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Chief Executive Officer

30 June 2015
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BY EMAIL TO: Phoebe.Chan@rbnz.govt.nz

Dear Ms Chan

**Subject: Response to the Reserve Bank of New Zealand's consultation document
"Oversight of Designated Financial Market Infrastructures", July 2015**

SWIFT appreciates Reserve Bank of New Zealand's (RBNZ) continued willingness to engage with a wide range of stakeholders on the soundness and efficiency of New Zealand's financial market infrastructure. We are supportive of the Reserve Bank's work to strengthen the current framework and we welcome the opportunity to respond to the consultative document "Oversight of Designated Financial Market Infrastructures" of July 2015.

SWIFT is a member-owned, cooperative society headquartered in Belgium. SWIFT is organised under Belgian law and is owned and controlled by its shareholding users, comprising more than 3,000 financial institutions. We connect more than 10,800 connected firms, across more than 200 countries and territories.

SWIFT provides banking, securities, and other regulated financial organisations, as well as corporates, with a comprehensive suite of messaging products and services. We support a range of financial functions, including payments, securities settlement, reporting, and treasury operations. SWIFT has a proven track record of bringing the financial community together to work collaboratively, to shape market practice, define formal standards and debate issues of mutual interest, and a fundamental tenet of SWIFT's governance is to continually reduce costs and eliminate risks and frictions from industry processes.

SWIFT is a critical service provider (CSP) to a wide range of organisations and Financial Market Infrastructures (FMIs) around the world, including FMIs in New Zealand. These include the Settlement Before Interchange (SBI) service, operated by Payments New Zealand, as well as New Zealand's RTGS. For many years, SWIFT has also provided the backbone to the ESAS RTGS system managed by RBNZ.

SWIFT is not, however, an FMI itself, and its messaging products and services should not be considered as outsourced services for FMIs. Furthermore, SWIFT is not a bank or a financial institution, and SWIFT does not hold or handle client funds or assets.

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Since many FMIs worldwide are dependent on SWIFT, an international oversight structure is in place. SWIFT's oversight is carried out by the G10 central banks and the European Central Bank, with The National Bank of Belgium (NBB) acting as lead overseer. The oversight of SWIFT in its current form dates from 1998. The arrangement was last reviewed in 2012 with the set-up of the SWIFT Oversight Forum, through which information sharing on SWIFT oversight activities was expanded to a larger group of central banks which have a legitimate interest in, or responsibility for, the oversight of SWIFT. SWIFT is committed to an open and constructive dialogue with oversight authorities.

The objectives of oversight of SWIFT centre on the security, operational reliability, business continuity and resilience of the SWIFT infrastructure. To review whether SWIFT is pursuing these objectives, overseers want to obtain comfort that SWIFT has put in place appropriate governance arrangements, structures, processes, risk management procedures and controls that enable it to effectively manage the potential risks to financial stability and to the soundness of financial infrastructures. The High Level Expectations (HLE) for the oversight of SWIFT set out the expectations that overseers have regarding the services SWIFT provides to the global financial infrastructure. The five High Level Expectations relate to Risk Identification and Assessment, Information Security, Reliability and Resilience, Technology Planning and Communication with Users. The CPMI-IOSCO's expectations for critical service providers (as per Principles for Financial Market Infrastructures, Annex F), published in December 2014, are the largely the same as the HLE.

As lead Overseer, the NBB monitors SWIFT on an ongoing basis. It identifies relevant issues through the analysis of documents provided by SWIFT and through discussions with the management. It maintains a continuous relationship with SWIFT, with ad-hoc meetings on a regular basis, and serves as the central banks' entry point for the cooperative oversight of SWIFT. In that capacity, the NBB chairs the senior policy and technical groups that facilitate the cooperative oversight, provides the secretariat and monitors the follow-up of the decisions taken.

In our letter to you, dated 25 August 2013, we acknowledged that SWIFT would be a CSP and noted that RBNZ intended to align oversight of CSPs with annex F of CPMI-IOSCO's "Principles for financial market infrastructures" and to leverage existing oversight arrangements. SWIFT fully endorses CPMI-IOSCO's principles for financial market infrastructures and particularly the expectations for Critical Service Providers outlined in Annex F. SWIFT has been overseen on the basis of these principles since 2007 and fully complies with the expectations concerning risk management, security management, technology management, resilience, and user communication.

We hope the comments set out in the Annex will be useful to you in finalising your consultation. Please do not hesitate to contact either me or William Doran, Head of Oceania, should you wish to discuss these comments in any further detail.

Yours sincerely

A handwritten signature in blue ink, appearing to read "Phoebe Chan".

**Annex**

Questions raised in consultation document	SWIFT Response
Question 4: Do you agree with the proposed definition of financial market infrastructures? If not, please provide more details.	SWIFT strongly supports the adoption of internationally recognised frameworks, standards, terminology and definitions for the common good and efficiency of the global financial system, and to enable cooperation between regulatory communities. SWIFT therefore supports the definition of financial market infrastructures proposed by RBNZ as it is aligned with internationally accepted terminology and is consistent with the definition contained in CPMI-IOSCO's "Principles for financial market infrastructures".
Question 5: Are there any additional factors that the Reserve Bank and FMA should take into account when making an assessment of systemic importance of an FMI? If so, what are those factors?	As a critical service provider rather than an FMI, SWIFT has no comments on the factors that the Reserve Bank and FMA should take into account when making an assessment of the systemic importance of an FMI, however we agree that a clear definition of what is meant by systemic importance is essential to ensure there is clarity on which institutions are Designated and should be subject to the formal oversight by the Reserve Bank and FMA. The definition applied by RBNZ is in line with that of CPMI-IOSCO and, as stated above, we welcome the use of internationally consistent definitions and terminology.
Question 6: Do you have any comments about the proposed process for Designation and revoking Designation? If so, please provide more details.	As SWIFT is a critical service provider, it will not fit into the designation scheme for FMIs. As a CSP, we do not have comments on the proposed process for Designation and the revocation of Designation of FMIs, but we do agree that clear, internationally recognised definitions of an FMI and systemic importance are required.
Question 11: Do you agree that offshore FMIs should be included in the proposed revised Designation Regime? If not, please provide more details.	SWIFT does not have a view on whether or not offshore FMIs should be included in the proposed revised Designation Regime, but as a general principle, we do welcome the proposed approach of RBNZ to ensure that requirements on the oversight of FMIs would not be duplicated with those of the home regulator. This is important to avoid supervisory overlap, to avoid conflicting requirements, and to avoid the legal uncertainty of the oversight by RBNZ of an entity without physical presence in New Zealand.



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Questions raised in consultation document	SWIFT Response
	<p>We believe that this approach of avoiding supervisory overlap should be extended to critical service providers, such as SWIFT.</p> <p>SWIFT is under the global supervision of the G10 central banks, and RBNZ already receives SWIFT's reporting on its compliance with the G-10 Overseers' High Level Expectations (HLE). SWIFT annually issues a third-party assurance report on the security of its core messaging services (currently under ISAE 3402), and provides information to the Reserve Bank by means of its participation in the SWIFT Oversight Forum. (SWIFT's third-party assurance report is available to central banks and regulatory bodies.</p> <p>Should RNBZ require additional oversight, we suggest that Annex F of <i>Principles for Financial Market Infrastructures</i> for CSPs be used as the framework. SWIFT believes it already complies with these expectations as they are largely the same as the G10 Overseers' High Level Expectations.</p>

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