

# Governor's Foreword

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The work of the Payments System Board in 2012/13 addressed a wide range of issues.

The Conclusions to the *Strategic Review of Innovation in the Payments System*, published in June 2012, highlighted difficulties with achieving innovation at an industry-wide level and identified a number of specific gaps that existed in the payments system. In response, some important initiatives are underway. First, the industry and the Reserve Bank are on track to move to same-day settlement of all Direct Entry transactions by the end of 2013. Second, the New Payments Platform (NPP), an industry project in response to the Strategic Review, aims to deliver real-time payments on a 24/7 basis to all users of the payments system by 2016. A related initiative is the establishment of a new industry coordination body, the Australian Payments Council, intended to enhance the industry's capacity to innovate further over the longer term. The Council will bring together senior representatives of a range of players in the payments industry to consider strategic issues for the industry. The Board has been considering the design of the new body, in conjunction with the Australian Payments Clearing Association. The Board will also remain closely engaged with the NPP to monitor progress and ensure that its public policy objectives are met. The Bank is represented on the steering committee overseeing the project, along with the design authorities and working groups that will contribute to the initial stages. In addition, the Bank itself is building certain key elements of infrastructure to enable the NPP to settle payments in real time in the Reserve Bank Information and Transfer System (RITS).

The Board continues to assess, as needed, the effectiveness of regulation put in place in earlier years. In May 2012, the Board had decided to vary the standards relating to surcharging of card transactions by merchants, so as to allow schemes to cap surcharges at the reasonable cost of accepting cards. The new standards became effective in March 2013, supported by a guidance note to assist schemes, acquirers and merchants in determining the reasonable cost of acceptance. In May 2013 the Board initiated a consultation on whether the access regimes imposed on the MasterCard and Visa systems in 2004 and 2005 are continuing to strike an appropriate balance between competition and financial safety. Reflecting the establishment of a central governing scheme for the eftpos system, the Board made an in-principle decision to remove the access regime for the eftpos system if satisfactory alternative access arrangements are put in place. It also simplified the regulation of interchange fees in the eftpos system, given the easing of concerns that bilaterally negotiated fees might be used to disadvantage new entrants. Finally, the Board made a change to the access regime for the ATM system, which allowed it to grant an exemption to an industry arrangement that aims to reduce excessive expenditure on ATM fees in very remote Indigenous communities.

In recent years, the Board has been spending an increasing amount of its time on issues arising from its responsibilities under the *Corporations Act 2001* to promote the stability of the financial system. This continued in 2012/13, stemming in part from international regulatory developments. The global push to greater use of central counterparties (CCPs) and other centralised financial market infrastructures (FMIs) in over-the-counter (OTC) derivatives markets means that dependence on FMIs is increasing. The international policy community

has, therefore, focused increasingly on the resilience of FMIs and on arrangements to ensure continuity of critical services, should there be a threat to an FMI's solvency. Following the publication of new global standards, in November 2012 the Board approved a new set of financial stability standards for the design, operation and risk management of licensed clearing and settlement (CS) facilities in Australia. The Board recently approved the Bank's first assessments of the CS facilities in the ASX Group against the new standards, for publication in September.

The Board has also considered matters arising from greater cross-border activity by CCPs. A key issue in permitting overseas-based CS facilities to provide services in Australia is to ensure that the design, operations and governance of such facilities are appropriate to the Australian context. In this regard, the Board reviewed a framework developed by the Council of Financial Regulators that establishes a graduated set of measures to apply to cross-border facilities. This framework will be applied by the Bank and the Australian Securities and Investment Commission to oversee the domestic operations of LCH.Clearnet Limited (LCH.C), a London-based CCP, which in April became the first overseas-based CS facility to be licensed in Australia. LCH.C's licence was initially restricted to the provision of CCP services for commodity, energy and environmental derivatives traded on a new exchange to be operated by FEX Global Pty Ltd, but it has since been varied to permit LCH.C to offer its SwapClear service for OTC interest rate derivatives directly to Australian participants.

International regulatory developments are also shaping the strategic decisions of existing domestic CS facilities. In recent meetings, the Board has examined two particularly important initiatives progressed by the ASX Group that were launched in July 2013. These are a clearing service for Australian dollar-denominated OTC interest rate derivatives and a centralised collateral management service, which automates the optimisation and allocation of collateral, initially in respect of securities held in Austraclear.

Finally, the Board has considered issues arising from the cross-border reach of OTC derivatives and CCP regulation of some foreign jurisdictions, especially the United States and European Union. The Bank and other Australian regulators have been assisting counterparts in these jurisdictions in their assessments of the extent to which these jurisdictions will be prepared to rely on Australian regulation, rather than imposing their rules directly on Australian participants.

Joseph Gersh AM finished a 15-year period on the Board on 14 July 2013, having been a founding member of the Board and serving with great distinction during his three terms. The Board thanks him for his valuable contribution to the Board's deliberations and his strong support for the work of the Bank in the payments area. Gina Cass-Gottlieb and Paul Costello joined the Board on 15 July 2013.

Once again, the staff in Payments Policy Department have performed their roles with dedication and high levels of competence. The Board joins me in thanking them for their efforts.



Glenn Stevens  
Chairman, Payments System Board  
2 September 2013