

# FMI STANDARD 20: FMI LINKS

FS20



## DOCUMENT VERSION HISTORY

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 one or more of the following classes of designated FMIs:
  - (a) a pure payment system; or
  - (b) a settlement system; or
  - (c) a central securities depository; or
  - (d) a central counterparty.

### Legal powers

- ii. Under section 8 of the Act the regulator is defined as the RBNZ and the FMA acting jointly (or the RBNZ acting on its own in relation to pure payment systems).
- 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 s sets out the matters that standards may deal with or otherwise relate to. Section 34(1)(e)(viii) and (ix) provide that a standard may deal with, or otherwise relate to, risks arising out of interconnections (direct or indirect) between a designated FMI and other designated FMIs, and risks arising out of interconnections between a designated FMI and activities in the financial system that are not activities under designated FMIs.

### Interpretation

- vi. Words and phrases used in this standard have the same meaning as in the Act.
- vii. **Central counterparty** means a designated FMI that is classed in a designation notice under section 29 of the Act as a central counterparty.
- viii. **Central securities depository** means a designated FMI that is classed in a designation notice under section 29 of the Act as a central securities depository.
- ix. **Issuer central securities depository** means a central securities depository where securities are issued or immobilised.
- x. **Investor central securities depository** means a central securities depository that opens an account with an issuer central securities depository to enable

the cross-system settlement of securities transactions.

- xi. **Link** means a set of arrangements, which may be contractual or operational, or both, between two or more FMIs that connect the FMIs directly or through an intermediary.
- xii. **Relevant jurisdiction** means any jurisdiction in which the FMI operates, and will always include New Zealand.
- xiii. **FMI Standards** means the standards issued under section 31 of the Act.

### Commencement

- xiv. This standard comes into force on 1 March 2024.

## REQUIREMENTS

- 1) An operator of an FMI that establishes a link with one or more FMIs must identify, monitor, and manage link-related risks.
- 2) An operator must ensure that before entering into a link, and on an ongoing basis once the link is established, the operator identifies, monitors, and manages all potential sources of risk arising from the link.

### Designing links to manage operational, legal and financial risk

- 3) Further to the requirements in clause (1), an operator must:
  - a) design links such that each FMI is able to observe the other FMI's compliance with the applicable FMI Standards or relevant overseas standards; and
  - b) ensure that the link has a well-founded legal basis, in all relevant jurisdictions, that supports the link's design and manages operational, legal, and financial risk to the FMIs involved in the link.

### Central securities depositories

- 4) Further to the requirements in clause (1), an operator of a central securities depository that is part of a link must:
  - a) measure, and manage, the credit and liquidity risks arising from other linked central securities depositories; and
  - b) ensure that any credit extensions between the central securities depository and another central securities depository are covered fully with high-quality collateral, and are subject to size limits.
- 5) Further to the requirements in clause (1), an operator of a central securities depository must prohibit provisional transfers of securities between the central securities depository and any linked central securities depository.

### **Investor central securities depositories**

- 6) Further to the requirements in clause (1), an operator of an investor central securities depository must:
- a) only establish a link between the investor central securities depository and an issuer central securities depository if the arrangement provides a high level of protection for the rights of participants; and
  - b) if the operator uses an intermediary to operate a link with an issuer central securities depository, measure and manage the additional risks (including custody, credit, legal, and operational risks) arising from the use of the intermediary.

### **Central counterparties**

- 7) Further to the requirements in clause (1), an operator of a central counterparty must:
- a) identify and manage the potential spill-over effects on the other central counterparty, participants of the central counterparties, and the wider financial system from the default of the linked central counterparty; and
  - b) ensure that the FMI can fully cover, on a daily basis, its current and potential future exposures to the linked central counterparty and any participants, without reducing the ability to fulfil its obligations to its own FMI participants at any time.

*(See Guidance for Standard 20: FMI Links, in Guidance for the FMI Standards for more detail).*