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Head of Oceania

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BY E-MAIL TO PassReview@rbnz.govt.nz

Subject: Response to the Reserve Bank of New Zealand's consultation document "Strategic review of the Reserve Bank of New Zealand's payment and settlement systems" of 12 May 2014

Dear Mike:

SWIFT has reviewed the consultation document "Strategic review of the Reserve Bank of New Zealand's payment and settlement systems" of 12 May 2014, and welcomes the opportunity to provide feedback.

SWIFT is a member-owned cooperative that provides the communications platform, products and services to connect more than 10,500 banking organisations, securities institutions and corporate customers in 215 countries and territories. SWIFT enables its users to exchange automated, standardised financial information securely and reliably, thereby lowering costs, reducing operational risk and eliminating operational inefficiencies. SWIFT also brings the financial community together to work collaboratively to shape market practice, define standards and debate issues of mutual interest.

In April 2014, SWIFT's users exchanged more than 22.4 million SWIFT FIN messages on average per day. The last peak processing day was 30th April 2014, when 24,325,166 FIN messages were exchanged. SWIFT provides critical services to a wide range of organisations, and a fundamental tenant of SWIFT's governance is to continually reduce the costs and risks borne by the financial industry.

SWIFT is a Critical Service Provider (CSP) to New Zealand's Financial Market Infrastructures (FMIs); supporting both the SBI service (administered by Payments New Zealand), as well as New Zealand's RTGS (administered by the RBNZ). 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](#), which were published in 2012, have clarified the service levels that FMIs and their regulators should require of all CSPs and, as such, contribute to the establishment of a level playing field for all providers, globally.

The selection by an FMI of a multi-network provider model – such as the one offered by SWIFT should be considered as a suitably "robust arrangement", fully compliant with Principle 17 operational risk management. SWIFT supports the consistent adoption of globally accepted service standards for CSPs in all the jurisdictions we operate in. Coordination between supervisory authorities in this area will maximise efficiency and



avoid barriers to entry. SWIFT believes that the adoption of international communication procedures and standards by FMIs is essential and will reduce risk and industry costs.

Over SWIFT's forty-year history of serving the global financial community, SWIFT has been involved in many key financial market infrastructure projects world-wide. This allowed us to establish best practices, perspectives and acquire unique expertise. Our standards, protocols and platform have become the industry standard and as a result, over a hundred payment market infrastructures and seventy securities market infrastructures currently use them across the world. The Japanese Securities Depository Centre (JASDEC), the Singapore Exchange (SGX), the Australian Stock Exchange (ASX), Target2 (T2) and Target2 for Securities (T2S) in Europe, the Single Euro Payment Area (SEPA) and the first ISO 20022 RTGS in Asia in Brunei, have all embarked on major projects with SWIFT.

In summary, the key points of our feedback are:

- SWIFT fully supports RBNZ's vision of promoting a sound, efficient and dynamic payments and settlements environment, which maintains national and international confidence and reliability, and enables innovation.
- SWIFT has identified the following four drivers to innovation in payments and settlement infrastructure:
 1. Regulation affecting many domains: liquidity management; credit, system, and operational risk; financial crime compliance; and increased collateral requirements;
 2. Technological changes: technology has become faster, cheaper, and easier, with new devices and services such as cloud computing and service oriented architectures;
 3. Economic forces: existing and new industry players with innovative business offerings;
 4. Social and customer demand: increased expectations from the general public.
- SWIFT supports the RBNZ's plan to build a roadmap for the operation of its payment and settlement systems by the Bank. As part of this roadmap, SWIFT believes the RBNZ should consider the following industry trends:
 - Real-time retail payments are being driven by improvements in technology, allowing for a move away from legacy batch systems; Additionally more data can now be included within payment instructions, and increase convenience for end customers;
 - Increasingly, FMIs and their users are looking for third sites to ensure that business as usual operations can be maintained even in the very unlikely but high impact event that the FMI's primary and secondary sites were to experience a catastrophic failure. This is also advised in the principle 17 of the CPSS-IOSCO, new principles for FMIs, to strengthen their resiliency to further mitigate operational risk;
 - Significantly reduced use of cash and cheques is driving electronic payment innovation in many markets;
 - Regional payment infrastructures are increasingly being built to reduce risks and complexity, and increase financial efficiency;
 - Multi-currency clearing and settlement capabilities are being included in new RTGS systems to reduce FX settlement risk.



- With regards to NZClear, we are aware of discussions about settling all instruments at a single CSD, whilst in some other markets we see the opposite development. Whatever the RBNZ's decision, it is important that all CSDs offer standard connectivity and messaging in order to reduce total cost of business.

Please find below our detailed feedback.

Category	Questions raised in consultation document	SWIFT response
The Bank's vision, principles and core requirements	Question 1: How does the Bank's vision for payment and settlement systems align with what you think the Bank's payment and settlement systems should deliver?	SWIFT fully supports RBNZ's vision of promoting a sound, efficient and dynamic payments and settlements environment. SWIFT also supports RBNZ's vision for enabling innovation, as the payment industry has always been evolving with innovations, from NDS to high-value real-time gross settlement, and now to retail real-time payments; from single currency RTGS to multi-currency RTGS, CLS, HK PvP, regional RTGS South African Development Countries (SADC), T2 & T2S, China CIPS, etc.
	Question 2: Do you think the identified principles will deliver on that vision?	SWIFT believes that the principles are aligned with the international FMI guidelines published by BIS under CPSS-IOSCO PFMI. The principles should provide a useful roadmap and, if followed, help ensure the FMI foster financial stability, limit systemic risk, increase safety, and support greater efficiency in the New Zealand financial market.
	Question 3: Do you think these principles are being met now?	



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	Question 4: What other principles should the Bank consider?	<p>Other than the principles affecting the systems and services that the RBNZ provides to the financial community, SWIFT would recommend that the RBNZ ensures that Critical Service Providers (CSP) meet the CPSS-IOSCO Annex F expectations for CSPs.</p> <p>FMI's depend on CSPs, and it is important to ensure that CSPs meet expectations in terms of their risk identification and management, information security, reliability and resiliency, technology planning, and communication with users.</p>
	Question 5: Do you agree with the Bank's views on the four core requirements specified?	<p>We agree that the requirements are aligned with CPSS-IOSCO public policy objectives, most notably, safety and efficiency. Given the criticality of a central RTGS, we believe the Bank should continue to own ESAS. Notwithstanding this, in some other markets we have seen that payment system operations are executed by a subsidiary entity, leaving the Central Bank free to focus on market oversight and policy.</p> <p>We agree that high-value payments need to be settled line-by-line; in addition, we have also seen many RTGSs implement gridlock solving algorithms to optimise and save liquidity.</p>
	Question 6: What other core requirements would you include in this list?	<p>To ensure the safety and efficiency of the FMI, and avoid shocks passed from one participant or FMI to another, SWIFT recommends that CSPs also be required to provide their self-assessments against the CPSS-IOSCO Annex F expectations for CSPs.</p>



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Strategic Issues	Question 7: What are your critical user needs that payment and settlement services provided by the Bank must meet in relation to speed, innovation, development and capability?	N/A – SWIFT is not a service user
	Question 8: Are these needs met by the existing systems? If not, why not?	N/A – SWIFT is not a service user



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	<p>Question 9: What key innovations will shape the direction of payments and settlements in the future?</p>	<p>Payment and settlement systems continue to evolve as a result of advances in technology and new regulatory requirements. Some of the key innovations that we have seen include:</p> <ol style="list-style-type: none">1. A trend towards 'real-time' retail payments driven by improvements in technology, a move away from legacy batch systems, the growth of mobile banking applications and the demand from consumers for more convenient payment options. As this trend is quite new, there is currently no standard implementation of this type of system. Going forward, SWIFT is looking to address this lack of standardised implementation. The different settlement mechanisms being used within these systems are an example of non-standardisation. For instance, the new FAST payment system, which recently went live in Singapore, provides real time clearing with a delayed settlement, whereas the New Payments Platform in Australia will implement real-time clearing with line-by-line settlement.2. RTGS 3rd site resiliency solution. Given the prominent role RTGS systems play in the world economy, it is vital to safeguard effectively against operational disruption, such as: natural disasters, epidemic diseases, and cyber-attacks, and manage related risks. Increasingly, RTGSs and their users are looking to implement third sites so as to ensure they are able to maintain business as usual operations even in the very unlikely but high impact event that the first and second lines of defense were to fail. For instance, the Bank of England recently implemented and went live with SWIFT's 3rd site Market Infrastructure Resiliency Solution (MIRS). Others are considering doing the same.



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		<ol style="list-style-type: none"><li data-bbox="799 618 1426 860">3. There is a drive from both consumers and regulators to reduce the use of cash. In different parts of the world we have seen innovations in different layers of the retail payments ecosystem to achieve this end. Examples include the development of mobile payments, digital wallet, and other solutions from retail providers as well as from banks.<li data-bbox="799 864 1426 1043">4. More and more regional payment infrastructures are being planned or built with the aim of reducing risks and complexity, and increasing financial efficiency. Examples include: SEPA, SADC, and ASEAN integration, HK PvP for Malaysia, Indonesia, and Thailand.<li data-bbox="799 1048 1426 1256">5. Increasingly, multi-currency clearing and settlement capabilities are being included in RTGS systems to reduce FX settlement risk. For instance, the HK RTGS has RMB, USD and EUR capabilities, Malaysia has added USD and RMB into its new RTGS, and the Taiwan RTGS handles TWD and RMB.



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	<p>Question 10: Which of these innovations do you think will be most critical for the Reserve Bank to incorporate into its roadmap?</p>	<p>SWIFT believes that the RBNZ should consider the trend towards real-time payments as the highest priority item. Also, given the importance of China to the NZ economy, the Bank should investigate the demand for an RMB payments facility. Many markets are now positioning themselves as offshore RMB clearing centres. The RBNZ should also note the recent announcements by the ASX and Bank of China in Australia which are both teaming up to provide an RMB payment facility through the Austraclear system.</p> <p>More generally, SWIFT would encourage the RBNZ to consider the following:</p> <ul style="list-style-type: none">- As FMIs move towards new systems, or when they refresh legacy systems, they tend to adopt the ISO20022 standard for their system. SWIFT has supported this move in multiple markets, and we encourage the RBNZ to consider this standard in the context of its roadmap as ISO 20022 is technologically the most advanced standard and is inherently provider-neutral.- Extended banking hours are also a feature of many new payments systems. For instance, the New Payments Platform (NPP) in Australia, will operate on a 24/7/365 basis, including settlement.
	<p>Question 11: How will these innovations affect you and your requirements of payment and settlement systems?</p>	<p>SWIFT will not be the a direct user of the service innovations, however, SWIFT is able to provide the connectivity, programme and standards support for any implementation along the lines set out above.</p>



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	<p>Question 12: What are the main drivers to innovation in payments and settlements infrastructure, e.g. regulation, technology, customer demand?</p>	<p>The key drivers we have seen are:</p> <ol style="list-style-type: none">1. Regulation governing liquidity and collateral management, financial crime compliance, credit, system and operational risk.2. The CPSS-IOSCO PFMI guidelines published by BIS in 2012 which set out the key roles of an FMI – safety, efficiency and resiliency.3. Technology has become faster, cheaper, and simpler to implement, with new devices and services such as: cloud computing shared platforms, and service oriented architectures.4. Economic drivers as a result of:<ol style="list-style-type: none">i. shrinking margins;ii. need for operational efficiencies;iii. increasing competition.5. Social and customer drivers:<ol style="list-style-type: none">i. risk reduction and service-level improvement, e.g. low cost real-time retail payments and 24/7 availability;ii. user convenience, e.g. pay anyone, anywhere, anytime.



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	<p>Question 13: Do you foresee real-time gross settlement for retail payments occurring in New Zealand in the near future? If yes, what will be the drivers? If no, what are the barriers?</p>	<p>Globally, SWIFT has seen a trend towards real-time retail payments with 24/7 availability; we have also seen convergence between high-value and low-value systems. This is mainly driven by:</p> <ul style="list-style-type: none"> - regulatory developments that promote efficiency, safety, reliability in the retail payment space; - increase use of settlement finality and further reduce risk; - customer desire to pay anyone, anywhere, anytime; - trends in online and mobile convergence, and in mobile wallet development; <p>This results in increasing markets planning to set up a payment infrastructure for real-time retail payments.</p> <p>In Australia, the Central Bank plans to build a 24/7 line-by-line real-time gross settlement system for retail payments on the basis of ISO 20022. There appears to be widespread support for real-time clearing in Australia, although many have questioned the need for line by line settlement.</p>
	<p>Question 14: What payment or settlement system innovations would you have expected or like to have seen that have not been delivered by the Bank?</p>	<p>N/A – SWIFT is not a service user</p>



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	<p>Question 15: Looking forward, if we were to change the current infrastructure, e.g. separate NZClear and ESAS, but retain SWIFT messaging for communicating between systems, how would that impact you?</p>	<p>N/A – SWIFT is not a service user</p> <p>For this question, SWIFT has assumed that the RBNZ would still be operating both systems, but that they would run on different platforms. If this is the intention of the question, and if SWIFT were indeed used to perform the payment leg of DvP transfers, then the only impact we could foresee would be the potential for a small amount of latency in DvP transactions. This is because the RTGS instruction would need to pass through SWIFT's operating centres. It should be noted, however, that this type of CSD-RTGS link over SWIFT is very common.</p>
	<p>Question 16: What benefits does the Bank's delivery of securities settlement through NZClear deliver?</p>	<p>Looking at the global picture of government fixed income market infrastructures, out of 112 listed markets, 37 have government fixed income and/or money market instruments, which are settled by the central bank. A couple of central banks outsource this activity to the private sector, but maintain ownership of the process. In the remaining 73 markets, settlement of all instruments takes place at one unique CSD.</p>
	<p>Question 17: What drawbacks exist due to the Bank's ownership and operation of NZClear?</p>	<p>There are discussions and plans underway in some markets around settling all instruments at one CSD, but in some other markets, the progress is in the other direction, i.e. with central banks re-taking ownership of bond settlement away from private sector CSDs.</p>
	<p>Question 18: What benefits might arise if the securities settlement services currently provided by the Bank were provided by the private sector?</p>	<p>Whichever decision, it will be important to ensure that the unique or multiple CSDs offer standard connectivity and messaging if the costs are to be reduced.</p> <p>There are currently 27 participants connected to NZClear through SWIFT, and 2.449 million securities related messages were sent over SWIFT within the</p>



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	<p>Question 19: What drawbacks might exist if the securities settlement services currently provided by the Bank were provided by the private sector?</p>	<p>NZ financial community in 2013.</p> <p>NZ financial institutions are familiar with SWIFT and the standards it supports. As such, we recommend that the use of SWIFT as the primary channel of any future settlement infrastructure model in New Zealand.</p>
<p>Question 20: What views do you have on whether the Bank should continue providing security settlement services?</p>		
	<p>Question 21: Do market participants face additional costs because of the two separate settlement infrastructures operating in NZ?</p>	<p>At present, the Reserve Bank of New Zealand and NZX are acting as complementary CSDs. As a result, participants incur higher cost due to maintaining different connectivity mechanisms for each CSD. The Reserve Bank of New Zealand provides a communication solution based on SWIFT, an international connectivity and messaging standard, while NZX offers a proprietary network. These costs could be avoided if SWIFT users (all custodian banks and many other financial institutions in New Zealand) could use their SWIFT infrastructure and messaging standards to connect to both the Reserve Bank of New Zealand (for payment and securities activities) and NZX.</p>
<p>Question 22: Are these costs significant?</p>		
	<p>Question 23: Does the Bank's role in NZClear present a conflict of interest for the Bank?</p>	<p>N/A – SWIFT is not a service user</p>



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	Question 24: If so, how does this conflict manifest itself, and what actions could mitigate the identified problems?	N/A – SWIFT is not a service user
Potential Options	Question 25: What other options might exist? Question 26: What is critical for evaluating these options?	Irrespective of which securities settlement model will be implemented in New Zealand, and taking into account the payment role of the Reserve Bank of New Zealand, we believe that of the adoption of a single technical and standard communication infrastructure would reduce cost for the industry. Additionally it would allow all participants to connect to all post-trade market infrastructures (CSDs, RTGS, LVPS, etc.) through one single system.



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	<p>Question 27: Are there any other issues that the Bank has not identified that it needs to take into account when considering options?</p>	<p>We recommend that the Bank uses the opportunity of this strategic review of the payment and settlement systems to prepare for the country-wide adoption of ISO 20022. This standard is being implemented widely for all or some payment and securities business processes across the world, including in the EU, Japan, Singapore and Australia. It enables market players to communicate with their market infrastructures and with one another using one single language. ISO 20022 enables payment, trade, treasury and securities systems to speak the same language, improving automation and straight through processing of transactions across domains, thereby reducing operational risks and costs.</p> <p>We also recommend that the Bank considers further enhancing RTGS resiliency in its roadmap. Principle 17 of the BIS CPSS-IOSCO PFMI recommends that critical information technology (IT) systems can resume operations within two hours following disruptive events, and that they be designed to enable the FMI to complete settlement by the end of the day of the disruption, even in case of extreme circumstances. These extreme circumstances could include wide-scale natural disasters, cyber-attacks, and epidemic diseases, which would require the disaster recovery system to be diversified in terms of geography, technology, and staff. SWIFT's Market Infrastructure Resiliency Solution (MIRS) is an example of how FMIs can meet this Principle and indeed the Bank of England recently went live with MIRS for its RTGS.</p>



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Mike Wolyncewicz, Chief Financial Officer, Reserve Bank of New Zealand

We hope our comments will be useful to you in finalising the consultation process. Please do not hesitate to contact us, should you have any follow-up questions or wish to discuss our comments.

Sincerely,

A handwritten signature in black ink, appearing to read "Bill Doran".

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