

Regulation of Payment Service Providers - Tranche 1 draft legislation

Introduction

Since June 2023, the government has been consulting on different aspects of a licensing framework for payment service providers (**PSPs**).

Following the government's release in October 2025 of Tranche 1A of the draft legislation which covers concepts underlying the new framework and licensing obligations, the government has now released Tranche 1 which updates and expands on the Tranche 1A draft legislation including definitions and core concepts and disclosure requirements for tokenised SVFs. Tranche 1 also includes proposed safeguarding requirements, licensing exemptions and exclusions (supported by draft regulations), APRA powers for major SVF providers and designated payment service providers, unclaimed monies rules, a power to make the ePayments Code mandatory and transitional arrangements.

Tranche 2 will follow later in 2026 and is expected to cover common access requirements and an industry standard setting body.

Tranche 1

The consultation documents of Tranche 1 include exposure drafts of:

- ▼ Treasury Laws Amendment Bill 2026: Payments System Modernisation — amendment of the Corporations Act 2001 and other Acts (**draft AFSL Bill**)
- ▼ Payment Entities (Prudential Regulation) Bill 2026 (**draft APRA Bill**)
- ▼ Explanatory Materials for the Exposure Draft Bills
- ▼ Fact Sheet
- ▼ Treasury Laws Amendment (Payments System Modernisation) Regulations 2026 and Explanatory Statement

Treasury Laws Amendment Bill 2026: Payments System Modernisation — amendment of the Corporations Act 2001 and other Acts (draft AFSL Bill)

The draft AFSL Bill principally outlines changes to the financial services licensing provisions in Chapter 7 of the Corporations Act. A key aspect of these is the removal of non-cash payment facilities as one of the three broad classes of financial product leaving only investment facilities and risk management facilities as the remaining two broad classes of financial product.

Instead, a new concept of "payment product", being a new collective term for "stored value facility" and "payment instrument", is introduced as one of the many sub-classes of product deemed to be financial products in section 764A of the Corporations Act. The concept of "payment product" is a component of various new "payment services" for which an Australian Financial Services Licence will be required.

An intended consequence of the changes is that a much larger range of payment services will fall within the scope of the AFSL regime including currently unregulated services relating to accepting or collecting payments and facilitating such acceptance or collection. This means it will be necessary for a much wider range of businesses involved in payments to operate under an AFSL including:

- ▼ Providers of card acquiring and merchant services;

- ▼ Independent Sales Organisations (ISOs) and Payment Facilitators (PayFacs)
- ▼ Payment Gateways
- ▼ POS software providers, payment switches and API payment infrastructure providers;
- ▼ Tokenisation service providers
- ▼ Pass-through digital wallet providers
- ▼ Providers of FraudTech services.

Core Concepts

Under the draft AFSL Bill, the following new concepts are introduced into the financial services licensing provisions in Chapter 7 of the Corporations Act. As a general proposition, for constitutional purposes, these concepts require that the provider be, or be acting on behalf of, a constitutionally covered corporation.

Term	Explanation
payment product	The collective term for stored value facilities and payment instruments.
stored value facility	<p>A facility under which:</p> <ul style="list-style-type: none"> ○ funds may be transferred to a person without any instruction as to the further transfer of the funds; and ○ another person acquires a right or rights (exercisable by that person or a nominee) to redeem from the same or another person amounts not exceeding the amount standing to the credit of the facility; <p>by one or more methods including making a non-cash funds transfer.</p> <p>It does not include a facility:</p> <ul style="list-style-type: none"> ○ for a person to pay themselves or one other person; ○ a facility which allows funds to be transferred only to the holder or only to return funds to the person who sent them to another person; and ○ a digital asset platform, tokenised custody platform, managed investment scheme, a facility through which a person makes a financial investment or a deposit product.
payment instrument	<p>A facility that provides the terms on which a person may, as the payer, use a particular method to make non-cash funds transfers of funds standing to the person's credit under a facility.</p> <p>It does not include a facility for a person to pay themselves or one other person.</p>
funds	Money or another prescribed medium of exchange which the Minister is satisfied is commonly used or accepted in Australia or a right to redeem either of these.
stored value facility provider	A person who carries on a financial services business in Australia that consists wholly or partly of issuing stored value facilities.

<p>non-cash funds transfer</p> <p>This replaces the current concept of "non-cash payment"</p> <p>payee and payer</p>	<p>A person (payer) makes a non-cash funds transfer if:</p> <ul style="list-style-type: none"> ○ funds standing to the credit of the payer under a facility are transferred to another person (payee) or from the credit of that facility to the credit of the payer under a different facility (in which case the same person is both payer and payee) ignoring any interposed person; and ○ funds are transferred on instruction of the payer or payee; and ○ the transfer does not involve the physical delivery of Australian or foreign currency in the form of notes or coins. <p>Letters of credit, cheques and bank guarantees are excluded.</p>
<p>tokenised stored value facility</p>	<p>A SVF in relation to which each right to redeem any of the amount standing to the credit of the facility is exercisable only by the person who possesses the digital token attached to that right and the amount redeemable is fixed and denominated in a single currency. Exclusions may be made by regulation.</p>
<p>tokenised stored value facility (SVF) provider</p>	<p>A person who carries on a financial services business in this jurisdiction that consists wholly or partly of issuing tokenised SVFs.</p>
<p>payment service</p>	<p>The collective term for payment initiation services, payment facilitation services and payment technology and enablement services.</p> <p>Certain things deemed not to be financial products under the Corporations Act are also deemed not to be payment services and regulations can exclude certain services.</p>
<p>payment initiation service</p>	<p>The service of taking action under an arrangement with another person that has the effect of initiating a non-cash funds transfer to be made by that other person where the provider is not the issuer of the facility from which funds are transferred or the relevant payment instrument and is neither the payer nor payee.</p>
<p>payment facilitation service</p>	<p>The service under which, by arrangement with another person, funds are transferred to the provider in connection with the making of a non-cash funds transfer and the funds are so transferred on the basis that the provider will further transfer the funds in accordance with the instructions for the non-cash funds transfer.</p>
<p>payment technology and enablement service</p>	<p>The term for the service of verifying a payer's identity, transmitting a funds transfer instruction or information necessary for producing such instruction, in each case for the dominant purpose of enabling a person to receive one or more non-cash funds transfers.</p> <p>The concept does not apply to the issuer of the facility or payment instrument being used or to the payer or payee of the non-cash funds transfer.</p>
<p>major stored value facility provider / major SVC provider</p>	<p>This is to be defined in the <i>Payment Entities (Prudential Regulation) Act 2026</i> as something a person becomes if at a particular time:</p> <ul style="list-style-type: none"> ○ the person is a SVF provider; and

- the total of the amount standing to the credit of regulated facilities issued by the provider and its related bodies corporate is more than the amount specified in the Rules (proposed to be \$200M)

Safeguarding Money

The draft AFSL Bill includes a new framework for payment systems licensees to safeguard money paid to them:

- ▼ in connection with payment products or payment services providers; and
- ▼ for the benefit of the end users of those products or services.

The default method for safeguarding relevant PS money involves segregating it from other money. ASIC may, on application, approve other safeguarding methods (such as insurance or a guarantee) for a licensee to use. A licensee may use a combination of the default method and other approved methods to safeguard the money.

Licensees must also comply with related reporting rules. The Court is given extra powers relating to safeguarding money.

Relevant PS money of a payment system licensee that is paid, received or credited (and then held) for the benefit of an end user of the money is taken to be held in trust by the licensee for the benefit of the end user (unless regulations otherwise prescribe).

The licensee may choose to enter into one or more arrangements with other persons in relation to the relevant PS money. However, such arrangements do not reduce the fiduciary duties the licensee has as trustee.

Money must be paid into an account with an ADI designated as a segregated account for relevant PS money by the end of the next business day after the day it became relevant PS money.

While the money remains relevant PS money, it must be held in that account in trust for the benefit of the end user. Any money in that same account which ceases to be relevant PS money must be identified and removed as soon as practicable. Money paid from that account must be paid in accordance with any regulations.

Regulations may be made for how end users can authorise payment transactions from the trust account such as refunds, reversals and chargebacks. Regulations may also set a minimum balance and how interest or other earnings are dealt with.

Regulations may also prescribe how the money may be withdrawn or invested and the classes of investment and the process for making other payments out of the trust account.

The draft bill contains various safeguarding precautions for relevant PS money including:

- ▼ protection from attachment, execution of judgment, or being subject to set-off, a security interest, charging order or any similar process (except in favour of the person entitled to the money or investment from the money); and
- ▼ protection of the host ADI or other host body from the payment system licensee's non compliance with the safeguarding requirements.

The following new concepts are relevant to the safeguarding obligations:

Term	Explanation
end user	A person is an end user of relevant PS money at a particular time if the person is entitled to the money at that time and is not the provider of a payment system service who, at that time, is acting as an intermediary in the transfer of the relevant PS money.

payment system licensee	A person who holds an AFSL authorising the provision of a payment system service and is a constitutionally covered corporation
payment system service	<p>(a) a payment service; or</p> <p>(b) a financial service that relates to a payment product if the service is being provided by the issuer of the product.</p>
relevant PS money	<p>Money is relevant PS money of a payment system licensee if the money:</p> <ul style="list-style-type: none"> ○ is paid to, or received by the licensee in connection with: <ul style="list-style-type: none"> ○ a payment system service that has been provided, or will or may be provided to a person; ○ a payment product that has been, or will or may be, issued to, a person; or ○ is an amount credited to a stored value facility issued by the licensee; or ○ is the proceeds paid under a method covered by paragraph 983HI(b) (such as the proceeds of an insurance policy or guarantee) that the licensee is using to safeguard other relevant PS money; <p>and the money is so paid, received or credited (and then held) for the benefit of an end user of the money.</p> <p>Money is not relevant PS money to the extent that:</p> <ul style="list-style-type: none"> ○ it is for the licensee's remuneration; ○ it is for: <ul style="list-style-type: none"> ○ reimbursing the licensee for payments; ○ discharging a liability incurred by the licensee or indemnifying the licensee for such liability, <p>in connection with the provision of the service, the issuing of the product or the operation of the facility;</p> ○ it is money lent by the client to the licensee covered by ss 982A-982D (loan money); ○ it is relevant PS money separately regulated under the Payment Entities (Prudential Regulation) Act 2026); ○ the money relates to the provision of a financial service for which the licensee is exempt from the requirement to hold an AFSL; ○ it is money paid by a person to an ADI to be deposited into the person's deposit account; ○ it is money credited to certain things deemed not to be financial products, namely, a RTGS system, designated payments system or financial market, clearing and

	<p>settlement facility, or derivative trade repository covered by sections 765A(1)(i), (j) and (l).</p> <p>Exemptions can be made by regulation excluding other types of money.</p>
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Reporting

A payments system licensee is required to comply with relevant PS money reporting rules made by ASIC by legislative instrument, dealing with specified matters. As an alternative to civil proceedings, contravention may alternatively result in other remedial sanctions such as a civil penalty, education programs or enforceable undertakings.

6 Year Redemption Period

Any person with a right to redeem relevant PS money credited to a stored value facility issued by a payment system licensee may redeem the money during the 6-year period starting the first day the money can no longer be used under the facility for making payments. Any fees for redeeming the money must be proportionate and commensurate with the costs actually incurred by the licensee.

Court powers and anti-avoidance

The relevant PS money provisions are supported by new court powers (including powers to freeze accounts). They are also supported by a new anti-avoidance provision.

Updating of existing exemptions

The draft *Treasury Laws Amendment (Payments System Modernisation) Regulations 2026 (draft Regulations)* update the Corporation Regulations to take account of the new payment concepts and definitions.

They would also establish by regulation various licensing exemptions which currently exist under ASIC Corporations (Non-cash Payment Facilities) Instrument 2016/211. These cover:

- ▾ licensees (who do not have payment authorisations) advising on, and arranging for, payments to merchants using a third party SVC or payment instrument;
- ▾ low value SVF's and low value payment instruments used to transact on the low value SVF (noting that the \$1000 credit limit per person and \$10M limit for the float have been retained except that limit now applies on a consolidated basis for the issuer's corporate group);
- ▾ gift facilities;
- ▾ prepaid mobile phone facilities; and
- ▾ loyalty schemes.

A new exemption is added for "low value payment services". This is a payment service operating under a funds flow cap of \$8M per month.

Unclaimed SVF Money

The following new concepts are relevant to unclaimed SVF money:

Term	Explanation
unclaimed SVF money	The total amount of money standing to the credit of a regulated facility that is an inactive stored value facility where the total amount of money is greater than \$0, or such other amount prescribed by the regulations.

Inactive stored value facility	A regulated facility is an inactive stored value facility at a particular time if there has been no transaction activity under the facility by any holder of the facility for the period of 7 years or such other period prescribed by the regulations.
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If a stored value facility is issued by a major SVF provider, the laws of each state relating to unclaimed monies will not apply and instead the major SVF provider must:

- ▼ lodge with ASIC in the prescribed form a statement about any unclaimed SVF money standing to the credit of regulated facilities within 3 months of the end of the calendar year;
- ▼ pay to the Commonwealth an amount equal to the total amount of unclaimed SVF money standing to the credit of regulated facilities within 3 months of the end of the calendar year;
- ▼ make early payment of any unclaimed SVF money if it reasonably believes that it will cease to exist or otherwise unable to pay the payable amount after the end of the calendar year;
- ▼ lodge with ASIC in the prescribed form a request for payment of an amount equal to the client's amount (where the major SVF provider still exists) and on receiving payment from ASIC pay that amount to the client as soon as reasonably practicable.

ePayments Code

The draft bill includes provisions giving the Treasurer the power, by legislative instrument to make a code (the ePayments Code) dealing with electronic payments, electronic payment services and incidental matters which would be binding on ADIs, payment entities (under the Payment Entities (Prudential Regulation) Act 2026), participants in payment systems (under the Payment Entities (Prudential Regulation) Act 2026 and entities acting on behalf of any of them (together, **covered entities**). Notably, the list does not include finance companies who issue credit cards.

While the draft bill includes a list of matters the ePayments Code would address, it is reasonable to expect the existing voluntary ePayments Code would be adopted as the guiding model for any new mandatory ePayments Code subject to much overdue updates, for example, to accommodate biometric authentication of electronic funds transfer instructions.

Tokenised SVF Providers - ongoing disclosure obligations

A tokenised SVF is a stored value facility in relation to which each right to redeem any of the amount standing to the credit of the facility is exercisable only by the person who possesses the digital token attached to that right and the amount redeemable is fixed and denominated in a single currency.

The draft bill requires that a tokenised SVF provider must publish on the internet notice of any material change or significant event that may reasonably be expected to affect the value of the reserve of assets held by the provider to meet its obligations under the tokenised SVFs it has issued or its ability to meet those obligations.

The notice must be given before the change or event occurs or, if the provider is a major SVC provider, immediately after and if the provider is not a major SVF provider, as soon as practicable after.

This ad hoc disclosure obligation is supplemented by a monthly disclosure obligation. Within 7 days after the end of each calendar month, a tokenised SVC provider must publish on the internet a statement containing end-of-month information that relates to:

- ▼ the provider's reserve assets to meet obligations under the tokenised SVFs; and
- ▼ outstanding liabilities relating to the tokenised SVFs,

Other Amendments

Under the draft AFSL Bill, a licensee who provides a payment service or a payment product-related service for the purposes of another licensee providing such services to a retail client, the licensee must, as a new licensee obligation, take reasonable steps to co-operate with AFCA in resolving any complaint under the AFCA scheme to which the other licensee is a party. The licensee must also co-operate with the other licensee in relation to its internal dispute resolution procedure and AFCA proceedings.

Under a further amendment, just as use of the word "bank" is restricted under the Banking Act 1959 (Cth), the terms "Australian regulated SVF", "Australian regulated payment stablecoin", "APRA regulated SVF provider", "APRA regulated tokenised SVF provider", "APRA regulated payment stable coin provider" and "APRA regulated Australian stablecoin provider" will also be restricted.

Transitional Provisions

The amendments proposed under the draft AFSL Bill would commence 12 months after Royal Assent.

Transitional arrangements vary depending on whether an entity already holds an AFS licence with payment-related authorisations.

- ▶ PSPs without relevant authorisations have 6 months after commencement to apply. If an application is made within 6 months, the PSP can continue to provide regulated activities while the application is being considered, subject to some core obligations. If an application is not made within 6 months, obligations apply i.e. at 18 months after Royal Assent.
- ▶ PSPs with relevant authorisations have 1 month after commencement to apply for a variation. A streamlined process will apply to update the existing licence. If an application is not made within 1 month, obligations apply i.e. at 13 months after Royal Assent.
- ▶ For prudential regulation, authorised PPF providers will become registered major SVF providers. For other entities, a transition period will align to the Corporations Act transition periods (1 month or 6 months depending on AFS licence status).

Some core obligations will be switched on while applications are still being considered, to support consumer protection and minimise risk of a more extended period of disparity in regulatory obligations.

Draft Payment Entities (Prudential Regulation) Bill 2026 (draft APRA Bill)

Under the draft APRA Bill, the existing regulatory framework for providers of purchased payment facilities (PPFs) will be replaced on the basis that it is no longer fit for purpose.

Currently, in addition to needing to operate under an AFSL with authorisations for non-cash payment facilities, a provider of PPFs may be within the scope of:

- ▶ the "holder of stored value" provisions of the *Payment Systems (Regulation) Act 1998* (Cth) (PSRA) administered by the RBA; or
- ▶ the Banking Act 1959 (Cth) by virtue of the extension of the definition in the Banking Regulations of the concept of "banking business" to include purchased payment facilities which APRA determines are issued and or accepted as a means of payment on a "wide basis" and which allow Australian currency to be withdrawn.

The "holder of stored value" provisions of the PSRA were somewhat defunct because instead of acting as an active regulator, the RBA has only granted a handful of class order exemptions and company specific exemptions. The PPF framework under the Banking Act has only ever been used for just two providers of PPFs, namely PayPal and Wise.

Stored Value Facility providers

Under the draft bill, for SVF providers, a provider will become an APRA regulated body that is subject to prudential requirements from the time it reaches the prescribed size of stored value (i.e. a 'major SVF

provider'). It is intended that the threshold will be \$200 million in stored value (or digital tokens for stored value) redeemable in Australian currency and for which an AFSL is required calculated by reference to funds held in relevant SVFs, on a group aggregate basis. This threshold represents a significant increase to the dollar threshold for additional regulation under the PPF framework under the PSRA (which is specified by an RBA instrument to be \$10 million).

Subject to APRA's approval, SVF providers may also be able to 'opt-in' to APRA supervision, or could be designated by the Treasurer, despite not reaching the prescribed size threshold (i.e. a 'designated payment entity').

Significantly, Major SVF providers will not be licensed as ADIs although they will be required to register with APRA and will have to comply with prudential standards.

While it is intended that the new safeguarding requirements in the Corporations Act will protect end users against insolvency, where APRA determines that the activities of a payment entity (or a group of entities) present a material risk to financial stability, additional resolution powers under the Prudential Regulation Bill will be triggered.

Designation of SVF Providers and Payment Facilitation Service Providers

The Minister may designate a payment entity (being either a SVF provider that has not reached the \$200M threshold) or a provider of payment facilitation services) such that they must then be registered with APRA and subject to prudential regulation. The Minister can do this if satisfied that the entity materially contributes to the risk of financial instability in Australia and designation is necessary to mitigate that risk.

Designation of a payment entity as a SVF provider or payment facilitation service provider may only occur after the Treasurer has considered APRA's mandate to regulate bodies in the financial sector in accordance with other laws of the Commonwealth that provide for prudential regulation, as set out in subsection 8(1) of the APRA Act and after consultation with APRA and ASIC. The designation comes into effect no sooner than 6 months after it is made.

Major SVF providers commit an offence each day if not incorporated in Australia. For example, a foreign wallet business which issues wallets in Australia will likely need to operate through an Australian subsidiary unless an exemption is available.

Registration

Payment entities that are a SVF provider or a designated payment facilitation service provider may request that APRA register them in the approved form, thereby becoming prudentially regulated entities.

If the requesting entity is a major SVF provider or a designated payment entity, and they have not been registered before, APRA must register them. It is not required for these entities to demonstrate their compliance with prudential standards prior to registration – that is assumed. This means the entities will proceed to prudential regulation by virtue of their size/status without requiring an assessment by APRA as to their suitability.

APRA has discretion to refuse a registration request if the requesting entity is a non-designated payment facilitation service provider or a SVF provider that has not yet reached the 'major' size threshold.

APRA may also refuse a registration request if the SVF provider previously had their registration cancelled and has again grown the size of their value holdings to the \$200M threshold.

Criteria to which APRA must have regard in deciding whether to register, or refuse to register, may be determined by APRA in a legislative instrument.

Upon registration with APRA, a corporate body becomes a regulated entity. As with other bodies regulated by APRA, regulated entities are not subject to some obligations (such as the obligations relating to the availability of adequate resources and risk management systems) under the AFS licensing framework.

Where a body corporate engages in conduct that results in a breach conditions imposed as part of its registration, the body corporate commits an offence of strict liability, unless an exemption determination is in

force. Registration can be cancelled on request if in the national interest and APRA has a discretion to cancel registration in various circumstances.

Under the draft APRA Bill, a non-operating holding company (NOHC) may ask for registration to enable one of its subsidiaries to be registered. APRA may allow such registration subject to conditions. A NOHC's registration may also be cancelled by APRA.

Prudential Supervision

The draft APRA Bill provides for APRA to make prudential standards for regulated entities, their NOHCS and their subsidiaries.

APRA's new powers and functions

With the objective of promoting stability in the Australian financial system, under the draft APRA Bill, APRA will have powers to require the production of information, books and documents.

Minimum Asset Requirement

Generally, unless allowed by APRA, regulated entities and registered NOHCs will have to hold assets in Australia equal to or greater than the total amount of their liabilities relating to their regulated business, otherwise they commit an indictable offence each day that state exists.

Safeguarding relevant PS money

The proposed obligations to safeguard relevant PS money under the Corporations Act are largely replicated for regulated entities under the draft APRA Bill. A difference is that the safeguarding provisions for APRA regulated entities are adjusted to apply to their 'regulated business', rather than 'payment system services' (the similar term used to capture ASIC regulated payment system licensees).

Additionally, whereas payment services licensees under the draft AFSL Bill will be required to seek approval from ASIC before safeguarding relevant PS money, through a method other than segregation, regulated entities under the Prudential Regulation Bill will generally be permitted (without needing to seek approval) to use other methods including insurance, guarantee, or anything permitted by APRA's prudential standards.

Submissions

The consultation period for the draft legislation ends on 9 April 2026.

Much of the content of the draft legislation reflects proposals laid out in earlier consultation documents since 2023. However, matters which warrant focus and which are likely to be the subject of submissions include:

1. the nature and extent of exemptions for SVFs;
2. the scope of the concept of technology and enablement service, particularly having regard to the inclusion of providers of identity verification services and providers of transfer instructions whose clients will themselves be regulated; and
3. the treatment of open loop products that are reloadable or withdrawable for cash including the requirement to register with APRA as a major SVF provider if the total amount standing to the credit of regulated facilities issued by the provider and its related bodies corporate is more than \$200 million; and
4. the nature and extent of the proposed safeguarding obligations;
5. the need for the ePayments Code to be updated (for example to accommodate biometric authentication) if it is to become mandatory; and
6. The removal of providing purchased payment facilities as a class of banking business in favour of a new non-ADI classification of major SVC providers with lower regulatory hurdles.