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1 August 2025

The Hon Dr Jim Chalmers MP
Treasurer
Parliament House
CANBERRA ACT 2600
By Email – [redacted]

Senator The Hon Katy Gallagher
Minister for Finance
Parliament House
CANBERRA ACT 2600
By Email – [redacted]

Dear Treasurer and Minister for Finance

Payments policy regulatory reform opportunities to bolster productivity growth

Thank you for your letter dated 4 July 2025, where you sought the assistance of the Payments System Board (PSB) in identifying regulatory reform opportunities to bolster productivity growth. Fostering productivity and economic growth has always underpinned the PSB's mandate, which is to promote the efficiency, competitiveness and safety of Australia's payments system. Consistent with this ongoing focus of the PSB, the Reserve Bank continues to work closely with colleagues at other agencies, including Treasury, ASIC and APRA, on how best to coordinate our efforts to minimise unnecessary regulatory burden.

This letter outlines the actions the PSB and Reserve Bank have recently commenced that are consistent with the PSB's mandate and the Government's effort to bolster productivity growth, alongside further potential actions that we have identified in response to your letter. We also emphasise our strong support for the Government implementing its payments regulatory reform agenda – in our assessment, passage of this reform agenda would bolster the PSB's ability to take additional measures to support competition, efficiency and therefore productivity in the payments industry, without comprising safety and resilience.

Recent steps taken by the PSB and Reserve Bank to support competition, efficiency and productivity in the payments system

1. **Review of merchant card payment costs and surcharging** – The RBA has recently released a Consultation Paper proposing to reduce costs faced by consumers and merchants, make the surcharging regime simpler to administer, and increase competitive tension in the market for payment services through increased transparency over fees. The key proposals are to:

- remove surcharging on eftpos, Mastercard and Visa cards, which could save consumers around $1.2 billion in card surcharges per year
- lower the cap on interchange fees paid by businesses, which could save businesses around $1.2 billion in interchange fees per year
- require card networks and large acquirers to publish the fees they charge, which will make it easier for businesses to shop around for a better deal.

The RBA is aiming to finalise these reforms by the end of 2025 for implementation in 2026.

2. **Promoting harmonisation of payments messaging for cross-border payments.** The RBA has set expectations for the Australian payments industry to adopt harmonised ISO 20022 messaging for cross-border payments by the end of 2027, in line with the global roadmap. By helping to make cross-border payments faster, cheaper and more transparent, this should support efficiency and productivity among firms engaged in international trade and intermediating cross-border capital flows.

3. **Changes to Exchange Settlement Account (ESA) policy to enable small, authorised deposit-taking institutions (ADIs) to use ESAs as a store of value and streamlining the ESA application process for these types of ESAs.** This change, implemented in November 2024, has supported competition in financial services by making it easier for small ADIs to satisfy APRA's liquidity requirements by holding liquid assets in accounts at the Reserve Bank.

4. **Increased the annual settlement activity threshold under the Financial Stability Standards for Securities Settlement Facilities from $200 million to $40 billion.** This relaxation in regulatory burden was implemented in June 2024 and has achieved a better balance between the risks posed by small firms to the financial system, and the regulatory and compliance burden imposed on them. This step has helped to streamline Australian clearing and settlement facility licence applications for small firms such as FinClear Pty Ltd, which received its licence in September 2024.

5. **Eliminated redundant reporting requirements for securities lending.** In July 2025, the Reserve Bank agreed to allow ASX to modify its rules to eliminate securities lending reporting requirements that were put in place in 2009, but that had not met their intended objectives. The removal of this requirement is expected to come into force by October 2025 and reduce reporting requirements for at least 35 institutions.

6. **Project Acacia and the Future of Money.** The tokenisation of financial assets has the potential to significantly boost efficiency and productivity in Australia's financial system. Working with industry partners and Australia's regulatory agencies, the Reserve Bank has recently commenced a pilot program to examine how innovation in digital money and financial infrastructure could, by supporting tokenisation, uplift the performance of Australia's financial system. A number of asset tokenisation use cases are being tested with industry participants involving pilot wholesale central bank digital currency (CBDC), other forms of private digital money, and new ledger technology. A report on Project Acacia will be published in early 2026. This initiative is one of a number of measures featured in the 3–year Future of Money roadmap announced by the Reserve Bank and Treasury in October 2024, reflecting the commitment of the PSB and Reserve Bank to supporting responsible innovation in Australia's financial system.

Potential future payments initiatives to support efficiency and productivity growth

1. **Strategic modernisation of Australia's high-value settlement system, the Reserve Bank Information and Transfer System (RITS).** In 2026/27 the RBA will investigate options to modernise RITS, Australia's system for settling payment obligations on a real-time basis. This could potentially involve upgrading RITS to take advantage of innovations in technology and provide new or enhanced modes of settlement, which should help to drive efficiencies for financial institutions and enable further innovation in the clearing of payments and securities. This work would also draw on the learnings from Project Acacia on how innovation in wholesale digital money could support the development of tokenised asset markets in Australia.

2. **Changes to ESA policy to support competition in payments, by making it easier for non-bank payments service providers (PSPs) to directly access payment systems.** Once the Government's PSP licensing reforms have passed Parliament, the Reserve Bank will launch a review of the ESA policy to explore further options to support non-bank PSPs in accessing ESAs so they can directly participate in payment systems such as the New Payments Platform (NPP).

3. **Reviewing the current $10 million low-value threshold up to which the *Payment Systems (Regulation) Act 1998* (PSRA) does not apply to purchased payment facilities (PPF).** Under the current regulatory framework, PPFs with more than $10 million in stored value are generally required to obtain an ADI licence from APRA. In the process of applying for an ADI licence, these entities have been able to avail themselves of a standing exemption from the PPF obligations in the PSRA by having their stored value guaranteed by an ADI. However, these bank guarantees can be costly to obtain and may inhibit firms from entering the market. The RBA's preferred solution is for the Government's payments licensing reforms for stored-value facilities to be enacted, which will supersede and streamline the existing PPF regulatory regime. But as an interim step, the RBA could consider raising the low-value threshold following consultation with APRA and ASIC, and taking into account the risks to the PPF customers.

4. **Streamlining regulatory requirements for Australian clearing and settlement (CS) facilities.** The RBA will review its approach to supervision, including in relation to licence applications, to ensure that the regulation of CS facilities remains proportionate to the risk that they pose to the Australian financial system. In particular, the RBA will focus on identifying and, if appropriate, reducing any regulatory barriers to entry for prospective small CS facilities, which will better support competition and innovation in an important part of the financial system. In doing so, the RBA will work closely with ASIC, which has powers to promote competitive outcomes in clearing and settlement. This review will be completed in 2026.

5. **Help ensure the future account-to-account payments system is innovation-compatible.** In collaboration with Treasury, the RBA will engage closely with industry to ensure that the design of Australia's future account-to-account payments system is calibrated to support innovation opportunities enabled by the digital economy, alongside other public policy goals. By the end of 2025 the RBA, Treasury and industry will publicly consult on a shared vision and plan for the future of account-to-account payments.

6. **Enhanced Regulatory Sandbox (ERS).** Industry feedback, including from an earlier CBDC pilot run by the Reserve Bank, suggests there are opportunities to update the design of the ERS to better support innovation in our financial system. The Reserve Bank stands ready to support Treasury and ASIC in ensuring the proposed review of the ERS considers ways to

enable it to better support innovation in emerging forms of money, payments and financial infrastructure, drawing on international lessons where relevant.

7. **Review regulatory burden of card payments regulations on small issuers, such as small banks and fintechs.** The RBA has received feedback from small issuers and fintechs regarding the impact of the card payments regulations on their ability to complete and innovate. The PSB will consider whether there is a case to reduce the regulatory burden of card payments regulations on small issuers in the context of its Review of Retail Payments Regulation, and if so, what options might best support this objective.

The importance of payments legislative reform in supporting efficiency and productivity

Without appropriate regulation, network and other effects mean that the payments industry can tend towards anti-competitive outcomes, with dominant players imposing barriers to entry that raise costs for businesses and consumers and stifle innovation from startup fintechs. Given this, we strongly support the Government implementing its payments regulatory reform agenda as this will boost regulatory clarity for industry and strengthen the ability of the financial regulators to promote competition and innovation.

There are four key reforms that we would highlight:

- **Reforms to the Payment Systems (Regulation) Act 1998 to widen the range of payment systems and participants that are within scope of regulation.** This would enable the Reserve Bank to examine pressing competition and efficiency issues with mobile wallets, e-commerce platforms and charge cards that are increasing costs and reducing choice for Australian merchants, consumers and payments service providers.

- **Payments service provider licensing reforms.** Introducing a PSP licensing regime with regulatory obligations that are proportionate to the risks will enable non-bank PSPs to launch new products, innovate and compete with existing financial institutions in the provision of payments services. In particular, we strongly support the appropriate licensing of providers of stored value facilities, and the adoption of common access requirements for non-bank PSPs to facilitate their direct participation in payment systems such as the NPP.

- **The introduction of a regulatory framework for cash distribution.** This would encourage more efficient, resilient and innovative cash distribution arrangements (such as investing in ATMs with cash recycling functionality) and enable fair access to participants in the cash distribution system.

- **Supervisory regime for payment systems.** The RBA currently relies on moral suasion to influence key payment systems, such as the NPP, so that they develop their operations in a way that promotes the efficiency, competitiveness, resilience and safety of Australia's payments system. The breadth of change taking place in the account-to-account payments landscape highlights the need for the Government to continue to work with the RBA and other regulators to ensure they have appropriate powers to enable them to adequately supervise payment systems into the future, in support of public interest objectives which include competition and efficiency. The upcoming update to the Strategic Plan for Australia's Payments System would also be an opportunity for the Government to consider this initiative to promote safety and resilience.

We welcome the Government's focus on boosting productivity, which is crucial for lifting the economic welfare and prosperity of all Australians. We look forward to working with you on delivering the actions that we have identified. For further details on these actions, please feel free to contact myself, Brad Jones (Assistant Governor, Financial System: [redacted] or Ellis Connolly (Head of Payments Policy: [redacted]

Yours sincerely

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cc: Brad Jones (Assistant Governor, Financial System)
Ellis Connolly (Head of Payments Policy)