

FMI STANDARD 11: CENTRAL SECURITIES DEPOSITORIES

FS11



DOCUMENT VERSION HISTORY

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| 1 March 2024 | First issue date |
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INTRODUCTION

Application

- i. This standard applies to every operator of a designated FMI that was specified in its designation notice under [section 29\(2\)\(f\)](#) of the Financial Market Infrastructures Act 2021 (the **Act**) as falling within the central securities depository class of designated FMI.

Legal powers

- ii. Under [section 8](#) of the Act the regulator is defined as the RBNZ and the FMA acting jointly.
- iii. [Section 12](#) of the Act provides the regulator's functions. These include regulating designated FMIs, dealing with designated FMIs that are distressed, and other functions under the Act.
- iv. Subject to certain statutory prerequisites, [section 31](#) of the Act empowers the regulator to make standards for designated FMIs.
- v. [Section 34](#) sets out the matters that standards may deal with or otherwise relate to. [Section 34\(1\)\(e\)\(i\), \(ii\), and \(v\)](#) provides that the regulator may make standards that deal with, or otherwise relate to, general business risk, operational risk and custody risk.

Interpretation

- vi. Words and phrases used in this standard have the same meaning as in the Act.
- vii. **Custody risk** means the risk of loss of assets held in custody in the event of an operator's insolvency, negligence, fraud, poor administration or inadequate recordkeeping.
- viii. **Internal systems** means mechanisms within an FMI or operator to implement policies, procedures, or controls.

Commencement

- ix. This standard comes into force on [1 March 2024](#).

REQUIREMENTS

- 1) An operator of a central securities depository must have appropriate rules, policies, and procedures in place to help ensure the integrity of the issue of securities, and minimise and manage the risks associated with the safekeeping and transfer of securities.
- 2) Further to the requirements in clause (1) an operator must have appropriate rules, policies, procedures, and internal systems in place, including robust accounting practices for the central securities depository to safeguard the rights of securities issuers and holders, including by ensuring that it:
 - a) prevents the unauthorised creation or deletion of securities, and conducts periodic reconciliation of securities issued by participants and held by the central securities depository, at least once a day; and
 - b) prohibits overdrafts and debit balances in securities accounts with the central securities depository; and
 - c) maintains securities in an immobilised or dematerialised form for their transfer by book entry; and
 - d) protects assets against custody risk through appropriate rules, policies, and procedures; and
 - e) employs a robust internal system for the central securities depository that ensures:
 - i) segregation between the central securities depository's own assets and the securities of its participants; and
 - ii) segregation among the securities of participants.
- 3) An operator must also ensure that it operationally supports the segregation of securities belonging to a participant's customers on the participant's books, and facilitates the transfer of customer holdings.
- 4) An operator must identify and manage the risks from other activities that the central securities depository may perform.

(See Guidance for Standard 11: 'Central Securities Depositories', in Guidance for the FMI Standards for more detail).