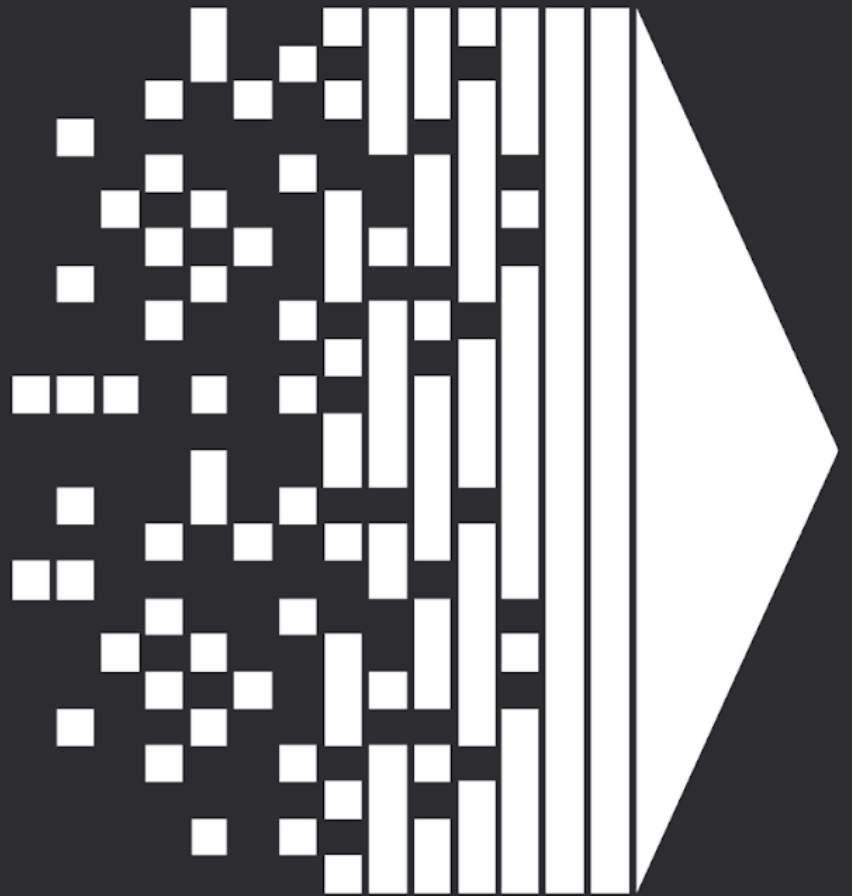


# SUBMISSION



**27 July 2023**

Submission to Treasury's Consultation  
on Payments System Modernisation  
(Licensing: Defining Payment Functions)



27 July 2023

Director  
Payments Licensing Unit  
Financial System Division  
The Treasury  
Langton Crescent  
PARKES ACT 2600

By email: [paymentslicensingconsultation@treasury.gov.au](mailto:paymentslicensingconsultation@treasury.gov.au)

Dear Treasury

**Re. Submission to Treasury's Consultation on *Payments System Modernisation*  
(Licensing: Defining Payment Functions)**

Zepto welcomes the opportunity to make a submission to Treasury's consultation on payments licensing.

As the first non-bank fintech to connect directly to the New Payment Platform as a Connected Institution and the first non-bank payments providers to be accredited as an Accredited Data Recipient under the Consumer Data Right, as well as the holder of an Australian Financial Services Licence, Zepto is well positioned to provide valuable insights to Treasury on the proposed licensing regime.

Zepto supports the recommendation of the Government's Payments System Review for the introduction of *"a single, tiered payments licensing framework that replaces the need for providers to obtain multiple authorisations from different regulators, provides clear protections for consumers and businesses, and facilitates transparency in access to payment systems."*<sup>1</sup>

We advocate for a payments licensing framework which promotes competition and innovation through clearly defined rights and obligations, and which upholds the highest possible standards of consumer protection. This is because we understand that a secure and safe payments ecosystem is not only the key driver of value for our businesses but is at the heart of a digital economy that empowers both consumers and businesses.

We are grateful for the opportunity to provide you with Zepto's submission to the consultation. We have made some general observations as well as a number of specific submissions which cross refer to consultation questions where relevant. Zepto welcomes the opportunity to discuss our submission further, as well as to participate in any collaboration and discussion forums.

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<sup>1</sup> *'Payments system review: From system to ecosystem'*, Australian Government, June 2021, p ix.

If you require further information or have any questions, please contact our Senior Legal Counsel and Public Policy Lead, Gabe Perrottet at [gabe.perrottet@zepto.com.au](mailto:gabe.perrottet@zepto.com.au) \ 0433 244 870.

Yours sincerely



Chris Jewell  
Chief Executive Officer (CEO), Zepto

### **About Zepto**

[www.zepto.com.au](http://www.zepto.com.au)

Zepto is an infrastructure payments business which facilitates bank account to bank account payments for businesses in real-time by connecting them directly to their customers' bank accounts. Our mission is to deliver value for businesses and their customers by pioneering a more competitive, efficient and secure payments ecosystem.

Zepto was founded in 2017 in Byron Bay by four local entrepreneurs who had experienced the frustrations and debilitating impacts of legacy payments infrastructure in their successful tourism business. Since then, Zepto has grown from a start-up to an award-winning payments technology company employing people across Australia and processing more than \$50 billion in account-to-account payments in 2022.

Zepto was the first non-bank fintech approved to connect directly to the New Payments Platform as a Connected Institution and the first non-bank payments provider to become an Accredited Data Recipient in the Consumer Data Right. Zepto was named FinTech Organisation of the Year at the 2023 Finnies Awards as well as being named NSW Business of the Year and receiving the Excellence in Innovation Award at the 2022 Business NSW Awards.

Last year Zepto launched in New Zealand and is assessing expansion into other international jurisdictions including the United States of America. As a remote workforce headquartered in regional New South Wales, Zepto is providing job opportunities for many people across Australia and adding value to the economy as we scale.

## General observations

Zepto supports the introduction of a payments licensing framework and applauds Treasury on the significant work it has already undertaken in building the framework, which is reflected in the Consultation Paper.

With a world leading payments licensing framework in place, Australia can realise its potential as a leader in payments innovation. To be so, the framework must deliver regulatory clarity for payment service providers (**PSPs**) through clearly set out rights and obligations, drive competition through transparent access requirements to payment systems, and uphold the highest possible standards of consumer protection.

The Government must be willing to adopt bold reform, and not be bound by ideas generated in Australia some time ago or by the apparent restrictions of its current regulatory structures. To this end, we note that some of the ideas in the Consultation Paper, particularly in relation to the definition of stored value facilities (**SVFs**) and the proposed co-regulatory approach to regulating SVFs, are sourced from the Financial System Inquiry Report in 2014 and the Council of Financial Regulators' review of the regulation of SVFs in Australia, the conclusions of which were published in 2019.<sup>2</sup>

Since that time, payments have undergone significant transformation and equivalent regulatory frameworks have been introduced overseas. One of the benefits of being relatively slow to introduce a payments licence is that Australia can learn from the experiences overseas and adopt the best elements of those frameworks. Australia should look to the United Kingdom (**UK**) in particular due to its relatively similar regulatory structures and because its framework has helped it become a global leader in payments innovation.

At the same time, the reforms must leverage Australia's existing regulatory structures and regulators' expertise, and avoid "reinventing the wheel", so that the framework is purpose fit for Australia, acknowledging the idiosyncrasies of Australian financial services law. This will have the added benefit of avoiding the time, cost and increased complexity associated with creating new legal concepts and regulatory bodies.

We set out below a series of specific submissions in response to the matters raised in the Consultation Paper, divided into the following six topics: the licensing framework, risks, defining stored value facilities, payment facilitation services, exclusions and obligations - cross referring to specific consultation questions where relevant. A list of our submissions is included at **Annexure A**.

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<sup>2</sup> *'Financial System Inquiry Final Report'*, November 2014, pp 161-167; *'Regulation of Stored-value Facilities in Australia, Conclusions of a Review by the Council of Financial Regulators'*, October 2019, pp 12-13, 15.

## Submissions

### Topic 1: The Licensing Framework

**Submission 1: payments service providers should be regulated and supervised by a single regulator, the payments licensing framework should be administered by a single regulator and the most appropriate regulator to assume these roles is the Australian Securities & Investments Commission**

We strongly support a multi-regulator model for Australia's payments regulatory framework as it will be more efficient and effective to leverage the specialised skills and expertise of each regulator and it will avoid the added complexity of having a "lead" regulator or having to introduce new regulatory bodies (noting that we support the Treasurer having an enhanced coordination role in payments regulation, as contemplated in the proposed reforms to the *Payment Systems (Regulation) Act 1998* (Cth) (**PSR Act**)). To this end, we echo the following observations from the Government's Payments System Review:

*"Given the number of participants, the complexity of issues involved and the importance of the payments ecosystem to the economy as a whole, it is reasonable that specialised regulators are in place with expertise on specific aspects of payments regulation, including in relation to safety, competition, consumer protection and market conduct."*<sup>3</sup>

*"A single regulator model could provide the flexibility to implement strategic policy objectives. However, many stakeholders have cautioned against this approach. Providing a regulator with broad authority can lead to the creation of a two-tiered regulatory architecture that adds to the complexity of the system by duplicating mandates and responsibilities between the 'lead' regulator and other financial regulators. Given payments are increasingly integrated with other economic activities, the remit and the scope of powers of the single regulator would have to be very broad."*<sup>4</sup>

This is why we support the proposed expanded and new roles for the Reserve Bank of Australia (**RBA**) and the Treasurer, respectively, contemplated in the proposed reforms to the PSR Act. However, for the following reasons, we recommend that all PSPs, including Major SVF providers, be regulated by the one regulator including with respect to licensing.

1. Conscious that each regulator has a different approach to regulation, enforcement and interacting with industry participants, having both the Australian Prudential Regulation Authority (**APRA**) and the Australian Securities and Investments Commission (**ASIC**) involved in the regulation of SVFs will inevitably lead to an inconsistent approach to regulation of SVFs (over and above the application of different regulatory requirements in respect of the two types of SVFs which is, of course, necessary). This will create regulatory uncertainty for PSPs which heightens

<sup>3</sup> *'Payments system review: From system to ecosystem'*, Australian Government, June 2021, p 31.

<sup>4</sup> *'Payments system review: From system to ecosystem'*, Australian Government, June 2021, p 32.

the risk of non-compliance. Further, this risk will increase as time goes on and each regulator develops their own unique approaches to regulating SVFs.

2. Involving more than one regulator will duplicate work for regulators and PSPs alike, representing increased costs of doing business for PSPs. When a Standard SVF provider becomes a Major SVF provider, they will have to build relationships with a new regulator, APRA, which takes time and effort. Additionally, APRA will have to develop an understanding of the PSP's business, duplicating work already undertaken by ASIC. This is an inefficient approach to regulation. Given that, practically speaking, it would not take much for a Standard SVF provider to suddenly meet the criteria of a Major SVF provider (for example, for a PSP holding \$40-odd million in customer funds, it may only require one more client being onboarded), this is a significant burden on PSPs which must be avoided.
3. With two regulators of SVFs, the framework would not truly constitute a “*single, integrated licensing framework*” that “*scales up with businesses as they grow*”, as was recommended by the Government's Payments Systems Review (acknowledging that the Review advocated for a co-regulatory model for Major SVF providers).<sup>5</sup> The singleness of the framework is key to delivering a simpler licensing system, which was at the heart of the Payments System Review.<sup>6</sup> It will address the most significant cause of complexity in the current framework whereby PSPs have to move from ASIC, for an AFSL to provide non-cash payment facilities, to APRA, for a Purchased Payment Facility (**PPF**) provider licence to store value.
4. Further to point (1) above, having one regulator responsible for regulating PSPs will remove the need for ASIC and APRA to have to coordinate and collaborate on regulation, including with respect to payments licensing, removing potential inefficiencies.

For the following reasons, we submit that ASIC is the most appropriate regulator to assume responsibility for regulation of all PSPs, including with respect to licensing.

1. ASIC has significant experience and expertise in regulating PSPs through its administration of the AFSL regime in respect of non-cash payment facilities. This is significant because the payments industry is complex with increasingly intermediated payment flows and a variety of business models. Having a regulator with experience in understanding these business models and the nuances between them will be critical to its effectiveness. This is further reflected in the fact that ASIC is the entity responsible for monitoring compliance with the ePayments code.

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<sup>5</sup> ‘*Payments system review: From system to ecosystem*’, Australian Government, June 2021, p iv.

<sup>6</sup> ‘*Payments system review: From system to ecosystem*’, Australian Government, June 2021, p xi. Recommendation 1 of the Review states that, to support outcomes for consumers and businesses, the regulatory architecture should support three other key principles, one of which is “*Simplicity to ensure consumers and business can understand their rights and obligations, and to reduce regulatory barriers to entry for new firms offering new services to consumers and businesses.*”

2. There is a fundamental difference between storing value and taking deposits, which justifies removing APRA's role with respect to the regulation of SVFs (on the basis that it does not constitute "banking business").
  - a. This difference is best articulated in recital 13 of the UK's Electronic Money Directive which provides that electronic money (**e-money**) (i.e. stored value) does not constitute a deposit-taking activity *"in view of its specific character as an electronic surrogate for coins and banknotes, which is used for making payments, usually of limited amount and not as a means of saving."*<sup>7</sup>
  - b. Further, in explaining the difference between storing value and taking deposits, the UK's Financial Conduct Authority (**FCA**) observed that *"a deposit involves the creation of a debtor-creditor relationship under which the person who accepts the deposit stores value for eventual return. Electronic money, in contrast, involves the purchase of a means of payment."*<sup>8</sup> Factors identified by the FCA as distinguishing e-money from deposits include the following.<sup>9</sup>
    - i. If the monetary value is kept on an account that can be used by non-electronic means, that points towards it being a deposit. For example, an account on which cheques can be drawn is unlikely to be e-money.
    - ii. If a product is designed in such a way that it is only likely to be used for making payments of limited amounts and not as a means of saving, that feature points towards it being e-money. Relevant features might include how long value is allowed to remain on the account, disincentives to keeping value on the account and the payment of interest on it.
    - iii. One should have regard to whether the product is sold as e-money or as a deposit.

We acknowledge that this counters the thinking which appears to underlie the idea that APRA should be involved in the regulation of SVFs on the basis that SVFs are effectively deposit accounts, which dates back to the Financial System Inquiry of 1997 (the **Wallis Review**). The final report of the Financial System Inquiry of 2014 noted that *"Reforms post-Wallis sought to expand access to payment systems, but recognised that this could involve **entities holding funds equivalent to deposits**"*<sup>10</sup> [emphasis added]. This thinking is also reflected in the Council of Financial Regulators Report of 2019, which noted that SVFs *"are likely to offer similar*

<sup>7</sup> 'Directive 2009/110/EC of the European Parliament and of the Council of 16 September 2009 on the taking up, pursuit and prudential supervision of the business of electronic money institutions', Recital [13]. This was implemented in the UK on 30 April 2011 as the 'Second Electronic Money Directive'.

<sup>8</sup> FCA Handbook, PERG 3A.3: The definition of electronic money, 'Q15. How does electronic money differ from deposits?', <https://www.handbook.fca.org.uk/handbook/PERG/3A/3.html>.

<sup>9</sup> FCA Handbook, PERG 3A.3: The definition of electronic money, 'Q15. How does electronic money differ from deposits?', <https://www.handbook.fca.org.uk/handbook/PERG/3A/3.html>.

<sup>10</sup> 'Financial System Inquiry Final Report', November 2014, p 165.

*functionality as a bank deposit and should be subject to the highest level of regulatory oversight within an updated regulatory framework for SVFs.”<sup>11</sup>*

3. A similar division of responsibilities with respect to the prudential regulation and conduct of banks and payment companies has been adopted in the UK and has served it well. In the UK, the regulatory structure is as follows.
  - a. There is a Prudential Regulation Authority (**PRA**), which is the equivalent to our APRA, which regulates banks (deposit takers), insurers and large investment firms (i.e. investment banks) for prudential purposes, including in relation to regulatory capital requirements.
  - b. There is the FCA, which is the equivalent to our ASIC, which regulates all other firms for prudential purposes, including payment providers. The FCA also supervises all firms, including PRA firms for conduct purposes, similarly to how ASIC also regulates the conduct of banks in Australia.

We note that the UK also has a Payment Systems Regulator which regulates payment systems which are designated by Treasury. Although there is no equivalent body in Australia, we support Treasury's reforms to the PSR Act to give this responsibility to both the RBA and Treasury.

4. Any concerns about ASIC's capability to enforce financial requirements, such as capital adequacy requirements, can be addressed by developing that capability within ASIC. Here it is important to emphasise that these payment reforms are once-in-a-generation and should aim to set Australia up well into the future. The design of the framework should not be dictated by current resourcing constraints or certain limitations in expertise at any one of the individual regulators. Rather, the framework needs to be designed in a way that is most efficient and effective over the long term.
5. By being the sole regulator of PSPs, ASIC will have an unfettered mandate to improve the performance of the payment system, promote informed participation in the payment system by investors and consumers (thereby protecting consumer interests) and build community awareness with respect to issues in the payments industry. This responsibility falls squarely within ASIC's objects, functions and powers. Specifically:
  - a. the objects of ASIC as set out in the *Australian Securities and Investments Commission Act 2001 (ASIC Act)* include, relevantly, to:<sup>12</sup>
    - i. maintain, facilitate and improve the performance of the financial system and the entities within that system in the interests of

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<sup>11</sup> 'Regulation of Stored-value Facilities in Australia, Conclusions of a Review by the Council of Financial Regulators', October 2019, pp 1-2.

<sup>12</sup> *Australian Securities and Investments Commission Act 2001 (ASIC Act)*, ss 1(2)-(2A).



- commercial certainty, reducing business costs, and the efficiency and development of the economy;
- ii. promote the confident and informed participation of investors and consumers in the financial system; and
  - iii. consider the effects that the performance of its functions and the exercise of its powers will have on competition in the financial system; and
- b. the functions and powers of ASIC as set out in the ASIC Act include to monitor and promote market integrity and consumer protection in relation to the payments system by, relevantly:<sup>13</sup>
- i. promoting the protection of consumer interests; and
  - ii. promoting community awareness of payments system issues.
6. More generally, ASIC has a specific regulatory responsibility for consumer protection, something which was emphasised following the Wallis Review.<sup>14</sup> Consumer protection needs to be at the heart of payments regulation, particularly with the increased threat of fraud and scams, making ASIC the most suitable regulator for payments regulation.
7. Such an approach would be consistent with the recommendation in the Payment System Review that ASIC be the main regulator of payments, working with other regulators as required (acknowledging that the Review recommends a role for APRA).<sup>15</sup>
8. Further to (1) above, and as a matter of short term consideration and transitional practicality, ASIC will already have relationships with many of the PSPs which will need to be licensed under the new regime, which will improve the efficiency of the transition to the new regime.

Should the Government not be minded to adopt this approach, and prefers that APRA regulate Major SVF providers, we make the following further submissions.

1. The licensing process, including for Major SVF providers, should be conducted solely through ASIC, with ASIC and APRA to collaborate with respect to the licensing process as required. This way the burden of having to work with multiple regulators to work up the licensing framework (from a Standard SVF provider to a Major SVF provider) will be reduced. This is consistent with recommendation 9 of the Payments System Review which notes that *"Applicants should be able to apply for this*

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<sup>13</sup> ASIC Act, ss 12A(2) and (3).

<sup>14</sup> As referred to in 'Payments system review: From system to ecosystem', Australian Government, June 2021, . 11.

<sup>15</sup> 'Payments system review: From system to ecosystem', Australian Government, June 2021, p 65.

*payments licence solely through ASIC, without the need to go through multiple regulators.*<sup>16</sup>

2. Additionally, or alternatively, there should be agreed timeframes for approval with APRA so a Standard SVF provider does not have to pause operations or wait 12 months or so to be registered as a Major SVF provider. Treasury should also consider the situation where a Major SVF provider reduces in size and falls below the Major SVF provider thresholds, and whether such businesses would remain a Major SVF provider or be reclassified as a Standard SVF provider.
3. There should be a buffer level between the Standard SVF provider and Major SVF provider authorisations so that if a Standard SVF provider reaches that intermediary level it is an indicator for the business to apply for a Major SVF licence rather than the PSP waiting to exceed the Major SVF provider threshold and being in breach.

**Submission 2: (a) each of the payment functions should be considered a “financial service” for the purposes of the Corporations Act; and (b) the payments licensing framework should be implemented under the existing Australian Financial Services Licensing regime (cf Consultation Question 3)**

**(a) each of the payment functions should be considered a “financial service” for the purposes of the Corporations Act**

The licensing framework must deliver regulatory clarity and certainty for PSPs, particularly in relation to what products or services require a payments licence and which do not. As it stands, this is one of the most pressing issues in the payments industry and is largely a result of the complex financial services licensing regime for non-cash payment facilities.

PSPs commit significant resources to navigating vexed questions of whether a particular service (of theirs or of their prospective merchants) constitutes:

1. a non-cash payment facility, on the basis that it is an “arrangement” through which someone makes non-cash payments,<sup>17</sup> with the scope of the term “arrangement” in the context of intermediated payment flows often dividing legal opinion; and/or
2. “dealing in” a non-cash payment facility,<sup>18</sup> thereby requiring the business to obtain an AFSL authorisation, in particular, whether services constitute dealing in by applying for, acquiring, varying or disposing of a non-cash payment facility or dealing in by arranging for a person to deal in a non-cash payment facility (acknowledging that the

<sup>16</sup> *Payments system review: From system to ecosystem*, Australian Government, June 2021, p xiii.

<sup>17</sup> *Corporations Act 2001* (Cth), ss 763A(c), 762C.

<sup>18</sup> *Corporations Act 2001* (Cth), s 766A(1)(b).

question of whether a business is dealing in by *issuing* a non-cash payment facility is more straightforward).<sup>19</sup>

These challenges obviously apply generally to the financial services industry, however they have become particularly acute in the payments industry due to the significantly increased intermediation of payment flows. It increases the likelihood of PSPs operating within grey areas of the law which heightens the risk of non-compliance and which ultimately means end-users are less protected. It also significantly increases the costs of doing business which disproportionately affects smaller businesses in the industry.

To avoid this difficulty and uncertainty moving forward in the payments industry, we propose the following approach to incorporating the payment functions into law:

1. add the payment functions list as a non-exhaustive list of inclusions to a new definition of “payment services”, replacing the non-cash payments concept (in line with the second option in the Consultation Paper), and which includes SVFs (see further recommendation 3 below);<sup>20</sup> and
2. amend s 766A of the Corporations Act to add a new sub-section: “*provide a payment service (see section X)*” cross-referring to the new section of the Corporations Act which defines “payment services”.

By not defining the payment functions as “financial products”, the rigmarole around whether certain services constitute “dealing in” payment products is avoided as is the question of whether a payment service constitutes an “arrangement”. Further, this more accurately reflects the nature of a PSP’s business which is concerned with the provision of services, not products.

For this to be feasible, the definition of “payment services” must capture all services which ought to be caught by financial services law. This can be achieved by making the list of payment functions as exhaustive as possible (which appears to be the intention of the proposed list in the Consultation Paper) and including a “catch all” category, such as “*any other services prescribed in the regulations*” to provide flexibility by allowing additional payment functions to be added where gaps are identified and/or new payment functions emerge in the future.

This approach is simple and clear. The question of whether an entity provides any “payment services” will simply be a matter of determining whether or not they provide any of the listed services. The licensing framework should identify which (if not all) of the payment services require a payments licence which will provide certainty around licensing requirements.

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<sup>19</sup> ASIC has noted that “arranging” for a person to “deal in” a financial product itself constitutes “dealing in” the financial product, see ‘*Regulatory Guide RG 36 Licensing: Financial product advice and dealing*’, [36.37].

<sup>20</sup> ‘*Payments System Modernisation (Licensing: Defining Payment Functions): Consultation paper*’, Treasury, June 2023 (**Consultation Paper**), p 11.

**(b) the payments licensing framework should be implemented under the existing Australian Financial Services Licensing regime**

If recommendations 1 and 2(a) above were accepted, it naturally follows for the payments licence to be incorporated into the AFSL regime, with ASIC able to issue AFSLs with authorisations to provide one or more “payment services” as defined, like it currently does in respect of financial products (noting that, unlike in respect of current AFSLs, the authorisations would not adopt the wording of “dealing in”, and instead could simply use the word “providing”).

This echoes comments made in the Payments System Review that *“The new payments licensing framework could be implemented under the AFSL regime. This could involve defining the authorisations under the new licensing framework as financial services that require an AFSL.”*<sup>21</sup>

Further, to provide even more clarity, ASIC should publish an equivalent to ASIC Reg Guide 36 which is specific to the payments industry and which sets out the types of services which are intended to be caught by each category of “payment services” as defined in the Corporations Act. Given the ever transforming nature of payment services, it is important that guidance is provided to industry contemporaneously. This can be best achieved through the continual updating of ASIC Regulatory Guides, rather than having to rely on legislative reform to amend definitions in the Corporations Act.

**Submission 3: the provision of stored value facilities should be considered another payment function rather than be in a separate category altogether**

For the following reasons, SVFs should be listed as another payment function alongside the other proposed payment facilitation services (**PFs**), rather than separated out into its own category:

1. this is a more accurate way to categorise SVFs, acknowledging that they are *“an electronic surrogate for coins and banknotes, **which is used for making payments**”* [emphasis added];<sup>22</sup>
2. this would flow naturally from ASIC regulating all payment functions, including those provided by Major SVF providers (conscious that the splitting up of SVFs and PFs appears to be, at least in part, driven by the proposed co-regulatory model for Major SVF providers); and
3. different obligations will be attached to each payment function, including the provision of SVFs, and therefore this approach will not risk compromising the obligations attached to the provision of SVFs.

<sup>21</sup> *Payments system review: From system to ecosystem*, Australian Government, June 2021, p 72.

<sup>22</sup> Adopting wording used to describe e-money in the UK and the EU, see above, fn 7.

Such an approach is consistent with approaches adopted in other jurisdictions such as Singapore, where “*e-money issuance*” is listed along with other payment types in the definition of “*payment services*”, and in Canada, where “*the holding of funds on behalf of an end user until they are withdrawn by the end user or transferred to another individual or entity*” is listed along with other payment types in the definition of “*payment function*”.<sup>23</sup>

**Submission 4: obtaining the authorisation to provide stored value facilities should authorise a payment service provider to provide all the payment functions**

Given that the obligations which attach to the SVF function will be more onerous than those attaching to the other payment functions, obtaining the SVF authorisation should authorise a PSP to carry out each of the other “lesser” payment functions as well. This is consistent with what was recommended in the Payments System Review, avoids duplicating regulatory requirements and provides a more streamlined and efficient licensing framework for participants to navigate.<sup>24</sup>

**Submission 5: access requirements and a prohibition on restrictive or unfair access regimes to payment systems should be incorporated into law (cf Consultation Questions 21 and 22)**

We note that the Payments System Review recommended that “*common access requirements for payment systems should form part of the payments licence to facilitate access for licensees to those systems.*”<sup>25</sup> However, we consider that access to payment systems and payments licensing are distinct things and incorporating access requirements into the licensing framework will only serve to unnecessarily complicate that process.

Rather, we recommend incorporating the following two concepts into the Corporations Act.

1. The ability for access requirements to be set in respect of specific payment systems by way of delegated legislation (conscious that collaboration between Treasury, the RBA and the owners of the payment systems is likely to be required to determine what the access requirements should be (as noted in the Payments System Review)<sup>26</sup>. This could be achieved by introducing provisions along these lines:

(1) *participants in a payment system must comply with any access requirements for that system as prescribed in the regulations;*

(2) *the regulations may set out:*

<sup>23</sup> See *Payment Services Act 2019* (Singapore), Schedule 1, Part 1; and *Retail Payment Activities Act* (Canada), s 2.

<sup>24</sup> ‘*Payments system review: From system to ecosystem*’, Australian Government, June 2021, p 63.

<sup>25</sup> ‘*Payments system review: From system to ecosystem*’, Australian Government, June 2021, p xiv (see Recommendation 11).

<sup>26</sup> ‘*Payments system review: From system to ecosystem*’, Australian Government, June 2021, p 68.

- (a) *the access requirements that apply to a payment system; and*
- (b) *the persons who must comply with the access requirements applying to a payment system.*

Generally speaking, access requirements should apply to “direct” participants in a payment system. For example, in respect of the New Payments Platform (**NPP**), this would capture NPP Participants and Connected Institutions, but would not capture Settlement Participants, Identified Institutions, Overlay Service Providers and End Users, all of whom access the NPP indirectly. However, in order to ensure the framework is flexible and can apply to different payment systems, now and into the future, the specific persons to whom the access requirements should apply in respect of any payment system should be able to be the subject of delegated legislation (hence the suggested inclusion of sub-paragraph (2) above).

Further, given the RBA's power under the PSR Act to set access regimes in respect of “payment systems”, this provision should not apply to payment systems designated under the PSR Act to avoid conflicting powers and laws.

2. A prohibition on restrictive or unfair access regimes to payment systems, modelled on the following provision in the UK's *Payment Services Regulation 2017*:<sup>27</sup>

***Prohibition on restrictive rules on access to payment systems***

*103.—(1) Rules or conditions governing access to, or participation in, a payment system by authorised or registered payment service providers must—*

- (a) *be objective, proportionate and non-discriminatory; and*
- (b) *not prevent, restrict or inhibit access or participation more than is necessary to—*
  - (i) *safeguard against specific risks such as settlement risk, operational risk or business risk; or*
  - (ii) *protect the financial and operational stability of the payment system.*

Such prohibitions would apply to the persons who set the access rules of the payment systems, for example, in respect of the New Payments Platform, the prohibition would apply to Australian Payments Plus (**AP+**). Again, this provision should not apply to payment systems designated under the PSR Act (which is also reflected in the UK approach).<sup>28</sup>

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<sup>27</sup> *The Payment Services Regulations 2017* (UK), s 103. This is also reflected in the European Union model, see Chapter 2, Article 35 of the Directive (EU) 2015/2366 of the European Parliament and of the Council and the Preamble, [49]-[52].

<sup>28</sup> *The Payment Services Regulations 2017* (UK), s 102.

**Submission 6: a public consultation process in respect of the ePayments code should be conducted prior to it becoming mandatory (cf Consultation Questions 21)**

We agree that the ePayments code should become mandatory for PSPs. However, prior to it becoming so, a public consultation should be conducted to consider changes to the code. This process may clarify whether the ePayments code should apply to all PSPs or only to some PSPs, which, in our view, affects the question of whether the code should be linked to the payments licence or sit separately from it.

**Submission 7: the payments licensing process should leverage relevant authorisations already obtained by payment service providers, set out transitional arrangements for payment service providers who already hold an Australian Financial Services Licence and provide central guidance through a website portal (cf Consultation Questions 24 and 25)**

Relevant licences and authorisations already obtained from other regulators and payments bodies should be taken into account by ASIC in the payments licence application process, as recommended by the Payments System Review.<sup>29</sup> This should include, most notably, AFSLs already obtained by PSPs authorising them to issue non-cash payment facilities. Treasury should consider what transitional arrangements should be made to ensure that such PSPs receive expedited processes to be moved to the new payment licence.

ASIC should also consider, where relevant, accreditations obtained from other regulators and bodies, such as accreditations obtained from the Australian Competition and Consumer Commission in respect of the Consumer Data Right and accreditations obtained from AP+ to access the NPP. We welcome that this approach is reflected in the Consultation Paper.<sup>30</sup>

Further, it will be helpful for there to be publicly available central guidance for PSPs and prospective PSPs, through a website portal, containing the following:

1. a detailed step-by-step guide to the application process for the payments licence, including:
  - a. the specific application requirements, including all documentation that needs to be submitted;
  - b. the specific obligations that attach to each payment function; and
  - c. the estimated time frames for each step of the application process; and
2. a "Payments Regulatory Handbook" which includes regulatory guidance from all relevant regulators, including from ASIC detailing the types of services which are intended to be caught by each category of "payment services" as defined in the

<sup>29</sup> *Payments system review: From system to ecosystem*, Australian Government, June 2021, p 64.

<sup>30</sup> Consultation Paper, p 16.

Corporations Act and from AUSTRAC detailing what payment functions are considered "designated services" under the AML/CTF Act.

In respect of items (1) and (2) above, we note that in the UK the specific application requirements and regulatory obligations are enshrined in delegated legislation, which provides great regulatory clarity for prospective PSPs.<sup>31</sup> If that is not possible in Australia, the next best thing would be for them to be published through the portal.

## **Topic 2: Risks**

**Submission 8: we agree with the categories of risk identified by Treasury (cf Consultation questions 16, 17, 18, 19)**

We agree:

1. with the risk based approach to applying regulatory obligations and with the intention to focus on payment-specific risk in order to avoid capturing risks which are already addressed elsewhere in law (such as AML/CTF risk which is already captured by AML/CTF law);
2. with the three categories of risk identified by Treasury as being associated with the payment functions, namely, financial risks, operational risks and misconduct risks; and
3. that these risks can be appropriately mitigated through the payments licensing regime.

Otherwise, we agree with the observations made in the Payments System Review regarding the categories of risks that will attach to payment facilitation vis-a-vis storing value, namely:<sup>32</sup>

1. the risks to users with respect to payments facilitation relate to the transmission of funds, authorisation of transactions and mistaken payments; and
2. the risks to users with respect to storing value relate to the loss of user funds due to insolvency or fraud by the facility provider.

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<sup>31</sup> For application requirements, see Schedule 2 to *The Payment Services Regulations 2017* (UK) and Schedule 1 to *The Electronic Money Regulations 2011* (UK). For capital adequacy requirements, see Schedule 3 to *The Payment Services Regulations 2017* (UK) and Schedule 2 to *The Electronic Money Regulations 2011* (UK).

<sup>32</sup> *Payments system review: From system to ecosystem*, Australian Government, June 2021, pp 62-63.



### Topic 3: Defining Stored Value Facilities

**Submission 9: Standard Stored Value Facilities and Major Stored Value Facilities should not be defined by reference to the number of days the funds are held, being 31 days**

Contrary to what might appear to be logical at first blush, the financial/insolvency risk to a customer's funds which are held in a SVF does not *increase* with every additional day that the funds are held in the SVF, but rather *repeats*. Because SVFs allow the customer to withdraw any or all of the funds at any time, the customer, in a sense, makes a new decision every day to store the funds in the facility.

This is illustrated by analysing the financial/insolvency risk associated with the amount of time funds are held in a SVF vis-a-vis the risk associated with the amount of time funds are held in a term deposit. Critically, unlike with a SVF, a term deposit does not allow the customer to withdraw the funds for a set amount of time. Therefore, the financial/insolvency risk of the product must be assessed by the likelihood of the financial institution with which the term deposit is held going insolvent *in that set amount of time*. It is more likely that the financial institution will go insolvent in a longer set amount of time, say three years, than a shorter set amount of time, say one year, all other things being equal. Therefore, the longer the term of the term deposit, the greater the financial/insolvency risk to the customer.

This differs from SVFs where there is no term and the customer can withdraw the funds at any time. In this case, the financial/insolvency risk to the customer cannot be assessed by reference to any period of time into the future, and therefore can only be assessed on a day-to-day basis as the customer proceeds to keep the funds in the facility. Given that there can be no difference, on a day to day basis, between the financial/insolvency risk to a customer who chooses to hold funds in a SVF for five days compared to a customer who chooses to hold funds in the SVF for 50 days, all other things being equal, the amount of days that a customer is permitted to hold funds in a SVF should not be used to differentiate between categories of SVFs.

Rather, the distinction between Standard and Major SVFs should be based entirely on the amount of funds held in the facility, as that reflects lesser or greater financial/insolvency risk to the customer. This is consistent with the approach adopted in the UK, where small e-money institutions can hold up to 3 million euros and authorised e-money institutions can hold more than that, and in Singapore, where standard payment institutions can hold up to 5 million Singaporean dollars and major payment institutions can hold more than that, all for an undisclosed amount of time.<sup>33</sup>

Otherwise, we agree with the exclusion of facilities that stored value for less than two business days from the definition of SVFs to account for the amount of time it takes to process payments through non-stored value facilities. Arguably, this could be increased to

<sup>33</sup> *Payment Services Act 2019 (No. 2 of 2019)* (Singapore), s 5(b)-(c); *The Electronic Money Regulations 2011* (UK), s 13(4).

three days to account for standard processing times on the Bulk Electronic Clearing System (BECS) of 48 to 72 hours.

#### **Topic 4: Payment Facilitation Services**

**Submission 10: the proposed payment facilitation functions need to be refined and/or clarified to avoid potential overlap between categories and to ensure each category contains functions of the same risk profile (cf Consultation Questions 1, 2, 7, 8, 9 and 23)**

Our recommendations in relation to the payment functions are *not* made in respect of stablecoins. We do not respond to the proposed inclusion of stablecoins in the licensing framework.

#### Principles for defining payment functions (cf Consultation Question 1)

We agree with the four principles identified by Treasury for defining payment functions. The most important principle is the first one - the definitions need to provide clarity and transparency. However, we submit that a delicate balance needs to be struck between having very granularly defined payment functions, which has the benefit of more easily delineating between different functions, and avoiding being too granular which may mean new and emerging payment functions are not caught by the categories and/or, through sharp legal practices, PSPs create products which arguably do not fit within any of the categories and therefore are not caught by the regulations.

#### The proposed list of payment facilitation functions (cf Consultation Questions 2, 7, 8 and 9)

The list of proposed payment facilitation functions appears to be comprehensive and captures the range of payment services currently offered in Australia (cf Consultation Questions 2 and 7). To future proof the legislation, the definition of "payment services" in the Corporations Act could include a catch-all "*any other services prescribed by the regulations*" (cf Recommendation 2(a) above).

However, the categories may need to be further refined or clarified to ensure that there is no overlap between categories and that no single category contains different payment functions with different associated risks. We have set out two potential issues with the proposed categories below.

1. There is potential overlap between the "issuance of payment instruments", "payment initiation services" and "payment facilitation, authentication, authorisation and processing services" categories. To illustrate, we have set out below how Zepto's basic payment services could fit into any one of these categories.

By either accessing Zepto's User Interface (**UI**) or integrating Zepto's Application Programming Interface (**API**) into their own platform, Zepto's merchants are able to collect, send or receive recurring or one-off payments through either BECS or in real-time through the NPP.

In relation to these services, Zepto is sponsored by an ADI to access BECS as a Tier 2 Participant (for direct debit and direct credit) and the NPP as an Identified Institution (for NPP payouts, PayID delivery and NPP receivable payments). All payments are cleared and settled by the ADI.

In our view, these services could be classified as any one of the following:

- a. issuance of payment instruments: on the basis that Zepto provides customers with access to a payment account which can be used by the customers to make a transaction or provide instructions on that account; or
- b. payment initiation services: on the basis that Zepto's UI or API allows the instruction of a payment transaction at the request of customers with respect to a payment account which is held at another PSP, being Zepto's banking partner who provides the bank account through which the funds pass through for payment; or
- c. payment facilitation, authentication, authorisation and processing services: on the basis that Zepto's UI or API enables payment instructions to be transferred.

#### Initiating PayTo transactions

Further, for Treasury's benefit, we have set out below how we would classify Zepto's PayTo services. By either accessing Zepto's UI or integrating Zepto's API into their own platform, merchants are able to collect recurring or one-off payments or send one-off payments in real time through the NPP using PayTo. This involves Zepto sending non-value messages through the NPP which affects the transfers. Zepto initiates the transactions pursuant to its status as a Connected Institution to the NPP, and does not need to partner with an ADI to provide these services.

We would classify these services as "payment facilitation, authentication, authorisation and processing services" on the basis that Zepto's UI or API enables Zepto to process the merchant's payment instructions - i.e. it constitutes "processing". We would not classify these services as "payment initiation services" on the basis that there is no "payment account" involved.

2. The "payment facilitation, authentication, authorisation and processing services" category may be too broad and include too many different types of payment functions with different risk profiles. On one end of the spectrum, there is "payment facilitation" which, as defined (i.e. enabling payment instructions to be transferred), could capture payment gateways which simply pass on payment instructions from a merchant to a payment processor. The risks associated with such a payment function centre around the security of the gateway's technology to safely and securely pass on the instruction. On the other end of the spectrum, there is "payment processing" which could capture a payment processor such as Zepto processing PayTo transactions

through the NPP. The risks associated with such a payment function are far broader and include risks associated with the payments infrastructure itself.

Separately, we recommend that the definition of “payments clearing and settlement services” not include the words “*or for the exchange of payment messages for the purposes of clearing or settlement of payment obligations*” as this may be interpreted to capture PayTo services which does not constitute clearing or settling, and which otherwise appears to be captured by the “*Payment facilitation, authentication, authorisation and processing services*” category.

**Submission 11: the term “payment account” should be adopted to describe the basic payment function of providing customers with access to a facility through which they can make payments**

We recommend that Treasury consider adopting the term “payment account” to describe the basic payment function of providing customers with a facility through which they can make payments. This may assist in delineating between payment services which involve handling of customer funds (whereby the PSP utilises a bank account in its name to facilitate the services) and purely instruction-based payment services, being categories of services with very different risk profiles.

This is consistent with the approach adopted in other jurisdictions such as the United Kingdom, Singapore and Canada; more accurately describes those services whereby the PSP’s customers’ funds are transferred into a bank account in the PSP’s name before being transferred out for payment; and would make the definition of this function fit neatly with the definition of “payment initiation services” which is proposed to be defined by reference to “a payment account or facility held at another PSP”.

Specifically:

1. In the UK, “*payment services*” include the following:<sup>34</sup>
  - a. services enabling cash to be placed on a payment account and all of the operations required for operating a payment account; and
  - b. services enabling cash withdrawals from a payment account and all of the operations required for operating a payment account,

where “payment account” is defined as an account held in the name of one or more payment service users which is used for the execution of payment transactions.<sup>35</sup>

2. In Singapore, “*account issuance service*” is used to describe the following services:<sup>36</sup>
  - a. the service of issuing a payment account to any person in Singapore; and

<sup>34</sup> *The Payment Services Regulations 2017* (UK), Schedule 1, Part 1.

<sup>35</sup> *The Payment Services Regulations 2017* (UK), s 2.

<sup>36</sup> *Payment Services Act 2019* (Singapore), Schedule 1, Part 1.

- b. any service relating to any operation required for operating a payment account, including:
  - i. any service (other than a domestic money transfer service or a cross-border money transfer service) that enables money to be placed in a payment account; or
  - ii. any service (other than a domestic money transfer service or a cross-border money transfer service) that enables money to be withdrawn from a payment account.
- 3. In Canada, the “*payment account*” payment function is neatly distinguished from the “*facilitation*” function by having the following two payment functions (among others):<sup>37</sup>
  - a. provision or maintenance of a payment account that, in relation to an electronic funds transfer, is held on behalf of one or more end users; and
  - b. the authorisation of an electronic funds transfer or the transmission, reception or facilitation of an instruction in relation to an electronic funds transfer.

If it is the Treasury's intention that this type of payment function be caught by the “issuance of payment instruments” category, that category could be amended to be “issuance of payment accounts and other payment instruments”.

**Submission 12: Treasury should hold a roundtable discussion with industry and other stakeholders to agree the wording of the payment categories**

It is clear from our discussions with industry groups and other industry participants, that there are many varied and, at times, competing views on the completeness and/or wording of the proposed payment functions. The most efficient and effective way to resolve these differences of opinion and settle on defined payment functions which adequately address all legitimate concerns is to hold a roundtable discussion with industry participants, industry groups and any other relevant stakeholders.

### **Topic 5: Exclusions**

**Submission 13: the limited participant and low value exemptions should be brought within the legislative framework, and the latter should be amended to align with the proposed definition of standard stored value facilities (cf Consultation Questions 11 and 15)**

The relief for low value and limited participant facilities provided by the RBA and ASIC are sensible and should be brought into law to provide regulatory certainty.

<sup>37</sup> *Retail Payment Activities Act* (S.C. 2021, c. 23, s. 177) (Canada), s 2.

The RBA's limited participant exemption should be incorporated in its current form, namely, "facilities where the number of people to whom payments may be made using such a facility does not exceed 50 persons".<sup>38</sup>

In respect of the limited value exemption, we recommend that it be defined in line with the proposed definition of Standard SVFs, for the following reasons.

1. It would align, in form, with ASIC's current relief for limited value exemptions by including thresholds for both the total amount of funds which the PSP can hold on behalf of customers and the amount of funds any individual customer can hold (noting that the RBA's low value threshold includes only a total funds threshold).<sup>39</sup>
2. It would constitute an increase in the threshold for the total amount of funds a PSP can hold on behalf of customers at any one time from \$10 million to \$50 million, which:
  - a. aligns with the recommendation of the Financial System Inquiry in 2014 that APRA should only regulate PPFs that hold more than \$50 million of stored value and enable individual customers to hold more than \$1,000;<sup>40</sup> and
  - b. aligns more closely with equivalent exemptions in comparable jurisdictions - in Singapore, for example, SVFs holding up to \$30 million Singaporean dollars are exempt from regulation.<sup>41</sup>

**Submission 14: the single payee and incidental product exclusions should apply to the proposed list of payment functions (cf Consultation Questions 12 and 13)**

We consider that a general exclusion to capture limited purpose SVFs is cleaner than having the current list of exempt single payee facilities and will future proof the exemption.

Further, given the increased intermediation of payment flows, we consider that the incidental product exemption should continue to apply to ensure that services which cannot reasonably be considered to be payment services are not caught by payments regulation.

<sup>38</sup> *Declaration No. 2, 2006 regarding Purchased Payment Facilities*, The Reserve Bank of Australia, 27 April 2006.

<sup>39</sup> *Australian Securities and Investments Commission Corporations (Non-cash Payment Facilities) Instrument 2016/211 (Cth)*, s 5; and *Declaration No. 2, 2006 regarding Purchased Payment Facilities*, The Reserve Bank of Australia, 27 April 2006.

<sup>40</sup> *Financial System Inquiry Final Report*, November 2014, p 162.

<sup>41</sup> *Payment Services (Exemption for Specified Period) Regulations 2019 (Singapore)*, s 6(1).

## **TOPIC 6: Obligations**

**Submission 15: the obligations which attach to the stored value facility provider licence should be a combination of capital adequacy requirements and safeguarding of funds frameworks, modelled on equivalent frameworks overseas**

The financial/insolvency risk to customers of using SVFs needs to be mitigated to ensure that, if a PSP goes insolvent, the customers' funds are returned to the customers and not tied up in the administration or insolvency of the PSP.

The obligations framework for SVF providers to manage financial/insolvency risk should be modelled on equivalent obligation frameworks in the UK, Singapore and Canada. Specifically, it should include:

1. **minimum capital adequacy requirements**, which:
  - a. have the following benefits:
    - b. disincentivising bad behaviour on the basis that the SVF provider stands to lose the capital commitment if they were to mistreat the customer funds; and
    - c. acting as a buffer to absorb unexpected losses that might arise while the SVF provider is a going concern as well as the first losses should the SVF provider be wound up; and
    - d. include both initial and ongoing capital requirements in line with those in place in the UK (see the table at **Annexure B** to this submission, which also includes the capital adequacy requirements for other payment services in the UK which we submit should also be reflected in Australia's licensing framework for the other payment facilitation services); and
2. a **safeguarding of funds regime** to ensure that the customers' money is available to be returned in the event the SVF provider enters external administration. SVF providers should have the following options to safeguard customer funds, all of which ensure that the funds will be returned to the customers in the event the SVF provider enters external administration:
  - a. the customer funds must be held in a trust account (a la Australia's current client money handling rules) (which is an option in the UK and Singapore);<sup>42</sup>  
or

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<sup>42</sup> *The Electronic Money Regulations 2011* (UK), s 21(2)(a); *Payment Services Act 2019* (No. 2 of 2019) (Singapore), s 23(4)(c).

- b. the full amount of the customer funds must be guaranteed by way of a bank guarantee or similar form of undertaking (which is an option in the UK and Singapore);<sup>43</sup> or
- c. the customer funds must be insured in full by way of an insurance policy with a registered insurer (which is an option in the UK).<sup>44</sup>

As is the case in the UK, it should be a requirement that the proceeds of any such insurance policy or guarantee are payable upon an insolvency event into a separate account held by the SVF provider which must be designated in such a way as to show that it is an account which is held for the purpose of safeguarding relevant funds in accordance with the regulation and can only be used for holding such proceeds.<sup>45</sup>

Separately, consideration could also be given to adopting the Canadian approach of requiring SVF providers to have in place a safeguarding-of-funds framework which:<sup>46</sup>

1. describes the SVF provider's systems, policies, processes, procedures, controls and other means for meeting the safeguarding obligations;
2. identifies legal risks and operational risks that could hinder the meeting of the safeguarding obligations;
3. requires the SVF provider to have a senior officer who is responsible for overseeing the PSP's practices for safeguarding end-user funds and approving the framework;
4. must be subject to an internal review annually and an independent review biennially; and
5. requires the SVF provider to conduct an evaluation of its protection against insolvency every year.

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<sup>43</sup> *The Electronic Money Regulations 2011* (UK), s 22(1)(a)(iii); *Payment Services Act 2019* (No. 2 of 2019) (Singapore), s 23(4)(a)-(b).

<sup>44</sup> *The Electronic Money Regulations 2011* (UK), s 22(1)(a)(i), (b).

<sup>45</sup> *The Electronic Money Regulations 2011* (UK), s 22(b).

<sup>46</sup> Canada Gazette, Part I, Volume 157, Number 6: Retail Payment Activities Regulations (proposed): <https://canadagazette.gc.ca/rp-pr/p1/2023/2023-02-11/html/reg3-eng.html>.



**Annexure A - list of submissions**

#	Submissions
<b>Topic 1: The Licensing Framework</b>	
1.	Payments service providers should be regulated and supervised by a single regulator, the payments licensing framework should be administered by a single regulator and the most appropriate regulator to assume these roles is the Australian Securities & Investments Commission
2.	(a) Each of the payment functions should be considered a “financial service” for the purposes of the Corporations Act  (b) The payments licensing framework should be implemented under the existing Australian Financial Services Licensing regime
3.	The provision of stored value facilities should be considered another payment function rather than be in a separate category altogether
4.	Obtaining the authorisation to provide stored value facilities should authorise a payment service provider to provide all the payment functions
5.	Access requirements and a prohibition on restrictive or unfair access regimes to payment systems should be incorporated into law
6.	A public consultation process in respect of the ePayments code should be conducted prior to it becoming mandatory
7.	The payments licensing process should leverage relevant authorisations already obtained by payment service providers, set out transitional arrangements for payment service providers who already hold an Australian Financial Services Licence and provide central guidance through a website portal
<b>Topic 2: Risks</b>	
8.	We agree with the categories of risk identified by Treasury
<b>Topic 3: Defining Stored Value Facilities</b>	
9.	Standard Stored Value Facilities and Major Stored Value Facilities should not be defined by reference to the number of days the funds are held, being 31 days
<b>Topic 4: Payment Facilitation Services</b>	
10.	The proposed payment facilitation functions need to be refined and/or clarified to avoid potential overlap between categories and to ensure each category contains functions of the same risk profile
11.	The term “payment account” should be adopted to describe the basic payment function of providing customers with access to a facility through which they can make payments
12.	Treasury should hold a roundtable discussion with industry and other stakeholders to agree the wording of the payment categories

<b>Topic 5: Exclusions</b>	
<b>13.</b>	The limited participant and low value exemptions should be brought within the legislative framework, and the latter should be amended to align with the proposed definition of standard stored value facilities
<b>14.</b>	The single payee and incidental product exclusions should apply to the proposed list of payment functions
<b>Topic 6: Obligations</b>	
<b>15.</b>	The obligations which attach to the stored value facility provider licence should be a combination of capital adequacy requirements and safeguarding of funds frameworks, modelled on equivalent frameworks overseas

## Annexure B - capital adequacy requirements in the United Kingdom

Institution	Initial Capital Requirement	Ongoing Capital Requirement
<b>E-money Institutions</b>		
E-money Institutions	350,000 euros (~580,000 AUD)	E-money Institutions are required to hold at all times own funds equal to or in excess of the greater of: <sup>47</sup> <ol style="list-style-type: none"> <li>the amount of initial capital that is required for their business activity (350,000 euros); or</li> <li>2% of the “average outstanding e-money” which is the average total amount of financial liabilities related to e-money in issue at the end of each calendar day over the preceding six months.</li> </ol>
Small e-money institutions <sup>48</sup>	At least 2% of the average outstanding e-money of the institution	Small e-money institutions must continue to meet the initial 2% capital requirement on an ongoing basis.
<b>Authorised Payment Institutions</b>		
Account information services	None	Authorised Payment Institutions ( <b>APIs</b> ) are required to hold at all times own funds equal to or in excess of the greater of: <sup>49</sup>
Money remittance	20,000 euros (~33,000 AUD)	

<sup>47</sup> *The Electronic Money Regulations 2011* (UK), Schedule 2, Part 2.

<sup>48</sup> Institutions which generate average outstanding e-money of less than 500,000 euros (~825,000 AUD).

<sup>49</sup> *The Electronic Money Regulations 2011* (UK), Schedule 2, Part 2.

Payment initiation services	50,000 euros (~83,000 AUD)	<ol style="list-style-type: none"> <li>1. the amount of initial capital that is required for their business activity; or</li> <li>2. the amount of funds calculated in accordance with one of the following methods: <ol style="list-style-type: none"> <li>a. <b>Method A:</b> 10% of the API's fixed overheads in the previous financial year;</li> <li>b. <b>Method B:</b> the API's average monthly payment volume multiplied by a scaling factor relevant to the type of payment services carried out;</li> <li>c. <b>Method C:</b> the sum of the API's interest income, interest expenses, commission, fees received and other operating income, multiplied by scaling factors for different tranches of income</li> </ol> </li> </ol>
Payment account services, namely: <ul style="list-style-type: none"> <li>• services enabling cash to be placed on a payment account and all of the operations required for operating a payment account; and</li> <li>• services enabling cash withdrawals from a payment account and all of the operations required for operating a payment account.</li> </ul>	125,000 euros (~205,000 AUD)	
The execution of payment transactions, including transfers of funds on a payment account with the user's payment service provider or with another payment service provider— <ul style="list-style-type: none"> <li>• execution of direct debits, including one-off direct debits</li> <li>• execution of payment transactions through a payment card or a similar device</li> <li>• execution of credit transfers, including standing orders</li> </ul>	125,000 euros (~205,000 AUD)	
The execution of payment transactions where the funds are covered by a credit line for a payment service user— <ul style="list-style-type: none"> <li>• execution of direct debits, including one-off direct debits</li> <li>• execution of payment transactions through a payment card or a similar device</li> <li>• execution of credit transfers, including standing orders</li> </ul>	125,000 euros (~205,000 AUD)	
Issuing payment instruments or acquiring payment transactions	125,000 euros (~205,000 AUD)	

Account information services	None	
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