

Annual Report 2024

Exchange Settlement Account System Report to Account Holders



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Exchange Settlement Account System (ESAS)

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SYSTEM OVERVIEW

Tirohanga Whānui.

About ESAS

The Exchange Settlement Account System (ESAS) is New Zealand's principal high-value payments system and is charged with providing an efficient and safe process for the real time electronic settlement of payments between account holders. The ESAS system is owned and operated by the Reserve Bank of New Zealand - Te Pūtea Matua (RBNZ) on a cost-recovery basis.

The Reserve Bank has provided ESAS as a real-time gross settlement system (RTGS) since 1998. Account holders electronically submit instructions to debit an account and credit another account using an authorised electronic submitting mechanism. Authorised submitting mechanisms include closed user groups which use the SWIFT electronic messaging system, the NZClear system and direct entry of transaction details into ESAS. The system is available for use by account holders for 23.5 hours each calendar day. Each ESAS day begins at 9:00am on a calendar day and ends at 8:30am the following calendar day.

A payment will be settled (i.e., funds are transferred from one ESAS account holder's exchange settlement account to another ESAS account holder's exchange settlement account) once a transaction instruction is authenticated, the payment instruction is authorised by the payer and the payer has sufficient funds in their exchange settlement account to effect the transaction. Once a transaction is settled it cannot be revoked.

ESAS is a systemically important payment system under the Financial Market Infrastructures Act 2021 (FMI Act). The ESAS regulator is the Prudential Supervision Directorate, part of the Reserve Bank's Financial Stability Group. Institutional arrangements ensure that dealings between the Payments Services Directorate and Prudential Supervision Directorate occur on an arm's length basis.

In accordance with the provisions of the Reserve Bank Act, the Board is the governing body of the RBNZ and is responsible for all decisions relating to the operation of the RBNZ. The Board is therefore ultimately responsible for the operation of ESAS. For practical purposes, the Board delegates the day-to-day management authority of the Reserve Bank to the Governor. This includes the authority to establish roles within Reserve Bank and organise the Reserve Bank to ensure it is fit for purpose.

The Governor delegates responsibility for administering the operational aspects of the System to the Reserve Bank's Payments Services Directorate, which is headed by Steve Gordon. Day-to-day business support is provided by the Payment and Clearing Services Team managed by the Manager of Payments and Settlement Services, Jaimee Taylor-Burt and the Application Support and Technical Operations Team, managed by Ben Waterreus.

The Payments Services Directorate reports on the operation of ESAS to Karen Silk, the Reserve Bank's Assistant Governor/General Manager, Economics, Financial Markets and Banking.

Datacom supports the telecommunications network infrastructure, and related security features utilized by the system. Application support services and application development are provided by the Nexi Group. The Reserve Bank manages Datacom's and Nexi's provision of services through service contracts and related service level agreements. The management process includes assessment of performance at regular review meetings, regular performance reports, review of problem management reports, a relationship governance committee and relevant project steering committees.

The aggregate level of liquidity in the ESAS system is managed by the Reserve Bank's Financial Markets Directorate (FMD). FMD injects or withdraws liquidity from the system by undertaking transactions such as reverse repurchase agreements, foreign currency swap transactions, and issuance of Reserve Bank Bills. FMD's objective is to ensure that there is adequate aggregate liquidity in the system to ensure the efficient operation of payments, while also maintaining short-term wholesale interest rates at levels close to the Official Cash Rate.

MANAGEMENT COMMENTARY

Ngā Kōrero Whakahaere.

Operations and Development

Progressing major industry facing projects has been a key feature of the year. In this regard, the ESAS v7 upgrade project has progressed well. The current focus is on completing a significant upgrade of the underlying database hardware that is coming to its end-of-life for support and maintenance. The project is also delivering the remaining ISO 20022 messages to ensure SWIFT compliance, as well as functional and security enhancements, including a new user interface. Under our support agreement with Nexi (the vendor for the ESAS application) we are required to deploy the upgrade.

The ESAS Access Project has also advanced to a stage where a second public consultation is imminent. This will pave the way towards finalising the revised access policy and standing up the operational adjustments required to enable assessments of applications under the new policy.

It has also been pleasing to complete the first full year of seven-day-a-week retail banking in New Zealand following the delivery of the SBI365 project in May 2023.

Another significant ESAS initiative has related to working closely with the ESAS regulator as the ongoing rollout of the Financial Markets Infrastructure Act continues. We completed the work of applying the standards that underpin compliance with the act, and the detailed requirements contained within each standard, by the 1 March 2024 compliance date. We are now undertaking a second phase of work to ultimately support publication of the inaugural disclosure report for ESAS by March 2025. Key areas of focus during the completion of these activities include risk management, cybersecurity, critical service provider management, and business continuity.

We have continued to place considerable focus on our risk management and assurance frameworks. There has been considerable engagement with Internal Audit, PwC, and Risk Management and Compliance teams throughout the year, and the outcomes of assurance engagements have been positive. Both the board and the board audit committee have continued to be updated on these activities, as well as major project and operational outcomes for ESAS.

Business performance has been solid with systems availability running at 99.99% during business hours, across the 12-month period. Where issues arose during the year, we have continued to apply our incident management frameworks to firstly remedy the issue at hand and minimise disruption, and secondly assess the underlying root cause and risk profile to establish any further actions or enhancements required.



The annual customer satisfaction results were positive (88% exceeding expectations, up seven percent on last year, and 12% meeting expectations). The ESAS Participants Group continued to meet during the year, which also provided an opportunity to seek feedback, while working collaboratively with ESAS account holders to understand needs and opportunities into the future.

Total annual transaction volume increased to 3.73 million (2023: 3.39 million). From a year-on-year comparative perspective the introduction of seven-day a week retail banking in late May 2023 has significantly skewed the average daily volume and value traded (weekend transactions remain relatively very low compared to Monday – Friday and this has a flow-on to the average per day calculation). In this context, ESAS daily volume decreased to 10,199 (2023: 12,926) whilst the value decreased to \$24.8 billion (2023: \$36.3 billion). Transaction volume resulted in revenue of \$12.792 million. Operating expenses were \$12.630 million, leading to an over recovery of \$0.162 million. The over recovery was applied to reserves, resulting in a balance of \$1.890 million as at 30 June 2024. The increase in operating expense was largely driven by on-charges for internal services such as governance and cyber security, project-related operating expense, and hardware and software amortisation.

For the year ahead, our focus will continue to be on maintaining systems trust and resilience by running business operations at the highest level. In this regard, completing the FMI Act disclosure reporting will undoubtedly shine light on areas where there are continuous improvement opportunities. We will also continue strategically focused activities around the future of payments to contribute to the broader good of the New Zealand payment systems environment. This will include advancing both the ESAS v7 project and the ESAS Access Project.



Steve Gordon, Director of Payment Services

August 2024

Key performance statistics for the year ended 30 June 2024

Key performance indicator	2024	2023
System availability (%)	99.99	100.00
Annual transaction volume (million)	3.73	3.39
Average daily transaction volume	10,199	12,926
Average daily transaction value (\$billion)	24.8	36.3
Operating expenses (\$000)	12,630	9,465
Customer satisfaction meets or exceeds expectations (%)	100	100

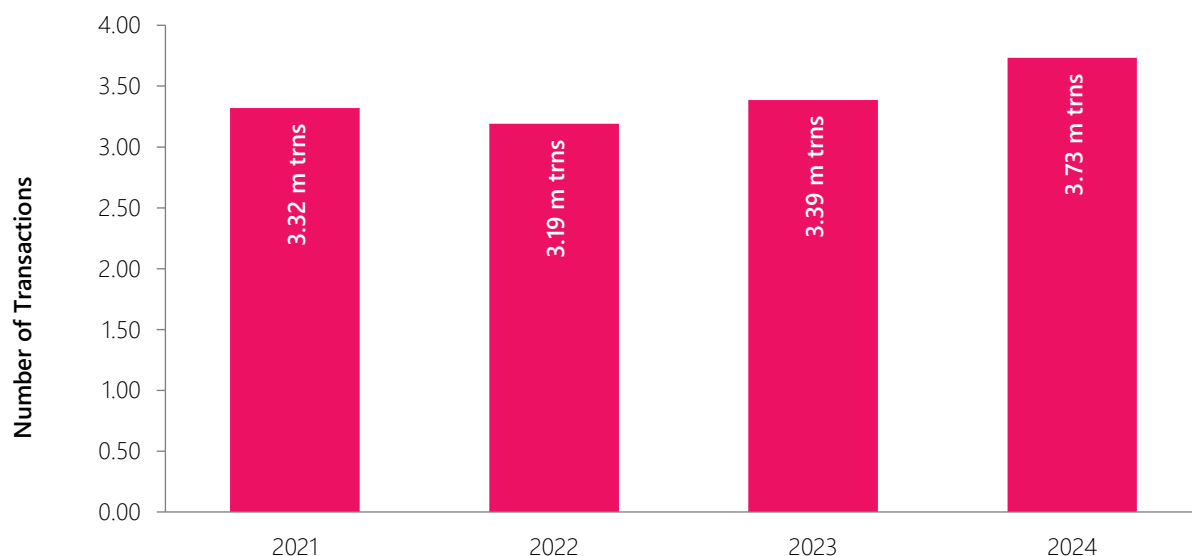
KEY STATISTICS

Tatauranga Matua.

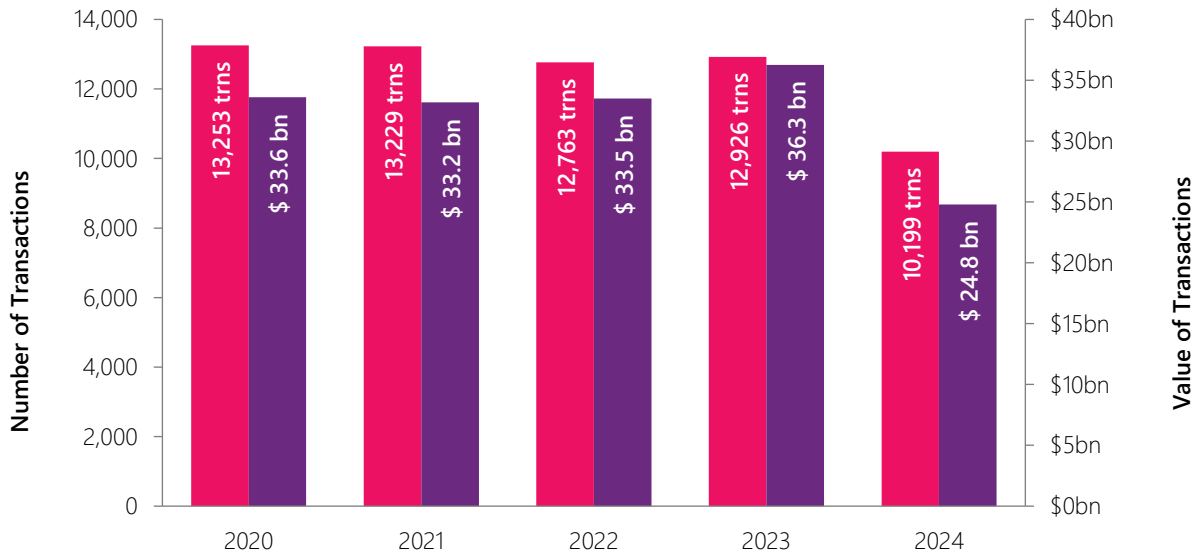
There are three primary interfaces or 'Account holder Submitting Systems' which are used by ESAS account holders to submit payment instructions to ESAS:

- Directly from the NZClear system.
- Via the SWIFT system where members of the Assured Value Payment (AVP) closed user group use ESAS to pay other members of that closed user group. The Reserve Bank is the administrator of the AVP closed user group.
- Via the SWIFT system where members of the Settlement Before Interchange (SBI) closed user group use ESAS to pay other members of that closed user group. Payments NZ Limited is the administrator of the SBI closed user group. Once an SBI settlement has been effected in ESAS, a confirmation is sent to SWIFT which then allows an associated interchange file containing underlying payment details to be released to the destination bank.

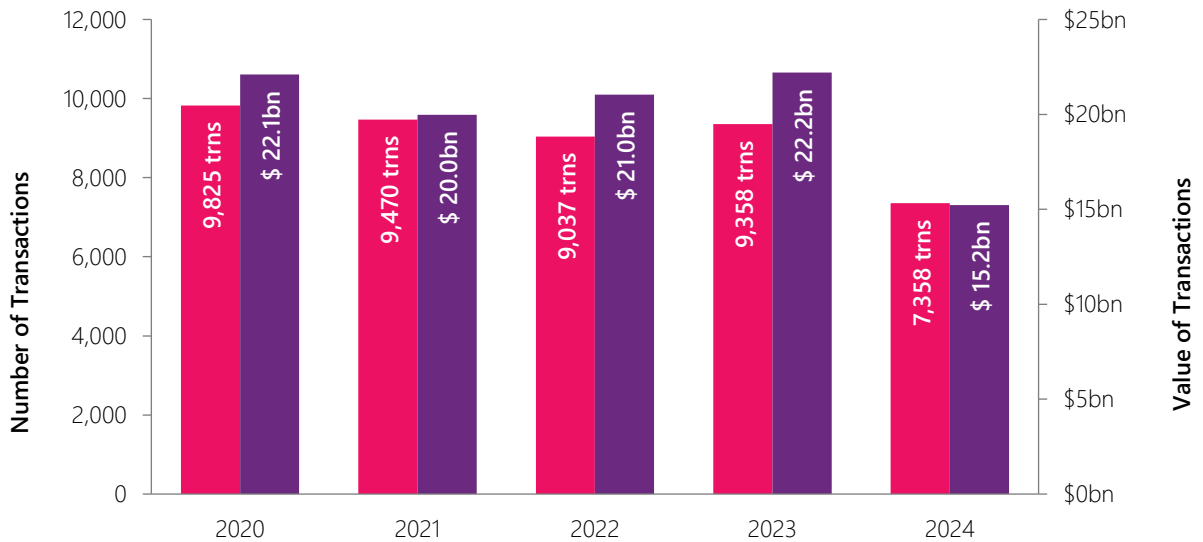
Transaction volume per year – All



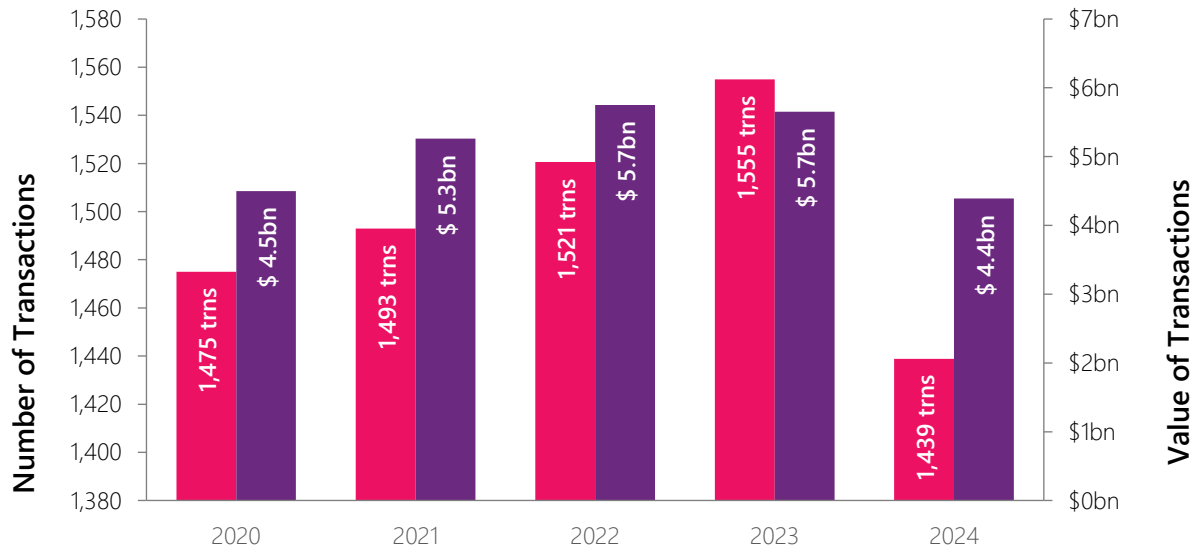
Transactions per day – All



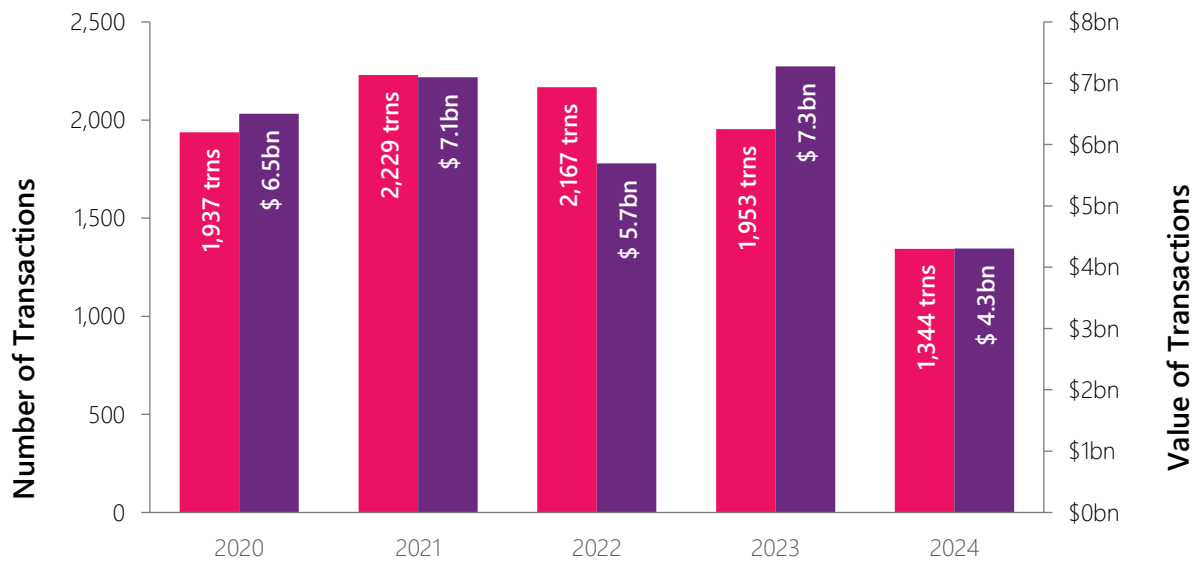
Transactions per day – Sourced from Swift AVP



Transactions per day – Sourced from SBI



Transactions per day – Sourced from NZClear



System outages year ended 30 June (hours:mins)

	2020	2021	2022	2023	2024
Outages	0:00	3:00	0:00	0:00	0:58

Customer satisfaction

	2020	2021	2022	2023	2024
Exceed expectations	89%	78%	92%	81%	88%
Meet expectations	7%	14%	8%	19%	12%
Does not meet expectations	4%	8%	0%	0%	0%
Total	100%	100%	100%	100%	100%

RISK MANAGEMENT

Ngā Whakahaere Whakatūpato.

PricewaterhouseCoopers (PwC) conducts annual audits of ESAS's internal controls, mandated by the ESAS Terms and Conditions, to ensure robust risk management practices. PwC conducts this audit on behalf of the Reserve Bank's external auditor, the Auditor-General. The audit covers the controls executed by the Reserve Bank's independent third-party service provider, Datacom.

The annual assurance report from the auditor is addressed to the Directors of the Reserve Bank and reviewed by the Reserve Bank Audit Committee, with participation from external auditors, Reserve Bank governors, and management.

A copy of the assurance report is distributed to account holders. Audit findings and recommendations are evaluated, and the progress of implementing the agreed actions is monitored.



Regular controls-based auditing is undertaken by a third party in order to obtain independent assurance regarding operating integrity.

Senior management and the audit committee provide governance and oversight over management's addressing and remediation of recommendations from auditors and security experts.

The key elements of risk management for the system include:

- Ensuring adherence to frameworks, procedures, and controls.
- Implementing measures to manage operational risks.
- Maintaining and regularly testing business continuity plans; and
- Providing ongoing oversight and auditing of operations.

Risk management at the Reserve Bank is considered an integral part of daily operations. This includes Bank-wide corporate policies outlining required staff conduct and specific internal control systems embedded in the various activities of the Reserve Bank. Additionally, RBNZ closely monitors third party service providers to ensure their performance meets contractual terms and service-level agreements.

The Payment Services Directorate Risk Forum (PSDRF) sets PSD's risk management vision and objectives, assesses PSD-specific risks, and maintains the risk management framework aligned with Enterprise Risk Management principles.

There is continuous focus on risk management uplift work, including enhancing frameworks, incident management, and system security. Compliance with the Financial Market Infrastructures

Act and operational standards has been a primary focus, with ongoing reviews strengthening system defences, policies, and procedures. Monitoring is conducted through a dedicated Security Operations Centre, and the Reserve Bank annually attests to compliance with the SWIFT Customer Security Programme.

The Reserve Bank's Auckland office collaborates closely with Wellington office, ensuring business continuity in case of a regional disaster impacting ESAS operations. ESAS is designed for high availability and resilience, with infrastructure and applications housed in separate Hamilton and Auckland data centres. Each centre maintains a complete replica of ESAS components, allowing for seamless site swapping or disaster recovery as needed. Every six weeks, the production stack is rotated between sites to ensure operational readiness. Additionally, in the event of a dual data centre failure, ESAS can switch operations to its third disaster recovery site, the RTGS Extreme Contingency System (RECS), located in Milan.

FINANCIAL PERFORMANCE

Ngā Whakakitenga Ahumoni.

The short-form Statement of Financial Performance for the ESAS business is:

	2024 \$000	2023 \$000
Operating expenses	12,630	9,465
Over-recoveries (to be applied against future operating costs)	162	1,138
Fees paid by account holders	12,792	10,603
Average fee charged per transaction	\$3.45	\$3.15

ESAS is operated as a division of the Reserve Bank and services are charged to users on a cost recovery basis. The ESAS business is attributed costs by the Reserve Bank. These include charges for use of the Reserve Bank's resources, such as staff, occupancy, internal audit, governance, and accounting and information technology. Indirect costs incurred by the Reserve Bank are allocated to the ESAS System based on estimated costs that the business would incur on a stand-alone basis.

The above figures are extracted from the Reserve Bank's audited financial records, but the accounts of this division have not been subject to a separate external audit. Income and expenditure for the ESAS business is calculated using the accounting policies specified in the Reserve Bank's financial statements.

Transaction volume resulted in revenue of \$12.792 million. Operating expenses were \$12.630 million, leading to an over recovery of \$0.162 million. The over recovery was applied to reserves, resulting in a balance of \$1.890 million as at 30 June 2024.

The expense base for operating ESAS increased by 33%. The increase in operating expense was largely driven by on-charges for services such as governance and cyber security, project-related operating expenses, and hardware and software amortisation.

The \$3.45 transaction fee was maintained throughout the year.

The transaction fee will increase to \$3.65 on 1 July 2024 to compensate for increased operating expenses from recently completed, ongoing, and planned capital and operating projects. The transaction fee is subject to ongoing review as year-on-year volume trends are observed and expenses related to the operations of ESAS activities are both forecast and realised.

PLAN FOR 2024-25

Te Rautaki Mō Te 2024-2025.

ESAS Plan for the Year 1 July 2024 to 30 June 2025

ESAS Performance Expectations:

- Financial transactions happen in real time by maintaining systems availability for at least 99.90 percent of core business hours.
- ESAS maintains strong resilience against disruptions meeting the two-hour recovery time criteria specified in Financial Market Infrastructures Act 2021 standards.
- More than 75 percent of customer survey respondents are satisfied or very satisfied with the Operator's performance.

ESAS Performance Targets:

- Deliver necessary system changes and upgrades to the software under appropriate project management frameworks and governance structures to ensure ESAS is running on a supported, reliable, and resilient platform.
- Enhance system functionality by implementing an agreed change roadmap for ESAS, providing high quality functionality and capability fit for NZ market operations.
- Maintain compliance with the Financial Market Infrastructure Act (2021), and engage regularly with our regulators.
- Arrange and be subject to the annual ESAS external audit, prepared in compliance with International Standard on Assurance Engagement (ISAE) 3402 requirements. The audit report will be shared with ESAS account holders.
- Complete the annual report for ESAS covering operational and financial performance for the 2024/25 financial year.
- Monitor ESAS financial performance and review pricing model annually in alignment with our agreed targets.
- Convene bi-annual meetings of the ESAS Participant Group.
- Foster efficiency, interoperability and collaboration with our ESAS accountholders, key FMI partners and the wider market.
- Adhere to RBNZ values of Integrity/Tauira, Innovation/Wānanga, Inclusion/Taura, and its approach to Te Ao Māori and climate issues.

The following project work continues:

- Implement ESAS V7, including ISO20022 phase-2 (statement and enquiry messaging).
- Complete ESAS Infrastructure Upgrade.
- Complete the ESAS Access Review and implement revised ESAS Access Policy and Criteria.

