be Designated and regulated and supervised by the RBNZ. Especially with unstable, untrustworthy, out of control governments like the current one. It is doubly important.
Kind regards
s 9(2)(a) [redacted]

Out of Scope [redacted]

On 04/08/2025 13:09 NZST Reserve Bank of New Zealand wrote:

View this email in your browser

Consultation on regulating the High Value Clearing System opens

4 August 2025

The Reserve Bank of New Zealand – Te Pūtea Matua is proposing that the Minister of Finance designates the High Value Clearing System (HVCS), allowing it to be regulated and supervised by RBNZ.

The HVCS is a pure payment system and is operated by Payments NZ. It plays an important role in New Zealand's financial system by making sure that large payments, such as house settlements, are cleared and able to be settled.

The HVCS cannot be easily substituted by another system and disruption to its activities could damage New Zealand's financial system, Director of Specialist Supervision Scott McKinnon says.

"Every month more than $420bn of transactions are cleared using HVCS, which is more than New Zealand's GDP - representing a significant value of payments in New Zealand."

The proposal is made under the Financial Market Infrastructure Act 2021. If designated, HVCS will be required to comply with the FMI Act and Standards. It will also receive greater legal protections.

"Designating HVCS will allow us to make sure that HVCS is operating soundly and efficiently. It would also allow us to look closely at the governance, access and crisis management of HVCS, while giving us powers that can help avoid significant damage to the financial system if there were problems with HVCS."

Designating HVCS would also promote confident, informed, fair, efficient and transparent financial markets.

"We really want to hear from all of the HVCS's participants on our proposal. This includes indirect participants and stakeholders."

This proposal is open for consultation until 30 September.

Key information

- The Reserve Bank of New Zealand – Te Putea Matua is proposing to recommend that the Minister of Finance designates the HVCS

- The HVCS is a pure payment system operated by Payments NZ, and has not been regulated before.
- This proposal is made under the FMI Act that came into force in 2021.
- The Reserve Bank will decide whether to continue with its proposal to the Minister after it has considered submissions on the proposal. The Minister ultimately decides whether or not to designate HVCS.
- Visit our consultation page for more information.

Media contact:

Georgina Hassell-Hopkinson

Senior External Stakeholder Advisor

DDI: +04 460 4366

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New Zealand

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By email: fmiconsultation@rbnz.govt.nz

25 August 2025

Re: Proposal to recommend the designation of the High Value Clearing System

Thank you for the opportunity to comment on the Reserve Bank's consultation paper dated 4 August 2025 regarding the designation of the High Value Clearing System ("**HVCS**") under the Financial Market Infrastructures Act 2021 (the "**FMI Act**"). I have extensive international advisory experience in the FMI space and would like to comment on just two aspects of the proposal. In general, I believe there are strong public policy reasons in favour of designation which outweigh any credible arguments to the contrary.

1. HVCS Definition

There is no doubt that HVCS is a systemically important pure payment system for the purposes of the FMI Act. However there is some ambiguity in the proposed definition of "High Value Clearing System" in the draft designation notice. HVCS would perhaps better be defined by reference to the elements of its operation, similar to the approach taken in the Financial Market Infrastructures Act Designation Notice (NZCDC) 2024. Elements might include the electronic verification, computation, confirmation, transmission and reconciliation of counterparties' obligations to make relevant payments, on a net or gross basis (as the case may be). A more precise definition improves legal certainty for each material aspect of HVCS's activities.

2. PFMI Responsibilities

The consultation paper discusses aspects of the CPMI/IOSCO *Principles for financial market infrastructures* ("**PFMI**") in terms of how various principles pertain to HVCS. However, what is perhaps not clear from the paper is that the PFMI also has crucial guidance on the responsibilities of central banks, market regulators, and other relevant authorities for financial market infrastructures. I believe designation decisions should be firmly guided by these responsibilities, particularly *Responsibility A: Regulation, supervision, and oversight of FMIs, Responsibility B: Regulatory, supervisory, and oversight powers and resources* and *Responsibility D: Application of the principles for FMIs*. This is consistent with section 13(2)(d) of the FMI Act and section 10(1)(g) of the Reserve Bank of New Zealand Act 2021 and international best practices.

Paragraph 4.1.3 of the commentary on Responsibility A in the PFMI states that relevant authorities should address any existing gaps in the regulation and supervision of FMIs. There is currently a large gap in the regulation and supervision of clearing systems in New Zealand since none of the clearing systems operated by Payments NZ have been designated. As is clear from the description of payment systems in Annex D (*Summary of designs of payment systems, SSSs, and CCPs*) of the PFMI, HVCS is a part of the high value "payment system" which also includes ESAS. It is something of an historic quirk that in New Zealand the settlement part of the payment system is regulated but the clearing part has been left to self-regulate.

This "quirk" colours Responsibility D of the PFMI relating to the responsibility of authorities to apply the PFMI principles consistently. Currently the principles are not being applied consistently with respect to systemically important payment systems because the clearing component of the payment system is self-regulated.

This "quirk" is also problematic for Responsibility B of the PFMI because authorities do not have adequate powers to induce change or enforce corrective action with respect to HVCS. Designation will significantly enhance the Reserve Bank's powers, including crisis management powers under Part 4 of the FMI Act. These additional powers are crucial for the Reserve Bank to be able to fulfil the statutory purposes of the FMI Act and at a higher level to be in the best position to protect and promote the stability of New Zealand's financial system. Designation will also better align New Zealand's legal framework with the Financial Stability Board's *Key Attributes of Effective Resolution Regimes for Financial Institutions,* particularly Key Attribute 3 on resolution powers and Key Attribute 11 on recovery and resolution planning as they pertain to FMIs and the need to maintain continuity of critical FMI functions in resolution.

Approaching the designation decision from the above perspective leads to the clear conclusion that the Reserve Bank should, and indeed has a normative responsibility to, recommend HVCS designation under the FMI Act.

Yours sincerely,

s 9(2)(a)

Overview on Reserve Bank consultations recording matters raised by Payments NZ in response

Consultation	Payments NZ Response
Strengthening Statutory Payments Oversight Powers (2013)	- strengthening of statutory powers may be warranted but needs to be limited to material concerns or crisis management. Needs to be on the basis of clear articulation of statutory provisions (grounds, purposes, scope). Replication of other regimes that are in place (such as for banks, insurers) not appropriate ; - no need for haste. Sufficient time should be taken for getting the policy and implementation right; - importance of market-led initiatives, as opposed to Government led mandates. Making use of what is already in place, reducing the need for extensive regulation; - consultation lacking in many key details making it difficult to respond. Not a meaningful consultation in the circumstances; - favouring the "recognition" approach in the consultation (covering the full payments landscape) and the identification of all the entities involved (and amenable to the direct jurisdiction of the Reserve Bank); - further clarity needed on the proposed role of Payments NZ and its responsibilities; - Reserve Bank should be able to rely on Payments NZ to deliver a sound and efficient payments system at a product level and to keep pace with innovation; - different interventionary powers needed for crisis resolution; - emphasising the existing collaborative relationship with the Reserve Bank. Emphasising the real progress that has been made already by Payments NZ; - raising the lack of clarity on systemic importance, in particular, on the criteria being applied to different clearing systems (retail v high value).
Oversight of Designated Financial Market Infrastructures (2015)	- not an effective approach to designate a rules body as an operator of an FMI. Instead, should have a recognition approach that: a) identifies all operators, infrastructure providers and standards bodies relevant in a system (through the keeping of a register), b) targets crisis management, c) uses the existing approach to setting policy for FMIs, d) formalises the current no-objections approach to rule changes; - oversight of core infrastructure providers should not be done by contractual arrangements but directly; - regulation needs to be "right sized" for NZ market (self-regulation works well here); - more information needed on the criteria for designating the different clearing systems.

Crisis Management Powers for Systemically Important Financial Market Infrastructures (2016)	- BCP (Business Continuity Planning) should not be part of crisis management but should be BAU; - dealing with critical service providers through the FMI operator will not be effective with no control able to be exercised over switches and card schemes; - preference (again) for a recognition or registration regime which would enable Reserve Bank to monitor the whole payments system and to use crisis management as appropriate; - supporting a separate crisis management framework but tailored in scope (when Payments NZ is not an operator in the usual sense); - pushing back on being heavily influenced by the banks (pointing to the role and input of independent directors); - offering a workshop with stakeholders including NZX, ASX, LCH, CLS.
Financial Market Infrastructures Bill: Exposure Draft (2019)	- suggesting "the desirability of industry led solutions" as an additional principle in the law; - pointing out the unusual definition of operator in the law (at variance with the PFMI and the definition in the Reserve Bank's own legislation). Creating difficulties with the implementation of the law including the proposed standards; - questioning the value of designating the rules, having regard to the rationale for Part 5C designation and what is done overseas; - questioning the proposed approval process for changing the rules. Pointing out its limitations in the circumstances of Payments NZ.
Financial Market Infrastructures Bill: Submission to Finance and Expenditure Select Committee	- proposed designation regime not appropriate for pure payment systems: a) diverts from what should be the key focus (security and efficiency, and management of a crisis), b) formal approval process for rule changes not appropriate, c) does not recognise the difficulties when the operator is (merely) maintaining or administering rules, d) more appropriate to have a recognition regime with the ability to exercise direct powers (rather than working through the FMI which is problematic); - explaining the governance arrangements of Payments NZ and their positive aspects; - identifying all the infrastructure that sits outside the control of Payments NZ (switches, card schemes, gateway providers); - the issues associated with the proposed requirements for rule changes; - settlement taking place through ESAS, with settlement finality being assured through the designation of ESAS; - NZ's proposed approach being out of step with other jurisdictions;

	- suggesting "the ability or capability of an operator to carry out or comply with an action required by a regulator" being included as a principle in the law; - pointing out the unusual (artificial) definition of operator, also at odds with Australia and UK.
A Framework for Identifying Systemically Important Financial Market Infrastructures, Developing Standards for Designated Financial Market Infrastructures (2021)	- supporting use of the PFMI but drawing attention to the approach in Australia. And noting the misalignment between the PFMI and the FMI Act; - noting the differences between ESAS rules (which don't change a great deal) and Payments NZ rules which change frequently (the payments ecosystem is fast changing and dynamic); - broadly supporting the Pillar approach but expressing reservations about some of the new Pillar III matters (e.g. on contingency plans, on cyber); - expressing doubts about the implementation timetable, in particular, given the need to identify rules for the purposes of the designation notice; - noting that there may not need to be an immediate substitute when all parties agree to continue to use the rules if a new organisation or method is found; - standards will not always be applicable when Payments NZ is a rules body only and does not own or operate infrastructure; - noting that Payments NZ has undertaken an assessment against the PFMI and offering to meet and discuss; - pointing out the difficulties in using contractual arrangements between the FMI and the critical service provider. Better for any requirements to be imposed directly by the Reserve Bank; - a preference for a self-assessment per the existing approach.
Financial Market Infrastructures Standards: Exposure Draft (2022)	- the need for a formal carve out process or mechanism when matters in the FMI Standards do not have application; - noting previous statements by the Reserve Bank that it will not require operators to do something that they cannot do. And that they will work with rule making bodies to ensure standards are appropriate; - setting out the proposed FMI Standards that will not apply and the ones that will only have partial application; - submitting a table listing the individual requirements under the proposed FMI Standards and the response of Payments NZ against each of the requirements (using the rating classifications of the international methodology). We said that this would be a key document in terms of recording our understanding of our state of compliance across the Company's activities; - that we do not have critical service providers. While HVCS (and SBI) work through ESAS and SWIFT, Payments NZ does not operate these systems and does not have arrangements with them;

	- that we already have a strong alignment with the Pillar II matters (elaborating on this) but having issues with some of the new Pillar III matters; - again emphasising that the critical infrastructure such as ESAS, SWIFT, the switches and the schemes are part of the wider payments ecosystem, falling outside our jurisdiction. That there is no ability to extend our reach beyond our participants; - again mentioning designation of the rules and the considerable work that will need to be done on this. Wanting to see definitive guidance on the approach of the Reserve Bank (as yet not available). Drawing attention to an earlier Cabinet Paper which contemplated designated rules being limited to material aspects of an FMI's functions. This being accompanied by a statement that regulators would not be getting involved in aspects of the rules that should be left to private contractual arrangements.
Engagement on determining the systemic importance of HVCS including provision of information under section 14 of the FMI Act (2022 to 2024)	- that HVCS operates using a decentralised model and participants connect directly with the Reserve Bank's ESAS system via SWIFT. That all parties who make high value payments in New Zealand are members of the AVP CUG (owned by the Reserve Bank). But are not all participants in HVCS or party to the rules of Payments NZ; - designation of HVCS will not capture the complete high value ecosystem undermining the effectiveness of the initiative; - that Payments NZ is a rules body only and does not own or operate payments infrastructure (it does not process, clear or settle transactions); - our rules require settlement to be effected through ESAS operated by the Reserve Bank, providing legal certainty that transactions cannot be unwound; - our practice of seeking confirmation from the Reserve Bank that it has no objection to rule changes; - that there are no formal tiered arrangements between participants who settle on a principal to principal basis (a key requirement under the rules); - the difficulties in determining "indirect participants" for the purposes of the section 14 notice; - that there is no settlement risk, all payments being "push payments"; - on substitutability, the potential for participants to agree in advance to continue to comply with the rules, and to the novation of the management of the rules to a new entity (nominated by the Reserve Bank); - our view that designation would not support the purposes of the FMI Act which can more readily be achieved through existing regulation.

Consultation paper on proposal to recommend the designation of the High Value Clearing System

Payments NZ Limited submission

30 September 2025

Executive summary

Payments NZ Limited (Payments NZ) has worked closely with the Reserve Bank of New Zealand Te Pūtea Matua ("the Reserve Bank") since it was established in 2010. We have found our relationship with the Reserve Bank to be collaborative and constructive, and we believe that the Reserve Bank already has appropriate oversight of the High Value Clearing System (HVCS), including information gathering powers.

The Reserve Bank has proposed that HVCS be designated under the Financial Market Infrastructures Act 2021 (FMI Act), with Payments NZ being the specified operator of the FMI (which is HVCS). HVCS is classified as a pure payment system under the FMI Act and falls under the sole regulation of the Reserve Bank (by virtue of section 10(1) of the FMI Act).

We do not support the Reserve Bank's proposal to recommend the designation of the HVCS under the FMI Act.

In essence, it is our submission that:

- the Reserve Bank does not have a proper legal basis under the FMI Act to designate the HVCS; and
- even if it has such authority, there are no sound policy reasons to designate the system.

We do not believe that HVCS is an FMI as defined in the FMI Act because it is not a multilateral system for the clearing, settling, or recording of payments. HVCS is, in effect, a contractual arrangement which sets out how participants clear and settle payments between themselves on a bilateral basis. The HVCS rules specify the use of SWIFT infrastructure to transmit payment instructions (through the AVP[1] Closed User Group administered by the Reserve Bank) and require settlement to take place in the Reserve Bank's Exchange Settlement Account System (ESAS).

It is important to note that Payments NZ does not own or operate payments infrastructure, and that designation will not assist the Reserve Bank if there is an operational failure (like the SWIFT outage on Anzac Day in 2012) or a financial failure of a key payments infrastructure provider, like SWIFT.

We are firmly of the view that designating HVCS will not meaningfully assist the Reserve Bank to achieve the objectives of the FMI Act (as set out in section 3(1)), but will generate significant work and cost for Payments NZ. In respect of HVCS, our role is maintaining rules which promote a safe, open, interoperable, innovative and efficient system. It is unclear how designating the HVCS rules would further promote confident, informed, fair, efficient and transparent financial markets, given that:

- there are entities involved in making high value payments who are not participants in HVCS or party to the rules of Payments NZ;
- there is no settlement risk in HVCS;
- all participants in HVCS are separately regulated (most of them on a prudential basis).

[1] Assured Value Payment.

We also note that designation will not, as asserted by the Reserve Bank, provide stronger legal protection for our rules. Finality of settlement is assured through the requirement for HVCS participants to use ESAS, which is already designated under the FMI Act.

In relation to the Reserve Bank's concerns about reducing the damage that could arise from a failure of an FMI, we note that we do not operate any infrastructure. Furthermore, we do not believe there is significant impediment to another organisation assuming the function of operating and managing the rules should Payments NZ be unable to perform its functions.

The Reserve Bank has always been consulted on all material changes to our rules and, as the Reserve Bank is aware, we ensure that our rules comply with relevant international principles for FMIs (reflected in the FMI standards). In light of the existing practice and the close oversight that has been exercised by the Reserve Bank, we do not see that designation is necessary. In fact, the likely delays and the cost involved in requiring approval for any changes to the HVCS rules (as is proposed) will make the system less efficient and increase risk, particularly when there is a need for urgency or where deadlines have to be met.

We also note that our peer jurisdictions (such as Australia and the United Kingdom) operate much simpler regimes that do not designate rules as is being proposed in Aotearoa New Zealand.

For the reasons above and more fully developed in the body of this submission, HVCS cannot and should not be designated under the FMI Act. The existing combination of the Reserve Bank's oversight powers, the designated status of ESAS and Payments NZ's governance role provide all the necessary legal certainty and operational resilience that is needed.

We do not believe that the grounds outlined by the Reserve Bank in support of its proposal to designate HVCS are compelling. As we understand the consultation, the Reserve Bank's rationale for proposing designation is based on the following:

- designation would allow the Reserve Bank to regulate and supervise HVCS and would help the Reserve Bank to ensure that HVCS is operating in a way that:
  - promotes a sound and efficient system;
  - reduces the damage that could arise from a failure of HVCS or some other financial system distress; and
  - promotes confident, informed, fair, efficient and transparent financial markets;
- designation would allow the Reserve Bank to review how HVCS complies with the FMI Act and FMI standards and give the Reserve Bank power to require changes to ensure compliance;
- designation will provide stronger legal protection for the rules.

We have set out our views in response to the Reserve Bank's proposals in more detail below. We think it is important to set these out reasonably fully given the stage we are now at, which hopefully will help to inform the Minister if called on to make a decision under section 20 of the FMI Act to declare the HVCS as a designated FMI.

This submission reinforces what we have said previously as well as responding to our concerns in relation to the grounds outlined in the consultation document in support of the designation proposal. This consultation represents the latest of many consultations on the regulation of FMIs undertaken by the Reserve Bank. These started over a decade ago and have continued down to the present time. We **attach** a table setting out our responses to those consultations.

The High Value Clearing System

The Reserve Bank has provided a helpful overview of HVCS, and described it as:

> *"a set of rules, standards and procedures that allow participants to confirm information about high value payments. For example, the HVCS sets out what payment information must be sent between payer and payee. It also sets out the timeframes for completing the transactions. The HVCS rules are multilateral, this means that they apply to all system participants".*

On this basis, the Reserve Bank has concluded that HVCS meets the definitions of clearing and of an FMI under section 5 of the FMI Act.

We do not support this conclusion. While the rules for HVCS are multilateral, HVCS itself is not a multilateral system. Clearing and settlement occurs on a bilateral basis between participants. The HVCS rules and procedures are not a "system" in a functional or operational sense. They are, in effect, a contractual framework between participants, and we do not think they should be conflated with payments infrastructure (which, in the case of HVCS, is ESAS and SWIFT). Very simply, Payments NZ does not clear or settle transactions.

ESAS is operated and managed by the Reserve Bank and, together with SWIFT, forms the settlement and messaging backbone of the high value ecosystem in Aotearoa. SWIFT (which has the operational relationship with the Reserve Bank) facilitates the secure transmission of payment instructions and ESAS performs the real time settlement of these instructions. Payments NZ simply operates as the manager of a contract that governs the relationship between each participant in the HVCS without any clearing function or capability.

Systemic importance

The Reserve Bank has concluded that HVCS is systemically important. We have concerns about this, especially given that there are financial institutions involved in making high value payments who are not participants in HVCS or party to the rules of Payments NZ. These include the Debt Management Office, the Local Government Funding Agency, CLS Bank, and indeed the Reserve Bank itself. Additionally, if the Reserve Bank sees the HVCS as being systemically important, it is hard to understand why it does not participate itself in the arrangements (which the Reserve Bank of Australia does in respect of the HVCS in Australia).

It is important to note that we do not have the ability to exercise any control over institutions that are not party to our rules. However, they do all belong to the Reserve Bank's AVP Closed User Group which is administered by the Reserve Bank and which operates via the SWIFT messaging system AVP Closed User Group, where control can be exercised.

We also note that:

- much of the systemically important payments infrastructure in Aotearoa is provided by large global organisations (like SWIFT) that Payments NZ has little, if any, practical influence over (because Payments NZ has no commercial agreements, or formal relationships, with these organisations);
- there is no settlement risk in HVCS; and
- many of the FMI Standards which designated FMIs must comply with simply do not apply to Payments NZ.

There is mention in the proposal of contagion risk without further elaboration. It should be noted that HVCS only facilitates “push” payments. A transaction can only occur if the paying institution has funds available in its ESAS account. If contagion were to arise, it would likely reflect a participant’s financial difficulties and not anything inherent in HVCS – this would be an issue of wider systemic supervision or interest, not a feature or product of our rules, and it is the Reserve Bank which prudentially regulates the five largest HVCS participants.

Finally, we do not believe there is significant impediment to another organisation assuming the function of operating and managing the rules should Payments NZ be unable to perform its functions. Each of the participants of Payments NZ could quite readily agree that they will continue to comply with the rules in such an eventuality and to the novation of the management of the rules to a new entity (this could be with the approval of the Reserve Bank). On this basis, we do not envisage the need for HVCS transactions to be cleared using an alternative arrangement (as suggested by the Reserve Bank).

Stated benefits of designation

Ability to regulate HVCS

One of the key grounds put forward by the Reserve Bank in support of designation is that the Reserve Bank does not currently regulate HVCS and that HVCS would be required to comply with the FMI Act and the FMI Standards.

We note that the Reserve Bank already has oversight of HVCS, and we think that the Reserve Bank’s view requires further examination in light of the law that existed previously and in light of the current law. It needs further examination also in the context of the arrangements that have been in place between the Reserve Bank and Payments NZ.

In terms of the law, Part 5B of the Reserve Bank of New Zealand Act 1989 conferred powers to require the supply of any information or data from an operator of a payment system, or a participant in a payment system. An audit of this information or data could then be required. The FMI Act itself has powers to require information, to obtain reviews, and to require independent reports in respect of an operator or a participant of an FMI. These powers are exercisable irrespective of whether a designation is in place.

There also needs to be an appreciation of the nature of the relationship between the Reserve Bank and Payments NZ before the arrival of the FMI Act, and the nature of the regulation that has been in place. In general terms, Payments NZ was (and still is) a self-governing organisation that works closely with the Reserve Bank. This started in 2010 when Payments NZ was founded and continues down to the present time. This has been a collaborative relationship with the Reserve Bank, featuring close involvement in our work and activities. There have been regular meetings between senior people at the Reserve Bank and our Board (also with our independent directors), and there are regular catch-ups at the executive level (on a quarterly basis and at many other times). Until 2020, when it advised that it no longer wished to do so, the Reserve Bank attended our board meetings and management committee meetings as an observer.

This close engagement has provided the Reserve Bank with oversight, and input, into our work. This has resulted in changes being made by us voluntarily in response to concerns expressed by the Reserve Bank[2]. Notably, no rule changes of a material nature have been introduced by Payments NZ without the Reserve Bank's knowledge and without us obtaining confirmation that it has no objection to the proposed amendments.

These arrangements have worked well and ensured an efficient and safe payment system. It has been a positive and constructive relationship, notwithstanding the absence of formal regulation, and we do not believe that the formal regulation now being proposed will deliver any material benefits or will meaningfully assist the Reserve Bank to achieve the purposes of the FMI Act.

In relation to compliance with the FMI Standards, Payments NZ has always sought to comply with international principles, and we elaborate on this below.

Stronger legal protection for our rules

It is claimed (on page 4) that designating HVCS would provide stronger legal protection for our rules and then it is stated (on page 12) that this means "payments can be irreversible once they have been cleared in the HVCS". We note that finality of settlement is already assured through the requirement for HVCS participants to use ESAS, which is already designated under the FMI Act. We note also that payments are not "cleared in the HVCS" – they are in fact cleared in accordance with the HVCS rules.

It is stated (again on page 4) that this "finality of settlement would help promote confidence in the financial system". We have canvassed this previously but we take the opportunity to go over it again. Our rules deal predominantly with the form of payment instruments that will be accepted, and the file formats and processes for the exchanging of files, i.e. operational matters. When Payments NZ was established, we considered whether our rules should be designated under Part 5C of the Reserve Bank of New Zealand Act 1989, but decided it was not necessary. This was because our rules require transactions to be effected through ESAS, which gives legal certainty that the high value transactions are settled without the risk of being unwound.

Settlement finality was also assured by virtue of the designation of ESAS under Part 5C, in particular, section 156R which stated that settlements must not be reversed if effected in accordance with the rules of the designated settlement system. This same settlement finality is carried over into the FMI Act by virtue of Subpart 5 of Part 3, so our position on this remains the same.

In the circumstances, we do not consider the argument for requiring designation under the FMI Act for finality reasons has any merit.

Other stated benefits

The Reserve Bank also asserts that designation of HVCS would mean that:

- HVCS participants (all of whom are supervised entities) must notify Payments NZ if they become insolvent – we note that our rules already require participants to notify material information to the Company (including any financial issues) and we have processes to respond to this;
- HVCS would be required to operate in a manner consistent with the requirements in the

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[2] For example, the introduction of a comprehensive industry management plan to deal with operational problems, the introduction of CECS authorisation and settlement rules, and rules relating to default (including facilitating the implementation of the Reserve Bank's 'open bank resolution' policy).

FMI Act which supports promoting fair, efficient and transparent financial markets – we note that Payments NZ's own objectives (outlined in its constitution) already require it to promote interoperable, innovative, safe, open and efficient payment systems;

- the Reserve Bank could supervise Payments NZ's compliance with the FMI Standards – we note, as set out below, that we have always sought to comply with relevant FMI Standards and we have worked closely with the Reserve Bank in relation to this;
- the Reserve Bank could review HVCS access requirements against the FMI Standards – we note that our access requirements have been developed (and reviewed) with input from the Reserve Bank. In this regard, the Reserve Bank has confirmed that it had no objections to our access requirements and that these were consistent with its expectations that the criteria for participation should be objective, risk-based and publicly disclosed;
- the Reserve Bank could review the governance of HVCS against the FMI Standards – we note that Payments NZ continues to review its governance arrangements to ensure an open payment system with broad participation and representation and, as part of this, has engaged closely with the Reserve Bank.

Crisis management

The Reserve Bank is seeking crisis management powers to enable it to act where there are reasonable grounds to believe that HVCS is distressed (as defined in section 5 of the FMI Act) – for example issuing directions to Payments NZ and instructing participants to comply with the HVCS rules. We do not believe that designation under the FMI Act is required for this – and, as noted previously, participants could agree in advance that they will continue to comply with the rules if Payments NZ is in distress (and would have significant incentives to do so).

Rules of HVCS

A designation notice under section 29 of the FMI Act must specify the documents that set out the FMI rules. In this regard, we believe it is worthwhile to record some of the earlier history around this and what has been said about the potential designation of an FMI's rules. The paper that was put to Cabinet in 2017 (when the oversight regime was being proposed) stated that these documents would be *"limited to material aspects of the designated FMI's functions".* This was accompanied by a statement that the joint regulators would not get involved in aspects of the rules that should be left to private contractual arrangements.

The Reserve Bank itself has said that the standards should not require operators to do something they cannot do (when talking about the tailoring applicable to FMIs where the operator controls the rules of the FMI but not the underlying infrastructure). It has also said that it will work with rule-making bodies to ensure any standards applying to such entities are appropriate. This is the gist of what was conveyed arising from the consultation on the FMI Standards.

Importantly, however, FMI Standard 1 states that the operator *"must ensure that the FMI has rules and contracts that are legally enforceable in respect of all **material** aspects of the FMI's activities in all* *relevant jurisdictions."*[3] The emphasis is added but this does clearly envisage materiality as a key factor in determining the rules that are in contemplation for these purposes. The theme of materiality is evident throughout the standard and in the accompanying guidance (as it is in the PFMI).

In light of these matters, we are surprised that the Reserve Bank is now adopting a blanket approach to the rules that are to be identified in the designation notice. We ourselves have endeavoured to drill down and identify the individual rules within each Part of our rule book which we believe are material, rather than just identifying the whole Part. This is set out in Annex B to the consultation paper where the two approaches are laid out. We have always equated materiality with rules that are systemic in nature (as being within scope) and distinguishing these from those that are operational or related to process (as being out of scope and not justifying interest at the regulatory level).

We do not understand the rationale that has been advanced in support of the use of the blanket approach – namely, that it will reduce any future complications arising from amendments to the rules – when our experience is that it will have the opposite effect.

The identification of the rules for the purposes of the designation notice is extremely important because they will become subject to the approval requirements in Subpart 3 of Part 3 of the FMI Act. As such, any rule change will need to be approved by the Reserve Bank pursuant to a reasonably prescriptive process. This is governed by section 39 of the FMI Act, and involves:

- an application by the FMI with a copy of the proposed rule change, a description of the change and the reasons for it, and the time it should come into effect,
- (where approved) a notice of approval which must be sent to the FMI stating prescribed matters,
- publication of the notice of approval on the Internet site of the Reserve Bank (this requirement arising under section 46 of the FMI Act).

We have never been in favour of a formal approval process such as this, because of cost and efficiency considerations. For the record, the same 2017 Cabinet Paper made reference to the availability of a disallowance process[4] which would operate for the purposes of amendments and which was stipulated and used under Part 5C of the Reserve Bank of New Zealand Act 1989 in respect of designated settlement systems. This disallowance process was altered to a formal rules approval process (as we have now) in the Select Committee process. We also note that there is no provision for a graduated response in relation to rule changes (e.g. a simpler process for minor amendments vs a significant change) or provision for urgent rule changes when required.

As noted earlier, we have always sought confirmation from the Reserve Bank that it has "no-objection" to material rule changes (effectively a disallowance process). This has been beneficial in terms of efficiency and works well in the fast changing and dynamic payments environment (and when urgent changes to our rules are required). There is a need for the rules to keep pace with the market and, because of this, our rules change significantly and frequently.

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[3] We think the important matters here are governance, access, risk management, settlement finality, contingency measures, participant default.

[4] Following what was stated to be the preferred option in the 2017 regulatory impact statement.

There needs to be certainty as to when a rule is to come into effect, in particular, so that the necessary operational processes can be implemented by participants in good time. This will be much more difficult to manage when the approval process (and the coming into force of rules) is out of our hands, particularly as the Reserve Bank builds up the necessary (highly technical) expertise that will be required to give formal approvals. We note that we are up to version 67 of our rules since Payments NZ was established in 2010.

We contrast this with the FMIs that have already been designated under the FMI Act, namely:

- ESAS, which is operated by the Reserve Bank (classified as a pure payment system which is solely concerned with the transfer of funds),
- NZClear settlement system which is operated by the Reserve Bank (classified as a central securities depository and a securities settlement system),
- CLS System which is operated by CLS Bank Limited in New York (classified as a pure payment system and an "overseas-equivalent FMI"),
- NZCDC settlement system which is operated by New Zealand Clearing Limited (classified as a central counterparty),
- ASXCF settlement system which is operated by ASX Clear (Futures) Pty Limited (classified as a central counterparty and an "overseas-equivalent FMI").

Each of them is the owner or operator of payments infrastructure (unlike Payments NZ) but our observation here relates to their rules, in particular that they are reasonably static and do not change a great deal.[5]

We are surprised at the Reserve Bank's high-level findings on aspects of the HVCS rules when measured against the Guidance Note - Designations (on page 15), in particular relating to Parts 5 and 12 of our rules. We have engaged closely with the Reserve Bank on these matters over many years and responded to any concerns raised by the Reserve Bank. We continue to review these rules to ensure that they are effective.

In respect of Part 12, we have recently completed a comprehensive review of how we would respond to a participant default. We have engaged closely with the Reserve Bank throughout, sought feedback and reflected this in the proposed amendments.

Our Part 5 rules, which are focussed on ensuring that our participants comply with the rules, were welcomed by the Reserve Bank in 2018 who noted that the amendments improved the level of observance in relation to the monitoring of on-going compliance with participation requirements, as contemplated by the Principles for financial market infrastructures (PFMI).[6]

FMI Standards

The FMI Standards came into force on 1 March 2024 (save for FMI Standard 23A which came into force on 1 March 2025). They largely replicate the PFMI and the related guidance, but they do change the nature of the obligations from "should" (as used in the PFMI) to "must" (as used in the FMI Standards). Additional standards also have been introduced, on the basis that they are said by the Reserve Bank to be needed in the circumstances of Aotearoa.

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[5] Although subject to periodic reviews from time to time as seen recently in relation to ESAS.
[6] Published in April 2012 by the Bank for International Settlements and IOSCO.

To say that Payments NZ "chooses to apply some international best practice principles" (as on page 4) is not, we consider, a fair characterisation and understates the efforts that we have always made to ensure our rules are compliant with relevant international expectations.

We have previously pointed out that many of the FMI Standards are not relevant to an entity which is not an "operator" in the usual sense. However, Payments NZ has been captured by the definition of operator in section 5 of the FMI Act which we have said before is an artificial definition (by the inclusion of the second limb of paragraph (a))[7]. Payments NZ is purely a rules body and does not own or operate any payments infrastructure. Its situation is to be contrasted to the other key types of FMIs (central securities depositories, securities settlement systems and central counterparties). These perform critical roles in the markets they serve and there is an assumption of their systemic importance because they actually own or operate the infrastructure used to clear and settle transactions.

The Reserve Bank has indicated FMI Standards 4 (Credit Risk), 5 (Collateral), 6 (Margin) and 7 (Liquidity Risk) are not relevant to the operation of the HVCS. We also note that on 12 September 2025 the Reserve Bank published information about the requirements that designated financial market infrastructures must meet in Aotearoa. In relation to a payment system, it appears that FMI standards 10 (Physical Deliveries), 11 (Central Securities Depositories) and 14 (Segregation and Portability) will also not apply. We consider that the following will not apply to us as well, as we do not own or operate any infrastructure and we are not involved in clearing and settling of transactions:

- FMI Standard 12 (Exchange of Value Settlement Systems),
- FMI Standard 16 (Custody and Investment Risks),
- FMI Standard 17B (Critical Service Providers),
- FMI Standard 17C (Cyber Resilience),
- FMI Standard 19 (Tiered Participation Arrangements),
- FMI Standard 20 (FMI Links).

We consider also that the following will only have partial application:

- FMI Standard (Money Settlements),
- FMI Standard (General Business Risk).

There is a suggestion on page 16 of the consultation paper of the need for a gap analysis against the FMI Act and against the applicable FMI Standards. This is elaborated on further on page 17 where it is stated that the following steps are conditional on the Minister's decision to designate the HVCS:

- that Payments NZ will need to identify any compliance gaps against the FMI Act and the FMI Standards (and 8 weeks appears to have been allowed for this),
- we would then have to seek agreement with the Reserve Bank on the steps to resolve any identified compliance gaps.

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[7] The definition of an operator is a person providing or managing services (the usual meaning) but it also extends to a person maintaining or administering the FMI's rules (the artificial limb of the definition which brings in Payments NZ).

We want to draw attention to the work that we have done already on measuring ourselves against the PFMI/FMI Standards. All significant rule changes have been subject to external legal advice to ensure that they are valid, binding and enforceable. This has also extended to seeking confirmation that the changes being proposed are consistent with the PFMI, and more recently the FMI Standards. We have also completed a detailed analysis of our state of observance with these requirements. This has been provided to the Reserve Bank on several occasions but we are yet to receive feedback on it. In the circumstances, we doubt whether we would need to complete another gap analysis, but we remain happy to discuss what has been done already, in case there are any outstanding issues to resolve.

One of our constitutional objectives is to promote interoperable, innovative, safe, open and efficient payment systems (mirroring the safety and efficiency objectives of the PFMI).

Cost-benefit analysis

There was a regulatory impact statement in 2017 when the oversight framework was being proposed. There was also one in 2023 for the purposes of the FMI Standards. However, we do not yet have a clear understanding of the costs and benefits (as contemplated by the Reserve Bank) in the current context when a payments system such as ours is being proposed for designation. We do not believe this is apparent at all in the designation proposal itself[8] or in the earlier regulatory impact statements. The 2017 statement seemed to cover the full range of FMIs and not single out or pay special attention to Payments NZ (as a rules body versus the entities with a real involvement in payments infrastructure). It also seemed to revolve around the inadequacies of the regulatory arrangements then in place, in particular by virtue of Parts 5B and 5C of the Reserve Bank of New Zealand Act 1989, and justifying the case for the strengthening of regulation (following the IMF's Financial Sector Assessment Program completed in May 2017).

The FMI Act brings a payments system under the same extensive regime (which we do not consider is appropriate) as the other orthodox FMIs (a central securities depository, a securities settlement system, a central counterparty, and a trade depository). This is in contrast to Australia[9] where there is a distinct difference in the nature of the regulation between payment systems and that applying to the other FMIs. In this regard, the former has a much simpler regulatory model compared to the latter which is far more comprehensive and involved. This becomes more stark in the case of Aotearoa when Payments NZ is merely a rules body with no central infrastructure that clears or settles payments (this being done through ESAS).

Designation of HVCS will introduce cost and delay without delivering any tangible benefits (particularly given the broad-brush approach which has been taken by the Reserve Bank in identifying the rules for the purpose of designation). We do not believe there is a compelling case for the regulation as proposed, if this is to be based on proper cost-benefit analysis which should always underpin new regulation.

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[8] The extent of analysis appears to be as follows: "To avoid unnecessary compliance costs, we have reviewed and categorised the rules applicable to the HVCS from the Payments NZ Rules to circumvent a re-write of the HVCS rules in a separate document if designated. We have also considered the FMI's ability to comply with regulatory requirements if designated and we consider this ability exists." (on page 14).

[9] The Reserve Bank of Australia exercises its regulatory powers sparingly with a presumption in favour of self-regulation. It imposes regulation only where it is in the public interest and where industry is unwilling to act. Because of this, the scope of its regulation is quite narrow.

Concluding remarks

Payments NZ is committed to doing what is right for the payments industry in Aotearoa. This includes working collaboratively and constructively with the Reserve Bank. This has been the case since we were established and we wish to see this continue. Payment systems are complex and technical, and there is considerable benefit in the Reserve Bank being able to utilise and rely on the expertise that we can provide which is not readily available elsewhere. However, this relationship needs to be efficient and effective to deliver the right outcomes.

Given the stage we are at in the designation process, we are setting out matters reasonably fully and firmly in this submission. In summary, we think the law is best kept for owners and operators of payments infrastructure, and as it is being used for the clearing and settlement systems currently designated under the FMI Act. This should be the predominant focus of the law – addressing how a regulator can prevent harm from operational and financial failure affecting infrastructure itself. Designating a rules body, such as us, will not achieve anything meaningful but will simply add cost and complexity. This, in turn, will create inefficiency and negatively impact the safety of the system.

Ngā mihi,

Steve Wiggins

Chief Executive
Payments NZ Limited

Responses to questions raised by the Reserve Bank

1. ***Is the HVCS an FMI and pure payment system as per the definition in the Act?***

We do not believe that the HVCS qualifies as an FMI under the FMI Act, particularly given its lack of operational infrastructure. We don't consider it is a "multilateral system", but a set of rules governing bilateral payment instructions. Moreover, no clearing or settlement occurs within the HVCS itself — clearing happens directly between banks using the SWIFT AVP CUG, and settlement is completed in ESAS. The HVCS does not meet the plain words of the statutory definition of an FMI or a pure payment system.

2. ***Is the HVCS a systemically important FMI in New Zealand as per the definition* in the Act?**

As noted in our previous submission to the Reserve Bank, we do not agree that HVCS is systemically important. HVCS is a rule set – it does not involve any infrastructure and many of the FMI Standards which designated FMIs must comply with simply do not apply to Payments NZ (or HVCS). Furthermore, HVCS does not capture the full sector of high value institutions that are participating in the market as members of the AVP CUG, there is no settlement risk in HVCS, and all participants in HVCS are separately regulated.

3. ***Would designating the HVCS promote the maintenance of a sound and efficient financial system by allowing us to enforce requirements in the Act and FMI Standards?***

i. For example, would designating the HVCS promote clear and transparent governance that promotes the interests of its stakeholders by allowing us to review the HVCS governance and ensure it meets the requirements under FMI Standard 2: Governance?

ii. For example, would designating the HVCS promote fair and open access to the system by allowing us to review its access policy and require that it complies with FMI Standard 18: Access and participation requirements?

No. We consider the governance arrangements already meet the expectations of FMI Standard 2, in particular noting the role of our independent directors and the requirement for all directors to act in what they believe to be in the best interests of the Company. On access and participation, it needs to be understood that our rules have been developed and reviewed in detail by the Reserve Bank over the past 15 years. The suggestion that designation is necessary to enforce these principles ignores established practice and the close oversight that has been exercised by the Reserve Bank. In fact, the likely delays and the cost involved in changing the HVCS rules (as is proposed) will make the system less efficient, and increase risk.

4. ***Would designating the HVCS provide further certainty and confidence to participate in the system?***

No. Legal protection and certainty already exists due to the requirement that all HVCS payments settle through ESAS. This provides finality and it is further assured by the designation of ESAS under the FMI Act bringing in the application of Subpart 5 of Part 3, i.e. the irreversibility of transactions.

5. ***Would designating the HVCS help us avoid significant damage to the financial system by using our crisis management powers in the event of a failure or disruption of Payments NZ or the HVCS?***

No. Payments NZ does not operate any infrastructure – it manages the rules, which are a multilateral contract that all participants have signed up to.

If Payments NZ were to fail or be disrupted, the rules would still exist and participants could agree that they would continue to comply with the rules (and clear and settle with each other on a bilateral basis as they do as participants in HVCS). It is more efficient to have a party such as ourselves managing rule changes and running the supervisory management committees, but it is not essential. The systemic infrastructure (ESAS and SWIFT AVP CUG) is what actually matters.

By way of explanation: the infrastructure that makes up the high value payment system includes ESAS, SWIFT and our Participant organisations. If there is a failure/outage at:

- ESAS – the Reserve Bank has designated powers under the FMI Act over the RBNZ as the operator.
- SWIFT – the Reserve Bank will be relying on the powers it has over the RBNZ as the operator, who use SWIFT as a network/ messaging provider – Payments NZ does not have a contractual relationship with SWIFT as we do not operate SWIFT infrastructure.
- Participant organisations – the Reserve Bank prudentially regulates our high value Participants, and should they suffer an outage in their payment infrastructure, the RBNZ already has recovery and resolution powers in place. Payments NZ does not have any ability to manage or become involved in payment infrastructure at our Participant organisations.

In summary, Payments NZ does not have the ability to directly manage or control any of this systemic infrastructure.

6. ***Do you agree with the rules that we have identified as the HVCS Rules for the purposes of designation?***

No. This is contrary to the previous indications given on how they would be dealt with, in particular, that materiality would determine eligibility for being specified in the designation notice. Moreover, it appears to be contrary to what is contemplated by FMI Standard 1.

7. ***Do you have any comments on the capabilities and capacity of Payments NZ to comply with the Act and FMI Standards?***

Payments NZ would not have difficulty complying with the FMI Act providing the law is applied appropriately and commensurate with our circumstances as a rules body – although it will add unnecessary cost.

We already comply with the FMI Standards as applicable to us. A number of the FMI Standards do not apply to us or only partially apply.

8. ***Do you have any comments on next steps following publication of this proposal?***

Yes, we think the proposal needs rethinking and should not be proceeded with.

9. Do you have any other comments or feedback related to the proposal and the reasons for the proposal?

Yes. These are all contained in the attached submission.

Proposal to designate the High Value Clearing System

Payments NZ Limited response to the Reserve Bank Te Pūtea Matua

20 March 2026

Introduction

This submission is made by Payments NZ Limited (Payments NZ) in response to the letter dated 23 January 2026 from the Reserve Bank of New Zealand Te Pūtea Matua ("the Reserve Bank") requesting further submissions on its Proposal to recommend the designation of the High Value Clearing System (HVCS).

The Proposal has been made under the Financial Market Infrastructures Act 2021 ("the FMI Act") and was published on 4 August 2025. Payments NZ made a submission on the Proposal dated 30 September 2025.

The submissions now sought are specifically focused on the following matters:

- identifying all rules applicable to the HVCS to be specified in the designation notice under section 29(1)(b) of the FMI Act (as set out in Appendix 1 of the Reserve Bank's letter); and
- compliance costs for Payments NZ and its Participants.

We have been asked:

1. whether we agree with the list of rules applicable to the HVCS (as proposed by the Reserve Bank in Appendix 1 of their letter);
2. whether we wish to re-draft our HVCS rules into a separate document for the purposes of section 29(1)(b);
3. for further submissions on compliance costs, with the Reserve Bank mentioning a number of matters in Appendix 2 of their letter (said to be a non-exhaustive list) and some matters raised in the course of discussions that we have had;
4. to respond to more specific questions on costs, with the provision of quantifiable or indicative figures where possible.

Summary of key points

- The Reserve Bank's assessment that designation cannot be limited to material aspects of the designated FMI means both Payments NZ and the Reserve Bank will have to apply the same standard to all attributes of the HVCS. This is likely to introduce material costs and time delays to the efficient governance of the clearing system, by making non-material operational and process-related rules subject to Reserve Bank approval.
- Having considered the advantages and disadvantages of separating the HVCS rules into a separate document, we believe it is in the best interests of the clearing system to retain the current rule structure. The creation of a separate document would create practical challenges in relation to rules management; introduce risk by requiring Participants to comply with and operate under multiple different rule sets; reduce clarity for Participants in understanding their obligations; and potentially force major (and expensive) process changes for Participants who have embedded the rules and procedures into their operational processes.
- We have made best endeavours to provide information on estimated compliance costs, based on what we believe is relevant for any determination for the purposes of section 13(2)(f) of the FMI Act. Given our role as an operator of a rules body, versus that of an operator of payment infrastructure, it is still unclear exactly how the FMI Standards may be applied to Payments NZ or the HVCS. This has meant our ability to provide accurate estimates is very challenging.
- Having provided the estimate for compliance costs, we are concerned about the negative impact this may have on encouraging new entrants into the HVCS. Payments NZ operates a cost recovery model which means all costs of designation will be shared amongst the Participants of the HVCS. New entrants who are likely to be payment service providers may see the cost and implications of designation as a barrier to joining the clearing system.
- We operate a highly dynamic and regularly updated set of rules, placing us in a very different position to most FMI operators with relatively static rule sets. As a result, if designation proceeds in the current form the requirement for approval to both material and non-material changes to the HVCS rules will impose a significant time and resource burden on both Payments NZ and the Reserve Bank. It may also increase risk by introducing delay in situations when urgent rules changes are required to protect Participants or the system.
- As a rules body, versus an operator of payment infrastructure, it remains unclear how the FMI standards will be applied to both Payments NZ and the HVCS (and, as outlined in our earlier submissions, we believe that there are no sound policy reasons to designate HVCS). It will be important that the unique nature of our designation is reflected in the proposed gap analysis and that we jointly arrive at outcomes which are in the best interests of the payments system.

1. Whether we agree with the revised list of rules (at Appendix 1 of the Reserve Bank letter)

We have always maintained that there should be a delineation between rules that are systemic in nature (amenable to designation) and rules that are operational or process related (not amenable to designation). This essentially introduces a threshold of materiality for determining the scope of the rules that should be identified for the purposes of designation. The Cabinet Paper made this clear when the FMI regime was being introduced in 2017 ("*The documents specified would be limited to material aspects of the designated FMI's functions*."). It is also consistent with FMI Standard 1, the clear thrust of which is materiality.

We note the Reserve Bank's view that it now considers that the FMI Act does not provide it with discretion to determine which rules should, or should not, be included in the designation notice on the basis of materiality or importance. Therefore, it is not able to implement an approach that only includes rules that provide for material aspects of the HVCS's activities. We do not support this broadbrush approach and do believe that it becomes a factor when consideration is given to the need to avoid unnecessary compliance costs and unnecessary constraints on innovation (for the purposes of section 13(2)(f)). When all HVCS rules are brought into the scope of designation (as proposed), and become subject to approval from the Reserve Bank, additional overhead is introduced in respect of matters which are not systemic in nature, thereby introducing unnecessary costs and time delays. We consider this should be a material consideration for these purposes.

2. Whether we wish to re-draft the HVCS rules into a separate document for the purposes of section 29(1)(b)

The Reserve Bank has suggested that Payments NZ should consider whether it wishes to re-draft the rules applicable to the HVCS into a separate document, which would apply solely to the HVCS. It is claimed that this would:

- allow Payments NZ to fully operate its other systems which are not designated, free from the regulatory requirements;
- alleviate concerns around compliance costs and efficiencies;
- be straightforward for Payments NZ to publish as a stand-alone HVCS rules document on its website, whereas it may be more complicated to publish selected subparts of the current Payments NZ rules;
- be better for public consumption and independent of other Payments NZ system rules.

In response, we note that:

- the rules are separated into different Parts which cover access to, participation in, and governance of each of the three clearing systems;

- while there are discrete Parts relating to how Participants exchange and settle payments in the different clearing systems (including legal certainty in relation to end to end clearing and settlement of transactions and when debts are created and discharged), most of the rules apply generically to all Participants, and provide a clear, transparent, and enforceable legal basis for each material aspect of Payments NZ's activities, including:
    - access to clearing systems;
    - risk management;
    - security and operational reliability;
    - system resilience; and
    - Participant default.

The HVCS Management Committee and the board of Payments NZ have considered the Reserve Bank's suggestion and undertaken work to understand how the re-structured rule sets could be managed.

While there may be some advantages in having the rules which are relevant to the HVCS (if it is designated) in a standalone document, Payments NZ does not believe it would be practical, cost effective or beneficial to do this.

In particular:

- it would be challenging (and time-consuming) to ensure that multiple copies of the same rules which apply to all Participants (e.g. access requirements, compliance, warranties, clearing system governance) are maintained and updated at the same time;
- it could introduce risk if Participants were required to operate under multiple/ different rule sets (containing the same obligations) which are amended and updated on a regular basis;
- the rules are, in effect, a multilateral contract between Payments NZ and its Participants, and having Participant obligations (across multiple clearing systems) in one place ensures clarity and ease of use for Participants;
- some of our Participants have chosen to embed the rules and procedures as part of their operational processes, and a significant re-structure could involve major (and expensive) changes to these processes;
- other than changes to the rules which relate specifically to individual New Zealand dollar payments made by HVCS Participants (that cannot be revoked or reversed after settlement), all other changes to the proposed scope of designated rules which are relevant to the HVCS will flow through to the wider rule set in any event – so there is limited benefit in removing these from any regulatory requirements.

In terms of publishing designated subparts of the rules on our website, Payments NZ will be able to manage this more easily than undertaking a complete restructure of the rules and then maintaining multiple sets of rules which contain the same obligations.

From the perspective of public consumption, we note that the rules have been written for our Participants and future Participants, and set out rights, powers and obligations relating to the governance and operation of safe, efficient, open, interoperable and innovative clearing systems. The rules are predominantly focussed on facilitating the exchange of payments between financial institutions at an operational level and are necessarily technical in nature. Therefore, while some of the rules may not be easily understood by readers without some degree of expertise in clearing and settlement of payments, having a standalone HVCS rule set will not alleviate this issue.

More generally, we note that the revised list at Appendix 1 excludes a number of rules which are patently not applicable to HVCS. We have always maintained that, if the rules were designated, the focus should be only on those rules which relate to material aspects of the HVCS. Merely excluding rules which have no application does not meet what we have always considered to be the right approach, and in line with fundamental policy thinking when the law was being developed.

3. Compliance costs

As a general observation, it is challenging to provide the compliance costs that the Reserve Bank is seeking, primarily because it is not clear to us whether the requirements in the FMI standards will apply to Payments NZ as the operator or to the HVCS as the FMI.

Payments NZ has always focused on compliance with relevant Principles for financial market infrastructures ("PFMI") which form the basis of the FMI Standards (as noted in the Reserve Bank's letter). In this regard, we have provided the Reserve Bank with a comprehensive table in support of this. However, we do not yet know how the Reserve Bank views the current state of our compliance, and what more may be required to meet its actual expectations. As such, we are very much at a disadvantage and this makes the estimation of costs very challenging. This needs to be kept in mind for the purposes of this exercise, and our comments are subject to this caveat (where applicable).

Our submission covers the costs that we think are relevant for any determination for the purposes of section 13(2)(f) of the FMI Act. However, we wish to reiterate the point we have made previously, that there needs to be proper cost-benefit analysis. This is required by Cabinet Office Circular CO (24) 7 which states that proposed regulation *"should address a well-defined problem and should be carefully analysed to ensure the benefits exceed the costs."* Thus, while the current initiative is concerned with costs, the regulator also needs to understand the value of what is being done, to ensure there is a sound basis for having it in place and for it exceeding the costs involved.

The specific matters raised by the Reserve Bank in its letter are covered in the attached table (save for the first one which is dealt with below). We have also commented on some other matters which are relevant to compliance costs, which are set out below. We think that all of the FMI Standards need to be considered, not just the list outlined in Appendix 2. However, it is difficult to assess compliance costs in relation to all of the FMI Standards when we do not know what is going to be required of us (as we have alluded to already). In the circumstances we are confining our consideration to the matters identified by the Reserve Bank in Appendix 2 of its letter, where the obligations are somewhat more clear-cut and more meaningful observations can be made.

Impact of increased compliance costs on Participants

We are concerned about the impact which increased compliance costs will have on our Participants, in particular smaller Participants and new applicants. The Company has a constitutional objective to facilitate and encourage new entities to become Participants in the clearing systems. The board of the Company also has obligations when setting fees, charges and levies to ensure that, in respect of the HVCS, these are reasonably and prudently required to meet the anticipated costs and expenses of the clearing system (including a proportionate share of the general operating and administrative costs and expenses of the Company).

When setting levies, charges and fees the board must be satisfied that these are:

- equitable:
    - as between Participants in the HVCS, and
    - as between all of the clearing systems; and
- do not undermine fair and open access to the clearing system.

Depending on the level of compliance costs, there is a risk fees and levies could become a barrier for new entrants joining the HVCS. Conversely, if costs are absorbed in order to avoid a barrier to new entrants, funds will need to be diverted from major projects, resulting in unnecessary constraints on innovation.

Need to obtain approval of rule changes

We are a rules body, and manage a large and detailed set of rules on behalf of Participants in order to operate our three clearing systems.

Under the proposed designation, any change to the HVCS rules would only come into effect if approved by the Reserve Bank (section 38 of the FMI Act). The approval process now in place is a formal action by the Reserve Bank, and carries with it a number of prescriptive requirements (section 39 of the FMI Act).

Our rules are under regular review. We are now up to version 69. There is a table at the start of the rules which summarises the amendments that have been made since we began operating in 2010. Our position is quite different to that of the other FMIs which are now designated under the FMI Act. The rules of these other FMIs are relatively static and do not change nearly as much as ours – the payments ecosystem is dynamic with advances in technology that are always at play. There are also occasions where rule changes need to be brought in with urgency to accommodate the rapidly changing environment.

The Reserve Bank had a much closer involvement in our work previously. Reserve Bank representatives attended meetings of Management Committees and of our Board as observers, and hence had an early involvement and understanding of our work and projects. As this no longer occurs, the Reserve Bank will not be conversant with the background and context of rule changes until we make an application for approval. There will be a need to then explain what is being proposed and sufficient time allowed for the Reserve Bank to review and make informed decisions. This will lengthen the process and may introduce risk in situations where urgent rule changes are required.

The approval process will be a steady and ongoing process, as demonstrated by the number of changes to date. It will entail significant time and resource on our part and also on the part of the Reserve Bank.

Publication of rules

Pursuant to section 36 of the FMI Act, the operator is required to publish a copy of its rules on its website, including whenever there is a change to the rules.

Our access rules and procedures are already available through our website but additional costs will arise if we are required to provide for publication of all HVCS rules. These costs will increase if there has to be a republication each time there is a rule change. As noted already, these occur quite frequently in our circumstances. In addition to this, we may also be required to publicly disclose clear descriptions of the system's design and operations, as well as the FMI's and Participants' rights and obligations. There will be a substantial amount of work in meeting this obligation.

We also note that publication of this information, together with the HVCS rule set, will inevitably generate external queries which will be time-consuming to respond to. We already receive many enquiries from the public in relation to things such as automatic payments and direct debits.

Gap analysis

The Reserve Bank will require a gap analysis to be undertaken as a result of the Proposal to recommend the designation of the HVCS. It is stated in the Proposal that:

- if the HVCS is designated, Payments NZ will need to identify any compliance gaps against the FMI Act and the FMI Standards (expected to take 8 weeks);
- Payments NZ would then seek agreement with you on the steps to resolve any identified compliance gaps.

This will generate a great deal of work between the Reserve Bank and the Company and is likely to involve considerable resource on our part. It will be important from our point of view to ensure we arrive at outcomes which are in the best interests of the payments system.

Specific matters on costs

The Reserve Bank has asked us to:

i. provide operating expenses for the last financial year with respect to HVCS;
ii. estimate costs of meeting legal and external assurance requirements in FMI Standards 1: Legal basis, 17: Operational risk, 17C: Cyber resilience;
iii. provide any further information or feedback on compliance costs in respect of the HVCS rules and FMI Standards if HVCS were to be designated, along with indicative cost figures if possible (recognising that compliance costs are not always quantifiable in financial terms);
iv. provide any other information or feedback on compliance costs if the HVCS were to be designated, along with any indicative cost figures if possible;

v. provide any other compliance costs that are not directly associated with Payments NZ as operator, such as Participant costs or other costs, whether financial or otherwise.

Our operating expenses for the last financial year for the HVCS came to **[REDACTED]**. Responses to the remaining requests can be found in the attached table, in the second column. These invariably are our best estimates. We have endeavoured to provide an estimate of Participant costs, as requested.

Concluding remarks

It should not be overlooked that proposals on FMI regulation have been underway since 2013. There have been numerous consultations and interactions with the Reserve Bank and this has been a major workstream for us involving hundreds of hours on the part of staff, our Management Committees and our board. This current initiative has also generated a great deal of work. We do not think you should lose sight of the time and resource that has gone into FMI regulation over a considerable period, apart from what may be involved once the regime is up and running.

We value the long and constructive relationship that we have had with the Reserve Bank including its oversight of our work, our governance and the operation of our clearing systems. We look forward to this continuing and we would be pleased to discuss any of the matters that have been raised by this response.

Ngā mihi,

Steve Wiggins

Chief Executive
Payments NZ Limited

From: s 9(2)(a)
Sent: Thursday, 7 August 2025 1:02 pm
To: FMI Consultation mailbox
Cc: Hon Nicola Willis
Subject: Proposal to recommend that HVCS is designated submission

Follow Up Flag: Follow up
Flag Status: Flagged

Dear FMI

Thank you for the opportunity to provide feedback to this proposal

I would hope that this change, if it is agreed to by the government, would not stifle work that is needing to be done to facilitate new technologies into the banking system

Our banks do seem to be very cautious and not transparent in relation to what they are doing in this area

The northern hemisphere is powering ahead with facilitating banking that utilises new technologies such as Blockchain and DeFi. These developments have huge advantages over traditional banking in relation to lower cost, faster speed and environmental impact

We will be severely disadvantaged if we do not keep abreast of opportunies in this area

Accordingly, the RBNZ should be able to demonstrate why they will be able to do this work better than the current system managed by Payments NZ

Again, thank you for providing the opportunity for this feedback

Regards

s 9(2)(a)
s 9(2)(a)

From: Simon Jensen s 9(2)(a)
Sent: Tuesday, 12 August 2025 7:47 pm
To: Scott McKinnon <Scott.Mckinnon@rbnz.govt.nz>
Subject: RE: Letter to Simon Jensen - DTA.docx

IN CONFIDENCE

Hi Scott,

[Redacted]

There is however something that I did want to raise with you.

I noted you posted a note on Linked in on the HVCS consultation. I have been vacillating on what I should do but do feel reasonably compelled to point out a couple of fundamental errors in the consultation given it is a consultation being:

1. HVCS is not a multi-lateral clearing system. It is a bilateral clearing system in which banks exchange files with each other through the SWIFT Assured Value Payment – Closed User Group. SWIFT is just a messaging system and not a clearing system. That has been accepted by BIS and in the last few days I understand confirmed by the Belgian supervisor . SWIFT is just infrastructure. There is no clearing house nor central counterparty involved in the HVCS. In the fact the CS is a misnomer , copied from Australia. It should just be the High Value Payment Rules/ System.
2. The RBNZ has known and accepted for 15 years (originally Steve Anderson) that legal certainty is provided for HVCS because of the requirement for transactions to be settled through ESAS (which is designated) or another appropriately designated system. There is no rule in HVCS that would benefit from s 54 (1) of the FMI Act (ie of the nature set out in s 54 (2))

I know that you have not been involved in the paper and no criticism of you is intended – but I do think that for consultation to be effective that these errors do need to be pointed out and your linked in post seems the best way to do that. I would pretty much post what I have said above.

I won't do it until Thursday in case you think there is a better way to do it.

Simon Jensen

Commercial Barrister

Phone: s 9(2)(a)