Regulation of Payment Service Providers: Tranche 1a Exposure Draft Legislation

## **Overview of Reforms**

The Government is modernising the regulatory framework for payment service providers (PSPs), to ensure it is fit for purpose, and promotes regulatory certainty, competition and innovation.

These payment licensing reforms are being progressed in two tranches, using Australia’s existing regulatory architecture.

In Tranche 1, the Government will set the foundations for the new payments regulatory framework by introducing legislation to establish graduated obligations through:

* requiring PSPs that perform certain functions to obtain an Australian Financial Services (AFS) licence;
* APRA powers for major stored value facility (SVF) providers (including major tokenised SVF providers) and designated PSPs; and
* a rule-making power to enable introduction of a mandatory, revised ePayments code.

In Tranche 2, the Government will consider other reform elements, such as common access requirements and an industry standard-setting body and will review and update the ePayments Code.

#### Table 1: Regulatory Framework for Tranche 1 Reforms

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| **Key Elements** | **Responsibility** | **Purpose** |
| **Financial services regulation**  All PSPs performing a payment function | **ASIC** | **Uphold baseline conduct and capability, and protect payment product and service users** |
| **Prudential regulation**  Major SVF providers and designated PSPs | **APRA** | **Promote safety and stability of the financial system** |
| **Rule-making power for mandatory ePayments Code** | **Treasurer** | **Enhance consumer protections** |

## **Implementation of Tranche 1 Reforms**

#### The Government will release two sub-tranches of draft legislation for consultation for Tranche 1 reforms, with the objective of introducing a single package of legislation to Parliament in 2026.

### Tranche 1a Exposure Draft Legislation

Tranche 1a Exposure Draft (ED) legislation is currently open for consultation. It sets the structural foundations of the new regulatory framework by defining core concepts, such as the payment functions that will be subject to the AFS licensing regime and APRA powers. It provides the framework for the application of core AFS licensing obligations and includes some additions to these obligations.

Tranche 1a principally involves amendments to the *Corporations Act 2001* (Cth).

#### Table 2: Overview of Payment Functions

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| **Activity​** | **Payment Functions** | **Examples\*** |
| Storing funds​ | SVFs | Prepaid cards; digital wallets that store value​ |
| Tokenised SVFs | Stablecoins that reference the value of a single currency |
| Movement of funds​ | Payment Facilitation Services​ | Merchant acquiring services; domestic and cross-border remittance services​ |
| Instructions​ | Payment Instruments​ | Debit and credit cards |
| Payment Initiation​ Services | Direct debit services; ‘PayTo’ services |
| Payment Technology and Enablement​ | Payment gateways​; pass-through digital wallets |
| *\*These are the intended policy outcomes and are indicative only.* | | |

### Tranche 1b Exposure Draft Legislation

Tranche 1b ED legislation is expected to be consulted on in early 2026. It will cover additional licensing obligations such as safeguarding payment-related money, licensing exemptions and exclusions, APRA powers, a framework for unclaimed monies, the new ePayments Code rule‑making power and transitional arrangements.

## **Updated Policy Specifications**

Several policy positions for Tranche 1 reforms have evolved since the last public consultation round in December 2023 (CP2), in response to stakeholder feedback (see table 3 below).

#### Table 3: Summarised Policy Specifications

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| **Framework** | **Policy Details** | **Updates to Policy Specifications** |
| **Financial Services Regulation:** AFS Licence | **Payment functions regulated as financial products:**   * Stored Value Facilities (SVFs) * Tokenised SVFs * Payment Instruments   **Payment functions regulated as financial services:**   * Payment Initiation Services * Payment Facilitation services * Payment technology and enablement Services | **Key changes since CP2 include:**   * Replacing ‘payment stablecoins’ terminology with ‘tokenised SVFs’ * Treatment of facilitation services as a financial service instead of a financial product * Exclusion of purely ‘back-end’ services from technology and enablement services * Inclusion of cross-border transfer services in facilitation services |
| **Only corporate providers** of the defined functions will be required to hold a licence. | This scope of regulated bodies is more specific than in CP2. |
|  | **Obligations applicable to licence holders include:**   * Existing AFS licensing obligations including general licensee obligations (e.g. general conduct and capability, risk management and reporting), specific obligations relating to financial products (e.g. product disclosure and design requirements), and specific obligations where services are provided to retail clients (e.g. dispute resolution, compensation, financial services disclosures). * New reform-specific obligations, such as safeguarding payment-related money, cooperation obligations for intermediary licensees to support dispute resolution, and ongoing disclosure obligations for tokenised SVFs. | Obligations are generally consistent with the proposals in CP2. |
| **Some existing exemptions** will be applied to new payment products and services. | Exemptions are generally consistent with the proposals in CP2. |
| **Prudential Regulation** | **Major SVF providers and certain PSPs designated by the Minister** will be subject to APRA regulation.  This is in addition to AFS licensing requirements that apply to these providers.  This replaces the existing Purchased Payment Facility (PPF) framework and the RBA’s role with respect to PPFs. | **Key changes since CP2 include:**   * Increasing the threshold to qualify as a ‘major SVF provider’ from holding $100 million in stored value to $200 million * Replacing APRA licensing requirement with a streamlined process for registration with APRA * Allowing for smaller SVF providers to opt-into the prudential regulatory framework, subject to APRA’s approval. |
| **ePayments Code** | **Rule-making power** to allow the Minister to set baseline consumer protections and mandate the ePayments Code. | The rule-making power is generally consistent with the proposals in CP2. |
| **Timing and Commencement** | Transitional arrangements will apply after deferred commencement. | These arrangements will be generally consistent with the proposals in CP2. |

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| Next Steps   * Consultation on Tranche 1b ED legislation is expected to take place in early 2026. * The Government is aiming to introduce a single package of Tranche 1 legislation in 2026. * Consultation on related subordinate legislation will occur following progress on primary legislation. * The Government will also further consider Tranche 2 reform elements from 2026.   Related Information   * [A Strategic Plan for Australia’s Payments System | Treasury.gov.au](https://treasury.gov.au/publication/p2023-404960) * [Licensing of payment service providers – payment functions | Treasury.gov.au](https://treasury.gov.au/consultation/c2023-403207) * [Payments System Modernisation (Regulation of Payment Service Providers) | Treasury.gov.au](https://treasury.gov.au/consultation/c2023-469663) |