



Rules

Appendix 1: Access procedures

Version 20

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Document history and version control

Title: Access procedures

Version: 20

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Summary of amendments to procedures:

The following table summarises amendments to these procedures.

Version number and description of amendment	Amendment method and date	Amendment notice date	Effective date of amendment	Authors
Version 1	Board resolution: 19 February 2013	25 February 2013	20/05/2013	Simon Jensen, Caroline Kidd, (appendix 1A) Frank Susko, (appendix 1D section A7) Sarah Hensen
Version 2: Amendments to: <ul style="list-style-type: none"> replace the board with the independent directors to determine access applications, and capture Reserve Bank technical issues arising from the ANZAC incident. 	Board resolution: 13 March 2013	14 March 2013	20/05/2013	Simon Jensen, Caroline Kidd, (appendix 1D, section B9) Murray Goold.
Version 3 Amendments to correct drafting errors and update some pictures.	Chief executive amendment 13 March 2014	13 March 2014	14 May 2013	Caroline Kidd and Frank Susko
Version 4: Amendments in relation to a minimum credit rating or an access guarantee to appendices 1C and 1D. Addition of appendix 1J, access guarantee Consequential amendments to correct drafting errors and update format and pictures.	Board resolution 5 May 2014 Chief executive amendment 12 May 2014	12 May 2014 12 May 2014	14 July 2014 14 July 2014	Buddle Findlay: Simon Jensen, Tony Dellow, Payments NZ: Caroline Kidd, Sarah Hensen Caroline Kidd, Frank Susko
Version 5: Amendments to reflect the removal of the undue enrichment agreement and insertion of Part 11A.	Board resolution 2 July 2014	7 July 2014	15 September 2014	Emma-Jayne Turner
Version 6: Amendments to appendices 1, 1B, and 1C and insertion of new appendix 1J to enhance the application process for HVCS Amendment of references to the statutory declaration at 1J to 1K	Board resolution 2 December 2014 Chief executive amendment 5 Dec 2014	8 Dec 2014 8 Dec 2014	16 Feb 2015 8 Dec 2014	Natalie Vaughan-Sanders Caroline Kidd
Version 7: Amendment to correct a manifest error in appendix 1C	Chief executive amendment 10 March 2015	10 March 2015	26 March 2015	Simon Jensen, Sarah Hensen
Version 8: Amendments to correct cross referencing errors in appendices 1C and 1D	Board resolution 20 April 2015	28 April 2015	25 May 2015	Caroline Kidd
Version 9: Amendments to reflect amendments to Part 2 to restrict participants' rights to recover testing costs for SBI and HVCS and consequential amendments to appendices 1B to 1D	Board resolution: 14 September 2015	21 September 2015	23 November 2015	Caroline Kidd

Version number and description of amendment	Amendment method and date	Amendment notice date	Effective date of amendment	Authors
Version 10: Amendments to reflect amendments to Part 2 changing how the company assesses an application to participate in a clearing system.	Board resolution: 15 December 2015	21 December 2015	29 February 2016	Buddle Findlay: Simon Jensen, Katie Williams Payments NZ: Caroline Kidd Sarah Hensen Frank Susko, Gaby Holdgate
Version 11: Amendment to correct manifest errors and formatting errors	Chief Executive amendment: 19 April 2016	19 April 2016	27 June 2016	Caroline Kidd, Frank Susko
Version 12: Amendments in relation to testing for CECS	Board resolution: 13 September 2016	28 October 2016	9 January 2017	Caroline Kidd, Frank Susko
Version 13: Amendments to: <ul style="list-style-type: none"> enable settlement only participation in SBI, and remove testing requirements including test cases for HVCS and SBI (superseded by the PNZ test strategy), and remove commentary in relation to assignment of a right to participate, allocation of interchange numbers and branch ranges and resignation. 	Board resolution: 11 April 2017	10 May 2017	10 July 2017	Buddle Findlay: Simon Jensen, Katie Williams Payments NZ: Caroline Kidd, Frank Susko
Version 14: Amendments: <ul style="list-style-type: none"> as a result of a streamlined process for financial problems in Part 12, to capture best practice guidelines for an applicant wishing to join CECS, and to update diagrams and pictures as a result of changes to company branding. 	Board resolution: 26 February 2018	5 March 2018	14 May 2018	Buddle Findlay, Payments NZ
Version 15: Amendments: <ul style="list-style-type: none"> to correct manifest errors, of a formal or technical nature, and of a grammatical, formatting, typographical or minor nature 	Chief executive amendment 6 June 2018	6 June 2018	13 August 2018	Buddle Findlay, Payments NZ
Version 16: Amendments supporting amendments to the access rules in Part 2 to streamline the application and assessment process.	Board resolution: 11 April 2019	17 April 2019	24 June 2019	Buddle Findlay, Payments NZ
Version 17: Amendments to SWIFT connectivity requirements.	Board resolution: 13 August 2019	14 August 2019	14 October 2019	Buddle Findlay, Payments NZ
Version 18: Amendment to the 3LC requirements for SBI and HVCS.	Board resolution: 11 December 2019	17 December 2019	24 February 2020	Buddle Findlay, Payments NZ Ltd
Version 19: Minor amendments to the use of the term ESAS	Board resolution 7 December 2020	10 December 2020	1 March 2021	Buddle Findlay, Payments NZ Ltd
Version 20: Amendments to support changes to the operational access requirements for SBI including a requirement that SBI participants can record the time a file is sent and monitor whether it settles.	Board resolution 7 December 20	10 December 20	31 May 2021	Buddle Findlay, Payments NZ Ltd

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Note: Appendices 1B, 1F and 1G are in separate documents.

Rules

Appendix 1: Access procedures

Commentary

Purpose of procedures

The Payments NZ rules, Part 2, specify the key requirements for:

- participating in a clearing system, and
- obtaining an interchange number or branch range for SBI.

These procedures and appendices specify **how** to comply with the requirements for participating in a clearing system under Part 2 of the rules. These procedures classify the text as 1 of 3 things:

- a **procedure** or **standard**– which can either:
 - impose an obligation on Payments NZ or a participant with which Payments NZ or the participant **must** comply in accordance with Part 2, or
 - give Payments NZ or a participant a right which Payments NZ is **entitled** to enforce against participants in accordance with Part 2, or
- **best practice** – with which Payments NZ or participants **should** comply but which has no legal effect, and
- **commentary** – which has no legal effect but which is intended to give background to the procedures.

PNZ to encourage access

A primary objective and function of Payments NZ under its constitution is to encourage and facilitate new entities becoming participants in Payments NZ clearing systems based on fair and reasonable public access criteria.

Payments NZ governs 4 clearing systems to co-ordinate, manage and ensure the implementation and operation of effective:

- systems, and
- rules, standards, and procedures.

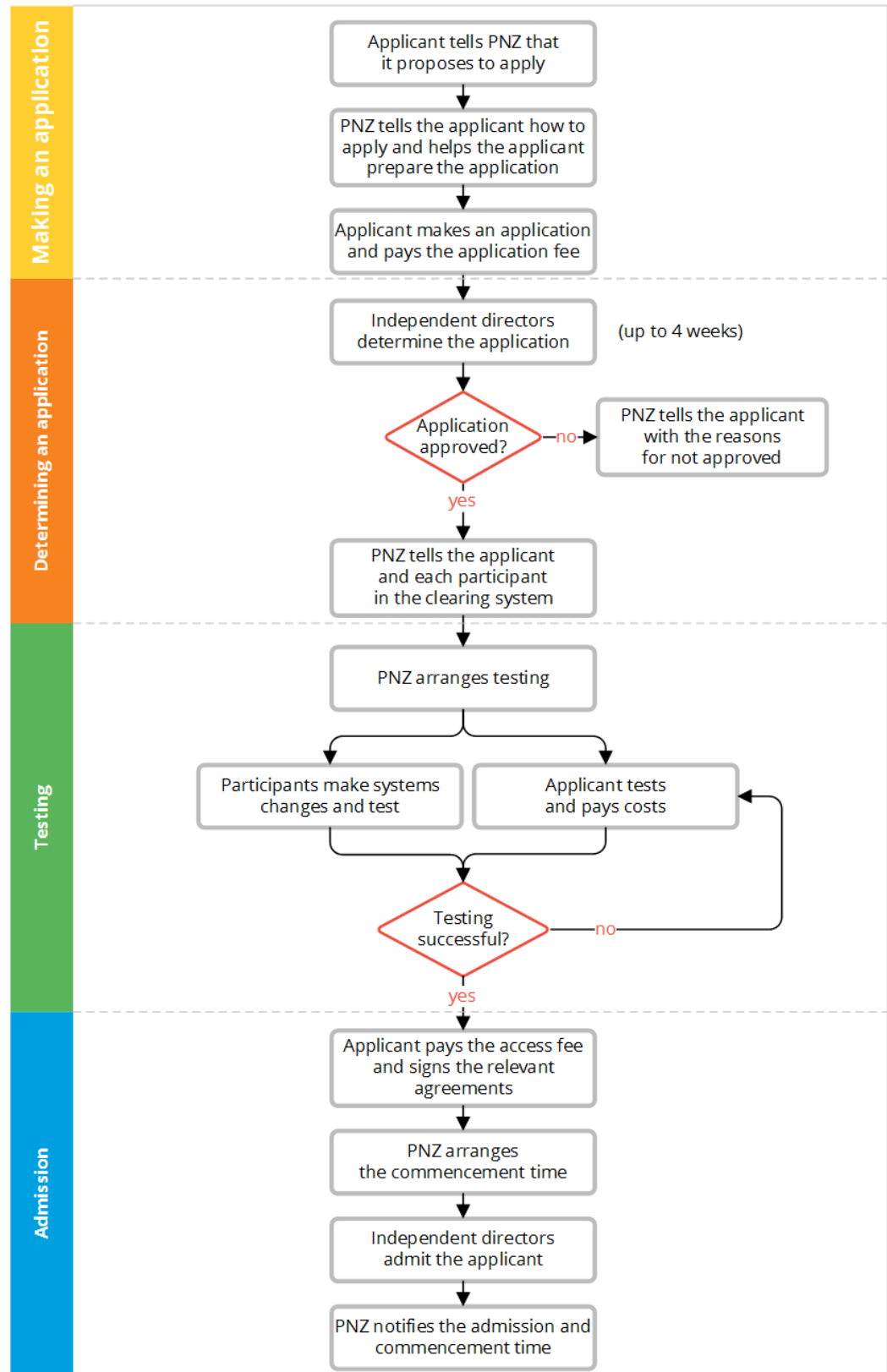
The clearing systems are:

- the bulk electronic clearing system (BECS),
- the consumer electronic clearing system (CECS),
- the high value clearing system (HVCS), and
- the paper clearing system (PCS).

Payments NZ also administers the SBI closed user group and the settlement before interchange (SBI) transaction delivery system through which 3 of the 4 clearing systems clear and settle payment instructions.

Process overview

The following diagram provides a high level overview of the joining process in rules 2.4 to 2.33 of the Payments NZ rules and contained in these procedures.



Chapter 1: Making an application

Commentary

Purpose

Making an application to participate in a clearing system is generally a 4-stage process. A potential applicant generally:

- gets information from Payments NZ about the joining process, costs and participation,
- works with Payments NZ staff to identify things the potential applicant may need to do to meet the access criterion for the clearing system and conditions that may be imposed on how it participates in the clearing system,
- if the potential applicant is interested in applying, meets with Payments NZ to get a clear understanding of the rights, obligations and powers contained in the rules of the clearing system and how to comply with them, and
- if the potential applicant decides to apply, makes a formal application to Payments NZ.

Rules 2.5 to 2.8 specify requirements for making an application to participate in a Payments NZ clearing system. This chapter specifies how Payments NZ and applicants who are already bound by the Payments NZ rules comply with the requirements.

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This chapter contains the following sections.

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Section A: Application process

Commentary

(1) How joining process begins

The application process generally begins when a potential applicant tells Payments NZ informally that it is interested in participating in a clearing system. Payments NZ will then work with the potential applicant to help the potential applicant decide whether to make a formal application to participate. Rule 2.5 provides:

2.5 Company must assist potential applicants

If requested by a person, the company must, to the extent practicable, provide information to the person that the person reasonably requires to decide whether to apply to participate in a clearing system including, without limitation, the following:

- (a) copies of all clearing system documents that relate to participation in the relevant clearing system;
- (b) information about—
 - (i) the access criterion and how to comply with it; and
 - (ii) joining the clearing system including the joining process, testing requirements, the indicative timeframe, and indicative costs (including systems and testing costs); and
 - (iii) participating in the clearing system including the likely costs and the rights and obligations that would apply to the person.

Best Practice

(2) How PNZ helps person decide whether to apply

To comply with rule 2.5, the Payments NZ **should**:

- get information from the potential applicant about:
 - the potential applicant’s payments business including any payments products or services that the potential applicant offers or proposes to offer, and
 - arrangements with third parties for provision of goods or services that would be necessary for the potential applicant to participate in the clearing system (e.g. outsourcing arrangements), and
- communicate with the potential applicant about:
 - any access requirements that the potential applicant may not meet and the steps that the potential applicant could take to help it meet the requirements, for example, in the case of the prudential requirements specified in rule 2.10, provision of an access guarantee, and
 - the information that Payments NZ may require to confirm that the potential applicant meets the access criterion and the costs of providing the information.

For an applicant for BECS or PCS who proposes to use another SBI participant to interchange the applicant’s files but the applicant’s projected national interchange volume (NIV) is 5% or more of the total NIV, to comply with rule 2.5, Payments NZ **should** ask the applicant to:

- discuss with the Reserve Bank whether the applicant should join the SBI CUG and interchange its own files in SBI, and
- advise Payments NZ of the Reserve Bank’s response.

Commentary

(3) PNZ briefs applicant on clearing system rules

After communicating with Payments NZ about the joining process and indicative costs, a person may propose to make an application to participate in a clearing system. Payments NZ staff will then generally meet with the person to brief the person on the rights, obligations and powers contained in the rules of the clearing system.

(4) Formal application

If the person decides to apply to participate in a clearing system, rule 2.5 gives Payments NZ discretion as to the form and content of a formal application providing:

2.6 Application

- (1) An application to participate in 1 or more clearing systems must be made to the company in the manner specified by the company.
- (2) If an applicant is not an existing participant in a company clearing system, the company must ensure that the applicant enters into terms and conditions that are consistent with the terms and conditions specified in the sample application form in appendix 1A.
- (2) The company must—
 - (a) notify an applicant of the form and content of the application required; and
 - (b) if requested, provide information to the person that the person reasonably requires to make an application.

Appendix 1A contains:

- a sample application form that Payments NZ can adapt to meet the circumstances of each application,
 - the substance of minimum terms and conditions that rule 2.6 requires each applicant who is not an existing participant to enter into, and
- a sample statutory declaration that Payments NZ may require the applicant to complete.
-

(5) Application fee

Under rule 2.8 an “application must be accompanied by the application fee determined in accordance with rule 4.13.”

The application fee determined by the board in accordance with rule 4.13 in respect of a right to participate in a clearing system, is \$25,000 GST exclusive.

Section B: Information accompanying application

Commentary

Purpose

Under rule 2.6:

2.7 Information accompanying application

Each application must be accompanied by the information that the company requires in accordance with section B of chapter 1 of the access procedures to assist the independent directors to determine the application.

Payments NZ generally requires information to accompany an application that will assist the independent directors to determine whether an applicant complies with the access criterion for the clearing system to which the application relates.

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B1: Information: prudential requirements

Procedures

Required information

If an applicant has a credit rating, to comply with rule 2.7, Payments NZ must require the person applying to join a clearing system to provide a credit rating report from at least 1 of the following containing the applicant's credit rating to assist the independent directors to determine whether the applicant complies with the prudential requirements specified in rule 2.10:

- Standard & Poor's,
- Moody's Investors Service, or
- Fitch Ratings.

Commentary

Other information

The following table contains examples of other information that Payments NZ may require under rule 2.6 with an application to assist the independent directors to determine whether the applicant complies with the prudential requirements specified in rule 2.10.

Matter	Information
Credit-worthiness	<ul style="list-style-type: none"> • Financial accounts for the last 5 year period (ideally audited): <ul style="list-style-type: none"> – for the applicant, and – for the parent company. • Interim financial accounts for the month end immediately preceding the date of the application: <ul style="list-style-type: none"> – for the applicant, that are signed by the board of the applicant, and – for the parent company, that are signed by the board of the parent company.
Incorporation and ownership structure	<p>Information about the following:</p> <ul style="list-style-type: none"> • the method of incorporation of the applicant, • the applicant's owners (including major shareholdings, voting rights and beneficial ownership), • the organisation of the applicant (showing relationships with other companies in the same group including subsidiaries and associates), • the composition of the applicant's board (including shareholder representation and directors' major business interests), and • if the applicant was incorporated a short time before making the application, the source of initial capital. <p>The applicant's constitution.</p>

Matter	Information
Size and nature	An outline of the head office arrangements for supervision of New Zealand operations (if relevant).
	If the applicant is a non-bank deposit taker, the applicant's trust deed and most recent prospectus and investment statement.
	Information about the applicant's experience, if any, in respect of clearing and settling in the payment system (either on its own account or through agency arrangements).
	The likely volume of payments from the applicant during the first 3 year period following commencement of participation.
Carry on business in a prudent manner	A forecast for the next 3 year period of operation, including balance sheet, profit and loss statement and outline of the basic assumptions made.
	An outline of the nature and extent of internal and external audit arrangements.
	An outline of the accounting systems and internal controls, including details of reporting to senior management and directors.
	A description of the proposed risk management systems and policies for all material business risks including details of reporting to senior management and directors on risk management.
Standing of parent company	If the applicant is a subsidiary of a parent company, a brief outline of the parent company's main activities and areas of expertise, including a list of the countries in which it is operating, where relevant.
	If the applicant is a subsidiary of a parent company, a list of the major shareholders of the parent company.
	If the applicant is a subsidiary of a parent company, financial accounts for the parent company for the last three years.
	If the applicant is a subsidiary of a parent company, an outline of the extent and type of support that the parent will give to the applicant, including any arrangements allowing the applicant to call on extra capital and liquidity. A specific statement from the parent on the extent of future capital support and liquidity support that it will give.
Standing of applicant	An outline of the length of time the applicant has been in operation and any key milestones in the applicant's history.
	Written consent for Payments NZ to: <ul style="list-style-type: none"> • if the applicant is regulated, make enquiries of the applicant's regulator, or • if the applicant is a non-bank deposit taker, make enquiries of its trustee – particularly in respect of any breach of its conditions of registration or trust deed.

<p>Directors and senior managers</p>	<p>For each of the following:</p> <ul style="list-style-type: none"> • the applicant’s directors, • the chief executive, and • each officer who reports to the chief executive who has material responsibilities for oversight of the clearing system (this could include, for example, the chief reporting officer, the chief information officer and the general manager (payments)).
	<p>– a signed declaration from the director or senior manager,</p>
	<p>– written consent for Payments NZ to make enquiries about the director or senior manager with any relevant supervisory or regulatory authority, in New Zealand or overseas, as Payments NZ considers necessary, to establish the suitability of the director or senior manager, or</p>
	<p>– an attestation from the chairperson of the board that the chairperson is satisfied that the director or senior manager is suitable for the position.</p>

B2: Information: requirements for operational risk management

Commentary

PNZ determines information

The following table contains examples of the information that Payments NZ may require under rule 2.7 with an application to assist the independent directors to determine whether the applicant complies with the requirements for operational risk management specified in rule 2.11.

Matter	Information
Operational risk management framework	A description of the proposed risk management systems, policies, procedures and controls that identify, monitor, and manage operational risk including details of reporting to senior management and directors on operational risk management.
	An outline of the nature and extent of internal and external audit arrangements of the operational risk management systems policies, procedures and controls and how they are tested.
Operational reliability	A description of the proposed operational reliability objectives and the policies intended to achieve the objectives.
Incident management	A description of the proposed procedures to record, report, analyse, and resolve operational incidents.
Operational capacity	A description of how the applicant intends to ensure that it has scalable capacity adequate to handle increasing stress volumes and to achieve its service-level objectives, for example, the required processing speed.
Physical and information security	A description of the applicant's proposed policies for physical and information security.
Business continuity	A description of the proposed business continuity plan.
	A description of the proposed strategies for data back up and restoration.
	A description of the proposed disaster recovery plan.
Outsourcing	<p>If another party will provide goods or services necessary for the applicant to comply with obligations under the rules of the clearing system to which the application relates:</p> <ul style="list-style-type: none"> • details of the goods or service to be outsourced, • the name of each outsourcing provider, • a description of the terms and conditions between the applicant and each outsourcing provider, including the governing law that applies to the terms and conditions, and • an outline of arrangements in place to mitigate risks arising from the outsourcing or proposed outsourcing, including contingency arrangements to ensure that the applicant can continue to operate on a going-concern basis if the outsourcing provider fails or becomes dysfunctional.

B3: Information: operational requirements: CECS

Procedures

(1) Required information

The documents specified in the following table are the information that the company requires as a minimum under rule 2.7 to assist the independent directors to determine an application to participate in CECS:

Matter	Document
IIN	If the applicant proposes to operate as an issuer, certification from a director of the applicant of the applicant's unique issuer identification number (IIN).
SBI clearing and settlement	<p>If the applicant does not participate in SBI or is not also applying to participate in BECS or PCS, certification from a director of the applicant and from a director of an SBI participant that,:</p> <ul style="list-style-type: none"> • the applicant and the SBI participant have an agreement under which the SBI participant: <ul style="list-style-type: none"> – sends files to the SBI CUG transaction delivery system for the applicant, and – receives files from the SBI CUG transaction delivery system for the applicant, and • the agreement includes all terms and conditions necessary to give effect to Parts 2, 5, 8, 8A to 8E, 10, 12, and 12B to 12D.
Switch testing	If the applicant proposes to use 1 or more switch companies to deliver payment instructions, confirmation from each switch company that the applicant has passed the testing requirements of the switch company.

(2) PNZ not required to assess testing

If Payments NZ receives confirmation from a switch company that an applicant has passed the testing requirements of the switch company, Payments NZ is entitled to rely on the confirmation and is not required to enquire or to independently assess whether or not the applicant has passed the testing requirements of the switch company.

B4: Information: operational requirements: HVCS

Procedures

(1) Required information

The documents specified in the following table are the information that the company requires as a minimum under rule 2.7 to assist the independent directors to determine an application to participate in HVCS:

Matter	Document
AVP CUG	Confirmation from the Reserve Bank that it will admit the applicant to the AVP CUG.
Own settlement account	Confirmation from the Reserve Bank that the applicant is an account holder with the exchange settlement account system (ESAS).
ESAS	Confirmation from the Reserve Bank that the applicant can use ESAS to send, settle, and receive transactions.
SWIFT BIC	Certification from a director of the applicant of the applicant's SWIFT BIC address that the applicant proposes to link to the applicant's ESAS account.
SWIFT user	Certification from a director of the applicant that the applicant is a SWIFT user.
SWIFT connection: 5% or more of NIV	<p>If the projected national interchange volume in HVCS of the applicant is 5% or more of the total national interchange volume in HVCS, certification from a director of the applicant of the following in relation to the connection between SWIFT and the SWIFT gateway that the applicant proposes to use,—</p> <ul style="list-style-type: none"> • that the connection is, as a minimum, SWIFT Alliance Connect silver; and • that the resilience of the connection allows the applicant to achieve a 'zero loss objective' (to last committed save).
SWIFT connection: less than 5% of NIV	<p>If the projected national interchange volume in HVCS of the applicant is less than 5% of the total national interchange volume in HVCS, certification from a director of the applicant of the following in relation to the connection between SWIFT and the SWIFT gateway that the applicant proposes to use,—</p> <ul style="list-style-type: none"> • that the connection is, as a minimum, either— <ul style="list-style-type: none"> ○ SWIFT Alliance Connect bronze using either— <ul style="list-style-type: none"> ▪ 2 separate internet service providers; or ▪ 1 internet service provider with 2 connections from 2 sites separated by a geographical distance that minimises the risk that a single incident would disable both connections (for example, the sites are in 2 different regions); or ○ a connection using a bureau service and the following apply— <ul style="list-style-type: none"> ▪ the connection between the bureau service and SWIFT is SWIFT Alliance Connect silver as a minimum; and ▪ the applicant's connection to the bureau has redundancy (a secondary connection); and • that the resilience of the connection allows the applicant to achieve— <ul style="list-style-type: none"> ○ a 'zero loss objective' (to last committed save); and ○ a 'recovery time objective' of less than 30 minutes.

B5: Information: operational requirements: SBI

Procedures

(1) Required information

The documents specified in the following table are the information that the company requires under rule 2.7 to assist the independent directors to determine an application to participate in BECS or PCS:

Matter	Document
Own settlement account	Confirmation from the Reserve Bank that the applicant is an account holder with the exchange settlement account system (ESAS).
Failure to settle	<p>Certification from a director of the applicant that, for every file in respect of which the applicant is the debtor or the creditor sent for settlement and interchange under Part 8, the applicant will be able to do the following:</p> <ul style="list-style-type: none"> record the time at which the file was sent (using the payment status report for the file) as soon as practicable after the file was sent: monitor whether the file settles: if the file fails to settle, immediately identify the failure and respond to the failure in accordance with the rules.
ESAS	Confirmation from the Reserve Bank that the applicant can use ESAS to send, settle, and receive files.
SWIFT BIC	Certification from a director of the applicant of the applicant's SWIFT BIC address that the applicant proposes to link to the applicant's ESAS account.
SWIFT DN	<p>Certification from a director of the applicant—</p> <ul style="list-style-type: none"> that the applicant has access to a SWIFT distinguished name (DN) that it can use for the SBI CUG transaction delivery system; and of the SWIFT DN that it will use.
SWIFT user	If the applicant proposes to join the SBI CUG, certification from a director of the applicant that the applicant is a SWIFT user.
SWIFT connection: 5% or more of NIV	<p>If the applicant proposes to join the SBI CUG and the combined projected national interchange volume in SBI of the applicant and every SBI participant to whom the applicant proposes to provide interchange services is 5% or more of the total national interchange volume in SBI, certification from a director of the applicant of the following in relation to the connection between SWIFT and the SWIFT gateway that the applicant proposes to use,—</p> <ul style="list-style-type: none"> that the connection is, as a minimum, SWIFT Alliance Connect silver; and that the resilience of the connection allows the applicant to achieve a 'zero loss objective' (to last committed save).

<p>SWIFT connection: less than 5% of NIV</p>	<p>If the applicant proposes to join the SBI CUG and the combined projected national interchange volume in SBI of the applicant and every SBI participant to whom the applicant proposes to provide interchange services is less than 5% of the total national interchange volume in SBI, certification from a director of the applicant of the following in relation to the connection between SWIFT and the SWIFT gateway that the applicant proposes to use,—</p> <ul style="list-style-type: none"> • that the connection is, as a minimum, either— <ul style="list-style-type: none"> ○ SWIFT Alliance Connect bronze using either— <ul style="list-style-type: none"> ▪ 2 separate internet service providers; or ▪ 1 internet service provider with 2 connections from 2 sites separated by a geographical distance that minimises the risk that a single incident would disable both connections (for example, the sites are in 2 different regions); or ○ a connection using a bureau service and the following apply— <ul style="list-style-type: none"> ▪ the connection between the bureau service and SWIFT is SWIFT Alliance Connect silver as a minimum; and ▪ the applicant's connection to the bureau has redundancy (a secondary connection); and • that the resilience of the connection allows the applicant to achieve— <ul style="list-style-type: none"> ○ a 'zero loss objective' (to last committed save); and ○ a 'recovery time objective' of less than 30 minutes.
<p>Settlement-only</p>	<p>If the applicant proposes not to join the SBI CUG but to use another SBI participant to interchange the applicant's files using the SBI CUG transaction delivery system, certification from a director of the applicant—</p> <ul style="list-style-type: none"> • of the name of the other SBI participant; and • that the applicant has the following through which the applicant and the SBI participant exchange files: <ul style="list-style-type: none"> – a secure primary connection; – a secure secondary connection; and • that the applicant has an agreement with the SBI participant— <ul style="list-style-type: none"> – that requires the SBI participant to interchange files through the SBI CUG transaction delivery system for the applicant; and – under which the SBI participant may only terminate the agreement by giving a notification to the applicant specifying a date from which the SBI participant proposes to stop interchanging files for the applicant using the SBI CUG transaction delivery system (which must be a date no less than 180 calendar days from the date of the notification); and – that contains all terms and conditions necessary to give effect to Parts 2, 3, 5, 8, 10, 12, and 12B to 12D.

Chapter 2: Determining an application

Commentary

Purpose

Rules 2.9 to 2.20 specify requirements for determining an application to participate in a Payments NZ clearing system. This chapter specifies how Payments NZ complies with the requirements.

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Section A: Determination process

Commentary

(1) Independent directors determine whether applicant satisfies access criterion

The Payments NZ independent directors decide whether to approve an application to participate in a Payments NZ clearing system by determining whether the applicant satisfies the access criterion in rule 2.9(2). Rule 2.9 provides:

2.9 Independent directors determine whether applicant satisfies access criterion

- (1) As soon as practicable after the company receives an application to participate in a clearing system, the independent directors must meet to determine whether the applicant satisfies the access criterion.
- (2) The access criterion is that the applicant will not, if it becomes a participant in the clearing system,—
 - (a) adversely affect the integrity or the reputation of the clearing system; or
 - (b) introduce significant risk into the clearing system.
- (3) An applicant satisfies the access criterion by demonstrating the following—
 - (a) subject to subclause (4), that the applicant complies with the prudential requirements specified in rule 2.10(1) having regard to the applicable prudential matters in rule 2.10(2) or (3):
 - (b) subject to subclause (5), that the applicant complies with the operational risk management requirements specified in rule 2.11(1) having regard to the adequacy of the matters in rule 2.11(2); and
 - (c) that the applicant complies with the operational requirements in respect of the clearing system to which the application relates as follows:
 - (i) for CECS, the operational requirements in rule 2.12;
 - (ii) for HVCS, the operational requirements in rule 2.13;
 - (iii) for BECS or PCS, the operational requirements in rules 2.14 to 2.14B.
 - (4) The independent directors may decide not to have regard to an applicable prudential matter in rule 2.10(2) or (3) in respect of an applicant, if they are satisfied, based on advice from a qualified person, that the applicant otherwise complies with the access criterion.
 - (5) The independent directors may decide not to have regard to the adequacy of an operational risk management matter in rule 2.11(2) in respect of an applicant, if they are satisfied, based on advice from a qualified person, that the applicant otherwise complies with the access criterion.

(2) Risk-based approach

Payments NZ models the requirements for access to Payments NZ clearing systems on principle 18 of the *Principles for financial market infrastructures* as follows:

Principle 18: Access and participation requirements

An FMI should have objective, risk-based, and publicly disclosed criteria for participation, which permit fair and open access.

In line with principle 18, Payments NZ applies a risk-based approach to an application to participate in a clearing system.

(3) Holistic approach

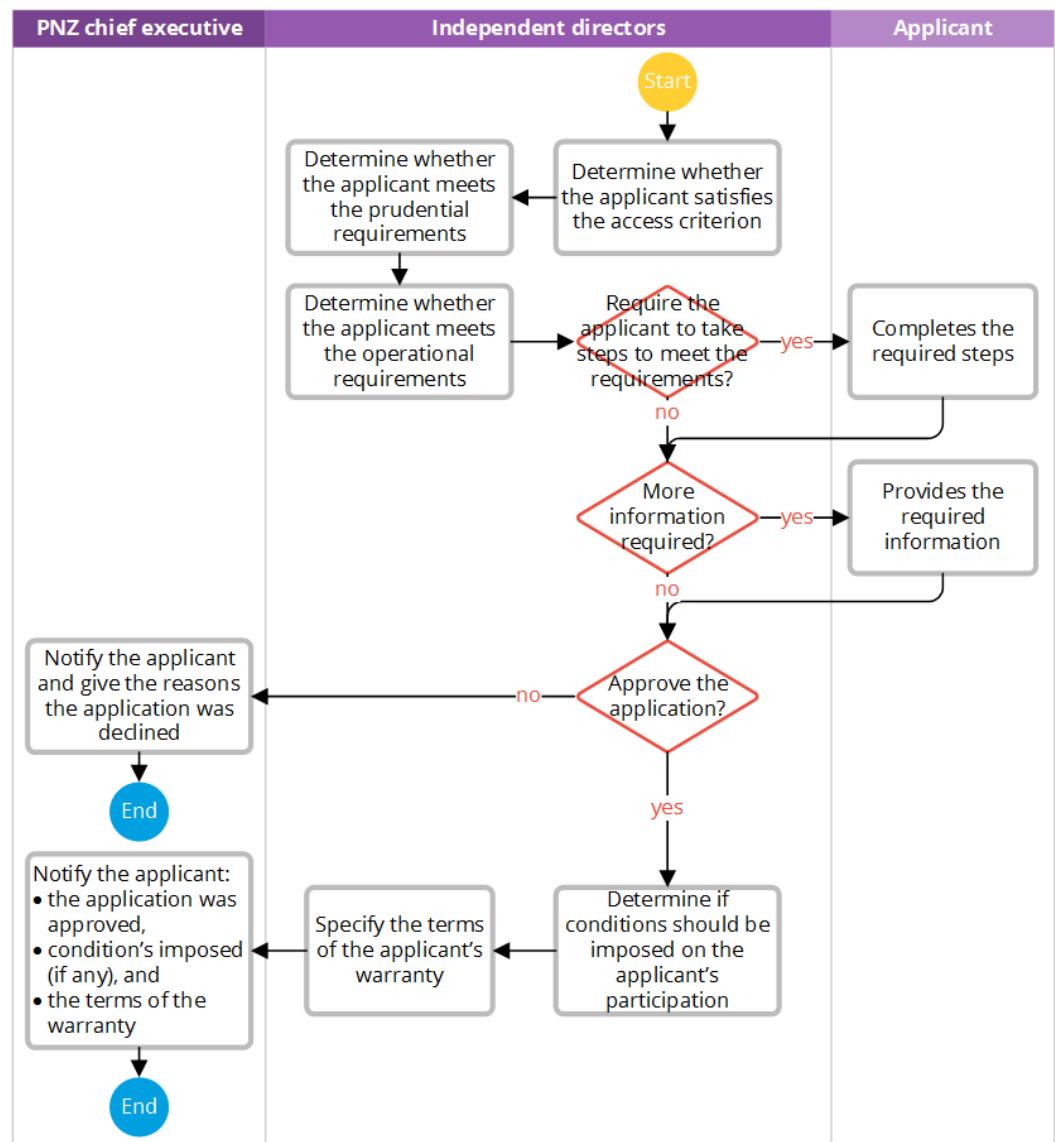
Payments NZ takes an holistic approach to the process of determining whether an applicant satisfies the access criterion. For example, before the independent directors make a final decision, the independent directors:

- must, under rule 2.15, notify the applicant if the independent directors consider that the applicant doesn't satisfy the access criterion and give the applicant an opportunity to respond, and
- may, under rule 2.16, at the applicant's cost, require the applicant to:
 - complete actions, for example, enter into an access guarantee,
 - provide additional information, or
 - provide an independent report, and
- should generally, under rule 2.16, seek advice or get an independent report at the applicant's cost.

The determination process may involve ongoing discussions between the independent directors and the applicant.

(4) Determination process diagram

The following diagram gives an overview of the process for determining an application:



**(5) Rules
regulating the
determination
process**

The rules regulating the determination process are as follows:

- 2.15 Independent directors must notify prudential or operational issue**
In determining whether an applicant to participate in a clearing system satisfies the access criterion, the independent directors must—
- (a) notify the applicant of any respect in which the independent directors consider that the applicant—
 - (i) does not comply with the prudential requirements specified in rule 2.10; or
 - (ii) does not comply with the operational risk management requirements specified in rule 2.11; and
 - (iii) does not comply with the operational requirements in respect of the clearing system to which the application relates under rules 2.12, 2.13, 2.14, 2.14A, or 2.14B; and
 - (b) give the notification as soon as practicable after becoming aware of the issue; and
 - (c) give the applicant an opportunity to respond.
- 2.16 Independent directors may require actions**
- (1) In determining whether an applicant to participate in a clearing system satisfies the access criterion, the independent directors may require the applicant to complete any action specified by the independent directors which may include, without limitation, any or all of the following:
 - (a) provide 1 or more access guarantees from an approved guarantor—
 - (i) the terms and conditions of which are consistent with the terms and conditions of a sample access guarantee specified in appendix 1B of the access procedures; and
 - (ii) that is valid, binding, and enforceable on the approved guarantor;
 - (b) enter into a standby liquidity facility agreement with an approved provider—
 - (i) the terms and conditions of which are consistent with the sample terms of a standby liquidity facility agreement specified in appendix 1B of the access procedures; and
 - (ii) that is valid, binding, and enforceable on the approved provider;
 - (c) grant a security right to the company as security agent for the participants;
 - (d) require the applicant to provide an independent report by any person;
 - (e) require the applicant to provide any additional information that the independent directors consider necessary to enable the independent directors to determine the application.
 - (2) The applicant must—
 - (a) complete any action required by the independent directors as soon as practicable after a request under subclause (1); and
 - (b) pay the cost of completing the action.
- 2.17 Independent directors seek advice**
- (1) Subject to subclause (2), in determining whether an applicant to participate in a clearing system satisfies the access criterion, the independent directors must—
 - (a) seek advice from a qualified person; or
 - (b) get an independent report by a qualified person.
 - (2) If an applicant to participate in a clearing system is an existing participant in another clearing system or a registered bank, in determining whether the applicant complies with the prudential requirements specified in rule 2.10(2), the independent directors may (but are not required to)—
 - (a) seek advice from a qualified person; or
 - (b) get an independent report by a qualified person.
 - (3) If the independent directors require an applicant to seek advice or to get a report under this rule, the applicant must pay the cost of the advice or the report.

**(5) Rules
regulating the
determination
process (cont.)****2.18 Independent directors must approve certain applications**

The independent directors must approve an application to participate in a clearing system if the independent directors determine that the applicant satisfies the access criterion specified in rule 2.9.

2.19 Conditions applying to participation

If the independent directors approve an applicant's application to participate in a clearing system, the independent directors may impose conditions that the applicant will be required to meet on and from the time that the applicant commences participation in the clearing system which may include, without limitation, a requirement to do any or all of the following:

- (a) undertake regular audits:
- (b) comply with minimum operational requirements specified by the independent directors (such as, for example, a requirement to settle SBI files hourly):
- (c) provide regular reports to the company.

2.20 Warranties applying to participation

If the independent directors approve an applicant's application to participate in a clearing system, the independent directors must specify the terms of the representation and warranty the applicant gives under rule 11.1.1(d) on and from the time that the applicant commences participation in the clearing system.

Section B: Prudential requirements

Commentary

Purpose

Rule 2.10 specifies prudential requirements for determining an application to participate in a Payments NZ clearing system. This chapter specifies how Payments NZ complies with the requirements.

Contents

This section contains the following topics:

Topic	See Page
B1: Prudential requirements: overview	25
B2: Credit-worthiness: all applicants	27
B3: NBDT, insurer, non-participant	31
B4: Place of incorporation and structure: non-participant, NBDT, insurer	32
B5: Size and nature: non-participant, NBDT, insurer	33
B6: Prudent: non-participant, NBDT, insurer	34
B7: Standing: non-participant, NBDT, insurer	36
B8: Directors and senior managers: non-participant, NBDT, insurer	37

B1: Prudential requirements: overview

Commentary

(1) Rule 2.10 Under rule 2.10:

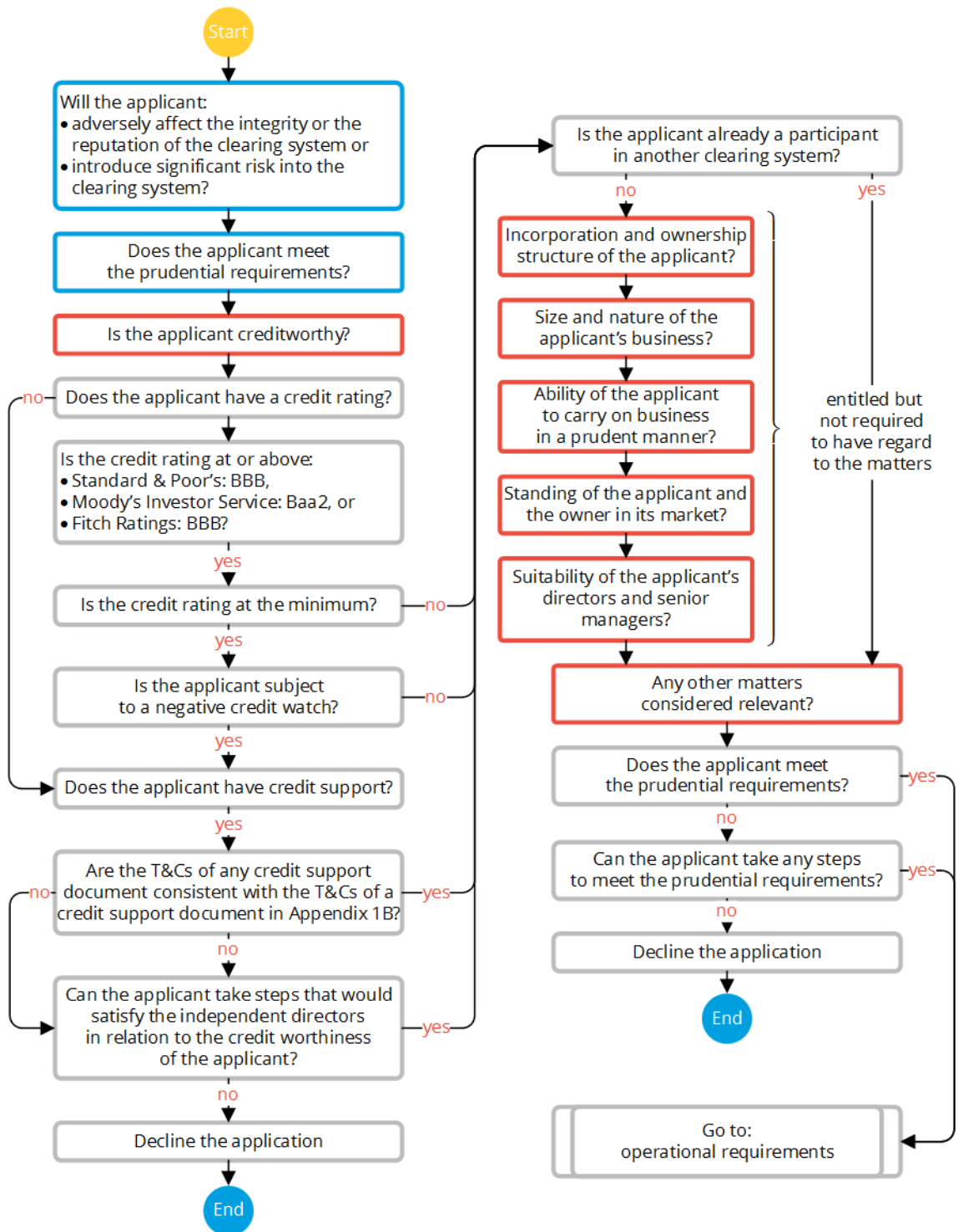
2.10 Prudential requirements

- (1) The prudential requirements for participation in a clearing system are that the applicant meets prudential standards that minimise the risk of the effects specified in rule 2.9(2).
- (2) If an applicant is an existing participant in a company clearing system or a registered bank, in determining whether the independent directors are satisfied that the applicant complies with the prudential requirements, the independent directors must have regard to—
 - (a) in accordance with section B2 of chapter 2 of the access procedures, the credit-worthiness of the applicant including—
 - (i) the applicant's credit rating, if any; and
 - (ii) whether the applicant has entered into an access guarantee or a standby liquidity facility agreement; and
 - (b) any other matters that the independent directors consider relevant.
- (3) For any other applicant, in determining whether the independent directors are satisfied that the applicant complies with the prudential requirements, the independent directors must have regard to—
 - (a) in accordance with section B2 of chapter 2 of the access procedures, the credit-worthiness of the applicant including—
 - (i) the applicant's credit rating, if any; and
 - (ii) whether the applicant has entered into an access guarantee or a standby liquidity facility agreement; and
 - (b) in accordance with section B3 of chapter 2 of the access procedures, whether the applicant is—
 - (i) licensed as a non-bank deposit-taker under the Non-bank Deposit Takers Act 2013; or
 - (ii) licensed as an insurer under the Insurance (Prudential Supervision) Act 2010; and
 - (c) the place of incorporation of the applicant and the corporate and ownership structure of the applicant in accordance with section B4 of chapter 2 of the access procedures;
 - (d) the size and nature of the applicant's business or proposed business, or any part of the applicant's business or proposed business in accordance with section B5 of chapter 2 of the access procedures;
 - (e) the ability of the applicant to carry on its business or proposed business in a prudent manner in accordance with section B6 of chapter 2 of the access procedures;
 - (f) in accordance with section B7 of chapter 2 of the access procedures—
 - (i) the standing of the applicant in the markets in which it trades; and
 - (ii) the standing of the owner, if any, of the applicant in the markets in which it trades;
 - (g) the suitability for their positions of the directors and senior managers of the applicant in accordance with section B8 of chapter 2 of the access procedures;
 - (h) any other matters that the independent directors consider relevant.

This section specifies how the independent directors comply with this rule.

(2) Prudential requirements diagram

The following diagram gives an overview of the process for determining whether an applicant meets the prudential requirements:



B2: Credit-worthiness: all applicants

Commentary

(1) Rule 2.10(2)(a)(3) (a)

Under paragraphs 2.10(2)(a) and (3)(a):

- “(2) If an applicant is an existing participant in a company clearing system or a registered bank, in determining whether the independent directors are satisfied that the applicant complies with the prudential requirements, the independent directors must have regard to—
- (a) in accordance with section B2 of chapter 2 of the access procedures, the credit-worthiness of the applicant including—
- (i) the applicant’s credit rating, if any; and
 - (ii) whether the applicant has entered into an access guarantee or a standby liquidity facility agreement; ...
- (3) For any other applicant, in determining whether the independent directors are satisfied that the applicant complies with the prudential requirements, the independent directors must have regard to—
- (a) in accordance with section B2 of chapter 2 of the access procedures, the credit-worthiness of the applicant including—
- (i) the applicant’s credit rating, if any; and
 - (ii) whether the applicant has entered into an access guarantee or a standby liquidity facility agreement; ...”

This section specifies how the independent directors comply with the paragraphs.

(2) Credit rating requirements for registered banks, NBDTs, and insurers

Under section 80 of the Reserve Bank Act, the Reserve Bank may require registered banks to obtain and maintain a current rating of its creditworthiness given by an approved rating agency. Section 80(1) provides:

- 80 Credit rating of registered banks**
- (1) The Bank may, by notice in writing to any registered bank or to all registered banks or to all members of any class of registered banks, require each of those banks to—
- (a) obtain a rating of its creditworthiness or financial condition by a person or organisation nominated or approved by the Bank; and
 - (b) maintain a current rating of the type referred to in paragraph (a).

The Reserve Bank states in its Statement of Principles, Bank Registration and Supervision, BS1 that it requires all registered banks to obtain and maintain a current credit rating in accordance with section 80 of the Reserve Bank Act. BS1 provides:

...all registered banks are required to obtain and subsequently maintain a current credit rating applicable to their long-term senior unsecured New Zealand dollar obligations payable in New Zealand and to publish that rating in quarterly disclosure statements. The Reserve Bank issues notices to banks pursuant to Section 80 of the Reserve Bank of New Zealand Act 1989 in order to bring this policy into effect.

For the credit ratings of registered banks see:

http://www.rbnz.govt.nz/regulation_and_supervision/banks/prudential_requirements/credit_ratings/

Under section 23 of the Non-bank Deposit Takers Act 2013 a licensed non-bank deposit taker must have a current rating of its creditworthiness (or the creditworthiness of its borrowing group) given by an approved rating agency. Section 23(1) provides:

- 23 Licensed NBDTs to have current credit rating**
- (1) A licensed NBDT must have a current rating of its creditworthiness or, if required by regulations made under section 24, the creditworthiness of its borrowing group, that—
- (a) complies with the requirements prescribed by regulations made under section 24; and
 - (b) is given by an approved rating agency.

For the credit ratings of licensed non-bank deposit takers see:

http://www.rbnz.govt.nz/regulation_and_supervision/non-bank_deposit_takers/register/index.html

(2) Credit rating requirements for registered banks, NBDTs, and insurers (cont.)

In accordance with section 60 of the Insurance (Prudential Supervision) Act 2010 a licensed insurer must have a current financial strength rating given by an approved rating agency. Section 60 (1) provides:

- 60 Licensed insurer must have current financial strength rating**
 (1) A licensed insurer must have a current financial strength rating that is given by an approved rating agency.

For the credit ratings of licensed insurers disclosed to the Reserve Bank see:
http://www.rbnz.govt.nz/regulation_and_supervision/insurers/rating/index.html

For more information about credit ratings generally, see
http://www.rbnz.govt.nz/research_and_publications/articles/details.aspx?id=4070

(3) Standard form credit support arrangements

Appendix 1B contains the following intended to provide credit and liquidity support:

- access guarantee: related party,
- access guarantee: non-related party, and
- standby liquidity facility: key terms.

Subclause 2.16(1)(a) and (b) provide:

- (1) In determining whether an applicant to participate in a clearing system satisfies the access criterion, the independent directors may require the applicant to complete any action specified by the independent directors which may include, without limitation, any or all of the following:
- (a) provide 1 or more access guarantees from an approved guarantor—
 - (i) the terms and conditions of which are consistent with the terms and conditions of a sample access guarantee specified in appendix 1B of the access procedures; and
 - (ii) that is valid, binding, and enforceable on the approved guarantor:
 - (b) enter into a standby liquidity facility agreement with an approved provider—
 - (i) the terms and conditions of which are consistent with the sample terms of a standby liquidity facility agreement specified in appendix 1B of the access procedures; and
 - (ii) that is valid, binding, and enforceable on the approved provider.

Procedures

(4) Minimum credit rating

If an applicant has 1 or more long term credit ratings, to comply with rule 2.10(2)(a) or (3)(a) the independent directors must determine—

- (a) whether each credit rating is the following or higher:
 - (i) Standard & Poor's – BBB;
 - (ii) Moody's Investor Service – Baa2;
 - (iii) Fitch Ratings – BBB; and
- (b) for a credit rating at the minimum level specified, whether the applicant is subject to negative credit watch (or any equivalent arrangement) by the agency who gave the credit rating.

(5) Credit rating not useful

-
- Clauses (6) to (8) apply to the independent directors if—
- (a) the applicant does not have a credit rating; or
 - (b) a credit rating of the applicant is lower than—
 - (i) Standard & Poor’s – BBB; or
 - (ii) Moody’s Investor Service – Baa2; or
 - (iii) Fitch Ratings – BBB; or
 - (c) the applicant has a credit rating at the minimum level and is subject to negative credit watch by the agency who gave the rating.
-

(6) Existing liquidity arrangement?

- To comply with rules 2.10(2)(a) or (3)(a), the independent directors must do the following:
- (a) consider whether the applicant has any arrangements allowing the applicant to call on liquidity:
 - (b) if the applicant has an arrangement allowing the applicant to call on liquidity, consider whether—
 - (i) the terms and conditions of the arrangement are consistent with the terms and conditions of the applicable credit support document at appendix 1B; and
 - (ii) if the arrangement is a guarantee, whether the guarantee is provided by an approved guarantor; and
 - (iii) if the arrangement is a standby liquidity facility agreement, whether the agreement is provided by an approved provider:
 - (c) if the applicant does not have an arrangement allowing the applicant to call on liquidity, the independent directors **must** seek advice from a qualified person at the cost of the applicant in respect of—
 - (i) whether to require the applicant to enter into a credit support document, and
 - (ii) if so, whether to require the applicant to enter into a guarantee or a standby liquidity facility agreement.
-

(7) Access guarantee

- If the independent directors require an applicant to provide an access guarantee from an approved guarantor under rule 2.16, the independent directors **must** require the applicant to provide—
- (a) a credit rating report from at least 1 of the following of the credit rating of the guarantor:
 - (i) Standard & Poor’s:
 - (ii) Moody’s Investors Service:
 - (iii) Fitch Ratings; and
 - (b) legal opinion from a law firm acceptable to Payments NZ, addressed to Payments NZ and its participants, confirming that the guarantee is valid, binding, and enforceable on the guarantor in respect of the applicant’s obligations that are guaranteed.
-

(8) Standby liquidity facility

- If the independent directors require an applicant to provide a standby liquidity facility agreement from an approved provider under rule 2.16, the independent directors **must** require the applicant to provide—
- (a) a credit rating report from at least 1 of the following of the credit rating of the provider of the facility:
 - (i) Standard & Poor’s:
 - (ii) Moody’s Investors Service:
 - (iii) Fitch Ratings; and
 - (b) a legal opinion from a law firm acceptable to Payments NZ, addressed to Payments NZ and its participants, confirming that the facility agreement is valid, binding, and enforceable on the provider of the facility in respect of the applicant.
-

(9) Rely on report/certificate

The independent directors are entitled to rely on confirmations in the following to be satisfied that, in respect of the matters specified in rules 2.10(2)(a) or (3)(a) and sections B2(4) to (8) of this chapter, the applicant meets prudential standards that minimise the risk of the effects specified in rule 2.9(2):

- (a) for any applicant, an independent report from a qualified person:
 - (b) for an applicant who is an existing participant in another clearing system or a registered bank, a certificate from a director of the applicant.
-

B3: NBDT, insurer, non-participant

Commentary

(1) Rule 2.10(3)(b)

Under rule 2.10(3)(b) in respect of an applicant who is not an existing participant or a registered bank—

“...in determining whether the independent directors are satisfied that the applicant complies with the prudential requirements, the independent directors must have regard to—

(b)...whether the applicant is—

- (i) licensed as a non-bank deposit-taker under the Non-bank Deposit Takers Act 2013; or
- (ii) licensed as an insurer under the Insurance (Prudential Supervision) Act 2010; ...

This section specifies how the independent directors comply with the rule.

(2) Non-bank deposit-taker

The matters in subclause 2.10(3) are similar to the matters that the Reserve Bank has regard to under the Non-bank Deposit Takers Act 2013 (NBDT Act) when it determines whether to grant a licence to an applicant to operate as a non-bank deposit taker. For example, under section 14 of the NBDT Act the Reserve Bank must have regard to whether the applicant's ownership, and its incorporation and ownership structure, is appropriate having regard to the size and nature of the applicant's business.

(3) Insurer

The matters in subclause 2.10(3) are also similar in some ways to the matters that the Reserve Bank has regard to under the Insurance (Prudential Supervision) Act 2010 when it determines whether to grant a licence to an applicant to operate as an insurer. For example, some of the matters that the Reserve Bank considers before it grants a licence, include:

- (a) ability to carry on business in a prudent manner, and
- (b) appropriateness of incorporation and ownership structure, ownership, governance structure, and financial strength.

Procedures

(4) How to apply 2.10(3)(b)

If an applicant is licensed as a non-bank deposit-taker under the Non-bank Deposit Takers Act 2013 or licensed as an insurer under the Insurance (Prudential Supervision) Act 2010, to comply with rule 2.10(3)(b) the independent directors, are **entitled** to take into account the fact that the Reserve Bank was required to have regard to matters similar to those specified in paragraphs 2.10(3)(c) to (g) when it granted a licence to the applicant to operate as a non-bank deposit taker or as an insurer.

B4: Place of incorporation and structure: non-participant, NBDT, insurer

Commentary

(1) Rule 2.10(3)(c)

Under rule 2.10(3)(c):

- (3) “...in determining whether the independent directors are satisfied that the applicant complies with the prudential requirements, the independent directors must have regard to—
- (c) the place of incorporation of the applicant and the corporate and ownership structure of the applicant in accordance with section B4 of chapter 2 of the access procedures:

This section specifies how the independent directors comply with this rule.

Procedures

(2) Place of incorporation

To comply with rule 2.10(3)(c) the independent directors **must**—

- (a) note the jurisdiction in which the applicant is incorporated; and
- (b) consider whether, as a result of the jurisdiction of incorporation, the applicant is likely to introduce risk into the clearing system; and
- (c) if the applicant is incorporated in an overseas jurisdiction, consider whether to require the applicant to incorporate or register in New Zealand.

(3) Structure

To comply with rule 2.10(3)(c) the independent directors **must** assess whether the owners of the applicant have incentives to closely monitor the applicant’s activities and to influence the applicant’s behaviour to improve or to maintain the soundness of the applicant. Incentives include the following:

- (a) the owners as a group have made a substantial financial commitment to the applicant,
- (b) the owners will be first to absorb loss from poor performance, and
- (c) the owners’ reputations may be adversely affected by problems affecting the applicant.

The independent directors **must** assess whether the applicant’s board is sufficiently separate from the owners of the applicant to allow the applicant’s board to act in the interests of the applicant if the interests of the owners and the applicant conflict.

(4) Independent report

To comply with rule 2.10(3)(c) the independent directors are **entitled** to rely on a report from a qualified person that, in respect of the matters specified in section B4(2) and (3), the applicant meets prudential standards that minimise the risk of the effects specified in rule 2.9(2).

B5: Size and nature: non-participant, NBDT, insurer

Commentary

(1) Rule 2.10(3)(d)

Under rule 2.10(3)(d):

- (3) “...in determining whether the independent directors are satisfied that the applicant complies with the prudential requirements, the independent directors must have regard to—
- (d) the size and nature of the applicant’s business or proposed business, or any part of the applicant’s business or proposed business in accordance with section B5 of chapter 2 of the access procedures:

This section specifies how the independent directors comply with this rule.

Procedures

(2) Nature of business

To comply with rule 2.10(3)(d), the independent directors **must** determine the nature and extent of the applicant’s experience with:

- (a) the payment products or the payment processes regulated by the clearing system for which the applicant is applying for a right to participate, and
- (b) any other payment products or payment processes.

(3) Size of payments business

To comply with this rule, the independent directors **must** determine:

- (a) the relative size of the applicant’s proposed payments business in the clearing system to which the application relates, and
- (b) if the size of the applicant’s payments business is relatively small, for example less than 5% of NIV, whether the applicant is likely to introduce significant risk into the clearing system.

(4) Size of capital

To comply with this rule, the independent directors **must** determine whether the applicant has sufficient capital to:

- (a) participate in the clearing system to which the application relates, and
- (b) demonstrate that the owners have made a reasonable commitment to the business.

The Reserve Bank requires both registered banks and non-bank deposit takers to have minimum capital ratios. For an applicant who is a non-bank deposit taker, the independent directors will be satisfied with the applicant’s capital ratio if it is the same or more than the minimum capital ratio specified in its trust deed (8%, if the deposit taker has a credit rating).

(5) Independent report

To comply with rule 2.10(3)(d) the independent directors are **entitled** to rely on a report from a qualified person that, in respect of the matters specified in section B5(2), (3), or (4), the applicant meets prudential standards that minimise the risk of the effects specified in rule 2.9(2).

B6: Prudent: non-participant, NBDT, insurer

Commentary

(1) Rule 2.10(3)(e)

Under rule 2.10(3)(e):

- (3) "...in determining whether the independent directors are satisfied that the applicant complies with the prudential requirements, the independent directors must have regard to—
- (e) the ability of the applicant to carry on its business or proposed business in a prudent manner in accordance with section B6 of chapter 2 of the access procedures:

This section specifies how the independent directors comply with this rule.

Procedures

(2) Assessment factors

To comply with rule 2.10(3)(e), the independent directors **must** restrict their assessment to the following factors:

- (a) capital in relation to the size and nature of its business,
- (b) internal controls and accounting systems, and
- (c) risk management systems and policies.

(3) Capital size and nature of business

The independent directors **must** be satisfied that the applicant:

- (a) has enough capital to carry on its business in a prudent manner,
- (b) can maintain a prudent level of capital, and
- (c) has a capital policy that takes into account restrictions on access to capital if more capital is required, for example, an increase in business or unexpected loss.

(4) Internal controls and accounting systems

(1) The independent directors **must** be satisfied that the applicant has adequate internal controls and accounting systems.

(2) The applicant will comply with the requirement if—

- (a) the applicant is a branch or a subsidiary of a major international financial institution of standing and repute and adopts the systems and controls used by the parent; or
- (b) the applicant has operated successfully as a financial institution for some time.

(3) The independent directors may—

- (a) require the applicant to obtain a report on the adequacy of systems and controls from an independent party, for example, an auditor; and
- (b) require directors to attest to the adequacy of systems to monitor and control material business risks; and
- (c) take into account arrangements designed to mitigate risk arising from any unproven systems and controls, including capital adequacy policies.

(5) Risk management systems and policies

- (1) The independent directors **must** be satisfied that the applicant has adequate risk management policies and systems, and adequate insurance for the risks it faces.
 - (2) The applicant will comply with the requirement if—
 - (a) the applicant is a branch or a subsidiary of a major international financial institution of standing and repute, and adopts the policies and systems used by the parent; or
 - (b) the applicant has operated successfully as a financial institution for some time.
 - (3) The independent directors may—
 - (a) require the applicant to obtain a report on the adequacy of its risk management systems and policies or insurance cover from an independent party; and
 - (b) require directors to attest to the adequacy of systems to monitor and control material business risks; and
 - (c) take into account arrangements designed to mitigate other risks arising from unproven systems and controls or other factors, including capital adequacy.
 - (4) The applicant must have a liquidity risk management framework that is satisfactory to the independent directors.
-

(6) Independent report

To comply with rule 2.10(3)(e) the independent directors are entitled to rely on a report from a qualified person that, in respect of the matters specified in section B6(2), (3), (4), or (5), the applicant meets prudential standards that minimise the risk of the effects specified in rule 2.9(2).

B7: Standing: non-participant, NBDT, insurer

Commentary

(1) Rule 2.10(3)(f)

Rule 2.10(3)(f) provides:

- (3) "...in determining whether the independent directors are satisfied that the applicant complies with the prudential requirements, the independent directors must have regard to—
- (f) in accordance with section B7 of chapter 2 of the access procedures—
- (i) the standing of the applicant in the markets in which it trades; and
 - (ii) the standing of the owner (if any) of the applicant in the markets in which it trades:

This section specifies how the independent directors comply with this rule.

Procedures

(2) Applicant's standing in payments

If the applicant has experience providing payments products or services, to comply with rule 2.10(3)(f), the independent directors **must** determine the standing of the applicant in the payments market.

(3) Owner's standing

The independent directors would normally decide that the applicant has the appropriate degree of standing if the applicant is a branch or a subsidiary of:

- (a) a reputable international organisation who provides payments goods or services, or
- (b) a major international bank of standing and repute.

If the applicant is not a branch or a subsidiary of a reputable payments organisation or international bank, the independent directors **must** put extra emphasis on the suitability of directors and senior managers for their positions.

(4) Independent report

To comply with rule 2.10(3)(f) the independent directors are entitled to rely on a report from a qualified person that, in respect of the matters specified in section B7(2) and (3), the applicant meets prudential standards that minimise the risk of the effects specified in rule 2.9(2).

B8: Directors and senior managers: non-participant, NBDT, insurer

Commentary

(1) Rule 2.10(3)(g)

Under rule 2.10(3)(g):

- (3) "...in determining whether the independent directors are satisfied that the applicant complies with the prudential requirements, the independent directors must have regard to—
- (g) the suitability for their positions of the directors and senior managers of the applicant in accordance with section B8 of chapter 2 of the access procedures:

Directors include the chairman and all executive and non-executive directors. Senior managers are the chief executive and the executives who report directly to the chief executive.

This section specifies how the independent directors comply with this rule.

Procedures

(2) How to comply with rule

To comply with rule 2.10(3)(g), the independent directors **must** assess whether there is any evidence to suggest that any of the directors or senior managers are *not* suitable for their positions. This is a negative assessment not a positive affirmation of suitability. (The primary responsibility for ensuring that directors and senior managers are suitable for their positions lies with the applicant's shareholders (for director appointments) and with the applicant's independent directors (for senior manager appointments)).

(3) Integrity

To comply with rule 2.10(3)(g), the independent directors **must** assess the integrity of a director or senior manager by:

- (a) reviewing a declaration provided by the director or senior manager, and
- (b) if the declaration discloses a criminal offence, reviewing the NZ criminal record of the person.

(4) Skills and experience

To comply with rule 2.10(3)(g), the independent directors **must** be satisfied that there is no evidence to suggest that the applicant's:

- (a) senior managers do not have suitable expertise and experience to manage a participant in the clearing system for which the applicant has applied, and
- (b) directors collectively and the independent directors do not have sufficient skills and experience in the applicant's proposed payments activities.

The independent directors **must** assess the skills and experience of directors and senior managers by reviewing their curriculum vitae.

If a proposed director or senior manager has already passed a foreign banking regulator's suitability assessment, the independent directors will usually accept the assessment as evidence of suitability.

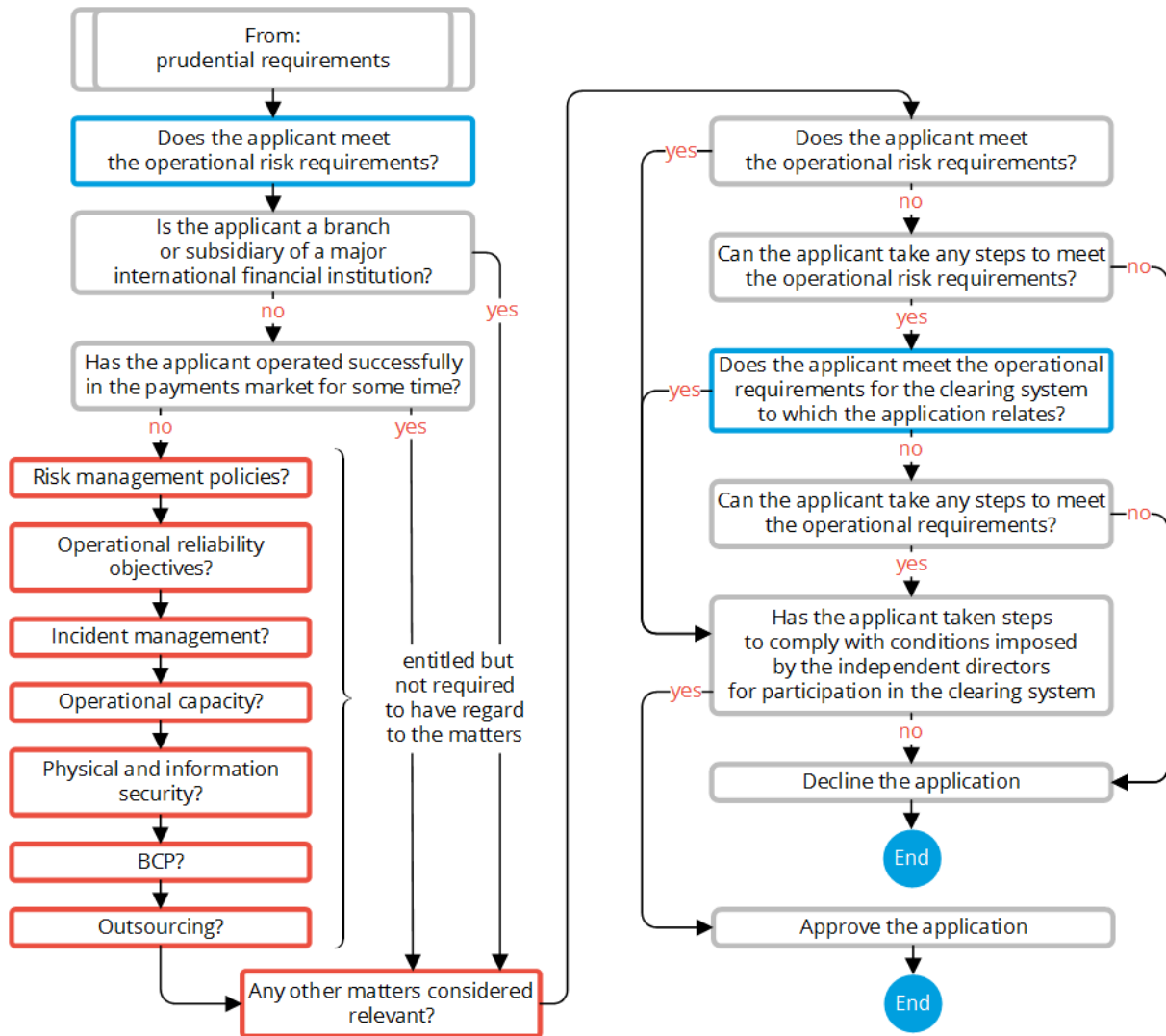
(5) Independent report

To comply with rule 2.10(3)(g) the independent directors are entitled to rely on a report from a qualified person that, in respect of the matters specified in section B8(2), (3) and (4), the applicant meets prudential standards that minimise the risk of the effects specified in rule 2.9(2).

Section C: Operational requirements

Purpose

The following diagram gives an overview of the process for determining whether an applicant meets the operational requirements specified in rules 2.10 to 2.13.



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C1: Operational requirements: risk management

Commentary

- (1) Rule 2.11** This section specifies how the independent directors determine whether an applicant complies with the requirements for operational risk management specified in rule 2.11. Rule 2.11 provides:

2.11 Operational requirements: risk management

- (1) The requirements for operational risk management for participation in a clearing system are that the applicant meets standards that minimise the risk of the effects specified in rule 2.9(2).
 - (2) In determining whether the independent directors are satisfied that an applicant complies with the requirements for operational risk management, the independent directors must have regard to whether the following are adequate:
 - (a) in accordance with section C1(2) of chapter 2 of the access procedures, the applicant's systems, policies, procedures, and controls that identify, monitor, and manage operational risks:
 - (b) in accordance with section C1(3) of chapter 2 of the access procedures, the applicant's operational reliability objectives and the policies intended to achieve the objectives:
 - (c) in accordance with section C1(4) of chapter 2 of the access procedures, the applicant's procedures for incident management:
 - (d) in accordance with section C1(5) of chapter 2 of the access procedures, the applicant's plans to manage operational capacity:
 - (e) in accordance with section C1(6) of chapter 2 of the access procedures, the applicant's physical and information security policies:
 - (f) in accordance with section C1(7) of chapter 2 of the access procedures, the applicant's business continuity plan:
 - (g) in accordance with section C1(8) of chapter 2 of the access procedures, any arrangements relating to the provision by another party of goods or services necessary for the applicant to comply with obligations under the rules of the clearing system to which the application relates:
 - (f) any other matters that the independent directors consider relevant.
-

Procedures**(2) Risk management systems and policies**

To comply with rule 2.11(2)(a) the independent directors must have regard to the adequacy of systems, policies, procedures, and controls that identify, monitor, and manage operational risks. In determining whether the systems, policies, procedures, and controls are adequate, the independent directors must have regard to:

- whether the applicant is a branch or a subsidiary of a major international financial institution of standing and repute and the systems, policies, procedures, and controls that the applicant uses to identify, monitor, and manage operational risks:
 - are used by the head office or the parent of the applicant, but
 - are adapted appropriately for the New Zealand market, and
 - are adequate in respect of the payments goods or services that the applicant proposes to offer.
- the following in respect of the payments goods or services that the applicant proposes to offer as a participant in the clearing system to which the application relates:
 - whether or not the applicant has operated successfully for some time offering the payments goods or services, and
 - if the applicant has offered the payments goods or services, the extent to which the applicant outsourced functions needed to provide the goods or services (for example, if the applicant is an agency bank of an SBI participant, the extent to which the agency bank outsourced dishonour processing to the SBI participant).

The independent directors may:

- require the applicant to obtain a report on the adequacy of the systems, policies, procedures, and controls from an independent party,
 - require directors to attest to the adequacy of the systems, policies, procedures, and controls, and
 - take into account arrangements designed to mitigate other risks arising from any unproven systems, policies, procedures, and controls or other factors, including an access guarantee.
-

**(3)
Operational
reliability
objectives**

To comply with rule 2.11(2)(b) the independent directors must have regard to the adequacy of the applicant's operational reliability objectives and the policies intended to achieve the objectives. In determining whether the objectives and policies are adequate, the independent directors must have regard to:

- whether the applicant is a branch or a subsidiary of a major international financial institution of standing and repute and the objectives and policies that the applicant uses:
 - are used by the head office or the parent of the applicant, but
 - are adapted appropriately for the New Zealand market, and
 - are adequate in respect of the payments goods or services that the applicant proposes to offer.
- the following in respect of the payments goods or services that the applicant proposes to offer as a participant in the clearing system to which the application relates:
 - whether or not the applicant has operated successfully for some time offering the payments goods or services, and
 - if the applicant has offered the payments goods or services, the extent to which the applicant outsourced functions needed to provide the goods or services (for example, if the applicant is an agency bank of an SBI participant, the extent to which the agency bank outsourced dishonour processing to the SBI participant).

The independent directors may:

- require the applicant to obtain a report on the adequacy of the objectives (including the applicant's operational performance objectives and committed service-level targets) and the policies,
 - require directors to attest to the adequacy of the operational reliability objectives and the policies intended to achieve the objectives, and
 - take into account arrangements designed to mitigate other risks arising from any unproven operational reliability objectives.
-

(4) Procedures for incident management

To comply with rule 2.11(2)(c) the independent directors must have regard to the adequacy of the applicant's procedures for incident management in respect of the payment products or services that it proposes to offer as a participant in the payment system to which the application relates. In determining whether the incident management procedures are adequate, the independent directors must have regard to:

- whether the applicant is a branch or a subsidiary of a major international financial institution of standing and repute and the procedures that the applicant uses:
 - are used by the head office or the parent of the applicant, but
 - are adapted appropriately for the New Zealand market, and
 - are adequate in respect of the payments goods or services that the applicant proposes to offer, and
- the following in respect of the payments goods or services that the applicant proposes to offer as a participant in the clearing system to which the application relates:
 - whether or not the applicant has operated successfully for some time offering the payments goods or services, and
 - if the applicant has offered the payments goods or services, the extent to which the applicant outsourced functions needed to provide the goods or services (for example, if the applicant is an agency bank of an SBI participant, the extent to which the agency bank outsourced dishonour processing to the SBI participant).

The independent directors may:

- require the applicant to obtain a report on the adequacy of its procedures to:
 - record, report, analyse, and resolve operational incidents, and
 - undertake “post-incident” reviews to identify the causes and any required improvements to normal payments operations or business continuity arrangements,
 - require directors to attest to the adequacy of the procedures for incident management, and
 - take into account arrangements designed to mitigate other risks arising from any unproven procedures for incident management or other factors, including an access guarantee.
-

(5) Plans for operational capacity

To comply with rule 2.11(2)(d) the independent directors must have regard to the adequacy of the applicant's plans to manage operational capacity to participate in the clearing system to which the application relates. In determining whether the plans to manage operational capacity are adequate, the independent directors must have regard to:

- whether the applicant is a branch or a subsidiary of a major international financial institution of standing and repute and the plans that the applicant uses:
 - are used by the head office or the parent of the applicant, but
 - are adapted appropriately for the New Zealand market, and
 - are adequate in respect of the payments goods or services that the applicant proposes to offer, and
- the following in respect of the payments goods or services that the applicant proposes to offer as a participant in the clearing system to which the application relates:
 - whether or not the applicant has operated successfully for some time offering the payments goods or services, and
 - if the applicant has offered the payments goods or services, the extent to which the applicant outsourced functions needed to provide the goods or services (for example, if the applicant is an agency bank of an SBI participant, the extent to which the agency bank outsourced dishonour processing to the SBI participant).

The independent directors may:

- require the applicant to obtain a report on the adequacy of the applicant's:
 - scalable capacity to handle increasing stress volumes and to achieve its service-level objectives, e.g. the required processing speed,
 - policies in respect of monitoring, reviewing, and testing the actual capacity and performance of the applicant's systems on an ongoing basis, and
 - plans to adapt to any plausible change in the volume of business or technical requirements,
 - require directors to attest to the adequacy of the applicant's plans to manage operational capacity, and
 - take into account arrangements designed to mitigate other risks arising from any unproven plans to manage operational capacity or other factors, including an access guarantee.
-

(6) Physical and information security policies

To comply with rule 2.11(2)(e) the independent directors must have regard to the adequacy of the applicant's physical and information security policies to participate in the clearing system to which the application relates. In determining whether the policies are adequate, the independent directors must have regard to:

- whether the applicant is a branch or a subsidiary of a major international financial institution of standing and repute and the policies that the applicant uses:
 - are used by the head office or the parent of the applicant, but
 - are adapted appropriately for the New Zealand market, and
 - are adequate in respect of the payments goods or services that the applicant proposes to offer, and
- the following in respect of the payments goods or services that the applicant proposes to offer as a participant in the clearing system to which the application relates:
 - whether or not the applicant has operated successfully for some time offering the payments goods or services, and
 - if the applicant has offered the payments goods or services, the extent to which the applicant outsourced functions needed to provide the goods or services (for example, if the applicant is an agency bank of an SBI participant, the extent to which the agency bank outsourced dishonour processing to the SBI participant).

The independent directors may:

- require the applicant to obtain a report on the adequacy of the policies including policies in respect of:
 - assessing and mitigating vulnerabilities in the applicant's physical sites from attacks, intrusions, and natural disasters,
 - identifying, assessing, and managing threats to the security of information, and
 - protecting information from loss or leakage, unauthorised access, or other processing risks, e.g. negligence, fraud, poor administration, or inadequate recordkeeping, and
 - require directors to attest to the adequacy of the applicant's physical and information security policies, and
 - take into account arrangements designed to mitigate other risks arising from any unproven physical and information security policies, including an access guarantee.
-

(7) Business continuity

To comply with rule 2.11(2)(f) the independent directors must have regard to the adequacy of the applicant's business continuity plan. In determining whether the plan is adequate, the independent directors must have regard to:

- whether the applicant is a branch or a subsidiary of a major international financial institution of standing and repute and the plan that the applicant uses:
 - is used by the head office or the parent of the applicant, but
 - is adapted appropriately for the New Zealand market, and
 - is adequate in respect of the payments goods or services that the applicant proposes to offer, and
- the following in respect of the payments goods or services that the applicant proposes to offer as a participant in the clearing system to which the application relates:
 - whether or not the applicant has operated successfully for some time offering the payments goods or services, and
 - if the applicant has offered the payments goods or services, the extent to which the applicant outsourced functions needed to provide the goods or services (for example, if the applicant is an agency bank of an SBI participant, the extent to which the agency bank outsourced dishonour processing to the SBI participant).

The independent directors may:

- require the applicant to obtain a report on the adequacy of the applicant's business continuity plan including whether the following are adequate:
 - plans for backing up information,
 - plans for identifying the status of payments at the time of a disruption and the timeframe in which the applicant can resume payments operations after the disruption,
 - (the adequacy of the applicant's secondary site including the geographical distance from the primary site and the resourcing, capabilities, functionalities and staffing arrangements of the secondary site,
 - procedures for crisis and event management, for example, communication arrangements with the Reserve Bank, local civil authorities (for physical attacks or natural disasters) or computer experts (for software malfunctions or cyber-attacks), and
 - resources assigned to developing the plan, testing of the plan and staff training in respect of the plan,
 - require directors to attest to the adequacy of the applicant's business continuity plan, and
 - take into account arrangements designed to mitigate other risks arising from use of the business continuity plan, including an access guarantee.
-

**(8)
Outsourcing
payments
functions**

To comply with rule 2.11(2)(g) the independent directors must have regard to the adequacy of the applicant's outsourcing policies. In determining whether the policies are adequate, the independent directors must have regard to:

- whether the applicant is a branch or a subsidiary of a major international financial institution of standing and repute and the policies that the applicant uses:
 - are used by the head office or the parent of the applicant, but
 - are adapted appropriately for the New Zealand market, and
 - are adequate in respect of the payments goods or services that the applicant proposes to offer, and
- the following in respect of the payments goods or services that the applicant proposes to offer as a participant in the clearing system to which the application relates:
 - whether or not the applicant has operated successfully for some time offering the payments goods or services, and
 - if the applicant has offered the payments goods or services, the extent to which the applicant outsourced functions needed to provide the goods or services (for example, if the applicant is an agency bank of an SBI participant, the extent to which the agency bank outsourced dishonour processing to the SBI participant).

The independent directors may:

- require the applicant to obtain a report on the adequacy of the applicant's policies in respect of organisations who would provide goods or services necessary for the applicant to comply with obligations under the rules of the clearing system to which the application relates (for example, data processing and information systems management) including:
 - policies for selecting and substituting outsource organisations,
 - how the applicant ensures that the organisation meets the standards the applicant requires in respect of outsourced goods or services and provides full access to necessary information, and
 - if the outsourced goods or services are critical, how the applicant manages the organisation itself outsourcing material elements of the goods or service provided,
- require directors to attest to the adequacy of the applicant's outsourcing policies, and
- take into account arrangements designed to mitigate other risks arising from unproven outsourcing policies, including an access guarantee.

**(9)
Independent
report**

To comply with rule 2.11, the independent directors are entitled to rely on a report from a qualified person confirming that the applicant meets the requirements for operational risk management in rule 2.11.

C2: Operational requirements: CECS

Commentary

- (1) Rule 2.12** This section specifies how the independent directors determine whether an applicant to participate in CECS complies with the operational requirements in rule 2.12. Rule 2.12 provides:

2.12 Operational requirements: CECS

The operational requirements for participation in CECS are as follows:

- (a) if the applicant proposes to operate as an issuer, the applicant has a unique issuer identification number (IIN);
- (b) if the applicant does not participate in SBI, or is not also applying to participate in SBI, the applicant and an SBI participant have an agreement—
 - (i) under which the SBI participant sends files to the SBI CUG transaction delivery system for the applicant and receives files from the SBI CUG transaction delivery system for the applicant; and
 - (ii) that includes all terms and conditions necessary to give effect to Parts 2, 5, 8, 8A to 8E, 10, 12, and 12B to 12D;
- (c) if the applicant proposes to use 1 or more switch companies to deliver payment instructions, the applicant has passed the testing requirements of each switch company.

Procedures

- (2) Documents** To comply with rule 2.9(3)(c)(i), the independent directors are entitled to be satisfied that the applicant meets the operational requirements for CECS if the applicant has provided the documents in the following table:

Matter	Document
IIN	If the applicant proposes to operate as an issuer, certification from a director of the applicant of the applicant's unique issuer identification number (IIN).
SBI clearing and settlement	If the applicant does not participate in SBI or is not also applying to participate in BECS or PCS, certification from a director of the applicant and from a director of an SBI participant that: <ul style="list-style-type: none"> (i) the applicant and the SBI participant have an agreement under which the SBI participant: <ul style="list-style-type: none"> (iv) sends files to the SBI CUG transaction delivery system for the applicant, and (v) receives files from the SBI CUG transaction delivery system for the applicant, and (ii) the agreement includes all terms and conditions necessary to give effect to Parts 2, 5, 8, 8A to 8E, 10, 12, and 12B to 12D.
Switch testing	If the applicant proposes to use 1 or more switch companies to deliver payment instructions, confirmation from each switch company that the applicant has passed the testing requirements of the switch company.

Best Practice**(3) Switch arrangements**

The operational requirements for participation in CECS specified by rule 2.12:

- require an applicant who proposes to use 1 or more switch companies to deliver payment instructions to pass the testing requirements of each switch company, but
- do not require the applicant to have arrangements in place with every switch company that acquirers use to process EFTPOS transactions.

However, if an applicant who proposes to issue EFTPOS cards does not have arrangements with a switch company, either directly or indirectly, that an acquirer uses to process EFTPOS transactions,:

- the acquirer cannot process EFTPOS transactions initiated by the cards,
- merchants with whom the acquirer has merchant agreements cannot accept the cards to receive payment for goods, services or cash, and
- the applicant's customers may be uncertain whether merchants can accept the cards.

If an applicant proposes to issue EFTPOS cards, the independent directors may, to prevent an adverse effect on the integrity or reputation of the EFTPOS system, require the applicant to enter into arrangements with a switch company that acquirers use to process EFTPOS transactions.

C3: Operational requirements: HVCS

Commentary

- (1) Rule 2.13** This section specifies how the independent directors determine whether an applicant to participate in HVCS complies with the operational requirements for HVCS in rule 2.13. Rule 2.13 provides:

2.13 Operational requirements: HVCS

- (1) The operational requirements for participation in HVCS are as follows:
 - (a) the applicant can settle through its own settlement account;
 - (b) the applicant can use ESAS to send, settle, and receive transactions;
 - (c) the applicant has a SWIFT BIC address that the applicant proposes to link to the applicant's settlement account;
 - (d) the applicant is a SWIFT user;
 - (e) the connection between SWIFT and the SWIFT gateway that the applicant proposes to use complies with the requirements in subclause (2) or (3).
- (2) If the applicant's projected national interchange volume in HVCS is 5% or more of the total national interchange volume in HVCS,—
 - (a) the connection must be, as a minimum, SWIFT Alliance Connect silver; and
 - (b) the resilience of the connection must allow the applicant to achieve a 'zero loss objective' (to last committed save).
- (3) If the applicant's projected national interchange volume in HVCS is less than 5% of the total national interchange volume in HVCS,—
 - (a) the connection must be, as a minimum, either—
 - (i) SWIFT Alliance Connect bronze using either—
 - (A) 2 separate internet service providers; or
 - (B) 1 internet service provider with 2 connections from 2 sites separated by a geographical distance that minimises the risk that a single incident would disable both connections (for example, the sites are in 2 different regions); or
 - (ii) a connection using a bureau service and the following apply—
 - (A) the connection between the bureau service and SWIFT is, as a minimum, SWIFT Alliance Connect silver; and
 - (B) the applicant's connection to the bureau has redundancy (a secondary connection); and
 - (b) the resilience of the connection must allow the applicant to achieve—
 - (i) a 'zero loss objective' (to last committed save); and
 - (ii) a 'recovery time objective' of less than 30 minutes.

Procedures

- (2) Documents** To comply with rule 2.9(3)(c)(ii), the independent directors are entitled to be satisfied that the applicant meets the operational requirements for HVCS if the applicant has provided the documents in the following table:

Matter	Document
AVP CUG	Confirmation from the Reserve Bank that it will admit the applicant to the AVP CUG.
Own settlement account	Confirmation from the Reserve Bank that the applicant is an account holder with the exchange settlement account system (ESAS).
ESAS	Confirmation from the Reserve Bank that the applicant can use ESAS to send, settle, and receive transactions.
SWIFT BIC	Certification from a director of the applicant of the applicant's SWIFT BIC address that the applicant proposes to link to the applicant's ESAS account.
SWIFT user	Certification from a director of the applicant that the applicant is a SWIFT user.

SWIFT connection: 5% or more of NIV	<p>If the projected national interchange volume in HVCS of the applicant is 5% or more of the total national interchange volume in HVCS, certification from a director of the applicant of the following in relation to the connection between SWIFT and the SWIFT gateway that the applicant proposes to use,—</p> <ul style="list-style-type: none"> • that the connection is, as a minimum, SWIFT Alliance Connect silver; and • that the resilience of the connection allows the applicant to achieve a 'zero loss objective' (to last committed save).
SWIFT connection: less than 5% of NIV	<p>If the projected national interchange volume in HVCS of the applicant is less than 5% of the total national interchange volume in HVCS, certification from a director of the applicant of the following in relation to the connection between SWIFT and the SWIFT gateway that the applicant proposes to use,—</p> <ul style="list-style-type: none"> • that the connection is, as a minimum, either— <ul style="list-style-type: none"> ○ SWIFT Alliance Connect bronze using either— <ul style="list-style-type: none"> ▪ 2 separate internet service providers; or ▪ 1 internet service provider with 2 connections from 2 sites separated by a geographical distance that minimises the risk that a single incident would disable both connections (for example, the sites are in 2 different regions); or ○ a connection using a bureau service and the following apply— <ul style="list-style-type: none"> ▪ the connection between the bureau service and SWIFT is SWIFT Alliance Connect silver as a minimum; and ▪ the applicant's connection to the bureau has redundancy (a secondary connection); and • that the resilience of the connection allows the applicant to achieve— <ul style="list-style-type: none"> ○ a 'zero loss objective' (to last committed save); and ○ a 'recovery time objective' of less than 30 minutes.

Best Practice

(3) Gold connection

If an applicant has a SWIFT Alliance Connect gold connection, to meet the operational requirements in rule 2.13, the applicant should differentiate telecommunication provider access points into the SWIFT backbone by, for example, requiring a different provider for primary and secondary dedicated lines.

C4: Operational requirements: SBI

Commentary

(1) Rules 2.14-2.14B This section specifies how the independent directors determine whether an applicant to participate in SBI complies with the operational requirements in rules 2.14 – 2.14B which provide:

2.14 Operational requirements: every BECS or PCS applicant

The operational requirements for participation in BECS or PCS for every applicant are as follows:

- (a) the applicant can settle files through its own settlement account;
- (b) for every file in respect of which the applicant is the debtor or the creditor sent for settlement and interchange under Part 8, the applicant can—
 - (i) record the time at which the file was sent determined in accordance with rule 8.11(1) as soon as practicable after the file was sent; and
 - (ii) monitor whether the file settles; and
 - (iii) if the file fails to settle, immediately identify the failure and respond to the failure in accordance with the rules;
- (c) the applicant can use ESAS to send, settle, and receive files;
- (d) the applicant has a SWIFT BIC address that the applicant proposes to link to the applicant's settlement account;
- (e) the applicant has access to a SWIFT DN that it can use for the SBI CUG transaction delivery system.

2.14A Operational requirements: BECS or PCS applicant joining the SBI CUG

- (1) The operational requirements for participation in BECS or PCS for an applicant who proposes to join the SBI CUG are as follows:
 - (a) the applicant complies with the operational requirements in rule 2.14;
 - (b) the applicant is a SWIFT user;
 - (c) the connection between SWIFT and the SWIFT gateway that the applicant proposes to use complies with the requirements in subclause (2) or (3).
- (2) If the combined projected national interchange volume in SBI of the applicant and every SBI participant to whom the applicant proposes to provide interchange services is 5% or more of the total national interchange volume of SBI,—
 - (a) the connection must be, as a minimum, SWIFT Alliance Connect silver; and
 - (b) the resilience of the connection must allow the applicant to achieve a 'zero loss objective' (to last committed save).
- (3) If the combined projected national interchange volume in SBI of the applicant and every SBI participant to whom the applicant proposes to provide interchange services is less than 5% of the total national interchange volume of SBI,—
 - (a) the connection must be, as a minimum, either—
 - (i) SWIFT Alliance Connect bronze using either—
 - (A) 2 separate internet service providers; or
 - (B) 1 internet service provider with 2 connections from 2 sites separated by a geographical distance that minimises the risk that a single incident would disable both connections (for example, the sites are in 2 different regions); or
 - (ii) a connection using a bureau service and the following apply—
 - (A) the connection between the bureau service and SWIFT is SWIFT Alliance Connect silver as a minimum; and
 - (B) the applicant's connection to the bureau has redundancy (a secondary connection); and
 - (b) the resilience of the connection must allow the applicant to achieve—
 - (i) a 'zero loss objective' (to last committed save); and
 - (ii) a 'recovery time objective' of less than 30 minutes.

2.14B Operational requirements: settlement-only BECS or PCS applicants

The operational requirements for participation in BECS or PCS for an applicant who proposes not to join the SBI CUG but to use another SBI participant to interchange the applicant's files using the SBI CUG transaction delivery system are as follows:

- (a) the operational requirements in rule 2.14;
- (b) the applicant has an agreement with the SBI participant—
 - (i) that requires the SBI participant to interchange the applicant's files through the SBI CUG transaction delivery system; and
 - (ii) under which the SBI participant may only terminate the agreement by giving a notification to the applicant specifying a date from which the SBI participant proposes to stop interchanging the applicant's files using the SBI CUG transaction delivery system (which must be a date no less than 180 calendar days from the date of the notification); and
 - (iii) that contains all terms and conditions necessary to give effect to Parts 2, 3, 5, 8, 10, 12, and 12B to 12D;
- (c) the applicant has the following through which the applicant and the SBI participant exchange files:
 - (i) a primary connection that is secure;
 - (ii) a secondary connection that is secure.

Procedures

(2) Documents For an application from a person who is not an existing SBI participant, to comply with rule 2.9(3)(c)(iii), the independent directors are entitled to be satisfied that the applicant meets the operational requirements for SBI if the applicant has provided the documents in the following table:

Matter	Document
Own settlement account	Confirmation from the Reserve Bank that the applicant is an account holder with the exchange settlement account system (ESAS).
Failure to settle	Certification from a director of the applicant that, for every file in respect of which the applicant is the debtor or the creditor sent for settlement and interchange under Part 8, the applicant will be able to do the following: <ul style="list-style-type: none"> • record the time at which the file was sent (using the payment status report for the file) as soon as practicable after the file was sent: • monitor whether the file settles: • if the file fails to settle, immediately identify the failure and respond to the failure in accordance with the rules.
ESAS	Confirmation from the Reserve Bank that the applicant can use ESAS to send, settle, and receive files.
SWIFT BIC	Certification from a director of the applicant of the applicant's SWIFT BIC address that the applicant proposes to link to the applicant's ESAS account.
SWIFT DN	Certification from a director of the applicant— <ul style="list-style-type: none"> • that the applicant has access to a SWIFT distinguished name (DN) that it can use for the SBI CUG transaction delivery system; and • of the SWIFT DN that it will use.
SWIFT user	If the applicant proposes to join the SBI CUG, certification from a director of the applicant that the applicant is a SWIFT user.
SWIFT connection: 5% or more of NIV	If the applicant proposes to join the SBI CUG and the combined projected national interchange volume in SBI of the applicant and every SBI participant to whom the applicant proposes to provide interchange services is 5% or more of the total national interchange volume in SBI, certification from a director of the applicant of the following in relation to the connection between SWIFT and the SWIFT gateway that the applicant proposes to use,— <ul style="list-style-type: none"> • that the connection is, as a minimum, SWIFT Alliance Connect silver; and • that the resilience of the connection allows the applicant to achieve a 'zero loss objective' (to last committed save).

<p>SWIFT connection: less than 5% of NIV</p>	<p>If the applicant proposes to join the SBI CUG and the combined projected national interchange volume in SBI of the applicant and every SBI participant to whom the applicant proposes to provide interchange services is less than 5% of the total national interchange volume in SBI, certification from a director of the applicant of the following in relation to the connection between SWIFT and the SWIFT gateway that the applicant proposes to use,—</p> <ul style="list-style-type: none"> • that the connection is, as a minimum, either— <ul style="list-style-type: none"> ○ SWIFT Alliance Connect bronze using either— <ul style="list-style-type: none"> ▪ 2 separate internet service providers; or ▪ 1 internet service provider with 2 connections from 2 sites separated by a geographical distance that minimises the risk that a single incident would disable both connections (for example, the sites are in 2 different regions); or ○ a connection using a bureau service and the following apply— <ul style="list-style-type: none"> ▪ the connection between the bureau service and SWIFT is SWIFT Alliance Connect silver as a minimum; and ▪ the applicant's connection to the bureau has redundancy (a secondary connection); and • that the resilience of the connection allows the applicant to achieve— <ul style="list-style-type: none"> ○ a 'zero loss objective' (to last committed save); and ○ a 'recovery time objective' of less than 30 minutes.
<p>Settlement-only</p>	<p>If the applicant proposes not to join the SBI CUG but to use another SBI participant to interchange the applicant's files using the SBI CUG transaction delivery system, certification from a director of the applicant—</p> <ul style="list-style-type: none"> • of the name of the other SBI participant; and • that the applicant has the following through which the applicant and the SBI participant exchange files: <ul style="list-style-type: none"> – a secure primary connection: – a secure secondary connection; and • that the applicant has an agreement with the SBI participant— <ul style="list-style-type: none"> – that requires the SBI participant to interchange files through the SBI CUG transaction delivery system for the applicant; and – under which the SBI participant may only terminate the agreement by giving a notification to the applicant specifying a date from which the SBI participant proposes to stop interchanging files for the applicant using the SBI CUG transaction delivery system (which must be a date no less than 180 calendar days from the date of the notification); and – that contains all terms and conditions necessary to give effect to Parts 2, 3, 5, 8, 10, 12, and 12B to 12D.

Best Practice

(3) Gold connection

If an applicant has a SWIFT Alliance Connect gold connection, to meet the operational requirements in rule 2.14A the applicant should differentiate telecommunication provider access points into the SWIFT backbone by, for example, requiring a different provider for primary and secondary dedicated lines.

Appendix 1: Access procedures

Appendix 1A: Application to participate and statutory declaration

Application to participate

Rule 2.6 of the Payments NZ Limited rules ('rules')

Give us the completed and signed application form along with the following things:

- (a) [a statutory declaration from 1 of your directors (or equivalent officer) that all information in the application is accurate (**Refer:** Appendix 1A: Statutory declaration),]
- (b) [the non-refundable application fee of \$25,000.00 (GST exclusive), and]
- (c) [the following information we require under rule 2.7 to assist us to determine the application]:

Send it to the following address:

The Chief Executive, Payments NZ, PO Box 11 418, Manners Street, Wellington 6011, New Zealand

Clearing systems

Tick the clearing system(s) in which you propose to participate:

- PCS – Paper Clearing System
- BECS – Bulk Electronic Clearing System
- CECS – Consumer Electronic Clearing System
- HVCS – High Value Clearing System

Applicant details

Enter the details of the applicant (i.e., your organisation or business)

Full name of the applicant:

Place of incorporation:

Address of registered office:

Address of principal place of business in New Zealand:

Contact details

Name of contact person:

Telephone number:

Fax number:

Email address:

Start date

Enter your preferred start date. If you do not want to participate in 1 of the following clearing systems, enter "N/A".

Date (dd-mm-yyyy)

PCS:

BECS:

CECS:

HVCS:

Note: We will confirm your actual start date with you.

1. Application for a right to participate

- (a) The applicant applies for a right to participate in each clearing system ticked on the first page of this application form.
- (b) The applicant encloses a non-refundable application fee of NZ\$25,000.00 GST exclusive, payable to Payments NZ Limited (in accordance with rule 2.8).
- (c) The applicant attaches (in accordance with rule 2.7):

[the documents the company requires to assist it to determine the application].

2. Applicant's agreement (for applicants who are not existing participants)

- (a) The applicant acknowledges that the applicant has received a copy of each clearing system document that applies to the clearing system.
- (b) The applicant agrees and acknowledges that:
 - (i) the applicant's application to participate in the clearing system will be determined in accordance with Part 2 of the rules; and
 - (ii) the independent directors make a determination of the application on the basis of information provided by the applicant; and
 - (iii) neither an independent director nor the company is liable for any loss (other than loss arising as a result of fraud, willful misconduct or bad faith), whether the loss, is direct or consequential (including loss of profits), incurred by the applicant arising out of or in connection with the applicant's application including the independent directors or the company:
 - (A) exercising any rights or powers under Part 2 of the rules; or
 - (B) complying with any obligations under Part 2 of the rules.
- (c) The applicant agrees to do any of the following if requested by Payments NZ Limited at the cost of the applicant:
 - (i) provide information to Payments NZ Limited; or
 - (ii) complete an action.
- (d) If the independent directors approve the application, the applicant agrees to comply with any conditions imposed by Payments NZ Limited on and from the time that the applicant commences participation in the clearing system.
- (e) The applicant agrees that if the applicant is required to test its system, the applicant will:
 - (i) for an application for BECS or PCS, apply to SWIFT to join the SBI test CUG;
 - (ii) for an application for HVCS, apply to SWIFT to join the AVP test CUG and, if an HVCS participant requires the applicant to test its system bilaterally with the participant, test its system with the participant;
 - (iii) complete the tests in accordance with Part 2 of the rules; and
 - (iv) pay the test fees and the system fees required by Part 4 of the rules.
- (f) The applicant agrees that if any admission requirement in rule 2.29 applies to the applicant, the applicant will comply with the requirement.

3. Governing law

This application form is governed by and is to be construed in accordance with New Zealand law.

4. Definitions

Terms that are not defined in this application form have the meaning in the most recent version of the rules.

Executed as a deed poll

Dated: _____

Signed by: _____

Full name of signatory

In the presence of:

Director

Full name of signatory

Director

Full name of signatory

Statutory declaration

I, [insert full name] of [insert address of work place], [insert job title] solemnly and sincerely declare that:

1. I am the [insert job title] of [insert place of work].
2. I have read the application (a copy of which is attached to this declaration and marked with the letter "A") ("the application") and have knowledge of the matters contained in the application.
3. To the best of my knowledge and belief all the information in the application is accurate.

And I make this solemn declaration conscientiously believing the same to true and by virtue of the Oaths and Declarations Act 1957.

Declared at this day of 20[]

[insert full name]

Before me:

Signature of person authorised to take statutory declarations

Name

Occupation