



31 Dec 2020

## R3 Response to Australian Treasury's Review of the Payments System

### Executive Summary

R3 welcomes the opportunity to contribute to the Treasury's review of Australia's payments system. This is an important topic given the advances in payments technology in recent years and changing consumer demand patterns. We support the Treasury's review of the regulatory architecture of the Australian payments system to ensure it remains fit-for-purpose and is capable of supporting continued innovation for the benefit of consumers, businesses and the broader economy.

Below we outline R3's perspective on the payments system and the role of government and emerging technologies in ensuring that the payments system evolves with changing customer and business requirements. We would be delighted to discuss our perspective or any of the points raised in the consultation and our response.

### Introducing R3

R3 is an enterprise blockchain software firm working with a broad ecosystem of partners across multiple industries from both private and public sectors to develop on Corda, its open source blockchain platform, and Corda Enterprise, a commercial version of Corda. R3's global team of over 400 professionals in 14 countries is supported by more than 2,000 technology, financial, and legal experts drawn from its global member base.

Integral parts of R3's ecosystem are governments and regulators, who are key to our approach to innovation. We engage with the public sector at all levels, having met with well over 200 globally to date. Such engagement has allowed for the incorporation of key regulatory requirements into the design of Corda and facilitated public sector work on Corda as well.

### R3's Corda Platform

The fundamental design decision of Corda, which was made at the very beginning, is that Corda allows for limited data sharing, which means information is only shared with those who have a need and a right to see it. This data sharing model ensures privacy and facilitates compliant transactions between regulated institutions that are subject to reporting and data privacy regulations. We have been developing this platform significantly over the years and went to market with our first enterprise version in July 2018. As an enterprise-grade blockchain platform, Corda removes costly friction in business transactions by enabling institutions to transact directly using smart



contracts, while ensuring the highest levels of privacy and security. This provides value to the users and the customers of the users, while also benefitting markets at large.

Corda was originally built by the financial services industry for the financial services industry. It was developed to leverage the power of blockchain to address specific business challenges in highly regulated markets, and is now being applied seamlessly to other sectors including digital identity, healthcare, energy, insurance and supply chain.

Further information on R3's work, portfolio and its partners can be found on our website:

<https://www.r3.com/>.

## Responses to Questions

**Question 1.** Does the regulatory architecture appropriately facilitate the development of an overall vision, strategy and principles for the Australian payments system?

The Australian payments system has been witnessing great advancement in payment technology and changes in consumer demand in recent years. R3 believes it is critical that the regulatory architecture supporting the Australian payments system continues to maintain its principles-based approach to embrace emerging technologies, promote innovation and keep up with the payments landscape transformation. Much progress has been made over the last ten years and there is more that can be delivered with a focused regulatory approach to spur further innovation.

We at R3 think that distributed ledger technology (DLT) will be one of the key technologies underpinning major developments and innovations in this space in the coming decade. As the development of payment rails supported by DLT matures, we believe Australia is in a good position to be an early mover in the region to provide a supportive regulatory landscape that will further foster innovation and competition. End-users will experience this benefit directly and through the offerings of businesses that utilise the technology to provide new products and services to the market.

At R3 we look forward to working with the government and regulators to make this happen, so the Australian payments system continues to remain at the forefront of innovation.

**Question 2.** How should our regulatory architecture be designed in order to balance the management of risk and efficiency in the payment system with the need for effectiveness for end-users?

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We are strong believers that regulation should take the approach of same business, same risks, same rules. As such, introduction of a new technology should not require significant changes to the regulatory architecture to accommodate such innovation. Rather, regulation should be structured to ensure that innovation is allowed, which in many cases and increasingly so, it already is, while continuing to apply the same principles-based regulation that prioritizes market stability, security, and consumer protection.

The Australian payments landscape is undergoing a massive transformation and the next decade will be crucial to ensure it keeps up with evolving industry requirements. This will require a supportive policy and regulatory framework. In recent years, there have been significant changes in the way that Australians make payments. The launch of the New Payments Platform (NPP) in 2018 has been instrumental in allowing consumers and businesses to make real-time payments.

New technologies such as DLT can strengthen projects like the NPP. Smart contracts on DLT could integrate with the NPP to allow instant payments. Cross border transactions are also another area where it is possible to integrate the NPP with DLT.

DLT has the potential to re-architect payments systems to provide greater speed, efficiency and regulatory transparency. This has led to initiatives such as the development of Central bank digital currencies (CBDC) that many Central Banks and payments regulators around the world are increasingly paying serious attention to. R3 commends the Reserve Bank of Australia's (RBA) recent efforts to develop a proof-of-concept for the issuance of a tokenised form of CBDC for wholesale settlements.

Our vision is for a payments sector that will be compatible with the 'tokenisation' transformation that we are seeing develop, which may in some instances require regulatory changes. Tokenisation is the digital representation of assets, either as a digital twin or issued directly in a digital format onto a DLT. Tokens can represent assets such as property and vehicles but can also represent financial assets, such as bonds. DLT provides the underlying platform that will allow for the trading and exchange of these assets in a traceable, secure and efficient manner.

Today's regulations may need to be modified to accommodate tokenisation (e.g., to permit issuance of tokenised assets and recognition of ownership of the underlying asset by ownership of the token).

With asset tokenisation, it is important to emphasise that the regulatory regime should not create a scenario in which the same instrument in digital form is subject to heightened regulation from when it is in traditional form. Also, it is important to ensure that there is no regulatory confusion created by the development of a second and potentially overlapping regime for some assets.

**Question 4.** Are there gaps (or duplication) in the current architecture that need addressing to ensure the system continues to work in the best interests of end-users?

The financial sector, including payment systems, is a fast-moving industry where regulators are constantly needing to adapt to changing industry requirements. In order to meet these evolving industry requirements, R3 suggests that the Australian Treasury could study and evaluate the role of emerging technologies such as DLT in the following areas:

a. Wholesale Settlements

Developing a wholesale CBDC is gaining popularity amongst central banks globally because of its potential to make existing wholesale financial systems faster, less expensive, and safer. Therefore, it is noteworthy that RBA is not taking an overly cautious stance toward it but experimenting with a CBDC for wholesale settlements.

With a wholesale CBDC, payments and securities settlement efficiencies are improved, whilst reducing counterparty credit and liquidity risks, and reducing reconciliation costs and time.

b. International Business Payments

In order for legacy cross border payment methods with high costs and insufficient transparency to change, it is essential that the regulatory architecture is designed to encourage competition and innovation to grow the fintech sector. That will help to pave the way for emerging technologies such as DLT to improve existing processes.

CBDCs issued using DLT can be used in international business payments. CBDCs can help to significantly streamline costs and enhance both regulatory transparency and data linkages, thereby benefiting global trade. DLT-enabled supply chain and trade facilitation processes are already being developed and including a CBDC or global stablecoin as the native means of settlement within such systems is a natural extension of those efforts.

c. International Retail Payments

Australia's regulatory architecture is generally seen as being non-prescriptive. This principle allows for a greater degree of 'future-proofing' and enables the government to respond to new issues as they arise without having to create new rules. However, at the same time, it is important to ensure that the government actively engage with new technology to ensure Australia is included in initiatives that may redefine the global payments architecture.

A case in point is in international retail payments which remains expensive and slow for consumers and remittances. Associated anti-money laundering (AML) and counter

terrorism financing (CTF) processes are often cumbersome and not particularly effective. A CBDC could address these gaps, promote financial inclusion by accelerating the shift to a cashless society, and reduce cash printing and handling costs. Additionally, AML/CTF data for both ends of a transaction can be securely linked to every individual transaction.

#### d. Domestic Retail Payments

Though Australia has a sophisticated payments infrastructure, one area that could be studied is the role of CBDC to provide a more effective and lower cost method for conditional government payments such as welfare benefits or grants schemes.

In addition to the above points, R3 believes it is critical that issuance and transactions of digital assets such as CBDC be conducted in a secure and regulated manner via permissioned blockchain platforms, such as Corda, that have well-defined governance, settlement finality and known identity.

**Question 8.** How can the regulatory architecture enable participants in the payments system to make better use of data to improve cross-border payments and other payments that benefit end-users?

R3 supports RBA and the Australian Payments Council's consideration to migrate messaging used in the Australian payments system to the ISO 20022 messaging standard – the ISO standard for electronic data interchange between financial institutions – with particular support toward real time gross settlement (RTGS) systems for high value payments. This is in line with efforts undertaken in other parts of APAC. For instance, Japan's central bank has redesigned its RTGS system to ensure it is ISO 20022 compliant while Singapore's migration is scheduled for 2021. Systems in India and China are also compliant, while work is underway in Hong Kong and Malaysia.

It is worth noting that Corda supports the ISO 20022 standard. In fact, we are working with one of our partners, Identitii, to create an application on Corda to convert cross border payment messages from the old messaging standard, known as message type (MT), to the new ISO 20022 standard using existing systems without the risk of data loss or truncation.

### **Working with You**

R3 fully supports the Australian Treasury and its commitment to enabling innovation across the payments sector. We have engaged extensively with various regulators on payments systems and would welcome the opportunity to do so directly with you in the future.



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For any clarifications, please do not hesitate to contact our team:

Indra Suppiah, Government Relations Manager, APAC [REDACTED]

Isabelle Corbett, Global Head of Government Relations [REDACTED]