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By email:

Cc:

Tēnā koe Steve

Reserve Bank position on Aotearoa New Zealand's need for real time payment capability

Thank you for the request to engage with Payments NZ on your 'Payments for the next generation real-time capability programme.' We welcome the opportunity to provide further input and views on the key conceptual design elements outlined in your letter to us.

Our aim at the Reserve Bank is to ensure New Zealanders have reliable and efficient money and payments systems that support inclusion and innovation. Over time we have communicated dissatisfaction with industry about the slow pace of implementing promising developments in payments in New Zealand.¹ Therefore, we are pleased to see some progress by industry in the form of this initiative. We see the potential for significant benefit to our economy and to our society from implementing developments such as these.

Real-time payment capability is a prominent example of so-far missed developments that has put New Zealand payments behind on the global stage. CoFR's new vision of the future of New Zealand's payments landscape will be published in the coming weeks. This vision statement will recognise that there is more to be done to ensure that our payment systems will better meet New Zealander's evolving needs.

¹ [New Zealand's changing payments landscape: A regulator's review](#) and [Future of money – central bank digital currency – Te moni anamata – aparangi ā te pūtea matua - Reserve Bank of New Zealand - Te Pūtea Matua](#) highlight New Zealand's absence of real-time payments as an outlier in OECD countries and an inhibitor for payment innovation.

We would like to use this opportunity to make our position on real-time payment capability in New Zealand clear. Outlined below are our key messages that encapsulate our overall position.

1. Real time payments can directly contribute to a more efficient and reliable money and payments system that supports innovation and inclusion. New Zealanders and the New Zealand economy should benefit from having access to modern real time account-to-account payments capability. If it is well designed, implemented and governed, it should have the potential to improve the levels of innovation and competition across the payments landscape.
2. RBNZ's preference is for the private sector to lead and make meaningful progress on developing and implementing New Zealand's real time account-to-account payments capability.
3. RBNZ will, alongside other CoFR agencies, engage with industry on major design issues to keep a focus on delivering reliable, efficient, innovative and competition-enabling outcomes. We will also closely monitor progress being made by industry towards achieving this real time account to account payments capabilities. As a first step, our expectations are that industry proposes a timetable that demonstrates its commitment and progress.
4. Despite payments capability falling behind global counterparts, the current consideration of key pillars of the future of New Zealand's payments ecosystem provides unique opportunity. The real-time account to account value transfer should form the basic foundation on top of which other functionalities can be built. Other notable work streams include, central bank digital currency (CBDC), Customer and Product Data Bill, and Digital Identity Services Trust Framework. RBNZ will continue to work closely with CoFR agencies to maximise synergies, and is interested in how industry sees these working in concert together.
5. RBNZ does not see any critical dependency between a potential CBDC and a real time account-to-account payment system. That said, international evidence suggests that a CBDC has better features if it is highly interoperable with real time account-to-account payments. While real time payments and a CBDC may compete in some use case scenarios, there are potential opportunities for design synergies.
6. Real time payments capability will need to be delivered in a manner that is consistent with financial stability, and CoFR's vision for payment systems. The arrangements should observe the relevant international standards for payment systems, the Principles for Financial Market Infrastructures (PFMI). In particular, the arrangements should have a sound risk management framework, be resilient offering continuity of service, and allow fair and open access. Should the arrangements be assessed and designated as systemically important in due course, they would become subject to comprehensive oversight under the FMI Act 2021, which would include a requirement to comply with standards based on the PFMI.

Our detailed response to your questions on foundational components is attached to this letter. Note that the Commerce Commission is also supportive of the potential to for real time payments capability to improve the levels of innovation and competition across the payments landscape. I have identified in our detailed response below some particular areas where the Commerce Commission would like to be engaged.

I am also writing to you separately on the Reserve Bank response to your letter on the Payments NZ governance review.

Can I suggest in follow up that we meet to discuss this letter, and the governance letter, or any other matters of mutual interest. If suitable, then my staff will be in touch to arrange a mutually suitable time to meet.

Our preferred approach to engage with you on these matters as they progress would be through facilitated targeted workshops between the Payments NZ project team and relevant Reserve Bank of New Zealand staff. Any major design or approach decisions requiring formal consideration will of course be supported by written communication between our two organisations.

Looking forward if you could please direct your communication on these topics to futureofmoney@rbnz.govt.nz, which will assist us in providing you with a more timely response.

Finally, given the interests of transparency with wider industry stakeholders, it is our intention to publish the above key messages onto our website, with a link to a proactive release of this letter. We will time this with the release of CoFR's vision for payments. We trust that this will not create any issues for you.

Nāku noa, nā

Karen Silk

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Response to Payments NZ's Initial Questions on a potential Real Time Payment Infrastructure.

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<p>1 Settlement: Our working assumption (per the discussion document) is that a deferred settlement model leveraging existing methods is viable. Is this approach an acceptable option?</p>	<p>We would like to validate the assumption that deferred settlement is acceptable and identify any wider considerations the Reserve Bank deems relevant. More detailed design will come at a later stage of the initial design work, as noted in Q20.</p>	<ul style="list-style-type: none"> • RBNZ is focused on settlement risk itself, rather than on the settlement model. • NZ's current payment systems have largely eliminated settlement risk. We have a low tolerance for any material level of settlement risk. • A deferred settlement model could be viable, but it would depend on how settlement risk is managed. For example: settlement risk exposures could be managed through the use of collateral; or using mirror accounts linked to participant holdings in ESAS sub-accounts. • Other models may be also viable. Regardless of the preferred model, RBNZ will be interested in understanding the rationale as to why any model is preferred by the industry and its risk profile.
<p>2 Platform requirements: There are numerous platform design considerations for real-time infrastructure – e.g. Hosting/sovereignty considerations, privacy and access to data, redundancy, regulatory reporting etc. What role would the Reserve Bank like to have in defining</p>	<p>We are seeking an indication as to the level of involvement the Reserve Bank would like to have as we work through aspects of Foundational design with Participants and key stakeholders over the next 3-6 months.</p>	<ul style="list-style-type: none"> • The RBNZ would expect to be engaged on 'platform design' considerations, including those listed in the question. 'Where a clear position is sought from RBNZ on any important issue or foundational design decision, RBNZ would like to receive written information and have time to consider and develop its position. On a case-by-case basis, this may be complemented by a dialogue with the Payments NZ project team. • Regarding 'guardrails', we encourage focusing closely on CPMI-IOSCO's Principles for Financial Market Infrastructures (PFMI). We also note that should any new infrastructure be designated under the Financial Market Infrastructures Act, it would have to comply

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<p>the 'guardrails' for platform design?</p>		<p>with the standards issued under that Act. See also our response to question 14.</p> <ul style="list-style-type: none"> In practice, we encourage an open dialogue with us on upcoming and potential guardrails for platform design, so we can provide feedback on desired engagement for specific aspects of the work.
<p>3 Access: What expectations does the Reserve Bank have regarding system access for Direct, Indirect and Third-Party participants?</p>	<p>Our starting assumption is to provide access pathways for financial institutions, Fintechs, service providers and larger-scale users of payments infrastructure (e.g. Corporates and Government Agencies). Any access would be subject to appropriate security and risk management capabilities which will be determined in a detailed design phase.</p> <p>We would like to confirm that our assumptions are valid, and understand any initial views the Reserve Bank would like noted or considered regarding access to new infrastructure.</p>	<ul style="list-style-type: none"> Any new real time payments infrastructure provides an opportunity to improve New Zealand's competition and levels of innovation. This can only be achieved if there is an open access framework, and a wide range of options available to meet the needs of different segments of the payments market. From a directional point of view, the RBNZ is supportive of what is set out. Again, we refer you to the PFMI and FMI standards regarding access, but also note that we will want to engage with you on system access as your thinking develops. We note that the Commerce Commission is also be interested in engaging with Payments NZ in this area it develops.
<p>4 Core Scope: What expectations does the Reserve Bank have regarding support for offline processing?</p>	<p>While real-time infrastructure is architected around online real-time transactions, it is feasible to design capabilities that support offline scenarios, such as access to essential goods and services when power, telecommunications or computing infrastructure is temporarily unavailable. There are some significant</p>	<ul style="list-style-type: none"> Our objective for money and payments is: " <i>New Zealand has a reliable and efficient money and payments system that supports innovation and inclusion.</i>" We also expect payment systems to be operated in a way that satisfies our financial stability objective of protecting and promoting the stability of New Zealand's financial system. Resiliency is an important part of a reliable and stable payment system. Consideration of offline processing could make a

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	<p>architecture and design considerations associated with offline access, and so we are seeking input from all stakeholders on the desirability and importance of such access. When considering overall payment systems resilience, to what extent should real-time infrastructure be architected to be able to support offline payments?</p>	<p>significant contribution to the resiliency of New Zealand’s payment systems. Risks, market demand, and efficiency are other considerations.</p> <ul style="list-style-type: none"> • RBNZ is supportive of the industry giving serious consideration to how any new real time payments infrastructure can improve New Zealand payment system’s reliability and resilience, including consideration of offline payments. • Note that the CBDC work programme is also considering offline usage. However, this should only be noted and should not influence industry considerations on off-line capability in an account-to-account context.
<p>5 Infrastructure ownership: Does the Reserve Bank have expectations in regard to potential ownership models for real-time infrastructure? If so, what are those?</p>	<p>Both Australia and India have adopted a Participant ownership model whereby direct participants take an ownership stake in the Payment System Operator, be they Financial Institutions, third-party Fintechs or solution providers. Such a model may be appropriate for Aotearoa to consider and could result in mixed ownership, rather than one that is made up solely of regulated financial institutions. Does the Reserve Bank have any views on the industry exploring a mixed ownership model?</p>	<ul style="list-style-type: none"> • Ownership is closely related to access and participation, governance control, and the immediate and enduring financial and commercial case for a new real time payments infrastructure. • Industry should anticipate close regulatory interest and scrutiny on the consequential outcome and impacts of any ownership model. For example, on participation, access, cost of participation, who gets what benefit from ownership, etc. Industry should also expect close regulatory interest in how the ownership structure can change over time in line with who is involved and participating in the different parts of the payments ecosystems. • Please refer to the PFMI and FMI standards for an indication of our expectations regarding any consequential outcomes.

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<p>6 Infrastructure ownership: Does the Reserve Bank see a role for itself in the future ownership of real-time infrastructure, either outright (e.g. India or Brazil) or as part of a consortium (e.g. Australia)?</p>	<p>Reserve Banks in several jurisdictions have outright or partial ownership in real-time payment system operators.</p> <ul style="list-style-type: none"> • Partial PSO ownership • Ownership of components (CDBC issuance or acceptance infrastructure, settlement services) <p>Any early guidance from the Reserve Bank will aid in the work we are doing in consensus-building.</p>	<ul style="list-style-type: none"> • It is difficult to answer this question conclusively without seeing the model that is developed and the key roles and responsibilities of various actors in it, including the RBNZ. • For the time being, the industry should operate on the assumption that RBNZ will not be an owner. • We do not preclude any option, including receiving proposals for how RBNZ or public sector ownership might work. However, we note that RBNZ is not traditionally an owner of retail payment systems.
<p>7 Governance: Are there any expectations that the Reserve Bank has in regards mandatory participation of financial institutions, and any associated timing?</p>	<p>Does the Reserve Bank have any views on the mandatory participation of financial institutions in a new real-time infrastructure or capability?</p> <p>Are there any initial or guiding expectations in this regard?</p>	<ul style="list-style-type: none"> • Any account-to-account real time payment system will require a critical mass of participation from banks and financial institutions that offer bank accounts to customers. Having any real time account to account payments capability linked to most, if not all, bank accounts in New Zealand will be vital to its success. We expect that for viable products and services to be invested in and developed, a fully scaled network will be required from the outset. Achieving this will require a clear and early commitment from retail banks. This should be a key feature of the timetable that demonstrates its commitment and progress that we would like to see from industry. • The Reserve Bank is unlikely to proactively mandate participation in a new real time payments infrastructure. • However, we would be open to receiving industry proposals on how its powers, or the powers of the Commerce Commission under the Retail Payment System Act, could be used to achieve any

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		viable level of participation in a new real time payments infrastructure.
<p>8 Core scope: Our working assumption is that real-time infrastructure will support domestic bank accounts as well as stored value facilities and wallets. Does the Reserve Bank have any expectations regarding coverage?</p>	<p>This is linked to Q7 above. Our working assumption is that real-time infrastructure should be capable of supporting a wide range of accounts and stores of value. Does the Reserve Bank have any views relating to this?</p> <p>Note there is a related question (Q18) on the Reserve Bank’s CDBC initiative.</p> <p>In regards CDBC usage, our assumption is that real-time infrastructure should be interoperable with any deployed CDBC infrastructure in Aotearoa. Is that a valid assumption?</p>	<ul style="list-style-type: none"> • RBNZ notes that digital wallets will likely be a key future intersection point between: financial services; account-based payments; digital identity; a CBDC; and other services. • Interoperability between all participants of any real time payments infrastructure will be crucial. • Horizontal interoperability between any real time payments infrastructure and other clearing systems and frameworks such as open banking and Digital Identity Services Trust Framework will also be important. • Both the Reserve Bank and the Commerce Commission are interested in hearing how current and emerging open banking use cases, such as Payments Initiation and some Account Information, would be catered for, and be interoperable with, any new real time payments infrastructure. This includes how current API Centre Third Parties and future Customer and Product Data recipients could interoperate and interact with a new real time payments infrastructure. • However, if a CBDC ecosystem is delivered, the following considerations should be noted: A) The CBDC use case where a customer funds their CBDC holdings from their bank account, and vice versa, would need to be addressed. Interoperability between bank accounts and the CBDC ecosystem would need to be defined in order to support this use case. This applies irrespective of whether or not there is real time account to account payments capability. B) It is a likely possibility that any CBDC ecosystem would enable overlay systems and services to enhance value over

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<p>9 Core scope: Our conceptual design allows for the separation of core real-time capability and optional commercial overlay services (QR code may be an appropriate example). How do we work with the Reserve Bank to ensure that this aspect of ecosystem design meets regulatory expectations?</p>	<p>Our aim is to determine a potential core scope for real-time infrastructure during the Foundational design phase due to complete in April. We would appreciate the opportunity to engage on that design with the Reserve Bank in May, with a view to determining any gaps or issues from a regulatory perspective.</p>	<p>and above a core CBDC functionality. Real time payments infrastructure capabilities could act as an overlay service. Further, a given overlay service could potentially span both a real time account to account payments and CBDC systems.</p> <ul style="list-style-type: none"> • The Reserve Bank would welcome the opportunity to respond to any design considerations once they are developed.
<p>10 Foundational design inputs: What requirements or expectations does the Reserve Bank have in regards Fraud risk management?</p>	<p>Fraud management is recognised as an important foundational design consideration for real-time payments. This is being reinforced through our foundational workshop series, and we are seeking input from stakeholders on aspects such minimum standards and centralised fraud reporting, along with exploring options such as centralised fraud detection and/or scoring capability.</p>	<ul style="list-style-type: none"> • Resiliency, safety and protecting users should be core attributes of any payment system. • Being one of the last developed countries in the world to develop a real time payments infrastructure does bring an opportunity to learn from other jurisdictions, including in the area of fraud detection and mitigation. • Fraud detection and mitigation strategies and tools should be a major design focus. A holistic view should be taken when considering this, including how fraud detection and mitigation is managed across all participation layers of any real time payments

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	<p>Does the Reserve Bank have any expectations or guidance on minimum standards and the provision of centralised services such as fraud reporting and scoring/detection?</p>	<p>infrastructure. A well designed real time account to account payments infrastructure has the potential to make improvements on today's fraud and scam prevention capabilities. We encourage industry to prioritise user safety.</p> <ul style="list-style-type: none"> The Reserve Bank does not have any specific guidance on minimum standards at this early stage.
<p>11 Foundational design inputs: What requirements or expectations does the Reserve Bank have in regards AML?</p>	<p>If cross-border payments are included in-scope for real-time infrastructure there will be a requirement for transaction-based AML checks. AML may also be a consideration for customer onboarding for third parties and financial institutions should that onboarding be facilitated through real-time services.</p> <p>It may be feasible for some AML-related functions to be delivered via real-time infrastructure, or these could be left as the responsibility of each individual entity.</p> <p>Are there any design considerations from the Reserve Bank that we should be incorporating into our decision-making (noting that there may be none)?</p>	<ul style="list-style-type: none"> All AML Reporting Entities have obligations to comply with applicable AML/CFT legislation and regulation. From an efficiency and cost of participation perspective, the design of a new real time payments infrastructure brings with it the opportunity to consider how it might support an AML/CFT Reporting Entity efficiently meet some of their obligations. At this stage, we do not have any specific design considerations.

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<p>12 Foundational design inputs: How do we engage with the Reserve Bank to validate and refine foundational design components?</p>	<p>Related to Q17. Once we have a foundational design ‘strawperson’, how can we go about validating that with the Reserve Bank?</p>	<ul style="list-style-type: none"> • Refer question 2
<p>13 Governance: What considerations would the Reserve Bank expect to see as we work to determine the scope of real-time governance? What role would the Reserve Bank like to play in this exercise?</p>	<p>Payments NZ is promoting a broad and representative governance approach whereby financial institutions, third party service providers and system users are all appropriately represented in governance arrangements. This includes considerations under Te Tiriti and communities who may face additional barriers in participation. We would like to understand what input or role the Reserve Bank would like to play in relation to the design of this governance approach.</p>	<ul style="list-style-type: none"> • Refer to our response to question 5, which also refers to the governance inter-relationship with ownership, participation and the commercial approach. • Consideration should be given for how civil society representatives, including those representing groups that may face additional barriers in participation, could be represented in the design activities and governance.
<p>14 Governance: Does the Reserve Bank have any expectations regarding real-time infrastructure and the FMI Act?</p>	<p>Our foundational design approach is cognisant of the FMI Act. Our assumption is that should new real-time infrastructure be introduced it is likely to be designated under the Act at some point in the future. Our considerations here are to ensure that we do not have to rework any foundational elements of the system design, ownership, governance or operations should the</p>	<ul style="list-style-type: none"> • Any potential real time payments infrastructure should aim to be successfully launched and used by many New Zealanders as a part of their day-to-day banking and payments activities. With this end goal in mind, the industry should give consideration as to whether the potential real time payments infrastructure should proactively apply for FMI designation. • It is also possible that in time a new infrastructure may reach the point where it is assessed to be systemically important and, if not already designated, could be “called in” to the regime.

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	<p>infrastructure be designated in the future. Our narrative is that real-time infrastructure may be designated under the scheme and therefore we should design it with that in mind. Does the Reserve Bank have any concerns regarding that approach?</p>	<ul style="list-style-type: none"> RBNZ has no immediate concerns with the approach you have described.
<p>15 Governance: What expectations does the Reserve Bank have in regards Te Tiriti and real-time infrastructure?</p>	<p>The Payments NZ team are working with Māori stakeholders as part of our wider Company strategy in relation to Te Ao Māori. This includes exploring frameworks such as Māori Data Sovereignty with experienced advisors. Does the Reserve Bank have any explicit guidance on this?</p>	<ul style="list-style-type: none"> RBNZ supports a strong focus on how Te Ao Māori matters and Māori Data Sovereignty principles are proactively reflected and built-in to the in design and development of any real time payments infrastructure.
<p>16 Access: What views or guidance does the Reserve Bank have on the construction of a liability model for a real-time infrastructure?</p>	<p>We will be addressing risk and associated liability considerations in our 'Refinement' engagement phase from June. We recognise that liability and consumer protection will require careful consideration for all parties, including financial institutions and organisations with the ability to initiate payments. Does the Reserve Bank have any guidance on this and/or any expectations that liability provisions may be included in any infrastructure regulation?</p>	<ul style="list-style-type: none"> We agree that the liability model and consumer protections will require careful consideration. As mentioned in question #10, we encourage industry to prioritise user safety. Having strong customer protection safeguards and a well communicated and clear liability model will be important. While we do not have any specific guidance at this time, this will be an area that the industry should expect regulatory interest.
<p>17 Core scope: What is the Reserve Bank's view on the</p>	<p>Does the Reserve Bank have any views on the relative importance and priority for cross-border</p>	<ul style="list-style-type: none"> There is an emerging trend of interlinking different domestic real time payment infrastructures together to help facilitate trade and cross border payments. As a small, open, trading economy, future

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<p>priority of cross-border payments via new real-time infrastructure (e.g. Singapore, Australia, Pacific)?</p>	<p>payments as we develop a potential roadmap of future capability?</p>	<p>proofing for cross border payments should be an important consideration. Domestic account to account real time payment capabilities should be prioritised, however while this domestic capability is being designed, ensuring it is future proofed to accommodate cross border payments into the future should also be an important design consideration.</p> <ul style="list-style-type: none"> • Cost effective, accessible and compliant South Pacific remittances are a priority for the Reserve Bank. Facilitating efficient trans-Tasman trade should also be considered.
<p>18 Core scope: What is the Reserve Bank’s view on synergy with Reserve Bank CDBC plans? Should support for CDBC be in-scope for real-time?</p>	<p>Our proposed approach incorporates a flexible and adaptable ‘connectivity’ layer for the real-time payments ecosystem. This can allow for interoperability with other payment systems, which could include aspects of CDBC issuance and/or acceptance.</p> <p>At a principle level (as opposed to detailed design), to what extent should the foundational design of real-time infrastructure support the ability to interoperate with CDBC?</p>	<ul style="list-style-type: none"> • Refer question 8. • RBNZ has not made any decision to implement a CBDC, although it is actively exploring its options. • New Zealand is unique in the world in that it is at the early stages of exploring both real time account-to-account payments and a CBDC. This brings with it some opportunities. • There are possible mutually-beneficial design synergies between a potential real time system and CBDC in the following areas: user’s funding and defunding CBDC holdings from bank accounts; consistent data standards and data models; a potential common approach and systems for user alias/proxies conveniently addressing both CBDC and real time payments; fraud identification and mitigation tools, and other functions. These synergies with real time payments capabilities would make a better functioning New Zealand CBDC. • Should the CBDC work programme continue, the RBNZ would prefer to wait until the next stage (our ‘Stage 3’) before further considering how these synergies could be realised.

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<p>19 Core scope: Does the Reserve Bank have any expectations regarding the application of ISO20022 standards?</p>	<p>ISO20022 is a feature-rich and wide-ranging standard that has resulted in various ‘flavours’ or ‘dialects’ being adopted in different industry segments (e.g best practice approaches for ISO20022 in CDR and real-time payment contexts). We will be seeking to adopt a position on ISO20022 usage in a future detailed design phase, and will be working closely with the API Centre as they continue to expand and refine API standards. Are there any technical design considerations from the Reserve Bank that we should be incorporating into our design decisions (noting that there may be none)?</p>	<ul style="list-style-type: none"> • Unless the technical approach is inconsistent with the PFMI or impacts directly on RBNZ’s ESAS system, it is unlikely that the Reserve Bank will provide commentary on detailed technical design aspects. We do, however, support ISO 20022 as the starting point for any standards approach. • Refer to our response to question 8 regarding the Customer and Product Data Bill. • The Reserve Bank is not the agency responsible for Customer and Product Data Bill. However, we would be interested in understanding whether any current API Centre or future Customer and Product Data payments functionality would also be extended to encompass real time payments capability, and if not, why not.
<p>20 Settlement: What expectations does the Reserve Bank have for Settlement and settlement risk management in a real-time infrastructure?</p>	<p>Our intent is to explore options for settlement and settlement risk in the ‘refinement’ phase of the work programme later in the year. Given policy, supervision and operational (ESAS) considerations for this, our preference is to work proactively with the various Reserve Bank teams as we prepare to engage with stakeholders in the refinement phase.</p>	<ul style="list-style-type: none"> • Refer response to question 1. • The Reserve Bank would welcome reviewing written options and preferences for how settlement could occur and how settlement risk is managed. • The approach to settlement is closely coupled with any holistic real time payments infrastructure model and design. As such, it is unlikely the Reserve Bank will give guidance on any preferred approach just with respect to settlement.