Governor’s Foreword

The Payments System Board has paid close attention over the past year to the work that is ongoing in the Reserve Bank and the payments industry to implement the 2012 conclusions from the Board’s Strategic Review of Innovation in the Payments System. Three aspects are particularly noteworthy. First, the Australian Payments Council, the new industry coordination body, has been formed and is expected to have its first meeting in October 2014. Second, the Board commends the achievement of one of the strategic objectives from the Review, namely the implementation of same-day settlement of direct entry payments in November 2013. Finally, the Board welcomes the substantial progress that has been made on the New Payments Platform (NPP) project to build a new real-time payments infrastructure that will link authorised deposit-taking institutions (ADIs) and facilitate real-time, data-rich payments for Australian households, businesses and government agencies. There has been significant interest in this project from other jurisdictions. The NPP is requiring a substantial commitment of investment and industry staff resources. The Bank will continue to work closely with the industry to achieve a successful outcome to this project.

The Reserve Bank has continued work to improve understanding of the Australian payments system. In June, the Bank published the results of its third survey of consumers’ use of payment methods. The survey provides a rich dataset for analysing payment choice by consumers. The survey shows a decline in the use of cash and continued growth in electronic payments such as direct credit and debits, cards and BPAY. It also shows a further significant contraction in the use of cheques. Indeed, the successful implementation of the NPP and the development of new and improved ways to make payments will probably bring forward the time when the industry will be able to phase out the use of cheques, which are a high cost means of payment for financial institutions and businesses. The Bank is also working to improve its understanding of other aspects of the payments landscape, and has been undertaking a large-scale review of the costs of different payment instruments for financial institutions and merchants.

Studies such as these provide useful information for the industry and for public policy, including the current Financial System Inquiry. The Reserve Bank made a submission to the Inquiry in March and a supplementary submission in August 2014, with the material on the payments system detailing the Bank’s reforms over the past 16 years.

The Board’s activities in the regulatory sphere over the past year have included its work on the Access Regimes applying to the MasterCard credit, Visa credit and Visa Debit systems in Australia. The original access framework was implemented in 2004 and 2005 to expand access to the MasterCard and Visa systems while minimising any risks to the payments system as a whole. Since then, however, the schemes have changed from member-owned organisations to commercial organisations with a greater incentive to expand access. Accordingly, the Bank has consulted on changes to the access framework to facilitate new entry and in March announced a decision in principle to vary the Access Regimes. The new framework is contingent on some other changes – amendment of the Banking Regulations 1966 and removal of the current ADI category of
specialist credit card institutions, as well as the Bank being satisfied with changes to the rules of the Bulk Electronic Clearing System – but should be effective around the end of 2014.

Over the past year, the Board has continued to focus increasing attention on stability issues. As the role of financial market infrastructures (FMIs) within the financial system has expanded, most notably with the G20’s commitment to central clearing of all standardised over-the-counter derivatives, there is an increasing awareness internationally of their growing systemic importance. Close oversight of FMIs against high regulatory standards is therefore essential.

Consistent with this, the Bank has consolidated its implementation of the new international standards for the regulation and oversight of FMIs. In August 2013, the Board approved the first formal Assessments of the clearing and settlement (CS) facilities in the ASX group against the new Financial Stability Standards that align with these international standards. The Assessments revealed that ASX had made very good progress towards meeting the requirements of the new standards. A number of regulatory priorities were nevertheless set to ensure full observance of the standards and to address the requirements of a small number of standards that were initially subject to transitional relief. These have been the focus of the Bank’s oversight of the ASX CS facilities in 2013/14 as reflected in the recently completed Assessment reports for this period. In addition, in November 2013, the Bank published its first formal Self-assessment against the international standards for the Reserve Bank Information and Transfer System (RITS), the Australian high-value payment system. This Assessment concluded that RITS had observed all relevant standards.

The internationalisation of FMIs has remained an important theme in 2013/14. LCH.Clearnet Limited (LCH.C Ltd), the first overseas-based central counterparty to be licensed in Australia, has been extending its SwapClear OTC interest rate derivatives clearing service to Australian participants. During the period, LCH.C Ltd admitted two Australian banks as direct participants. A third has since joined and it is understood that other Australian banks plan to join in the future. LCH.C Ltd also opened a representative office in Sydney to service participants in Australia and the wider Asia-Pacific region, established an Australian Member User Group, and is working with the Reserve Bank to open an Exchange Settlement Account to manage its Australian dollar liquidity. The Board recently approved the staff’s first Assessment report for LCH.C Ltd against the Bank’s Financial Stability Standards.

Finally, to support overseas providers’ activities in Australia, as well as Australian entities’ activities in other markets, the Bank has continued to cooperate with international regulators. To govern such cooperation, memoranda of understanding have been concluded with the Commodity Futures Trading Commission and the Reserve Bank of New Zealand. Similar arrangements are being negotiated with the European Securities and Markets Authority.

John Laker AO completed a 16-year term on the Board on 30 June 2014, having been a founding member and serving initially as Deputy Chair of the Board prior to his appointment as the Chair of the Australian Prudential Regulation Authority in 2003. Dr Laker served with professionalism and dedication throughout his term. The
Board records its appreciation of his valuable contribution to payments policy in Australia, including through his contribution to the Board’s deliberations from the perspective of a regulator in the financial sector.

Once again the Board joins me in thanking the staff and management of the Bank for their work in helping the Board meet its mandate for efficiency, competition and controlling risk in the Australian payments system.

Glenn Stevens
Chair, Payments System Board
5 September 2014