

ESAS

Application Policy.

ESAS account – required information

25 July 2022

Contents

Overview	2
Matters for Consideration	2
Account Terms and Conditions	3
Application Process	3
Incorporation	3
Size and Nature	3
Creditworthiness and Prudential Matters	4
Operational Requirements	4
Other Documentation	4

Overview

Section 32 of the Reserve Bank Act 1989 allows the Reserve Bank of New Zealand to provide settlement account services for financial institutions.

Exchange Settlement Accounts (ESAS) accounts are basic current accounts. An account holder has the ability to conduct settlements with other account holders in central bank funds enabling the receiver of those funds to have absolute faith in the quality of the funds received. However,

- No credit is provided; the account must be in funds at all times.
- The Reserve Bank calculates interest for each account holder on a daily basis. Account holders receive the official cash rate on balances up to a maximum balance that is determined by the Reserve Bank. Balances in excess of this amount are remunerated at the official cash rate less zero basis points. The Bank may from time to time vary these arrangements.
- There is no right of access to lender of last resort (LLR) facilities.
- There is no right of access to intra-day or inter-day liquidity. Access to intra and inter-day liquidity is a separate decision based on the creditworthiness criteria used to determine acceptable domestic counterparties.
- No other rights or status are conferred. It should also be noted that access to an ESAS account is a completely separate issue to access to any payments switch. Access to a switch is a matter for the proprietors of each switch to determine.

It is expected that all ESAS account holders will also join the payment switches governed by Payments New Zealand – www.paymentsnz.co.nz

Competition policy is primarily the responsibility of the Commerce Commission.

Matters for Consideration

The goal of the Bank's settlement account policies is to promote the development of a payments system which is efficient, open and flexible; which has a high level of integrity; and which is robust in the face of financial crises.

We also see our role in the provision of exchange settlement (ESAS) accounts as analogous to a "wholesale" as distinct from a "retail" activity. We do not anticipate there will be many applications for an ESAS account, given the very limited features of an ESAS account. When deciding on an application for an ESAS account the Bank will consider the following matters:

- Whether the applicant fits the definition of financial institution in the Reserve Bank Act 1989.
- Whether provision of an ESAS account to the applicant might detract from the soundness of the financial system.
- Whether provision of an ESAS account to the applicant might detract from the efficiency of the financial system.
- Whether there is a legitimate business interest that can be served by access to an ESAS account.

- Whether the provision of an ESAS account would adversely affect the reputation of the Reserve Bank.
- Any other matters the Bank considers relevant to the application.

Applicants for an ESAS account will be expected to address each of the above matters in their application.

Account Terms and Conditions

Any new ES accountholders would be subject to the same contractual terms and conditions as existing accountholders. This is as agreed and provided for in the existing terms and conditions. Applicant's attention is particularly drawn to the provisions of clause 2.7 of the Account Terms and Conditions.

Application Process

In order to apply for an ESAS account a letter of application addressed to the Head of Payment Services, RBNZ is required to formally apply. The letter should encompass supporting information to satisfy the above criteria. As a base, the following information is useful in assessing ones suitability for an ESAS account:-

- A letter to the Head of Payment Services advising why they believe they meet the criteria to become an accountholder (criteria on RBNZ website) including the background information of the applicant, intended purpose to applying the ESAS account.

Incorporation

- A description of incorporation and ownership structure including:
 - the jurisdiction where the applicant is incorporated;
 - the method of incorporation; and
 - the organisation of the applicant.
- All overseas incorporated Settlement accountholders will be required to provide a legal opinion from a law firm in their jurisdiction providing assurance satisfactory to the System Operator that the Terms and Conditions will be valid and binding on the Settlement Account holder under the laws of their home jurisdiction.

Size and Nature

- Information about the applicant's experience, if any, in respect of clearing and settling in the ESAS payment system (either on its own account or through agency arrangements).
 - Average level of daily payment flows (last 6 months)
 - Maximum level of daily payment flows (last 6 months)

- Maximum single debit (last 6 months)
- Expected cash holdings in the account
- For new entities an estimate (forecast) of the above information is required from the applicant during the first six months period following commencement of participation.

Creditworthiness and Prudential Matters

- The most recent audited financial statements for the applicant.
- An outline of the nature and extent of internal and external audit arrangements.
- If the applicant is not a registered bank the credit rating of the applicant.
- If the applicant is not a registered bank, a description of the capital structure of the applicant.
- A description of the applicant's liquidity risk management regime to ensure the account holder will have sufficient liquidity in its ESAS account to meet its payment obligations.
- A description of the proposed risk management systems and policies for all material business risks (financial risk, credit risk, market risk etc).

Operational Requirements

- Details of its operational risk management systems, policies, procedures and controls, including operational incident management procedures.
- Details concerning how the ESAS account will be operated (the operational model of the applicant).
- An outline of business continuity plan (BCP) and disaster recovery arrangements.
- Confirmation of when BCP arrangements were tested most recently.
- The primary method by which instructions will be submitted to ESAS (e.g. via SWIFT and if so will the applicant be joining the HVCS and SBI closed user groups?)

Other Documentation

- A copy of the Inland Revenue RWT certificate of exemption for the applicant.
- The name of the entity which is the applicant's AML supervisor under New Zealand's AML-CFT legislation.
- Confirmation that the applicant prohibits accounts/relationships with shell banks (a shell bank is defined as a bank incorporated in a jurisdiction in which it has no physical presence and which is unaffiliated with a regulated financial group?)
- Confirmation that the applicant prohibits customers from maintaining anonymous accounts (i.e. accounts for which your financial institution/bank does not know the owner?)

Finally, any other relevant information you deem suitable to support the granting on an ESAS account should accompany the application letter in the first instance.