

Consultation on the Prudential Levy

For Reserve Bank of New Zealand
– Te Pūtea Matua

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payments**nz**[®]



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Executive Summary

Payments NZ welcomes the opportunity to comment on the Prudential Levy consultation paper published by the Reserve Bank of New Zealand – Te Pūtea Matua.

1. From 12 October 2026, the High Value Clearing System (HVCS) is a designated systemically important financial market infrastructure under the Financial Market Infrastructures Act 2021, with Payments NZ specified as its operator. The proposed treatment of financial market infrastructure operators under the prudential levy therefore directly affects Payments NZ.
2. We recognise that effective prudential supervision is important for maintaining the integrity, stability and resilience of Aotearoa New Zealand's financial system.
3. Our central concern is not with prudential supervision itself, but whether the proposed levy methodology appropriately reflects the materially different functions, operating models, risks, benefits and supervisory requirements of different financial market infrastructures ("FMI").
4. Payments NZ recommends that the final levy framework:
 - differentiates between materially different FMI;
 - aligns levy liability with the risks posed, benefits received and supervisory effort required;
 - recognises existing participant-funded governance, risk management and assurance arrangements;
 - identifies and minimises overlapping cost recovery, including where the same participants may ultimately fund prudential levies through more than one regulated entity;
 - reconsiders the proposed flat-dollar allocation across FMI operators; and
 - retains the option of partial cost recovery where prudential supervision delivers material benefits to the wider financial system and economy.
5. If FMI remain within the prudential levy, Payments NZ recommends a differentiated approach based on objective criteria, including risk profile, operational complexity, ownership and operation of infrastructure, commercial or industry utility model, existing assurance obligations, benefits received and expected supervisory effort.
6. This would be more proportionate than treating materially different operators as though they create comparable risk, receive comparable benefits and require comparable levels of supervision. It would also better support effectiveness, efficiency and equity by establishing a clearer relationship between the amount charged and the cost, risk and benefit associated with supervising each operator.

About Payments NZ

7. Payments NZ plays a central system governance role in our country's payments ecosystem. We govern core clearing system arrangements and coordinate industry change to support payment systems that are safe, efficient, open, innovative and interoperable.
8. Our role includes managing the rules and standards that support interoperability, resilience, operational reliability, risk management and the safe movement of money and payment data.
9. Our system-wide perspective also enables us to bring evidence, operational knowledge and industry experience to our engagement with government and regulators. This helps inform decisions by providing a whole-of-system view of how policy and regulatory choices may affect system integrity, resilience, interoperability and the ability of participants to coordinate change.
10. For HVCS, Payments NZ maintains and administers the rules and standards governing the system, working with participants and the Reserve Bank. Payments NZ does not own or operate the underlying payment infrastructure used by participants to process or settle payments (settlement occurs in the Reserve Bank Exchange Settlement Account System (ESAS), a designated FMI).
11. The agreed Payments NZ position on HVCS designation confirms that Payments NZ maintains and administers the rules and standards governing HVCS, while day-to-day clearing continues through participant and infrastructure arrangements.
12. We bring this whole-of-system perspective to the proposed prudential levy. Our submission considers not only the direct impact on Payments NZ, but whether the proposed methodology appropriately reflects the different functions, risks, benefits and supervisory requirements of FMI operators and supports proportionate outcomes across the wider payments system.
13. That distinction is central to the design of a proportionate prudential levy. Payments NZ is the specified operator of HVCS, but its function, risk profile and likely supervisory requirements are materially different from those of an FMI that owns or directly operates transaction-processing or settlement infrastructure.

Overview of our position

14. The proposed levy would transfer the costs of the Reserve Bank's prudential function to regulated and supervised entities, including designated FMI.
15. The consultation identifies two principal rationales for cost recovery:
 - externality theory, under which entities that create risks should contribute to the cost of mitigating those risks through regulation and supervision; and
 - beneficiary theory, under which entities that benefit from regulation should contribute to its cost.
16. Payments NZ does not consider that these principles support treating all FMI alike.
17. Payments NZ's role as the operator of HVCS differs materially from that of an infrastructure-owning or transaction-processing operator. We manage the rules, standards and governance arrangements that enable participants to operate together as a trusted payment system.

18. Our activities are directed towards maintaining clear and enforceable arrangements for participation and clearing, supporting interoperability and resilience, and managing and reducing system risk.
19. HVCS settlement occurs through ESAS, which is itself a designated FMI. Payments NZ does not buy or sell financial products and does not own or operate the infrastructure participants use to make or settle payments.
20. The relevant distinction is not whether Payments NZ is an operator of an FMI. Following HVCS designation, it is. The relevant question is whether the levy appropriately reflects the particular function, risk profile, benefits and supervisory requirements associated with Payments NZ's operation of HVCS.

Prudential function and justification for charging

21. The Reserve Bank's prudential function is part of its core role in supervising the financial system for stability and soundness.
22. The consultation states that introducing a prudential levy would transfer the cost of funding that function to regulated and supervised entities and would result in a fiscal benefit to the Government.
23. Payments NZ recognises that cost recovery can be appropriate where there is a sound relationship between the activities being supervised, the risk being addressed, the benefit received, the supervisory service provided and the amount charged.
24. However, administrative simplicity and fiscal benefit are not, on their own, sufficient reasons to allocate the same levy amount to FMI with materially different functions, risk profiles and supervisory requirements.
25. The levy should be designed so that the amount charged to each FMI is proportionate to the policy rationale for imposing that charge.

Externality theory

26. Payments NZ agrees that risk should be a relevant consideration when allocating prudential supervision costs. However, this requires an assessment of the nature and extent of the risk associated with each FMI, rather than an assumption that every designated FMI creates equivalent risk.
27. As a rules and governance body, Payments NZ's role differs materially from that of an infrastructure-owning or transaction-processing entity. Our primary function includes promoting safe, efficient and interoperable payment systems.
28. Our rules provide a clear, transparent and enforceable legal basis for the material aspects of HVCS. They govern access to the clearing system, risk management, security and operational reliability, system resilience, participant default and legal certainty concerning the end-to-end clearing and settlement of transactions.
29. These arrangements are designed to manage and reduce risk. They have been developed, maintained and funded through existing participant-funded governance and assurance arrangements.
30. Payments NZ is the specified operator of HVCS and recognises the associated standards and supervisory obligations. However, the existence of those obligations does not mean that every FMI will require the same intensity of supervision or impose the same supervisory cost.

31. Any prudential levy should recognise the controls already in place, the cost already borne by participants to maintain those controls, the residual risk requiring Reserve Bank supervision and the actual or reasonably expected level of supervisory effort.

Beneficiary theory

32. The beneficiary theory is based on the premise that those who benefit from regulation should contribute to its cost.
33. The Reserve Bank's prudential mandate delivers significant public benefits by promoting confidence, stability and resilience across the financial system. These benefits extend beyond regulated entities to businesses, households, government and the wider economy.
34. Prudential supervision therefore produces both private and public benefits. The existence of some benefit to a regulated FMI does not, by itself, establish that the operator should bear the full cost of supervision.
35. The case for full industry cost recovery should be assessed particularly carefully where participants in the FMI already fund the governance, risk management and assurance arrangements that support the integrity and resilience of the relevant system.
36. The rules, standards and governance frameworks Payments NZ establishes and manages support safe, efficient, interoperable and trusted payment systems. These arrangements benefit participants, payment service users and the wider economy.
37. The specific benefits of FMI designation identified in the consultation do not apply to Payments NZ in the same way as they apply to an infrastructure-owning or transaction-processing operator. Settlement occurs through ESAS, which is itself a designated FMI, and Payments NZ does not make payments or buy and sell financial products. Levy allocation should reflect that nature and extent of the benefits actually received by each operator.

Risk of overlapping cost recovery

38. Payments NZ participants include regulated entities that may themselves be subject to prudential levies.
39. If Payments NZ must recover an additional prudential levy from those same participants, the same underlying organisations may ultimately fund prudential supervision through levies applying directly to them as regulated entities and through their contributions to the costs incurred by Payments NZ as the operator of HVCS.
40. This creates a risk of overlapping cost recovery. It may also obscure the relationship between the supervisory service provided, the regulated risk and the party ultimately bearing the cost.
41. Participant funding supports the governance and administration of system rules and standards, risk management, assurance, legal arrangements, interoperability, operational resilience and coordinated system change.
42. These arrangements provide structural integrity that is necessary for participants to operate together as one trusted system. They are not created by designation alone and are already substantially funded by industry.
43. The central consideration is maintaining the integrity, resilience and accessibility of the system. A levy should not unintentionally divert resources from the governance, assurance and coordinated risk-management activities that the supervisory framework is intended to support.

Regulation and supervision

- 44. Regulation and supervision are related but distinct. Designation establishes the legal and regulatory framework applying to an FMI, while supervision involves the Reserve Bank's ongoing monitoring and oversight of compliance and risk.
- 45. The existence of a regulatory designation does not necessarily mean each designated operator will require the same level or intensity of ongoing supervision.
- 46. The consultation recognises that FMI operators may pass levy costs on to their participants.
- 47. In Payments NZ's case, this is a reasonable assumption because Payments NZ operates on an industry-funded basis. A material additional regulatory cost would ultimately need to be recovered from participants.

Proposed allocation to designated FMIs

- 48. The consultation proposes allocating 7 per cent of the prudential levy to financial market infrastructures, representing an indicative \$4.9 million per annum.
- 49. On the figures presented in the consultation, a flat allocation across four operators would indicate a levy of approximately \$1.225 million per operator.
- 50. It is unclear whether the total allocation would remain fixed if additional FMI were designated, whether each operator's levy would decrease, or whether additional designations would result in further supervisory resources and costs. This information is necessary to assess whether the proposed allocation has a reasonable relationship to expected supervisory activity.
- 51. A flat-dollar levy applied equally to all financial market infrastructure operators is not appropriate because operators do not necessarily perform the same functions, own or operate the same types of infrastructure, create the same risks, derive the same benefits or require the same level of supervision.
- 52. Payments NZ therefore recommends a differentiated methodology that considers the nature and extent of infrastructure owned or operated, operational and systemic risk, the operator's function and operating model, commercial activity versus an industry utility model, existing governance and assurance obligations, benefits received from designation and expected supervisory effort.
- 53. We recognise that assigning weight to these factors will require judgement. However, administrative simplicity should not come at the expense of equity. An equal flat-dollar allocation may be simple to administer, but it is not equitable where operators have materially different functions, risk profiles, benefits and supervisory requirements. The methodology should be transparent, evidence based and capable of being reviewed as supervisory experience develops.

International precedent

- 54. International comparisons should be used cautiously. The relevant question is not simply whether other jurisdictions levy FMI, but whether comparable rules-based operators with similar functions, infrastructure ownership, risk profiles and supervisory requirements are subject to equivalent charges.
- 55. Unless a directly comparable operator and verified levy model can be identified, Payments NZ recommends that international precedent not be treated as determinative of the appropriate levy for HVCS. Greater weight should be given to the actual function, risk profile and supervisory requirements of the HVCS operator.

Differentiated treatment approach

56. Payments NZ does not express a view on the allocation between banks, deposit takers and insurers. Our submission is focused on the proposed treatment of designated FMI and, in particular, the treatment of Payments NZ as the operator of HVCS.
57. Payments NZ recommends that the Reserve Bank develop a differentiated approach for rules-based operators that do not own or operate infrastructure.
58. These operators have a materially different operating model from infrastructure-owning or transaction-processing operators. That difference affects the risks they create, the benefits they receive from designation and the nature and intensity of supervision required.
59. Differentiation could be achieved through separate operator categories, objectively weighted criteria, or an allocation based on expected frontline supervisory effort. Regardless of the mechanism selected, the methodology should avoid assuming equal supervisory cost merely because operators share the same legal designation. This would better support an equitable allocation between entities while retaining a methodology that is practical to administer.

Cost recovery of supervisory effort

60. Payments NZ appreciates the Reserve Bank's acknowledgement that it is difficult to measure the regulatory and supervisory effort allocated to each sector and that this may vary over time.
61. The levy design should reflect the Auditor-General's good-practice guidance for setting fees and levies, including the need for a sound policy and legal basis for the charge, clear choices about its design and efficient and fair allocation of the costs incurred in providing the relevant service.
62. Of particular importance is recognition of the difference between rules-based operators that establish and maintain governance, standards and interoperability arrangements and operators that own or directly operate the infrastructure being supervised.
63. This distinction matters because a levy that is disconnected from supervisory effort may impose a disproportionate cost on a rules-based operator without reflecting either the residual risk presented or the resources required to supervise it.
64. Payments NZ considers that the levy methodology should maintain a reasonable relationship between the level of supervisory effort required and the amount charged. As supervisory experience develops, the levy methodology should be capable of reflecting material differences in the nature and intensity of supervision required across FMI operators.

Conclusion

65. Payments NZ supports effective prudential supervision and recognises the importance of appropriate oversight of systemically important financial market infrastructure.
66. From 12 October 2026, HVCS designation creates a formal supervisory relationship between Payments NZ and the Reserve Bank. Our focus is on working constructively with the Reserve Bank as that framework is implemented.
67. Our concern is that the prudential levy should be designed with the same degree of proportionality.
68. Not all financial market infrastructure operators perform the same functions, present the same risks, receive the same benefits or require the same supervisory effort. A flat-dollar allocation does not adequately recognise those differences.
69. Payments NZ therefore recommends that the final framework:
 - differentiates between materially different operating models;
 - aligns levy liability with risk, benefit and supervisory effort;
 - recognises existing participant-funded governance, risk management and assurance arrangements;
 - identifies and minimises overlapping cost recovery;
 - maintains a reasonable relationship between levy liability and the nature and level of supervisory effort required; and
 - retains the option of partial rather than full industry cost recovery where prudential supervision delivers material wider public benefit.
70. A differentiated framework would preserve the objective of effective prudential supervision while providing a fairer and more proportionate basis for allocating its costs.
71. Payments NZ welcomes continued engagement with the Reserve Bank as the prudential levy framework and the new HVCS supervisory arrangements are implemented.

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