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Chief Executive Officer

3 May 2013
GL/ddh

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Subject: Response to the Reserve Bank of New Zealand's consultation document "Strengthening Statutory Payment Oversight Powers" of March 2013

Dear Sir:

SWIFT has reviewed the consultative document "Strengthening Statutory Payment Oversight Powers" of March 2013, and welcomes the opportunity to provide feedback. We believe that ongoing dialog with the NZ financial community on the topics presented in the document will reinforce the positive change and transformation we have seen in the NZ industry with the introduction of innovative payment and settlement systems – developments which are often ahead of many other global markets.

SWIFT is a member-owned, cooperative society that provides its community of banking, securities, market infrastructures and other regulated organisations, as well as corporations, with a comprehensive suite of messaging products and services. Through these products and services SWIFT supports every aspect of global financial services, including payments processing and securities post trading. SWIFT also has a proven track record of bringing the financial community together to work collaboratively, through its country National Member Groups, to shape market practice, define formal standards and debate issues of mutual interest.

SWIFT is organised under Belgian law and is owned and controlled by its shareholding Users, comprising 2,398 financial institutions as of December 2012. The user community exceeds 10,200 connected firms, across 212 countries. In 2012, SWIFT's Users in 212 countries exchanged on average more than 18 million messages per day. The peak processing day was 28 March 2013, when 21,702,451 messages were exchanged. We recognise that SWIFT does provide critical services to a wide range of organisations and a fundamental tenet of SWIFT's governance is to continually reduce the costs and risks borne by the industry.

SWIFT is a Critical Service Provider (CSP) to many Financial Market Infrastructures (FMIs) – in New Zealand, SWIFT supports both the Settlement Before Interchange (SBI) service (operated by Payments New Zealand) as well as New Zealand's RTGS. For close to 15 years SWIFT has been the backbone to the ESAS RTGS service managed by the RBNZ, a model which is employed in many High Value payment systems around the world. The SBI initiative of Payments New Zealand removed overnight settlement risk through the introduction of intraday settlement intervals.

SWIFT is, however, neither a financial market infrastructure, nor should its core messaging products and services be considered as outsourced services for FMIs. The CPSS IOSCO principles provide an opportunity to clarify the service levels required of all CSPs both external and internal, and, as such, contribute to the establishment of a level

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playing field between all providers. The selection by an FMI of a multi-network provider model – such as the one offered by SWIFT – with its inherent resiliency should be considered as suitably "robust arrangement" which is fully compliant with Principle 17 (operational risk management). SWIFT supports the adoption of service levels for CSPs on a consistent basis across jurisdictions. Coordination between supervisory authorities will maximise efficiency and avoid inadvertent barriers of entry. SWIFT believes that the adoption of international communication procedures and standards by FMIs is essential and will reduce risk and industry costs.

While SWIFT is neither a payment nor a settlement system and, as such, is not regulated by individual central banks or bank supervisors, a large and growing number of systemically important payment systems have become dependent on SWIFT, which has thus acquired a systemic character. Because of this, the central banks of the Group of Ten countries (G-10) agreed that SWIFT should be subject to cooperative oversight by central banks. The oversight of SWIFT in its current form dates from 1998. The arrangement was last reviewed in 2012 with the set-up of the SWIFT Oversight Forum, through which information sharing on the SWIFT oversight activities was expanded to a larger group of central banks. SWIFT endorses this cooperative oversight as it helps avoid global providers are subject to overlapping regulations and conflicting requirements.

In summary, the key points of our feedback are:

- SWIFT is already overseen by the G-10 central banks and RBNZ should endeavour to avoid overlapping regulation or conflicting requirements – consistency with relevant international principles is key. Furthermore, alignment with the G-10 oversight will avoid (1) legal uncertainty of the oversight by RBNZ of an entity without physical presence in New Zealand, and (2) further burden on New Zealand based financial institutions or infrastructure to establish indirect oversight of SWIFT by RBNZ;
- SWIFT fully endorses CPSS-IOSCO's Principles for Financial Market Infrastructures and particularly the expectations for Critical Service Providers in Annex F. SWIFT has been overseen on the basis of these principles since 2007 and fully complies with the expectations concerning risk management, security management, technology management, resilience, and user communication;
- Since 2007, SWIFT has provided a self-assessment against the overseers' high level expectations – these high level expectations are now reflected in the expectations for Critical Service Providers – and this report is available to central banks and regulatory bodies; and,
- SWIFT has excellent commercial relationships with New Zealand's financial community and this is a key vehicle for a dialog on SWIFT's security and reliability.

Please find below our feedback in respect of the specific points upon which we would like to comment:

Questions raised in consultation document	SWIFT response
Question 1: Do you agree with the gaps	SWIFT fully recognises RBNZ's authority to



Questions raised in consultation document	SWIFT response
<p>and issues identified and the conclusion reached? Are there any other factors that the Reserve Bank should be taking into account – if yes, please provide more details.</p>	<p>oversee critical financial infrastructures in NZ. In addition of the stated objectives for oversight, we would suggest oversight should also establish a level playing field where competitors are treated equally. We believe the oversight of critical financial infrastructures should include Critical Service Providers. However, SWIFT underscores the need for a coordinated or cooperative oversight for global providers. RBNZ should take into account situations where such global providers are already overseen and should not duplicate efforts, with risk of overlapping and sometimes conflicting requirements.</p>
<p>Question 2: Do you agree with the proposed definition of “systems”? If not, please provide more details. Alternatively, do you think the term “FMI” should be adopted, if so, why?</p>	<p>Owing to the international ambit of payments systems’ operations, SWIFT believes it is of paramount importance that there be alignment of standards at the global level. As such, we believe it would be preferable to align with internationally accepted terminology, standards and definitions and would urge adoption of those put forward by CPSS/IOSCO.</p> <p>If RBNZ requires oversight beyond any existing international oversight, we suggest that Annex F for CSPs (PFMI) would be used as the framework.</p> <p>In the context of the EMEAP Working Group on Payment and Settlement Systems (where SWIFT oversight issues are discussed with the National Bank of Belgium every 18 months), RBNZ has already received SWIFT’s reporting on its compliance with the G-10 Overseers’ High Level Expectations (HLE), and we continue to confirm our compliance on an annual basis. Given the similarities between the HLE and the <i>Expectations for Critical Service Providers</i> expressed by CPSS-IOSCO, we are confident we meet these expectations. Further information can be found in a related white paper (see swift.com).</p>



Questions raised in consultation document	SWIFT response
<p>Question 3: Do you agree with adopting the CPSS/IOSCO definition of “systemically important systems”? If not, please provide more details. Are there any additional factors that the Reserve Bank should take into account when making an assessment of the systemic importance of a system? If so, what are those factors?</p>	<p>SWIFT strongly supports the adoption of global frameworks. In particular for Critical Service Providers, we believe the global adoption of the <i>Expectations for Critical Service Providers</i> as published by the CPSS-IOSCO will help maximise the operational reliability of systemically important (payment) systems.</p>
<p>Question 4: Do you agree with the proposed co-regulatory model? If not, how should oversight responsibility be shared between the Reserve Bank and the FMA?</p>	<p>SWIFT fully supports RBNZ comment to optimize international collaborative oversight and agrees that for global infrastructures, the existing global co-operative oversight arrangements must be leveraged to the maximum extent possible (see sub-section D of Section three on “Co-operative oversight with overseas bodies”, paragraph 50 on page 13). For SWIFT this would be the G-10 Oversight (and the SWIFT Oversight Forum), but also the EMEAP Working Group on Payment and Settlement Systems. Similarly, if there are multiple national oversight bodies, we would expect them to coordinate to maximise efficiency for all parties.</p>
<p>Question 5: Are there any powers that are proposed in this paper not appropriate in your view? If yes, please explain which one(s) and why. Are there any other powers should the Reserve Bank seek and why?</p>	<p>Vesting national central banks with specific powers over CSPs will result in supervisory overlap, and may also lead to increased cost and possibly to conflicting requirements. As stated earlier, SWIFT is already overseen by the G-10 central banks and believes that such cooperative oversight arrangements, which depend on effective moral suasion, are best suited for ensuring adherence by global providers such as SWIFT.</p>
<p>Question 6: Do you agree that separating the two regimes would represent a better framework overall? Please provide more details to your answer. Do you have any comments about how these two regimes would work?</p>	<p>We note the statement that SWIFT is a critical service provider and will not fit into the designation scheme. Equal treatment of all CSPs is paramount.</p> <p>Overall, we support separation of the two regimes, but we believe it is paramount that both regimes be properly defined (e.g., in terms of scope) and to which systems each would apply.</p>



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Richard Dean, Manager Operational Policy, Reserve Bank of New Zealand

Questions raised in consultation document	SWIFT response
<p>Question 7: Do you agree with the efficiency considerations discussed in this paper? If not, please explain why. Are there any other efficiency-related areas that you consider the Reserve Bank should look into? If so, please provide further details on those areas.</p>	<p>SWIFT supports the efficiency objectives of RBNZ and Payments New Zealand. SWIFT's products and services are designed to meet our customers' needs and to minimize total cost of ownership and risk. As a cooperative, the avoidance of anti-competitive practices is a key requirement and our products and services are available to all financial institutions (with the exception of sanctioned countries and institutions). We believe that Critical Service Providers' role in helping to achieve soundness and efficiency is important and that the oversight of the CSPs should include these aspects.</p>
<p>Question 8: What are the pros and cons for the Reserve Bank to maintain a list of all the payment and settlement systems in New Zealand? Are you supportive of the Reserve Bank having such a list? If not, please provide detailed comments.</p>	<p>If a list of Critical Service Providers is established, SWIFT believes that a complete and accurate inventory of CSPs is paramount as this will help ensure a level playing field (under the assumption that all CSPs on the list will be subject to the same oversight obligations).</p>

We hope our comments will be useful to you in finalising the consultation document and we are available should you wish to discuss our comments.

Sincerely,

A handwritten signature in blue ink, appearing to be "Richard Dean".