



Rules

Appendix 1: Access procedures

Version 12

Effective date: 9/01/2017

Document history and version control

Title: Access procedures

Version: 12

Effective date: 9/01/2017

Circulation: Payments NZ Limited participants, Buddle Findlay, Reserve Bank

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	Board resolution 5 May 2014	12 May 2014	14 July 2014	Buddle Findlay: Simon Jensen, Tony Dellow, Payments NZ: Caroline Kidd, Sarah Hensen
Consequential amendments to correct drafting errors and update format and pictures.	Chief executive amendment 12 May 2014	12 May 2014	14 July 2014	Caroline Kidd, Frank Susko

Version number and description of amendment	Amendment method and date	Amendment notice date	Effective date of amendment	Authors
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	Board resolution 2 December 2014	8 Dec 2014	16 Feb 2015	Natalie Vaughan-Sanders
Amendment of references to the statutory declaration at 1J to 1K	Chief executive amendment 5 Dec 2014	8 Dec 2014	8 Dec 2014	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 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 number and description of amendment	Amendment method and date	Amendment notice date	Effective date of amendment	Authors
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

Table of Contents

Chapter 1: Making an application	9
Section A: Application process.....	10
Section B: Information accompanying application.....	13
B1: Information: prudential requirements.....	14
B2: Information: requirements for operational risk management	17
B3: Information: operational requirements CECS.....	18
B4: Information: operational requirements HVCS	19
B5: Information: operational requirements SBI.....	20
Chapter 2: Determining an application.....	21
Section A: Determination process	22
Section B: Prudential requirements.....	26
B1: Prudential requirements: overview	27
B2: Credit-worthiness.....	29
B3: Bank, NBDT, or insurer?	32
B4: Existing participant?	35
B5: Place of incorporation and structure	36
B6: Size and nature.....	37
B7: Carry on business in a prudent manner	39
B8: Standing.....	41
B9: Directors and senior managers	42
Section C: Operational requirements	44
C1: Operational requirements: risk management.....	45
C2: Operational requirements: CECS.....	53
C3: Operational requirements: HVCS	54
C4: Operational requirements: SBI.....	58
Chapter 3: Testing	62
Section A: [Deleted]	63
Section B: HVCS tests.....	64
Section C: SBI tests.....	69
C1: SBI and testing: overview	70
C2: Arranging SBI tests	72
C3: SBI tests	74
Chapter 4: Assigning a right to participate in a clearing system	77
Section A: When PNZ approves assignment.....	78
Section B: Application and determination process	79
Chapter 5: Interchange numbers and branch ranges.....	81
Section A: Interchange numbers and branch ranges: overview.....	82
Section B: Allocating an interchange number	83
Section C: Allocating and using branch ranges.....	85
Section D: Allocation to agency financial institution	88
Section E: Allocation of interchange number to person with business need.....	90
Section F: Revocation.....	92
Chapter 6: Resigning from a clearing system	93
Section A: Resigning from a clearing system: overview	94
Section B: Resignation process	95
Section C: Effect of resignation.....	96

Appendix 1A: Application to participate and statutory declaration	97
Appendix 1B: Credit support documents	
Appendix 1C: <i>[Deleted]</i>	
Appendix 1D: HVCS test pack	
Appendix 1E: SBI test pack	
Appendix 1F: Participation agreement	
Appendix 1G: Participant accession deed	

Note: Appendices 1B and 1D to 1G are in separate documents.

Rules

Appendix 1: Access procedures

Commentary

Purpose of procedures

The Payments NZ (PNZ) 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 PNZ or a participant with which PNZ or the participant **must** comply in accordance with Part 2, or
 - give PNZ or a participant a right which PNZ is **entitled** to enforce against participants in accordance with Part 2, or
- **best practice** – with which PNZ **recommends** that participants 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 PNZ under its constitution is to encourage and facilitate new entities becoming participants in PNZ clearing systems based on fair and reasonable public access criteria.

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

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

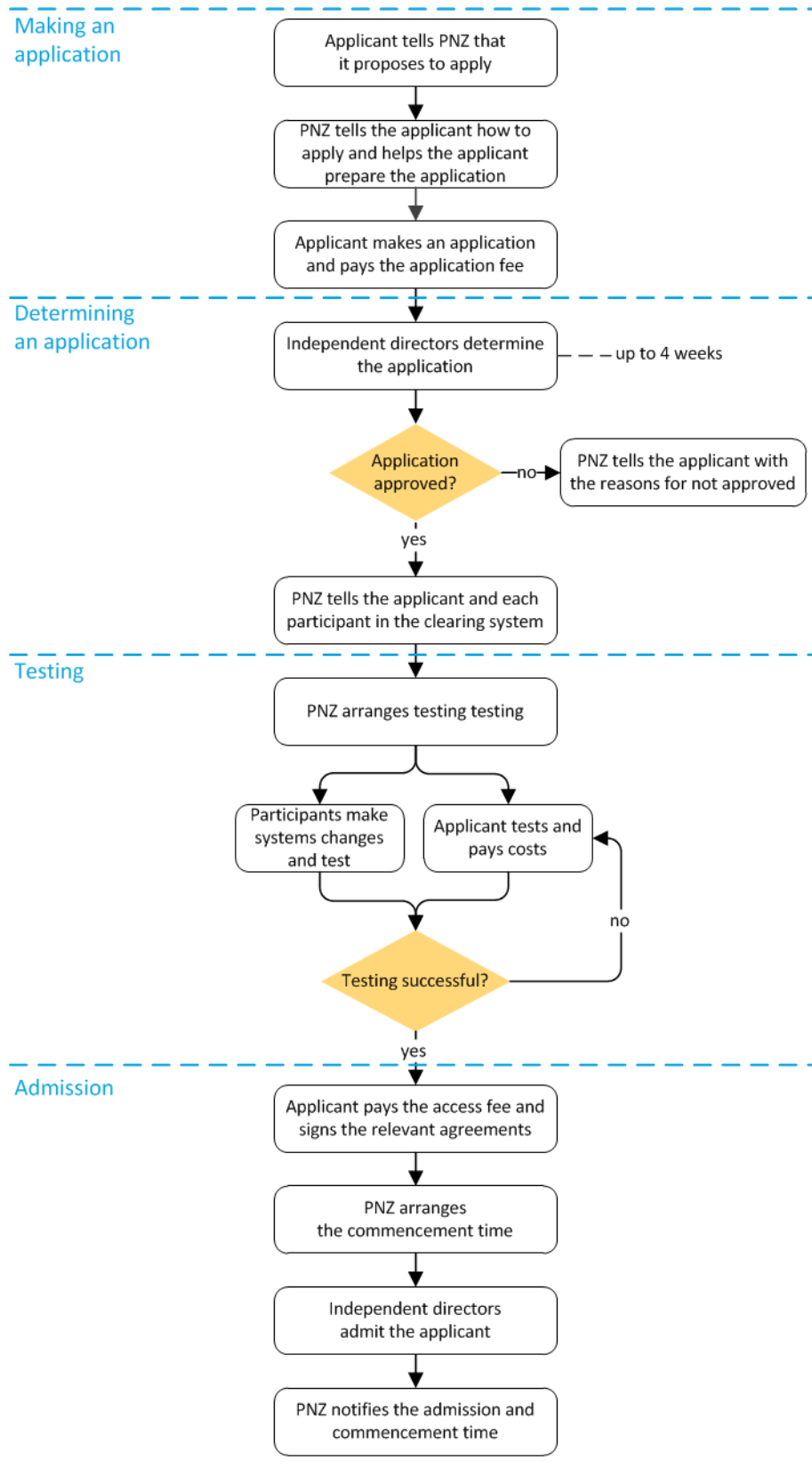
The clearing systems are:

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

PNZ 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 PNZ 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 PNZ about the joining process, costs and participation,
- works with PNZ 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 PNZ 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 PNZ.

Rules 2.4 to 2.7 specify requirements for making an application to participate in a PNZ clearing system. This chapter specifies how PNZ and applicants who are already bound by the PNZ rules comply with the requirements.

Contents

This chapter contains the following sections.

Section	See Page
Section A: Application process	10
Section B: Information accompanying application	13

Section A: Application process

Commentary

(1) How joining process begins

The application process generally begins when a potential applicant tells PNZ informally that it is interested in participating in a clearing system. PNZ will then work with the potential applicant to help the potential applicant decide whether to make a formal application to participate. Rule 2.4 provides:

2.4 Company must assist potential applicants

If requested by a person, the company must, in accordance with section A(2) of chapter 1 of the access procedures, provide information to the person that the person reasonably requires to decide whether to apply to participate in a clearing system.

Procedures

(2) How PNZ helps person decide whether to apply

To comply with rule 2.4, PNZ **must** give a potential applicant the following:

- copies of all clearing system documents that relate to participation in the relevant clearing system, and
- information about:
 - the access criterion and how to comply with it,
 - the process, indicative timeframe and indicative costs of joining the clearing system, including indicative systems and testing costs, and
 - the costs, rights and obligations that would apply to the potential applicant, if the potential applicant participated in the clearing system.

Best Practice

(3) How PNZ helps person decide whether to apply

To comply with rule 2.4, PNZ **recommends** that the PNZ chief executive does the following:

- gets 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
- communicates 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 2.9, provision of an access guarantee, and
 - the information that PNZ may require to confirm that the potential applicant meets the access criterion and the costs of providing the information.

Commentary

(4) PNZ briefs applicant on clearing system rules

After communicating with PNZ about the joining process and indicative costs, a person may propose to make an application to participate in a clearing system. PNZ 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.

(5) Formal application

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

2.5 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 in accordance with section A(6) of chapter 1 of the access procedures.
- (2) The company must—
 - (a) notify the person 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 PNZ can adapt to meet the circumstances of each application,
- the substance of minimum terms and conditions that section A6 requires each applicant who is not an existing participant to enter into, and
- a sample statutory declaration that PNZ may require the applicant to complete.

Procedures

(6) Minimum terms and conditions

To comply with rule 2.5(1), PNZ must, as a minimum, ensure that, if the applicant is not a participant in another clearing system when it applies, the applicant enters into minimum terms and conditions that are consistent with the terms and conditions specified in the sample application form at appendix 1A.

Commentary**(7)
Application
fee**

Under rule 2.7 an “application must be accompanied by the application fee determined in accordance with rule 6.2.5.”

Rule 6.2.5 provides:

- “(a) The application fee payable to the company by each applicant under rule 2.7 is determined by the board from time to time.
- (b) In relation to each application, the board may adjust the fee to cover the company’s administration costs in processing the application.”

The application determined by the board is \$25,000 GST exclusive.

Section B: Information accompanying application

Commentary

Purpose

Under rule 2.6:

2.6 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.

PNZ 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.

Contents

This section contains the following topics:

Topic	See Page
B1: Information: prudential requirements	14
B2: Information: requirements for operational risk management	17
B3: Information: operational requirements CECS	18
B4: Information: operational requirements HVCS	19
B5: Information: operational requirements SBI	20

B1: Information: prudential requirements

Procedures

Required information

If an applicant has a credit rating, to comply with rule 2.6, PNZ 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 2.9:

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

Commentary

Other information

The following table contains examples of other information that PNZ 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 2.9.

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.
	<ul style="list-style-type: none"> • A description of the capital structure of the applicant.
Incorporation and ownership structure	Information about the following: <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.
	The applicant's constitution.

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.
	<p>Written consent for PNZ to:</p> <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.

Directors and senior managers	<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)).
	<ul style="list-style-type: none"> – a signed declaration from the director or senior manager,
	<ul style="list-style-type: none"> – written consent for PNZ to make enquiries about the director or senior manager with any relevant supervisory or regulatory authority, in New Zealand or overseas, as PNZ considers necessary, to establish the suitability of the director or senior manager, or
	<ul style="list-style-type: none"> – an attestation from the chairperson of the board that the chairperson is satisfied that the director or senior manager is suitable for the position.

B2: Information: requirements for operational risk management

Commentary

PNZ determines information

The following table contains examples of the information that PNZ may require under rule 2.6 with an application to assist the independent directors to determine whether the applicant complies with the requirements for operational risk management specified in rule 2.10.

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

Required information

To comply with rule 2.6, PNZ must require a person applying to join CECS to provide, as a minimum, the documents specified in the following table with its application:

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, 8, 8A to 8D, and 12 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.

B4: Information: operational requirements HVCS

Procedures

Required information

To comply with rule 2.6, PNZ must require a person applying to join HVCS to provide, as a minimum, the documents specified in the following table with its application:

Matter	Document
NZClear	Confirmation from the Reserve Bank that the applicant is a member of NZClear.
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).
SWIFT BIC	Certification from a director of the applicant of the applicant's SWIFT BIC address linked to the applicant's ESAS account.
SWIFT user	Certification from a director of the applicant that the applicant is a SWIFT user.
SWIFT connection	<p>In relation to the connection between SWIFT and the SWIFT gateway that the applicant uses, certification from a director of the applicant of the following things:</p> <ul style="list-style-type: none"> • if the projected national interchange volume in HVCS of the applicant is 5% or more of the total national interchange volume in HVCS, that the connection is, as a minimum, SWIFT Alliance Connect silver, or • if the projected national interchange volume in HVCS of the applicant is less than 5% of the total national interchange volume in HVCS, that: <ul style="list-style-type: none"> – the projected national interchange volume in HVCS is less than 5% of the total national interchange volume, and – the connection is, as a minimum, either: <ul style="list-style-type: none"> □ a SWIFT Alliance Connect Bronze connection using 2 separate internet service providers, 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 participant's connection to the bureau has redundancy, i.e. a secondary connection.
Resilience	<p>Certification from a director of the applicant that the resilience of the applicant's systems allows the applicant to achieve:</p> <ul style="list-style-type: none"> • a 'recovery time objective' of less than 30 minutes, and • a 'zero loss objective', i.e. to last committed save.

B5: Information: operational requirements SBI

Procedures

Required information

To comply with rule 2.6, if the applicant is not already participating in BECS or PCS PNZ must require a person applying to join BECS or PCS to provide, as a minimum, the documents specified in the following table with its application:

Matter	Document
NZClear	Confirmation from the Reserve Bank that the applicant is a member of NZClear.
Own settlement account	Confirmation from the Reserve Bank that the applicant is an account holder with the exchange settlement account system (ESAS).
SWIFT BIC	Certification from a director of the applicant of the applicant's SWIFT BIC address linked to the applicant's ESAS account.
SWIFT DN	Certification from a director of the applicant of the applicant's SWIFT distinguished name (DN).
SWIFT user	Certification from a director of the applicant that the applicant is a SWIFT user.
SWIFT connection	<p>In relation to the connection between SWIFT and the SWIFT gateway that the applicant uses, certification from a director of the applicant of the following things:</p> <ul style="list-style-type: none"> • if the projected national interchange volume in SBI of the applicant is 5% or more of the total national interchange volume in SBI, that the connection is, as a minimum, SWIFT Alliance Connect silver, or • if the projected national interchange volume of the applicant in the clearing system to which the application relates is less than 5% of the total national interchange volume the clearing system, that: <ul style="list-style-type: none"> – the projected national interchange volume in the clearing system of the applicant is less than 5% of the total national interchange volume, and – the applicant's connection is, as a minimum, either: <ul style="list-style-type: none"> □ a SWIFT Alliance Connect Bronze connection using 2 separate internet service providers, 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 participant's connection to the bureau has redundancy, i.e. a secondary connection.
Resilience	<p>Certification from a director of the applicant that the resilience of the applicant's systems allows the applicant to achieve:</p> <ul style="list-style-type: none"> • a 'recovery time objective' of less than 30 minutes, and • a 'zero loss objective', i.e. to last committed save.

Chapter 2: Determining an application

Commentary

Purpose

Rules 2.8 to 2.19 specify requirements for determining an application to participate in a PNZ clearing system. This chapter specifies how PNZ complies with the requirements.

Contents

This chapter contains the following sections.

Section	See Page
Section A: Determination process	22
Section B: Prudential requirements	26
Section C: Operational requirements	44

Section A: Determination process

Commentary

(1) Independent directors determine whether applicant satisfies access criterion

The PNZ independent directors decide whether to approve an application to participate in a PNZ clearing system by determining whether the applicant satisfies the access criterion in rule 2.8(2). Rule 2.8 provides:

2.8 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 that the applicant—
 - (a) complies with the prudential requirements specified in rule 2.9; and
 - (b) complies with the operational risk management requirements specified in rule 2.10; and
 - (c) complies with the operational requirements in respect of the clearing system to which the application relates as follows:
 - (i) for CECS, under rule 2.11 and in accordance with section C2 of chapter 2 of the access procedures;
 - (ii) for HVCS, under rule 2.12 and in accordance with section C3 of chapter 2 of the access procedures;
 - (iii) for SBI, under rule 2.13 and in accordance with section C4 of chapter 2 of the access procedures.

(2) Risk-based approach

PNZ models the requirements for access to PNZ 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, PNZ applies a risk-based approach to an application to participate in a clearing system.

(3) Holistic approach

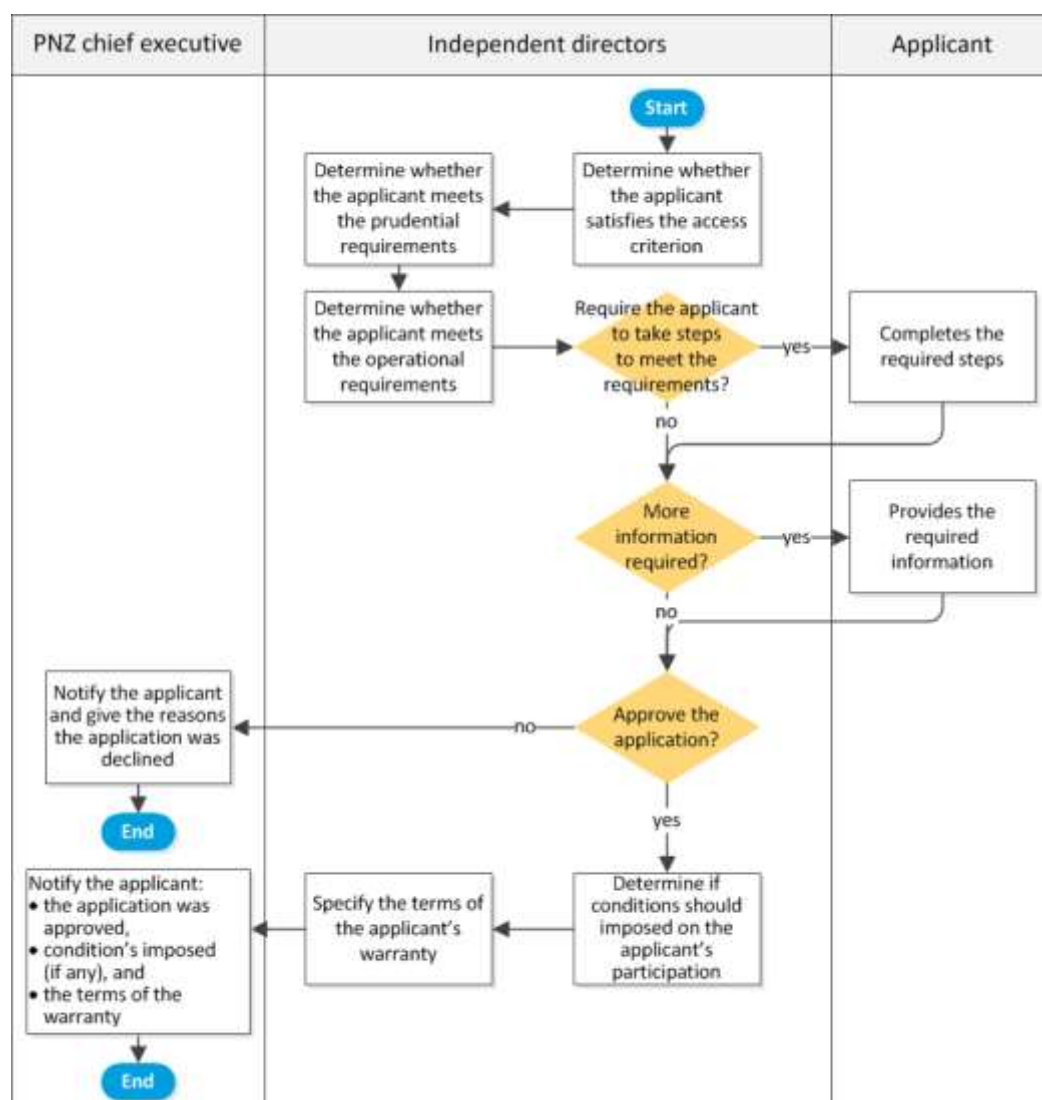
PNZ takes an holistic approach to the process of determining whether an applicant satisfies the access criterion. For example, before the independent directors make a final decision, the independent directors:

- must, under rule 2.14, 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,
- may, under rule 2.15, 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
- must, 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:

- 2.14 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 2.9; or
 - (ii) does not comply with the operational risk management requirements specified in rule 2.10; and
 - (iii) does not comply with the operational requirements in respect of the clearing system to which the application relates under rules 2.11, 2.12, or 2.13; and
 - (b) give the notification as soon as practicable after becoming aware of the issue; and
 - (c) give the applicant an opportunity to respond.
- 2.15 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;
 - (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.
- 2.16 Independent directors must seek advice**
(1) 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) The applicant must pay the cost of the advice or the report.
- 2.17 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 2.8.

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

2.18

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.

2.19

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 2.9 specifies prudential requirements for determining an application to participate in a PNZ clearing system. This chapter specifies how PNZ complies with the requirements.

Contents

This section contains the following topics:

Section	See Page
B1: Prudential requirements: overview	27
B2: Credit-worthiness	29
B3: Bank, NBDT, or insurer?	32
B4: Existing participant?	35
B5: Place of incorporation and structure	36
B6: Size and nature	37
B7: Carry on business in a prudent manner	39
B8: Standing	41
B9: Directors and senior managers	42

B1: Prudential requirements: overview

Commentary

(1) Rule 2.9

Under rule 2.9:

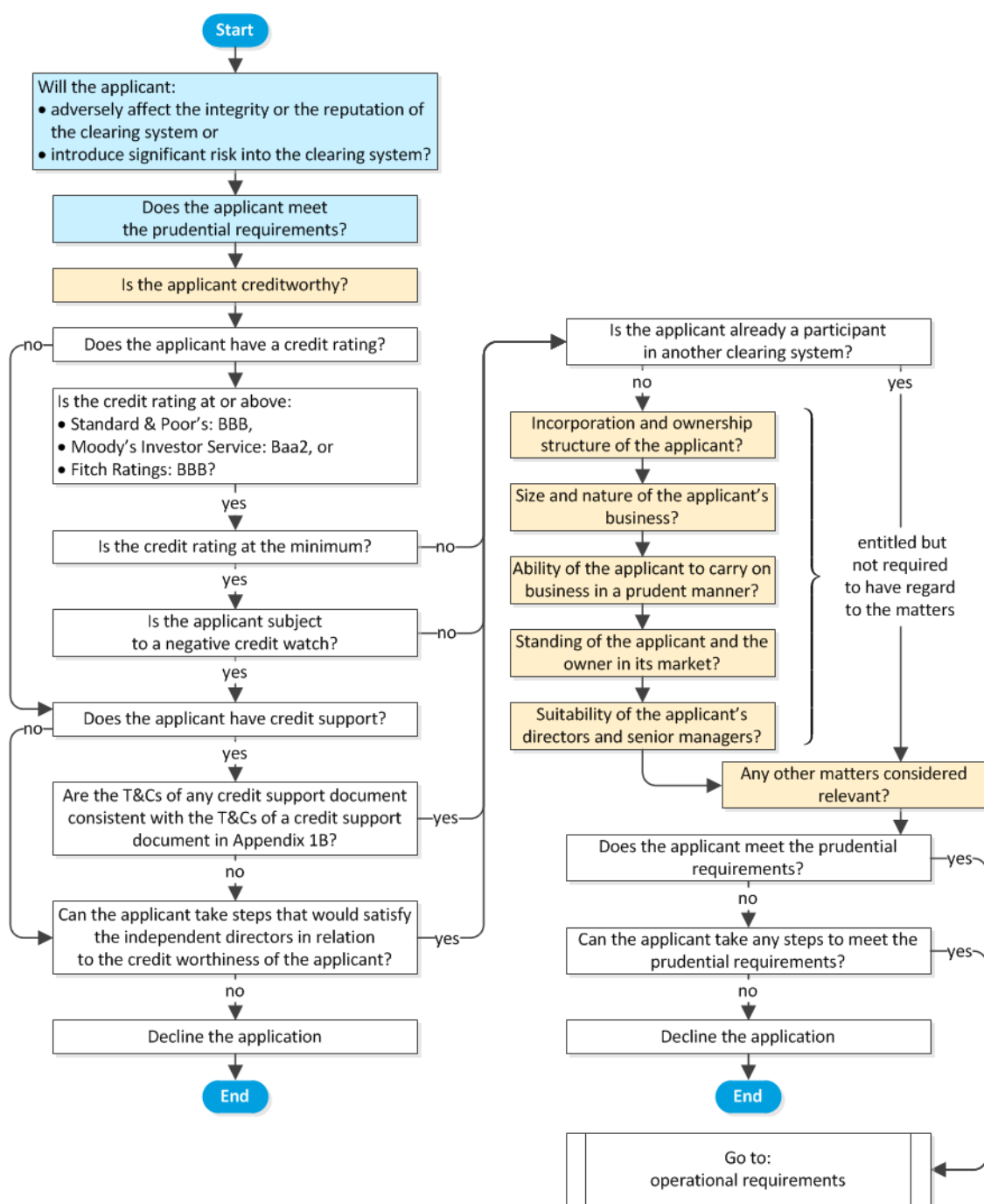
2.9 Prudential requirements

- (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 2.8(2).
- (2) In determining whether the independent directors are satisfied that an applicant complies with the prudential requirements, the independent directors must have regard to the following:
 - (a) the credit-worthiness of the applicant, in accordance with section B2 of chapter 2 of the access procedures, including—
 - (i) the applicant's credit rating, if any; and
 - (ii) whether the independent directors require the applicant to enter into an access guarantee or a standby liquidity facility agreement;
 - (b) in accordance with section B3 of chapter 2 of the access procedures, whether the applicant is—
 - (i) registered as a bank under the Reserve Bank Act; or
 - (ii) licensed as a non-bank deposit-taker under the Non-bank Deposit Takers Act 2013; or
 - (iii) licensed as an insurer under the Insurance (Prudential Supervision) Act 2010;
 - (c) in accordance with section B4 of chapter 2 of the access procedures, whether the applicant is a participant in 1 or more clearing systems when it applies:
 - (d) the place of incorporation of the applicant and the corporate and ownership structure of the applicant in accordance with section B5 of chapter 2 of the access procedures:
 - (e) 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 B6 of chapter 2 of the access procedures:
 - (f) the ability of the applicant to carry on its business or proposed business in a prudent manner in accordance with section B7 of chapter 2 of the access procedures:
 - (g) in accordance with section B8 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;
 - (h) the suitability for their positions of the directors and senior managers of the applicant in accordance with section B9 of chapter 2 of the access procedures:
 - (i) 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

Commentary

(1) Rule 2.9(2)(a)

Under rule 2.9(2)(a):

- “(2) In determining whether the independent directors are satisfied that an applicant complies with the prudential requirements, the independent directors must have regard to the following:
- (a) the credit-worthiness of the applicant, including the applicant’s credit rating, if any, in accordance with section B2 of chapter 2 of the access procedures:

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

(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 2.15(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 2.9(2)(a) the independent directors must determine:

- whether each credit rating is the following or higher:
 - Standard & Poor's – BBB,
 - Moody's Investor Service – Baa2, or
 - Fitch Ratings – BBB, and
- 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 support agreement

To comply with rule 2.9(2)(a), the independent directors must consider whether the applicant has any arrangements allowing the applicant to call on liquidity if:

- the applicant does not have a credit rating,
- a credit rating of the applicant is lower than:
 - Standard & Poor's – BBB,
 - Moody's Investor Service – Baa2, or
 - Fitch Ratings – BBB, or
- 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) Minimum credit rating

If the applicant has an arrangement allowing the applicant to call on liquidity, to comply with rule 2.9(2)(a) the independent directors must consider whether:

- the terms and conditions of the arrangement are consistent with the terms and conditions of the applicable credit support document at appendix 1B,
- if the arrangement is a guarantee, whether the guarantee is provided by an approved guarantor, and
- if the arrangement is a standby liquidity facility agreement, whether the agreement is provided by an approved provider.

If not, the independent directors may under rule 2.18 require the applicant to enter into 1 or more access guarantees or enter into a standby liquidity facility agreement the terms and conditions of which are consistent with the terms and conditions of the applicable credit support document at appendix 1B.

The independent directors **must** seek advice from a qualified person at the cost of the applicant in respect of:

- whether to require the applicant to enter into a credit support document, and
- if so, whether to require the applicant to enter into a guarantee or a standby liquidity facility agreement.

If the independent directors require the applicant to provide an access guarantee from an approved guarantor, the independent directors **must** require the applicant to provide:

- a credit rating report from at least 1 of the following of the credit rating of the guarantor:
 - Standard & Poor's,
 - Moody's Investors Service, or
 - Fitch Ratings, and
- a legal opinion from a law firm acceptable to PNZ, addressed to PNZ 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.

If the applicant provides a standby liquidity facility agreement from an approved provider, the independent directors **must** require the applicant to provide:

- a credit rating report from at least 1 of the following of the credit rating of the provider of the facility:
 - Standard & Poor's,
 - Moody's Investors Service, or
 - Fitch Ratings, and
- a legal opinion from a law firm acceptable to PNZ, addressed to PNZ and its participants, confirming that the facility agreement is valid, binding, and enforceable on the provider of the facility in respect of the applicant.

B3: Bank, NBDT, or insurer?

Commentary

(1) Rule 2.9(2)(b)

Under rule 2.9(2)(b):

- “(2) In determining whether the independent directors are satisfied that an applicant complies with the prudential requirements, the independent directors must have regard to the following:
- (b) in accordance with section B3 of chapter 2 of the access procedures, whether the applicant is—
 - (i) registered as a bank under the Reserve Bank Act; or
 - (ii) licensed as a non-bank deposit-taker under the Non-bank Deposit Takers Act 2013; or
 - (iii) licensed as an insurer under the Insurance (Prudential Supervision) Act 2010.”

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

(2) Registered banks

The matters in rule 2.9(2)(d) to (h) are based on the matters that the Reserve Bank applies to an application for registration as a bank under the Reserve Bank Act.

When a person applies for registration as a bank under the Reserve Bank Act, the Reserve Bank is required to determine the application in accordance with section 73 of the Act which provides:

- (1) The Bank shall not register any person as a registered bank unless it is satisfied that the business carried on, or proposed to be carried on, by the applicant consists of, or to a substantial extent consists of, or will, or will to a substantial extent, consist of, the borrowing and lending of money, or the provision of other financial services, or both.
- (2) In determining an application under section 70, the Bank must have regard to all of the following:
 - (a) the incorporation and ownership structure of the applicant; and
 - (b) the size and nature of the applicant's business or proposed business, or any part of the applicant's business or proposed business; and
 - (c) the ability of the applicant to carry on its business or proposed business in a prudent manner; and
 - (d) the standing of the applicant in the financial markets; and
 - (e) the suitability for their positions of the directors and senior managers of the applicant; and
 - (f) the standing of the owner of the applicant in the financial markets; and
 - (g) any other matters that may be prescribed in regulations.

(2) Registered banks (cont.)

In relation to section 73(2)(c) (carrying on business in a prudent manner), rule 78(1) requires the Reserve Bank to confine its consideration to the following:

- “(c) capital in relation to the size and nature of the business or proposed business:
- (d) loan concentration or proposed loan concentration and risk exposures or proposed risk exposures:
- (e) separation of the business or proposed business from other business and from other interests of any person owning or controlling the applicant or registered bank:
- (f) internal controls and accounting systems or proposed internal controls and accounting systems:
- (fa) risk management systems and policies or proposed risk management systems and policies:
- (fb) arrangements for any business, or functions relating to any business, of the applicant or registered bank to be carried on by any person other than the applicant or the registered bank:
- (g) such other matters as may from time to time be prescribed in regulations.”

The Reserve Bank publishes the following 2 documents that interpret and apply s 73 of the Act:

- Statement of Principles, Bank Registration and Supervision, BS1, and
- Application for Status as a Registered Bank: Material to be provided to the Reserve Bank, BS3.

The requirements in sections B6 to B10 of this chapter are based on the principles in the Reserve Bank’s BS1. The documents noted at section B1 of chapter 1 are similar to the documents required by the Reserve Bank’s BS3.

If an applicant is a registered bank, the applicant would have already:

- met the requirements under s 73(2) of the Reserve Bank Act reflected in subclauses 2.9(2)(d) to (h) and sections B6 to B10, and
- given the Reserve Bank the information required by BS3.

(3) Non-bank deposit-taker

The matters in subclauses 2.9(2)(d) to (h) are similar to the matters that the Reserve Bank has regard to under the Non-bank Deposit Takers Act 2013 when it determines whether to grant a licence to an applicant to operate as a non-bank deposit taker. For example, under section 14 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.

(4) Insurer

The matters in subclauses 2.9(2)(d) to (h) 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:

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

Procedures

(5) How to apply 2.9(2)(b)

If an applicant is registered as a bank under the Reserve Bank Act or 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 2.9(2)(b) the independent directors:

- **must** have regard to the following matters specified in rule 2.9(2):
 - (a) the credit-worthiness of the applicant, in accordance with section B2 of chapter 2 of the access procedures, including—
 - (i) the applicant's credit rating, if any; and
 - (ii) whether the independent directors require the applicant to enter into an access guarantee or a standby liquidity facility agreement;
 - (d) the place of incorporation of the applicant and the corporate and ownership structure of the applicant...
 - (e) the size and nature of the applicant's business or proposed business, or any part of the applicant's business or proposed business...
 - (f) the ability of the applicant to carry on its business or proposed business in a prudent manner...
 - (g) ...
 - (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;
 - (h) the suitability for their positions of the directors and senior managers of the applicant...
 - (i) any other matters that the independent directors consider relevant, but
- for the matters specified in subclauses 2.9(2)(d) to (h), are **entitled** to take into account the fact that the Reserve Bank was required to have regard to similar matters when it registered the applicant as a bank or granted a licence to the applicant to operate as a non-bank deposit taker or as an insurer.

B4: Existing participant?

Commentary

(1) Rule 2.9(2)(c)

Under rule 2.9(2)(c):

- “(2) In determining whether the independent directors are satisfied that an applicant complies with the prudential requirements, the independent directors must have regard to the following:
- (c) in accordance with section B4 of chapter 2 of the access procedures, whether the applicant is a participant in 1 or more clearing systems when it applies.”

Procedures

(2) How to apply 2.9(2)(c)

If an applicant is a participant in 1 or more clearing systems when it applies, to comply with rule 2.9(2)(c) the independent directors:

- **must** have regard to the following matters:
 - subclause 2.9(2)(a)...“the credit-worthiness of the applicant, including the applicant’s credit rating, if any,...”, and
 - subclause 2.9(2)(i)...“ any other matters that the independent directors consider relevant.” but
- are **not required** to have regard to the following matters in subclauses 2.9(2)(d) to (h) in respect of the applicant:
 - “(d) the place of incorporation of the applicant and the corporate and ownership structure of the applicant ...:
 - (e) the size and nature of the applicant’s business or proposed business, or any part of the applicant’s business or proposed business...:
 - (f) the ability of the applicant to carry on its business or proposed business in a prudent manner...:
 - (g) in accordance with section B9 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:
 - (h) the suitability for their positions of the directors and senior managers of the applicant...:” but
- are **entitled** to have regard to the matters in subclauses 2.9(2)(d) to (h) in respect of the applicant.

B5: Place of incorporation and structure

Commentary

(1) Rule 2.9(2)(d)

Under rule 2.9(2)(d):

- (2) In determining whether the independent directors are satisfied that an applicant complies with the prudential requirements, the independent directors must have regard to the following:
- (d) the place of incorporation of the applicant and the corporate and ownership structure of the applicant in accordance with section B5 of chapter 2 of the access procedures:

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

If an applicant is an existing participant in another clearing system, the independent directors are **not required** to have regard to this matter in respect of the applicant but are **entitled** to have regard to the matter.

Procedures

(2) Place of incorporation

To comply with rule 2.9(2)(d) the independent directors **must**:

- note the jurisdiction in which the applicant is incorporated,
- consider whether as a result of the jurisdiction of incorporation the applicant is likely to introduce risk into the clearing system, and
- 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 2.9(2)(d) 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:

- the owners as a group have made a substantial financial commitment to the applicant,
- the owners will be first to absorb loss from poor performance, and
- 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 2.9(2)(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) or (3), the applicant meets prudential standards that minimise the risk of the effects specified in rule 2.8(2).

B6: Size and nature

Commentary

(1) Rule 2.9(2)(e)

Under rule 2.9(2)(e):

- (2) In determining whether the independent directors are satisfied that an applicant complies with the prudential requirements, the independent directors must have regard to the following:
- (e) 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 B6 of chapter 2 of the access procedures:

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

If an applicant is an existing participant in another clearing system, the independent directors are **not required** to have regard to this matter in respect of the applicant but are **entitled** to have regard to the matter.

Procedures

(2) Nature of business

To comply with rule 2.9(2)(e), the independent directors **must** determine the nature and extent of the applicant's experience with:

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

(3) Size of payments business

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

- the relative size of the applicant's proposed payments business in the clearing system to which the application relates, and
- 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:

- participate in the clearing system to which the application relates, and
- 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 2.9(2)(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), or (4), the applicant meets prudential standards that minimise the risk of the effects specified in rule 2.8(2).

B7: Carry on business in a prudent manner

Commentary

(1) Rule 2.9(2)(f)

Under rule 2.9(2)(f):

- (2) In determining whether the independent directors are satisfied of the matters specified in subclause (1), the independent directors must have regard to the following:
- (f) the ability of the applicant to carry on its business or proposed business in a prudent manner in accordance with section B7 of chapter 2 of the access procedures:

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

If an applicant is an existing participant in another clearing system, the independent directors are **not required** to have regard to this matter in respect of the applicant but are **entitled** to have regard to the matter.

Procedures

(2) Assessment factors

To comply with rule 2.9(2)(f), the independent directors **must** restrict their assessment to the following factors:

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

(3) Capital re size and nature of business

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

- has enough capital to carry on its business in a prudent manner,
- can maintain a prudent level of capital, and
- 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

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

The applicant will comply with the requirement if:

- 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
- the applicant has operated successfully as a financial institution for some time.

If the applicant intends to operate in areas in which it lacks experience, or there are doubts about the adequacy of internal controls and accounting systems, the independent directors:

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

(5) Risk management systems and policies

The independent directors **must** be satisfied that the applicant has adequate risk management policies and systems, and adequate insurance for the risks it faces.

The applicant will comply with the requirement if:

- 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
- the applicant has operated successfully as a financial institution for some time.

If the applicant intends to operate in areas in which it lacks experience, or there are doubts about the adequacy of its risk management systems and policies or insurance cover, the independent directors:

- may require the applicant to obtain a report on the adequacy of its risk management systems and policies or insurance cover from an independent party,
- must require directors to attest to the adequacy of systems to monitor and control material business risks, and
- may also take into account arrangements designed to mitigate other risks arising from unproven systems and controls or other factors, including capital adequacy.

The applicant must have a liquidity risk management framework that is satisfactory to the independent directors.

(6) Independent report

To comply with rule 2.9(2)(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), (3), (4), or (5), the applicant meets prudential standards that minimise the risk of the effects specified in rule 2.8(2).

B8: Standing

Commentary

(1) Rule 2.9(2)(g)

Rule 2.9(2)(g) provides:

- (2) In determining whether the independent directors are satisfied of the matters specified in subclause (1), the independent directors must have regard to the following ...
- (g) in accordance with section B8 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.

If an applicant is an existing participant in another clearing system, the independent directors are **not required** to have regard to this matter in respect of the applicant but are **entitled** to have regard to the matter.

Procedures

(2) Applicant's standing in payments

If the applicant has experience providing payments products or services, to comply with rule 2.9(2)(g), 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 reputable international organisation who provides payments goods or services, or
- 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 2.9(2)(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) and (3), the applicant meets prudential standards that minimise the risk of the effects specified in rule 2.8(2).

B9: Directors and senior managers

Commentary

(1) Rule 2.9(2)(h)

Under rule 2.9(2)(h):

- (2) In determining whether the independent directors are satisfied of the matters specified in subclause (1), the independent directors must have regard to the following ...
- (h) the suitability for their positions of the directors and senior managers of the applicant in accordance with section B9 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.

If an applicant is an existing participant in another clearing system, the independent directors are **not required** to have regard to this matter in respect of the applicant but are **entitled** to have regard to the matter.

Procedures

(2) How to comply with rule

To comply with rule 2.9(2)(h), 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 2.9(2)(h), the independent directors **must** assess the integrity of a director or senior manager by:

- reviewing a declaration provided by the director or senior manager,
- if the declaration discloses a criminal offence, reviewing the NZ criminal record of the person, and
- if the declaration discloses that the person was subject to a suitability check by a foreign banking regulator, seeking the views of the foreign banking regulator.

(4) Skills and experience

To comply with rule 2.9(2)(h), the independent directors **must** be satisfied that there is no evidence to suggest that the applicant's:

- senior managers do not have suitable expertise and experience to manage a participant in the clearing system for which the applicant has applied, and
- 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.

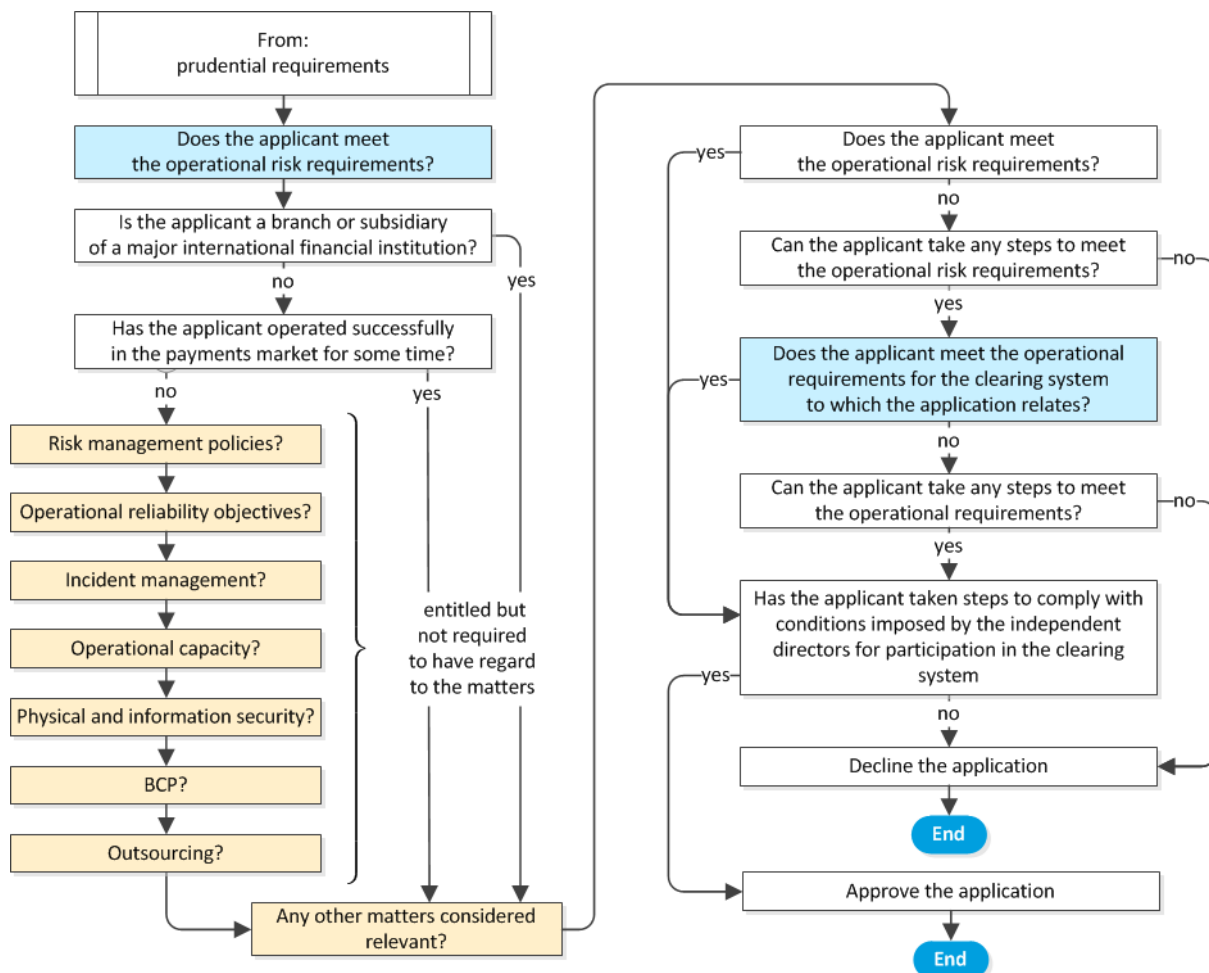
(5) Independent report

To comply with rule 2.9(2)(h) the independent directors are entitled to rely on a report from a qualified person that, in respect of the matters specified in section B9(2), (3) and (4), the applicant meets prudential standards that minimise the risk of the effects specified in rule 2.8(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.



Contents

This section contains the following topics.

Topic	See Page
C1: Operational requirements: risk management	45
C2: Operational requirements: CECS	53
C3: Operational requirements: HVCS	54
C4: Operational requirements: SBI	58

C1: Operational requirements: risk management

Commentary

- (1) Rule 2.10** This section specifies how the independent directors determine whether an applicant complies with the requirements for operational risk management specified in rule 2.10. Rule 2.10 provides:

2.10 Operational requirements: risk management

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 2.8(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:
 - (h) any other matters that the independent directors consider relevant.

Procedures

(2) Risk management systems and policies

To comply with rule 2.10(2)(a) the independent directors must be satisfied that the applicant has adequate requirements for operational risk management. In determining whether the independent directors are satisfied that the applicant has adequate requirements for operational risk management, 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.

In determining whether the independent directors are satisfied that the applicant has adequate requirements for operational risk management, the independent directors must have regard to 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).

If the applicant intends to operate in payments business areas in which it lacks experience, or the independent directors doubt the adequacy of its the systems, policies, procedures, and controls that identify, monitor, and manage operational risks, 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,
- must require directors to attest to the adequacy of the systems, policies, procedures, and controls, and
- may also take into account arrangements designed to mitigate other risks arising from unproven systems, policies, procedures, and controls or other factors, including an access guarantee.

**(3)
Operational
reliability
objectives**

To comply with rule 2.10(2)(b) the independent directors **must** be satisfied that the applicant has adequate operational reliability objectives and policies designed to achieve the objectives. In determining whether the independent directors are satisfied that the applicant has adequate operational reliability objectives and policies designed to achieve the objectives, 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 operational reliability objectives and the policies designed to achieve the objectives:

- 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.

In determining whether the independent directors are satisfied that the applicant has adequate operational reliability objectives and policies designed to achieve the objectives, the independent directors must have regard to 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).

If the applicant intends to operate in payments business areas in which it lacks experience, or the independent directors doubt the adequacy of its operational reliability objectives, the independent directors:

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

(4) Procedures for incident management

To comply with rule 2.10(2)(c) the independent directors **must** be satisfied that the applicant has adequate 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 independent directors are satisfied that the applicant has adequate procedures for incident management, 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 applicant's procedures for incident management:

- 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.

In determining whether the independent directors are satisfied that the applicant has adequate procedures for incident management, the independent directors must have regard to 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).

If the applicant intends to operate in payments business areas in which it lacks experience, or the independent directors doubt the adequacy of its procedures for incident management, the independent directors:

- may require the applicant to obtain a report on the adequacy of the applicant's 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,
 - must require directors to attest to the adequacy of the procedures for incident management, and
 - may also take into account arrangements designed to mitigate other risks arising from unproven procedures for incident management or other factors, including an access guarantee.
-

(5) Procedures for operational capacity

To comply with rule 2.10(2)(d) the independent directors **must** be satisfied that the applicant has adequate plans to manage operational capacity to participate in the clearing system to which the application relates. In determining whether the independent directors are satisfied that the applicant has adequate plans to manage operational capacity to participate in the clearing system, 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 applicant's plans to manage operational capacity to participate in the clearing system:

- 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.

In determining whether the independent directors are satisfied that the applicant has adequate plans to manage operational capacity to participate in the clearing system, the independent directors must have regard to 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).

If the applicant intends to operate in payments business areas in which it lacks experience, or the independent directors doubt the adequacy of its plans to manage operational capacity, 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,
- must require directors to attest to the adequacy of the applicant's plans to manage operational capacity, and
- may also take into account arrangements designed to mitigate other risks arising from unproven plans to manage operational capacity or other factors, including an access guarantee.

(6) Physical and information security policies

To comply with rule 2.10(2)(e) the independent directors **must** be satisfied that the applicant has adequate physical and information security policies. In determining whether the independent directors are satisfied that the applicant has adequate physical and information security policies 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 applicant's physical and information security policies:

- 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.

In determining whether the independent directors are satisfied that the applicant has adequate physical and information security policies, the independent directors must have regard to 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).

If the applicant intends to operate in payments business areas in which it lacks experience, or the independent directors doubt the adequacy of its physical and information security policies, the independent directors:

- may require the applicant to obtain a report on the adequacy of the applicant's policies for physical and information security 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
- must require directors to attest to the adequacy of the applicant's physical and information security policies, and
- may also take into account arrangements designed to mitigate other risks arising from unproven physical and information security policies, including an access guarantee.

(7) Business continuity

To comply with rule 2.10(2)(f) the independent directors **must** be satisfied that the applicant has an adequate business continuity plan. In determining whether the independent directors are satisfied that the applicant has an adequate business continuity plan, 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 applicant's business continuity plan:

- 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.

In determining whether the independent directors are satisfied that the applicant has an adequate business continuity plan, the independent directors must have regard to 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).

If the applicant intends to operate in payments business areas in which it lacks experience, or the independent directors doubt the adequacy of its business continuity plan, 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,
- must require directors to attest to the adequacy of the applicant's business continuity plan, and
- may also take into account arrangements designed to mitigate other risks arising from an unproven business continuity plan, including an access guarantee.

**(8)
Outsourcing
payments
functions**

To comply with rule 2.10(2)(g) the independent directors **must** be satisfied that the applicant has adequate outsourcing policies. In determining whether the independent directors are satisfied that the applicant has adequate outsourcing policies, 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 applicant's outsourcing policies:

- 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.

In determining whether the independent directors are satisfied that the applicant has adequate outsourcing policies, the independent directors must have regard to 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).

If the applicant intends to operate in payments business areas in which it lacks experience, or the independent directors doubt the adequacy of its outsourcing policies, 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,
 - must require directors to attest to the adequacy of the applicant's outsourcing policies, and
 - may also 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 2.10, 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 2.10.

C2: Operational requirements: CECS

Commentary

- (1) Rule 2.11** This section specifies how the independent directors determine whether an applicant to participate in CECS complies with the operational requirements in rule 2.11.

Rule 2.11 provides:

2.11 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, 8, 8A to 8D, and 12 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 2.8(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"> • 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, 8, 8A to 8D and 12 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.

C3: Operational requirements: HVCS

Commentary

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

Rule 2.12 provides:

2.12 Operational capacity: HVCS

The operational capacity requirements for HVCS are as follows:

- (a) the applicant can settle through its own settlement account;
- (b) the applicant is a SWIFT user;
- (c) the applicant has a SWIFT BIC address linked to the applicant's settlement account;
- (d) the connection between SWIFT and the SWIFT gateway that the applicant proposes to use complies with the following requirements—
 - (i) if the applicant's projected national interchange volume in HVCS is 5% or more of the total national interchange volume in HVCS, the requirements specified in section C3(4) of chapter 2 of the access procedures; or
 - (ii) if the applicant's projected national interchange volume in HVCS is less than 5% of the total national interchange volume in HVCS, the requirements specified in section C3(5) of chapter 2 of the access procedures;
- (e) the applicant is a member of NZClear;
- (f) the resilience of the applicant's systems complies with the requirements specified in section C3(6) of chapter 2 of the access procedures.

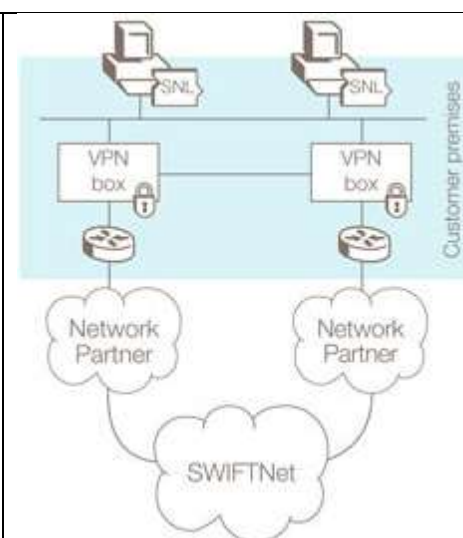
(2) SWIFT Alliance connection

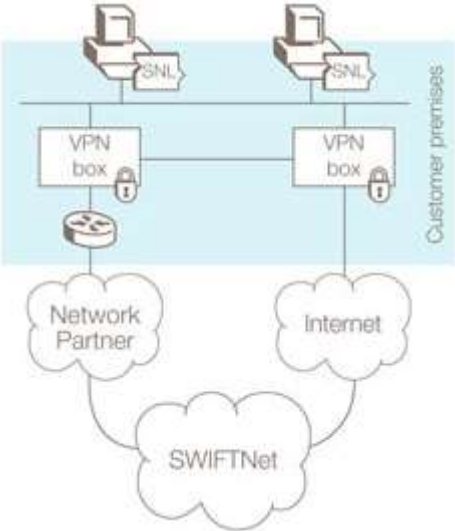
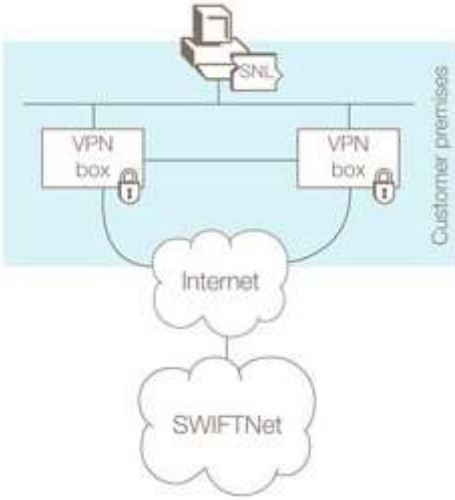
The following table gives an overview of the 3 levels at which an applicant can connect to SWIFT using SWIFT Alliance Connect: gold (highest), silver, and bronze (lowest):

SWIFT Alliance Connect Gold

A gold connection means:

- the applicant connects to SWIFT from its SWIFT gateway using 2 leased lines (network lines),
- the leased line connections are provided by one of SWIFT's 4 network providers: AT&T, Colt, BT Global Services, or Orange Business Services, and
- both lines are used simultaneously to manage the network.



<p>SWIFT Alliance Connect Silver</p> <p>A silver connection means:</p> <ul style="list-style-type: none"> the applicant connects to SWIFT from its SWIFT gateway using 1 leased line (network line) and 1 internet line, the leased line connection is provided by one of SWIFT's 4 network providers: AT&T, Colt, BT Global Services, or Orange Business Services, and the leased (network) line is the primary connection to SWIFT and the internet line is the back-up. <p>Two VPN boxes are required but SWIFT Alliance Connect Silver provides 3 VPN boxes. The 3rd box is a spare part.</p>	
<p>SWIFT Alliance Connect Bronze</p> <p>A bronze connection means:</p> <ul style="list-style-type: none"> the applicant connects to SWIFT from its SWIFT gateway using 2 internet lines, and 1 line is the primary connection to SWIFT and the other is the back-up. 	

Best Practice

(3) Gold connection

If an applicant has a SWIFT Alliance Connect gold connection, PNZ **recommends** that to meet the operational requirements in rule 2.12 the applicant differentiates telecommunication provider access points into the SWIFT backbone by, for example, requiring a different provider for primary and secondary dedicated lines.

Standard

(4) Silver connection

To meet the operational requirement specified in rule 2.12(d)(i), the connection between SWIFT and the SWIFT gateway that the applicant uses must be as a minimum, SWIFT Alliance Connect silver.

(5) Bronze connectivity or bureau service with silver

To meet the operational requirement specified in rule 2.12(d)(ii), the connection between SWIFT and the SWIFT gateway that the applicant uses must be as a minimum, either:

- SWIFT Alliance Connect bronze using 2 separate internet service providers, or
- a connection using a [bureau service](#) and the following apply:
 - 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, i.e. a secondary connection.

(6) Recovery time objective, zero loss objective

To meet the operational requirement specified in rule 2.12(f), the resilience of the applicant's systems must allow the applicant to achieve:

- a 'recovery time objective' of less than 30 minutes, and
- a 'zero loss objective', i.e. to last committed save.

(7) Documents

To comply with rule 2.8(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
NZClear	Confirmation from the Reserve Bank that the applicant is a member of NZClear.
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).
SWIFT BIC	Certification from a director of the applicant of the applicant's SWIFT BIC address linked to the applicant's ESAS account.
SWIFT user	Certification from a director of the applicant that the applicant is a SWIFT user.
SWIFT connection	<p>In relation to the connection between SWIFT and the SWIFT gateway that the applicant uses, certification from a director of the applicant of the following things:</p> <ul style="list-style-type: none"> • if the projected national interchange volume of HVCS of the applicant is 5% or more of the total national interchange volume of HVCS, that the connection is as a minimum, SWIFT Alliance Connect silver or equivalent, • if the projected national interchange volume in HVCS of the applicant is less than 5% of the total national interchange volume of HVCS, that: <ul style="list-style-type: none"> – the projected national interchange volume in HVCS is less than 5% of the total national interchange volume, and – the connection is as a minimum either: <ul style="list-style-type: none"> □ a SWIFT Alliance Connect Bronze connection using 2 separate internet service providers, 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 participant's connection to the bureau has redundancy, i.e. a secondary connection.

Matter	Document
Resilience	<p>Certification from a director of the applicant that the resilience of the applicant's systems allows the applicant to achieve:</p> <ul style="list-style-type: none"> • a 'recovery time objective' of less than 30 minutes, and • a 'zero loss objective', i.e. to last committed save.

C4: Operational requirements: SBI

Commentary

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

Rule 2.13 provides:

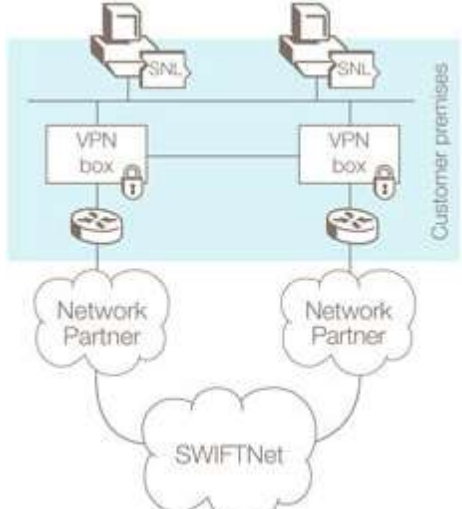
2.13 Operational requirements: SBI (BECS or PCS)

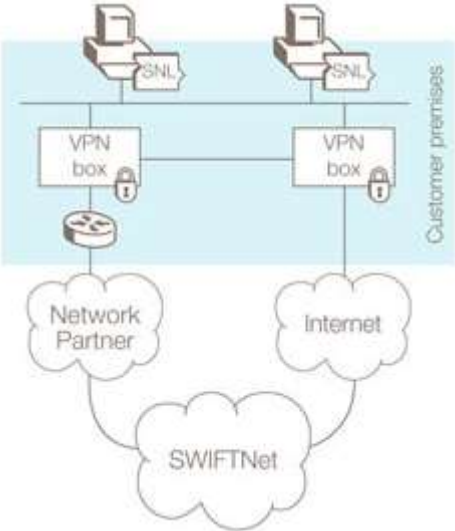
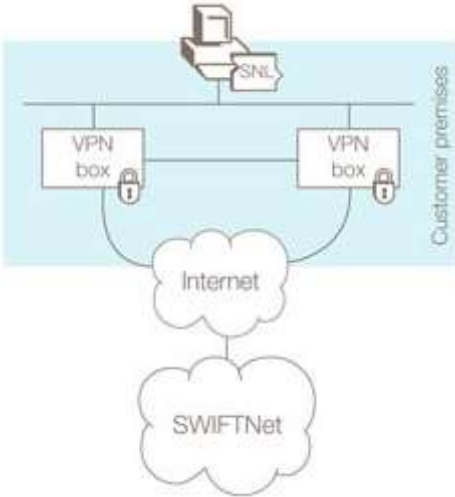
The operational requirements for participation in SBI are as follows:

- (a) the applicant can settle through its own settlement account;
- (b) the applicant is a SWIFT user;
- (c) the applicant has a SWIFT DN;
- (d) the applicant has a SWIFT BIC address linked to the applicant's settlement account;
- (e) the connection between SWIFT and the SWIFT gateway that the applicant proposes to use complies with the following requirements—
 - (i) if the applicant's projected national interchange volume in the clearing system to which the application relates is 5% or more of the total national interchange volume of the clearing system, the requirements specified in section C4(4) of chapter 2 of the access procedures; or
 - (ii) if the applicant's projected national interchange volume in the clearing system to which the application relates is less than 5% of the total national interchange volume of the clearing system, the requirements specified in section C4(5) of chapter 2 of the access procedures;
- (f) the applicant is a member of NZClear;
- (g) the resilience of the applicant's systems complies with the requirements specified in section C4(6) of chapter 2 of the access procedures.

(2) SWIFT Alliance connection

The following table gives an overview of the 3 levels at which an applicant can connect to SWIFT using SWIFT Alliance Connect: gold (highest), silver, and bronze (lowest):

<p>SWIFT Alliance Connect Gold</p> <p>A gold connection means:</p> <ul style="list-style-type: none"> the applicant connects to SWIFT from its SWIFT gateway using 2 leased lines (network lines), the leased line connections are provided by one of SWIFT's 4 network providers: AT&T, Colt, BT Global Services, or Orange Business Services, and both lines are used simultaneously to manage the network. 	
---	--

<p>SWIFT Alliance Connect Silver</p> <p>A silver connection means:</p> <ul style="list-style-type: none"> the applicant connects to SWIFT from its SWIFT gateway using 1 leased line (network line) and 1 internet line, the leased line connection is provided by one of SWIFT's 4 network providers: AT&T, Colt, BT Global Services, or Orange Business Services, and the leased (network) line is the primary connection to SWIFT and the internet line is the back-up. <p>Two VPN boxes are required but SWIFT Alliance Connect Silver provides 3 VPN boxes. The 3rd box is a spare part.</p>	
<p>SWIFT Alliance Connect Bronze</p> <p>A bronze connection means:</p> <ul style="list-style-type: none"> the applicant connects to SWIFT from its SWIFT gateway using 2 internet lines, and 1 line is the primary connection to SWIFT and the other is the back-up. 	

Best Practice

(3) Gold connection

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

Standard

(4) Silver connection

To meet the operational capacity requirement specified in rule 2.13(e)(i), the connection between SWIFT and the SWIFT gateway that the applicant uses must be as a minimum, SWIFT Alliance Connect silver.

(5) Bronze connectivity or bureau service with silver

To meet the operational requirement specified in rule 2.13(e)(ii), the connection between SWIFT and the SWIFT gateway that the applicant uses must be as a minimum, either:

- SWIFT Alliance Connect bronze using 2 separate internet service providers, or
- a connection using a [bureau service](#) and the following apply:
 - 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, i.e. a secondary connection.

(6) Recovery time objective, zero loss objective

To meet the operational requirement specified in rule 2.13(g), the resilience of the applicant's systems must allow the applicant to achieve:

- a 'recovery time objective' of less than 30 minutes, and
- a 'zero loss objective', i.e. to last committed save.

(7) Documents

To comply with rule 2.8(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
NZClear	Confirmation from the Reserve Bank that the applicant is a member of NZClear.
Own settlement account	Confirmation from the Reserve Bank that the applicant is an account holder with the exchange settlement account system (ESAS).
SWIFT BIC	Certification from a director of the applicant of the applicant's SWIFT BIC address linked to the applicant's ESAS account.
SWIFT DN	Certification from a director of the applicant of the applicant's SWIFT distinguished name (DN).
SWIFT user	Certification from a director of the applicant that the applicant is a SWIFT user.

Matter	Document
SWIFT connection	<p>In relation to the connection between SWIFT and the SWIFT gateway that the applicant uses, certification from a director of the applicant of the following things:</p> <ul style="list-style-type: none"> • if the projected national interchange volume of the applicant in the clearing system to which the application relates is 5% or more of the total national interchange volume in the clearing system, that the connection is as a minimum SWIFT Alliance Connect silver or equivalent, • if the projected national interchange volume in the clearing system to which the application relates is less than 5% of the total national interchange volume in the clearing system, that: <ul style="list-style-type: none"> – the projected national interchange volume in the clearing system to which the application relates is less than 5% of the total national interchange volume in the clearing system, and – the connection is as a minimum either: <ul style="list-style-type: none"> □ a SWIFT Alliance Connect Bronze connection using 2 separate internet service providers, 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 participant's connection to the bureau has redundancy, i.e. a secondary connection.
Resilience	<p>Certification from a director of the applicant that the resilience of the applicant's systems allows the applicant to achieve:</p> <ul style="list-style-type: none"> • a 'recovery time objective' of less than 30 minutes, and • a 'zero loss objective', i.e. to last committed save.

Chapter 3: Testing

Commentary

Purpose

If the independent directors approve an application to participate in a PNZ clearing system, rule 2.20 requires the applicant to complete testing before commencing participation in the clearing system. Part 2 of the rules imposes obligations in respect of testing for PNZ and existing participants and this chapter specifies how PNZ and existing participants can comply with some of the obligations.

Contents

This chapter contains the following sections.

Section	See Page
Section A: [Deleted]	63
Section B: HVCS tests	64
Section C: SBI tests	69

Section A: [Deleted]

Section B: HVCS tests

Commentary

(1) Purpose

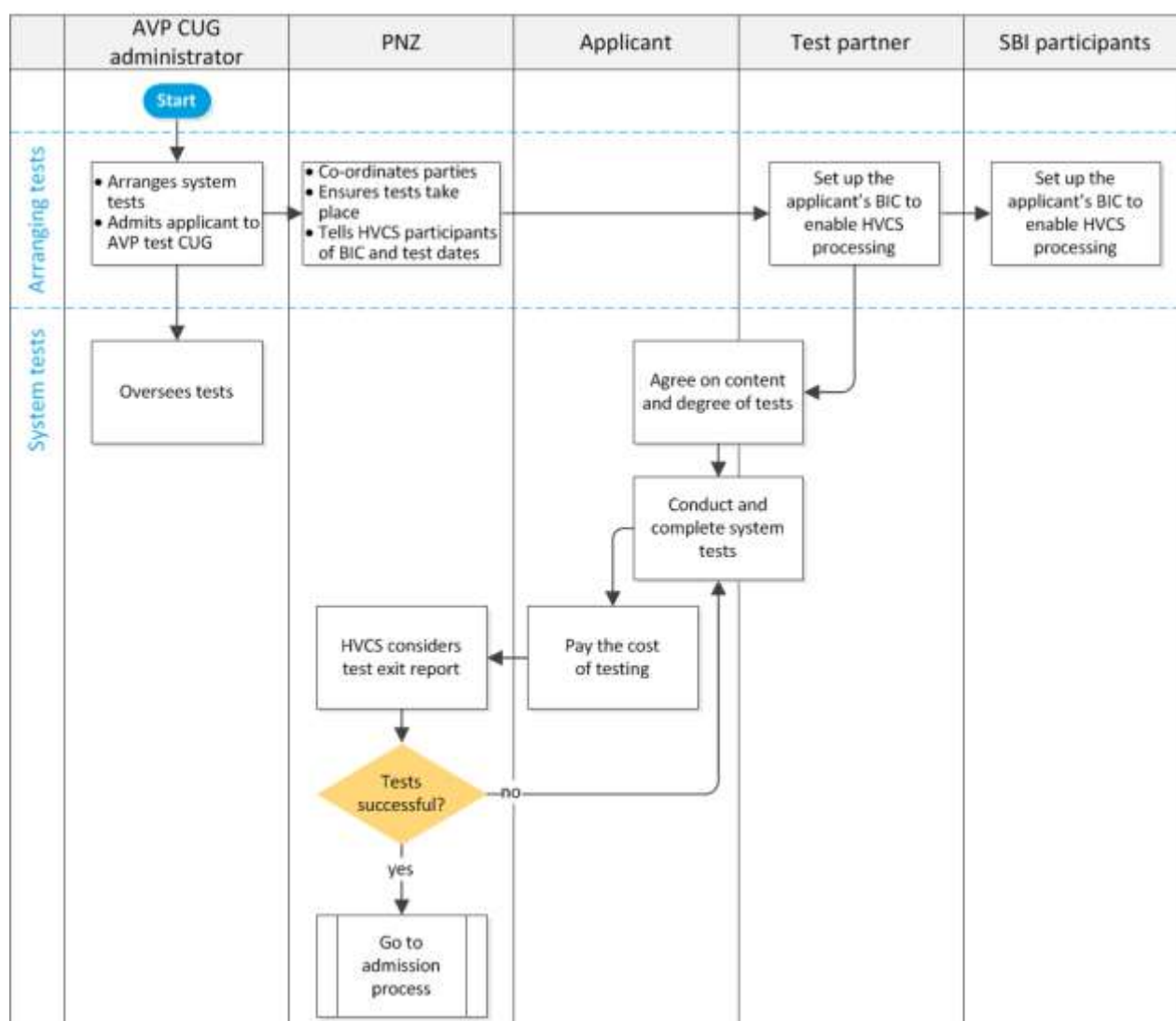
If the independent directors approve an application to participate in HVCS, rule 2.20(a)(i) requires the applicant to complete the tests required by rule 2.26 before commencing participation in HVCS. Rules 2.25 and 2.26 impose obligations in respect of testing with an HVCS applicant for PNZ and existing participants and this chapter specifies how PNZ and existing participants comply with some of the obligations.

(2) Overview

The HVCS test process verifies that an applicant can:

- generate, send and receive SCP messages using its SWIFT interface,
- process the associated notifications, acknowledgements and rejections, and
- comply with the system performance and contingency requirements for the SCP service, including settlement in NZClear or ESDirect.

The following diagram gives a high level overview of the HVCS test process.



(3) PNZ arranges for applicant to test

Rule 2.25 provides:

2.25 HVCS: arranging connections and tests

- (1) If the independent directors approve an application to participate in HVCS, as soon as practicable after the applicant receives a notification from the company under rule 2.21, the applicant must—
 - (a) arrange to test bilaterally with at least 1 HVCS participant in a test environment; and
 - (b) apply to the Reserve Bank to join the AVP test closed user group; and
 - (c) notify the company in writing of—
 - (i) the applicant's BIC address; and
 - (ii) for a proposed bilateral test, the name of the test partner and the date on which the applicant proposes to begin the bilateral test; and
 - (iii) for a proposed industry test, the date on which the applicant proposes to begin the industry test.
- (2) As soon as practicable after receipt of a notification under subclause (1)(c), the company must—
 - (a) arrange for the applicant to test in HVCS in accordance with section B(4) of chapter 3 of the access procedures and, if required, manage the test process; and
 - (b) notify each HVCS participant of the following:
 - (i) the applicant's BIC address;
 - (ii) the date by which the participant must set up the applicant's BIC address.
- (3) Each HVCS participant must ensure that it has set up the applicant's BIC address by the date specified in the notification.
- (4) An HVCS participant who is not requested to test its system bilaterally with the applicant in a test environment in accordance with subclause (1)(a), may require the applicant to test its system bilaterally with the participant in a test environment.

Procedures

(4) How PNZ arranges tests

To comply with rule 2.25(2)(a), PNZ must ensure the test environment includes:

- the ESAS test environment,
- the SWIFT AVP FINCopy test system, and
- access to the SWIFT network.

Commentary

(5) HVCS testing

Rule 2.26 provides:

2.26 HVCS: tests

- (1) As soon as practicable after arrangements for HVCS tests under rule 2.25 are complete,—
 - (a) an applicant to participate in HVCS and each HVCS participant must comply with the requirements for HVCS tests specified in sections B(6), (8), and (9) of chapter 3 of the access procedures; and
 - (b) the company must, if required, manage the test process.
- (2) If the applicant's system has not passed all HVCS tests at the expiry of 1 year from the date on which the company sent the notification required by rule 2.25(2)(b), the independent directors' approval of the applicant's application to participate lapses unless the independent directors extend the period to which the approval applies.

Procedures

(6) Test scope

To comply with rule 2.26(1)(a), the test partner must agree with the applicant the content of test messages (based on the sample test message templates in appendix 1D and the degree of testing they will undertake. The following table shows the tests in scope and the minimum requirements for each of tests.

Test	Requirement
Single customer credit transfer MT103	process a single customer credit transfer including requesting a delivery notification.
Process a return transaction	process a return transaction including: <ul style="list-style-type: none"> • an inoperative or non-existent account, and • a BIC for a correspondent that does not have an account at the receiving institution.
Process a message with incorrect fields	process a message that contains fields that should not appear in the HVCS e.g. field 53 A.
Delivery notification MT011	request at least 1 delivery notification.
Abort notification MT019	process an abort notification by arranging for a message to be cancelled at ESAS.
Non-duplicated message with a PDE trailer	send at least 1 non-duplicated message with a PDE trailer for: <ul style="list-style-type: none"> • current value date, • future value date, and • past value date.
Duplicated message with a PDE trailer	send at least 1 duplicated message with a PDE trailer for: <ul style="list-style-type: none"> • current value date, • future value date, and • past value date.

Test	Requirement
Duplicated message without a PDE trailer	send at least 1 duplicated message without a PDE trailer for: <ul style="list-style-type: none"> current value date, future value date, and past value date.
Test date processing	undertake test date processing including: <ul style="list-style-type: none"> current value date, future value date, and past value date.
NZClear or ESDirect	Settle transaction using NZClear or ESDirect in accordance with rules 9.33 and 9.34.

Commentary

(7) Out of scope

The applicant completes the following things independently. They are not in scope for HVCS tests:

- acceptance tests of AVP FINCopy,
- standard SWIFT validation,
- standard SWIFT interface system operations e.g. routing, login to SWIFT,
- disaster recovery testing, and
- stress testing.

Procedures

(8) Format for each test case

To comply with rule 2.26(1)(a), the test partner must ensure that each test case is followed by:

- the input transaction message,
- the expected output transaction message,
- the resulting settlement response, either MT012 or MT019, and
- if requested, the delivery notification message MT011.

(9) Fields NOT present

To comply with rule 2.26(1)(a), the test partner must ensure that a field identified with an 'x' in the following table does not appear in a message identified with an 'x' in the following table:

Message	53	54	56
MT103	X	X	
MT202	X	X	X
MT202 COV	X	X	X
MT205			X
MT205 COV			X

Best Practice**(10) Field formats**

Field 108 (MUR) is an optional field on all scripts as some users do not use it. Trailers will depend upon the processing of the message (in-house and by SWIFT). PNZ recommends that applicants, test partners and participants refer to the SWIFT user handbook for specific field formats.

Section C: SBI tests

Commentary

Purpose

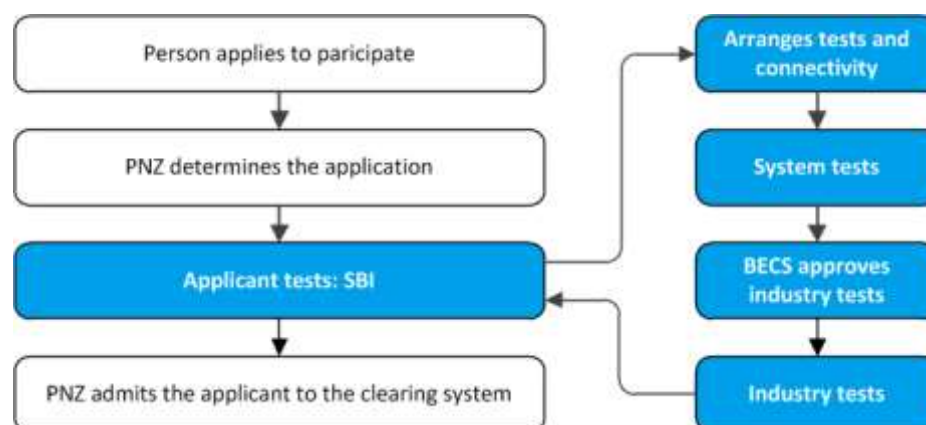
If the independent directors approve an application to participate in BECS or PCS, rule 2.20(a)(ii) requires the applicant to complete the SBI tests required by rule 2.29 before commencing participation in BECS or PCS. Rules 2.28 and 2.29 impose obligations in respect of testing with a BECS or PCS applicant for PNZ and existing participants and this chapter specifies how PNZ and existing participants comply with some of the obligations.

2 test phases

Tests are in 2 phases:

- system tests - when an applicant tests with 1 SBI participant, and
- industry tests - when an applicant tests with all SBI participants.

The highlighted blocks in the following diagram show the stage in the joining process described in this section:



Contents

This section contains the following topics:

Topic	See Page
C1: SBI and testing: overview	70
C2: Arranging SBI tests	72
C3: SBI tests	74

C1: SBI and testing: overview

Commentary

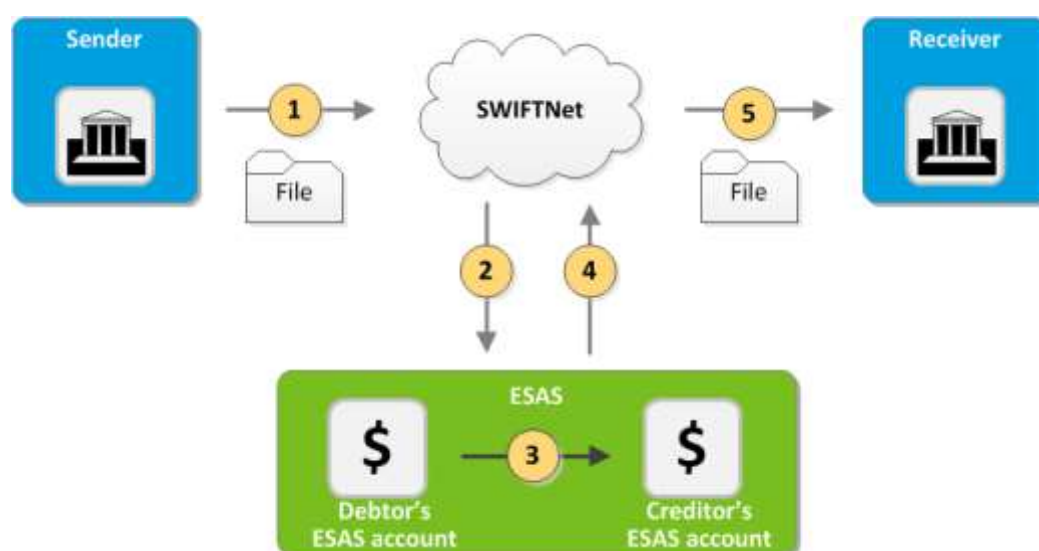
About SBI

The SBI transaction delivery system exchanges payment instructions in BECS and PCS.

PNZ is the administrator of the SBI CUG and can admit and remove participants from the SBI CUG. The requirements for settlement and interchange are specified in the PNZ rules, Part 8 and the SBI procedures.

High level diagram of SBI clearing and settlement process

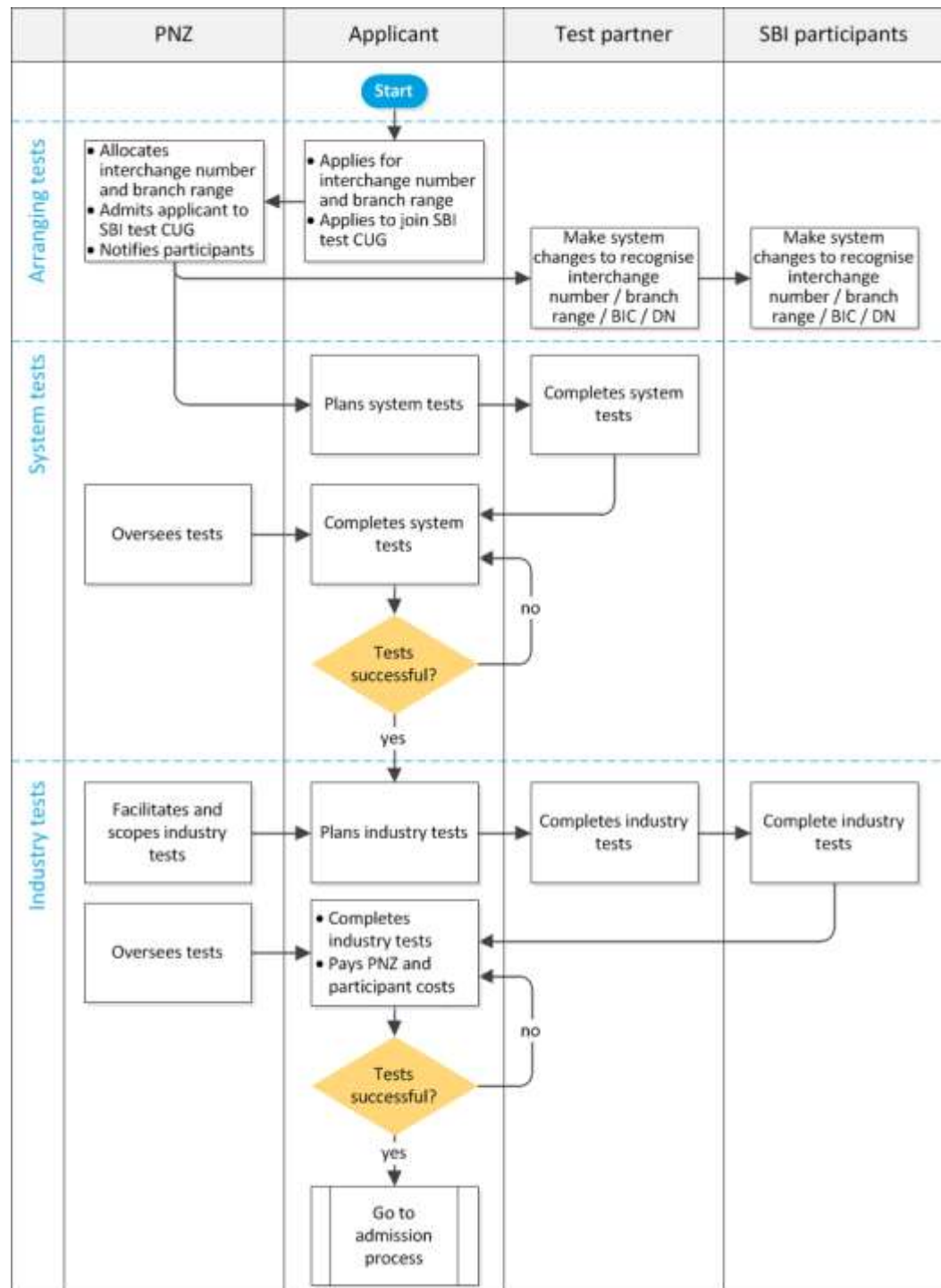
The following diagram shows at a high level how the settlement and interchange process works through the SBI CUG transaction delivery system.



Stage	Description
1	The sender: <ul style="list-style-type: none"> creates an electronic transaction to represent a payment instruction, and sends the transaction with other transactions in a file to the SBI CUG transaction delivery system.
2	SWIFTNet bulk payment service: <ul style="list-style-type: none"> holds the file, and sends a SWIFT message to ESAS requesting settlement of the net value of the file.
3	ESAS debits and credits the debtor's and creditor's settlement accounts respectively.
4	ESAS tells the SBI CUG the file has settled.
5	SWIFTNet bulk payment service releases the file to the receiver and the receiver: <ul style="list-style-type: none"> validates the file, and updates customer accounts with the transactions in the file.

High level diagram of SBI test process

The following diagram gives a high level overview of the SBI test process.

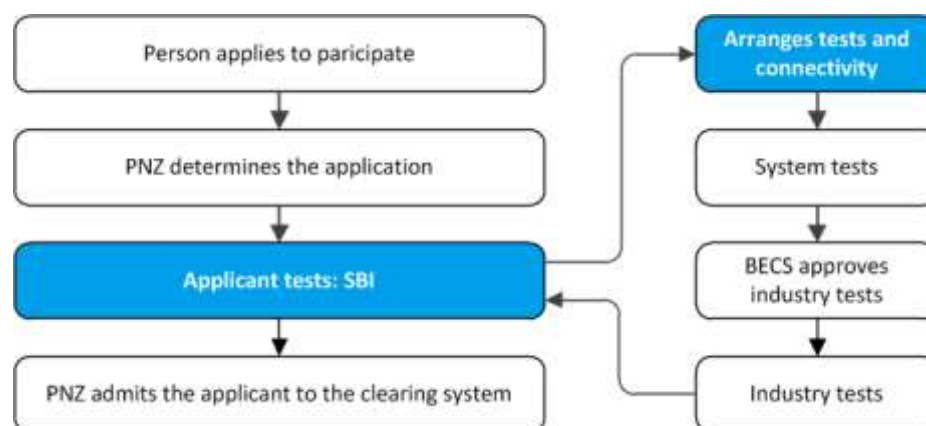


C2: Arranging SBI tests

Commentary

(1) Introduction

As soon as practicable after PNZ notifies an applicant for BECS or PCS that the independent directors have approved its application, arrangements for SBI tests and connectivity begin. The highlighted blocks in the following diagram show the stage in the SBI test process described in this section:



(2) SBI CUG administrator

PNZ is the SBI closed user group administrator under a service administration agreement between SWIFT and PNZ of 7 December 2010. As CUG administrator, PNZ arranges SBI system tests and industry tests for the applicant. PNZ and SWIFT have set up 2 services on the SWIFT network that are closed user groups (CUGs) used to exchange SBI messages. These are:

- an SBI test CUG used for system tests and industry tests before an applicant is admitted to BECS or PCS, and
- an SBI production CUG used for business as usual SBI clearing and settlement after tests are complete when an applicant is admitted to BECS or PCS.

(3) Rule 2.28

Rule 2.28 provides:

2.28 SBI: arranging connections and tests

- (1) If the independent directors approve an application to participate in SBI, as soon as practicable after the applicant receives a notification from the company under rule 2.21, the applicant must—
- (a) apply to the company in writing—
 - (i) for allocation of an interchange number and allocation of a branch range under subpart 3; and
 - (ii) to join the SBI test closed user group; and
 - (b) notify the company in writing of—
 - (i) the date on which the applicant proposes to begin SBI bilateral tests; and
 - (ii) the date on which the applicant proposes to begin SBI industry tests with other SBI participants.
- (2) As soon as practicable after receipt of an application and a notification in subclause (1), the company must—
- (a) allocate an interchange number and a branch range to the applicant in accordance with subpart 3, and notify the applicant of the allocation; and
 - (b) arrange to admit the applicant to the SBI test closed user group; and
 - (c) arrange for the applicant to test in SBI in accordance with section C2(4) of chapter 3 of the access procedures; and
 - (d) notify each SBI participant of the following:
 - (i) the interchange number and branch range allocated to the applicant under subpart 3;
 - (ii) the applicant's BIC address and DN address;
 - (iii) the date by which the participant's system must recognise the applicant's interchange number, branch range, BIC address, and DN address.
- (3) Each SBI participant must ensure that its system recognises the applicant's interchange number, branch range, BIC address, and DN by the date specified in the notification in subclause (2)(d)(iii).

Procedures

**(4) PNZ
arranges
testing**

To comply with rule 2.28(2)(c) PNZ must take the steps in the following table:

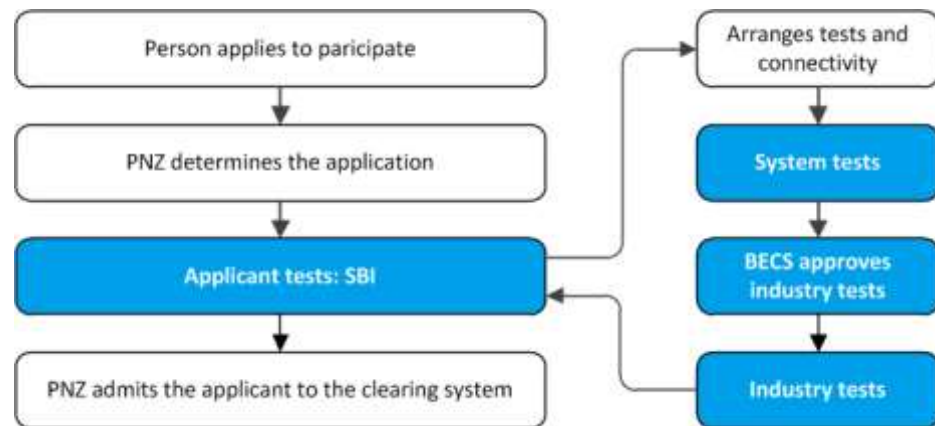
Step	Action
1	In consultation with the applicant, select a test manager to oversee bilateral system tests and multilateral industry tests.
2	In consultation with the applicant, select 1 or more test partners for bilateral system tests.

C3: SBI tests

Commentary

Introduction

SBI testing is a 3 stage process. The highlighted blocks in the following diagram show the stages in the SBI test process described in this section:



Rule 2.29

Rule 2.29 provides

2.29 SBI: tests

- (1) As soon as practicable after arrangements for SBI tests for an applicant under rule 2.28 are complete,—
 - (a) the company must—
 - (i) require the applicant to comply with requirements for SBI tests specified by the company; and
 - (ii) manage the test process in accordance with the requirements for SBI tests specified by the company; and
 - (b) each SBI participant must comply with requirements for SBI tests determined by the company.
- (2) If the applicant has not passed all SBI tests at the expiry of 1 year from the date on which the company sent the notification required by rule 2.28(2)(d), the independent directors' approval of the applicant's right to test lapses unless the independent directors extend the period to which the approval applies.

Test strategy

As soon as practicable after PNZ and the applicant complete SBI test arrangements, the applicant and PNZ define a test strategy for system and industry tests. The test strategy covers:

- test objectives,
- methods of testing,
- total time and resources required,
- content and degree of tests,
- test schedule, and
- test environment.

Test environment

The test environment for both system tests and industry tests includes:

- the ESAS test environment, and
- a configured SWIFT interface that is ready to:
 - send and receive FileAct messages (including the header block), and
 - receive InterAct messages from the RBNZ (settlement status messages).

Test requirements

An applicant shows through SBI tests that it can do the things in the following table to comply with Part 8 of the rules. Some of these requirements are depicted in the test process flows in appendix 1E and are identified in the following table:

Test requirement	Test in appendix 1E
Send and settle a file of mixed debits and credits	1,2
Receive a settled file	1,2
Reconfigure sending windows	3,4
Handle multiple 30MB files	3,4
Validate a file with a critical error	7,8,9
Validate non-critical errors	6
Receive PACS messages and Y-Copy notifications	1, 2
Handle ESAS error scenarios for file rejection	11,12
Demonstrate the functionality to freeze settlement of files	
Receive and process a late file	
Receive and process a file via NZClear	10
Create and send a file via NZClear	10
Configure and operate the ESAS auto-authorisation limits as required	1,2

Tests out of scope

SBI industry tests will generally not include the following:

- tests of an applicant's core systems,
- the supply of PNZ statistical data,
- production implementation,
- RBNZ high value transaction data, and
- tests of errors other than the test examples of a critical error and a non-critical error in test 9 and test 6 of appendix 1E.

System tests

In the system test stage, an applicant tests its SBI system with 1 or maybe more participants – called test partners. The purpose of system tests is to:

- ensure that the applicant's SBI system can successfully interface with the testing partner's SBI system, and
- assure the BECS management committee that the applicant's SBI solution is technically and operationally capable of clearing and settling SBI transactions before PNZ begins the industry test stage with all SBI participants.

**BECS
management
committee**

As soon as practicable after system tests are complete, the applicant and each test partner tells the BECS management committee whether the applicant's SBI system passed or failed all the tests (by way of a test exit report).

If the management committee is satisfied that the applicant's systems have complied with the test requirements, it agrees to the applicant beginning industry tests with SBI participants.

Industry tests

During the industry test stage, an applicant tests its systems with **all** SBI participants. The purpose of industry tests is to:

- ensure that the applicant's SBI system can successfully interface with all SBI participants' SBI systems, and
 - assure PNZ that the applicant's SBI solution is technically and operationally capable of clearing and settling SBI transactions in production and can comply with the requirements for SBI in the PNZ rules.
-

**Test exit
report**

As soon as practicable after tests are complete, PNZ notifies the BECS management committee whether the applicant's SBI systems passed or failed all the industry tests required by PNZ by way of a test exit report.

Chapter 4: Assigning a right to participate in a clearing system

Commentary

Introduction

Under the PNZ rules, a participant may assign (transfer) its right to participate in a clearing system to another organisation.

Before the assignment, PNZ requires the organisation getting the right to participate to follow a modified joining process to ensure that:

- the organisation complies with the access criteria for the clearing system, and
- the clearing system remains safe and efficient.

This chapter summarises the assignment process in Part 2 of the rules.

Contents

This chapter contains the following sections:

Section	See Page
Section A: When PNZ approves assignment	78
Section B: Application and determination process	79

Section A: When PNZ approves assignment

Commentary

PNZ approves assignment

If a participant proposes to assign its right to participate in a PNZ clearing system to another, before the assignment occurs, the organisation getting the right to participate applies to PNZ for approval of the assignment.

What is an assignment?

Under the joining process in subpart 1 a successful applicant gets a right to participate in a clearing system and, in exchange, must comply with obligations under the PNZ rules including the access criteria in Part 2 on an ongoing basis. PNZ may suspend or terminate a participant's right to participate if the participant breaches any obligations under the rules in a material way. If a participant assigns a right to participate to another organisation, the participant also assigns its obligations under the rules.

The PNZ rules restrict the process of approving an assignment under subpart 2 of Part 2 to 2 types of transaction. First, the existing participant may resign and a new entity replaces the resigning participant. Alternatively the owners of the participant may change, for example, if another organisation merges with or buys the participant. The PNZ rules use the **significant influence** test in the Reserve Bank Act, s 2(1), definition of significant influence, and s 77A *Changes of ownership* on the basis that if a registered bank was taken over, the Reserve Bank would need to consent to the transaction under s 77A. Using the same test for non-banks creates broad consistency in the rules for all participants subject to a merger or a take over.

The 'significant influence' threshold is triggered if another company or person:

- has the right to directly or indirectly appoint 25% or more of the participant's board of directors (or other people exercising management powers):
- for any voting securities issued or allotted by the participant, has directly or indirectly, any of the following:
 - the legal or beneficial ownership of 10% or more of the voting securities,
 - the power to exercise, or control the exercise of, 10% or more of the voting rights attached to the voting securities,
 - the power to acquire or dispose of 10% or more of the voting securities,
 - the power to control the acquisition or disposition by another person of 10% or more of the voting securities, and
 - the rights or powers above under, or because of, a trust, an agreement, an arrangement, or an understanding relating to the voting securities.

Section B: Application and determination process

Commentary

Application	Before an assignment occurs, the organisation to whom it is proposed to assign the right to participate, applies to PNZ for approval of the assignment.
Independent directors determine whether to approve assignment	<p>As soon as practicable after PNZ receives an application for an assignment of a right to participate in a clearing system, the independent directors determine whether to approve the assignment having regard to whether the applicant complies with the access criterion in rule 2.8.</p> <p>The independent directors may obtain technical advice from anyone including:</p> <ul style="list-style-type: none"> • the clearing system management committee to which the assignment relates, or • any participant, or • the Reserve Bank, or • any other person who the independent directors consider has a substantial interest in the matter. <p>The independent directors may require the applicant to provide:</p> <ul style="list-style-type: none"> • an independent report by any person, or • extra information that the independent directors consider necessary to enable the independent directors to determine the application.
Conditions of approval	<p>If the independent directors approve an assignment of a right to participate in a clearing system, the independent directors may require compliance with the following conditions before the assignment is completed:</p> <ul style="list-style-type: none"> • payment of the \$25,000 application fee • passing system tests to the extent determined by the independent directors • completion of any admission requirements to the extent determined by the independent directors e.g.: <ul style="list-style-type: none"> – payment of the \$20,000 access fee, or – accession to the participation agreement via execution of a participant accession deed, • admission of the applicant as a new participant in a clearing system, and • any other condition specified by the independent directors at the time of the approval.

PNZ notifies independent directors decision

As soon as practicable after the independent directors determine whether to approve an assignment, PNZ:

- tells the applicant of the independent directors' decision and, if the independent directors decline the application, the reasons for the independent directors' decision, and
- tells each participant in the clearing system and the Reserve Bank of the independent directors' decision.

SBI applicant applies for re-allocation of interchange number

If the independent directors approve an assignment of a right to participate in BECS or PCS from an SBI participant to a 3rd party, the 3rd party applies to PNZ for re-allocation of the SBI participant's interchange number and branch ranges.

The application attaches written consent from the SBI participant to the re-allocation.

Refer to: chapter 5.

No participation if application not approved

If the independent directors do not approve an assignment, the applicant must not participate in the clearing system. If PNZ decides that the applicant is participating in BECS or PCS, PNZ may instruct SBI participants to do the following:

Step	Description
1	reject payment instructions involving the applicant.
2	stop creating transactions and files in relation to payment instructions involving the applicant.
3	freeze interchange of all files with the applicant but continue settlement and interchange with each other.

If PNZ decides that the applicant is participating in HVCS, PNZ may instruct all HVCS participants to stop HVCS payments to the applicant.

Each participant complies with PNZ instructions.

Chapter 5: Interchange numbers and branch ranges

Commentary

Introduction This chapter specifies how PNZ complies with requirements in the PNZ rules for allocating interchange numbers and branch ranges.

Contents This chapter contains the following sections:

Section	See Page
Section A: Interchange numbers and branch ranges: overview	82
Section B: Allocating an interchange number	83
Section C: Allocating and using branch ranges	85
Section D: Allocation to agency financial institution	88
Section E: Allocation of interchange number to person with business need	90
Section F: Revocation	92

Section A: Interchange numbers and branch ranges: overview

Commentary

About interchange numbers and branch ranges

PNZ regulates the allocation of:

- unique 2 digit interchange numbers, and
- ranges of unique 4 digit branch numbers.

An interchange number:

- uniquely identifies a participant participating in BECS or PCS, and
- distinguishes the participant from all other participants in BECS or PCS.

A branch number:

- usually identifies a particular branch belonging to a participant in BECS or PCS, and
- distinguishes the branch from all other branches operated by all other BECS or PCS participants.

Refer to: PNZ rules, subpart 3.

PNZ registers

PNZ regulates allocation of interchange numbers and branch ranges using the registers in the following table:

Register	Description
Interchange numbers	Records interchange numbers allocated
Branch ranges	Records branch ranges allocated (in lots of 25)
Branch numbers	<p>A public register that discloses:</p> <ul style="list-style-type: none"> • information about the address and status of branch numbers used, and • whether specific interchange and branch number pairs are published by SWIFT as national clearing codes to facilitate more efficient processing of domestic and cross border payments.

PNZ costs

Under rule 2.51 if PNZ allocates an interchange number or a branch range to an organisation, the organisation must pay the costs and expenses PNZ reasonably incurs in:

- making the allocation, or
- revoking the allocation.

Section B: Allocating an interchange number

Commentary

Criteria for allocating an interchange number

PNZ may only allocate an interchange number to an applicant who complies with 1 of the criteria in rule 2.42 summarised in the following table:

Criterion...
Joining SBI: the independent directors have conditionally approved an applicant's application to join SBI. (The applicant uses the interchange number to test its system before it begins participating).
Assigning a right to participate: the independent directors have approved an assignment of an existing participant's right to participate in BECS or PCS to the applicant.
Agency arrangement: the applicant has or proposes to have an agency arrangement with an SBI participant and the participant consents to PNZ allocating an interchange number to the applicant.
Business need: any other applicant and the independent directors are satisfied that the applicant has a genuine business need for an interchange number. Can be an existing SBI participant or HVCS participant wanting an extra interchange number or a non-participant.

Procedures

Application: interchange number

An application for an interchange number **must** be given to PNZ in writing in electronic or paper form. The application must specify:

- the name of the applicant,
- which of the criteria in rule 2.42 applies, and
- if the applicant requires an interchange number because it has a genuine business need, the nature of the business need.

If the applicant is applying because it has an agency arrangement with a participant, the application **must** attach written consent from the participant to allocation of an interchange number to the applicant.

Refer to: PNZ rules, rule 2.43.

PNZ response As soon as practicable after receipt of an application for an interchange number, PNZ does the following—

If the application is from	then PNZ..
Joining SBI: a person joining BECS or PCS	<ul style="list-style-type: none"> records the person's name and the interchange number on the register of interchange numbers, and notifies the person and each SBI participant of the allocation.
Assignment: an organisation to whom an SBI participant assigns a right to participate	<ul style="list-style-type: none"> re-allocates the participant's interchange number on the register of interchange numbers to the organisation, and notifies the organisation and each SBI participant of the re-allocation.
Agency arrangement: an organisation who has or proposes to have an agency arrangement with an SBI participant	refers the application to the independent directors (see section C).
Business need: any other applicant and the applicant has a genuine business need for an interchange number.	refers the application to the independent directors (see section D).

Section C: Allocating and using branch ranges

Commentary

Criteria for allocation

Under rule 2.45, PNZ may only allocate a branch range to an applicant who has an interchange number or who complies with 1 of the criteria in rule 2.45 summarised in the following table:

Criterion...
Joining SBI: the independent directors have conditionally approved an applicant's application to join SBI. (The applicant uses the branch range to test its system before it begins participating).
Assigning a right to participate: the independent directors have approved an assignment of an existing participant's right to participate in BECS or PCS to the applicant.
Agency arrangement: the applicant has or proposes to have an agency arrangement with an SBI participant and the participant consents to PNZ allocating an interchange number to the applicant.
SBI participant: an existing SBI participant wanting an extra branch range.

Procedures

Application: branch range

An application for a branch range **must** be given to PNZ in writing in electronic or paper form. The application **must** specify:

- the name of the applicant,
- the interchange number allocated to the applicant, and
- which of the criteria in rule 2.45 applies.

Commentary

PNZ response As soon as practicable after receiving an application for a branch range, PNZ does the following:

If the application is from	then PNZ..
Joining SBI: an organisation joining BECS or PCS	<ul style="list-style-type: none"> records the person's name and the branch range on the register of branch ranges, and notifies the organisation and each SBI participant of the allocation
Assignment: an organisation to whom an SBI participant assigns a right to participate	<ul style="list-style-type: none"> re-allocates the SBI participant's branch range on the register of branch ranges to the organisation, and notifies the organisation and each SBI participant of the re-allocation
Agency arrangement: an organisation who has or proposes to have an agency arrangement with an SBI participant	refers the application to the independent directors (see section D)
An existing SBI participant	<ul style="list-style-type: none"> records the participant's name and the branch range on the register of branch ranges, and notifies the organisation and each SBI participant of the allocation.

Procedures

Use of a branch number

If a participant proposes to use a branch number in a branch range allocated to participate in BECS or PCS, the process in the following table applies:

Stage	Description
1	The participant must tell PNZ in writing of details of the branch number including the date, being no less than 10 business days after the date on which the participant notifies PNZ, from which the participant proposes to use the branch number to participate in BECS or PCS.
2	As soon as practicable after receipt of the notice, PNZ must: <ul style="list-style-type: none"> record on the branch register details of the branch number including the date from which the participant proposes to use the branch number, and notify all SBI participants of the details of the branch number.
3	SBI participants must update their systems to recognise the branch number.

Changing branch number details

If a participant proposes to change the details that apply to a branch recorded on the branch register, including to stop using the branch to participate in SBI, the process in the following table applies:

Stage	Description
1	The participant must tell PNZ in writing of changes to the details on the branch register that apply to the branch. Example: if the branch is closing or if the branch phone number changes.
2	As soon as practicable after receipt of the notice, PNZ must: <ul style="list-style-type: none"> • record the changes to the details on the branch register that apply to the branch, and • notify all SBI participants of changes to the details and the date from which the changes take effect.
3	SBI participants must update their systems to recognise the changes.

Section D: Allocation to agency financial institution

Commentary

Introduction

Under rule 2.48 if PNZ receives an application for an interchange number or a branch range to a financial institution who has an agency arrangement with an SBI participant who consents to the allocation, the independent directors determine whether to allocate the interchange number or the branch range.

Conditions of allocation

If the independent directors approve allocation of an interchange number or a branch range to an agency financial institution, the independent directors may require compliance with the conditions in the following table before the assignment is completed:

Condition...
passing system tests to the extent determined by the independent directors
any other condition specified by the independent directors at the time of the approval

SBI testing

If the independent directors require an applicant to pass any SBI system tests, the independent directors may require:

- PNZ to arrange SBI tests, and
- SBI participants to recognise the applicant's interchange number or branch range (if any).

If the independent directors require an applicant to pass any SBI system tests, the independent directors will require the applicant to pay:

- PNZ's and SBI participants' test costs reasonably incurred, and
- SBI participants' costs of changing their systems to recognise the applicant's interchange number if the participants have less than 6 months to make the changes before tests begin.

PNZ notifies independent directors decision

As soon as practicable after the independent directors determine an application for an interchange number or a branch range,:

- PNZ tells the agency financial institution of the independent directors' decision and of the independent directors' reasons for its decision, and
 - if the independent directors decide to allocate an interchange number or a branch range to an agency financial institution, PNZ:
 - records the financial institution's name and the interchange number on the register of interchange numbers,
 - records the financial institution's name and the branch range on the register of branch ranges, and
 - notifies the financial institution and each SBI participant of the allocation.
-

Participant is principal

If a file contains a transaction that specifies the agency financial institution's interchange number or branch number, the participant with whom the person has an agency arrangement:

- is responsible as principal for settlement and interchange of the file, and
 - must be the sender or the receiver of the file.
-

Section E: Allocation of interchange number to person with business need

Commentary

Independent directors

Under rule 2.42 any person with a business need may apply for an interchange number and the independent directors decide whether to allocate it under rule 2.49.

The independent directors may require the applicant to provide:

- an independent report by any person, or
- extra information that the independent directors consider necessary.

Conditions of allocation

If the independent directors approve allocation of an interchange number or a branch range to an applicant with a genuine business need, the independent directors may require compliance with the conditions in the following table:

Condition...
For an applicant who is an existing SBI participant wanting an extra interchange number or a branch range, passing system tests to the extent determined by the independent directors.
For any applicant, any condition the independent directors decide to impose.

Testing

If the independent directors require an applicant who is an existing SBI participant to pass any SBI system tests, under rule 2.49 the independent directors may require:

- PNZ to arrange SBI testing, and
- SBI participants to recognise the participant's interchange number.

If the independent directors require an applicant to pass any SBI system tests, under rule 2.49 the independent directors will require the applicant to pay:

- PNZ's and SBI participants' test costs, and
- SBI participants' costs of changing their systems to recognise the participant's new interchange number if the participants have less than 6 months to develop, test and implement system changes before testing begins.

PNZ notifies independent directors decision

As soon as practicable after the independent directors determine an application for an interchange number from a person with a business need, PNZ:

- if the independent directors decide to allocate an interchange number to an applicant with a business need,:
 - tells the applicant of the independent directors' decision,
 - records the applicant's name and the interchange number or branch range on the register of interchange numbers, and
 - notifies the applicant and each SBI participant of the allocation, and
 - if the independent directors decline the application, tells the applicant of the reasons for the independent directors' decision.
-

Non-SBI participant makes bilateral arrangements

If the applicant is not an SBI participant,:

- the applicant can make arrangements to use the interchange number by bilateral agreement with PNZ participants, but
 - the rules do not require PNZ or participants to help the applicant to use the interchange number, for example,:
 - PNZ is not required to arrange testing, and
 - participants are not required to make systems changes or to test to recognise the applicant's interchange number.
-

Section F: Revocation

Commentary

Introduction Under rule 2.50 PNZ can revoke allocation of an interchange number or a branch range. The section describes how PNZ can use this power.

Person joining HVCS or SBI If PNZ allocates an interchange number or a branch range to a person who has conditional approval to join BECS or PCS, the consequences in the following table apply:

If the applicant...	Then...
completes the testing and admission requirements in Part 2 of the rules	the applicant: <ul style="list-style-type: none"> retains the interchange number or the branch range, and uses the interchange number or branch range for settlement and interchange in SBI
does not complete the admission requirements in rule 2.31 within 2 years of the date of allocation	PNZ may revoke allocation of the interchange number or the branch range.

Other allocations PNZ may revoke allocation of an interchange number or a branch range to a person if the independent directors imposed a condition on allocation but the independent directors decide —

- for a condition requiring the person to complete an action, that the person has not completed the action by a date specified by the independent directors (or if no date is specified, within a reasonable time), or
- for a condition requiring the person not to take an action, that the person has breached the condition.

Revocation procedure PNZ revokes allocation of an interchange number or a branch range to a person by removing the name of the person from the register of interchange numbers. PNZ revokes allocation of a branch range to a person by removing the name of the person from the register of branch ranges and the register of branch numbers.

After revocation, PNZ notifies:

- the person from whom the interchange number or the branch range is revoked,
- all SBI participants,
- the Reserve Bank.

Chapter 6: Resigning from a clearing system

Introduction

This chapter describes how participants and PNZ comply with requirements in the PNZ rules for resigning from a clearing system.

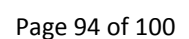
Refer to: PNZ rules, Part 2, subpart 4.

Contents

This chapter contains the following sections:

Section	See Page
Section A: Resigning from a clearing system: overview	94
Section B: Resignation process	95
Section C: Effect of resignation	96

Introduction This diagram shows at a high level how a participant resigns from a clearing system and how PNZ responds.



Section B: Resignation process

Commentary

Introduction This section describes how a participant and PNZ comply with requirements in the PNZ rules for resignation.

Process The following table shows the steps in the resignation process under rules 2.53 to 2.55:

Step	Action
1	Participant notifies PNZ in writing of the resignation date (and any change to the resignation date).
2	PNZ notifies the following of the resignation and resignation date (or changed date): <ul style="list-style-type: none"> • all participants, • for BECS or PCS and SBI, SWIFT, • for CECS, all switches, • for HVCS, the AVP CUG service administrator, and • the Reserve Bank.
3	If a participant resigns from all clearing systems that use the SBI CUG transaction delivery system (BECS and PCS), PNZ removes the participant from the SBI CUG at the end of the ESAS day on which resignation takes effect.
4	The resigning participant stops participating in a clearing system at the end of the ESAS day on which resignation takes effect.

Resignation date The following table shows when the resignation date takes effect:

Date	Minimum
Resignation	3 months from date of notice (or less if the independent directors agree).
Changed resignation	After original resignation date and more than 15 business days after notice of the changed resignation date (or less if the chief executive agrees).

Section C: Effect of resignation

Commentary

Effect of resignation

If a participant resigns from a clearing system, under rule 2.54 the effect of resignation is:

- the participant's right to participate in the clearing system ends at the end of the ESAS day on the date on which the resignation takes effect,
- the participant may continue to participate in any other clearing system in which it participates,
- the participant must pay all money that it owes to any other participant in a clearing system from which it has resigned in relation to the participant's participation in the clearing system,
- the participant is entitled to be paid all money owed to it by any other participant in a clearing system from which it has resigned in relation to the participant's participation in the clearing system,
- the participant is not entitled to repayment of all or part of any—
 - access fee or periodic operating fee that it has paid to PNZ, or
 - other levy, charge, or fee that it has paid to PNZ, and
- the resignation does not affect—
 - any right or liability of the participant accrued or incurred in relation to the participant's participation in the clearing system before the end of the ESAS day on the date on which the resignation takes effect, or
 - the rights or obligations of the participant under any clearing system document that provides that it has effect despite the resignation of the participant from a clearing system.

Appendix 1: Access procedures

Appendix 1A: Application to participate and statutory declaration

Application to participate

Rule 2.5 of the Payments NZ Limited rules ('rules')

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

- [a statutory declaration from 1 of your directors (or equivalent officer) that all information in the application is accurate (**Refer:** Appendix 1A: Statutory declaration),]
- [the non-refundable application fee of \$25,000.00 (GST exclusive), and]
- [the following information we require under rule 2.6 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 2.7).
- (c) The applicant attaches (in accordance with rule 2.6):

[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 Payments NZ Limited for an interchange number and (if required) 1 or more branch numbers;
 - (ii) for an application for HVCS, 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 and connection costs and expenses required by Part 2 of the rules.
- (f) The applicant agrees that if any of the admission requirements in rule 2.31 apply 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.

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

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