FMI STANDARD 9: MONEY SETTLEMENTS

FS9

Reserve Bank of New Zealand
Te Pūtea Matua

FMA
FINANCIAL MARKETS AUTHORITY
TE MANA TĀTAI HOKOHOKO

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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 securities settlement system; or

(c) 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 sets out the matters that standards may deal with or otherwise relate to. Section 34(1)(e)(iii) and (iv) provides that the regulator may make standards that deal with, or otherwise relate to, credit and liquidity risks. Conducting money settlements in central bank currency is one way of managing credit and liquidity risks.

Interpretation

vi. Words and phrases used in this standard have the same meaning as in the Act.

vii. **Central bank money** means a liability of a central bank, in the form of deposits held at the central bank, which can be used for settlement purposes.

viii. **Commercial bank money** means a liability of a commercial bank, in the form of deposits held at the commercial bank, which can be used for settlement purposes.

Commencement

ix. This standard comes into force on 1 March 2024.

REQUIREMENTS

1) An operator must conduct the FMI’s money settlements in central bank money where reasonable and available, to avoid credit and liquidity risks. If central bank money is not available, or cannot be reasonably used, the operator must minimise and strictly control the credit and liquidity risk arising from the use of commercial bank money.

2) Further to the requirements in clause (1) an operator must:

   a) if central bank money is not used, ensure that the FMI conducts money settlements using a settlement asset with little or no credit or liquidity risk; and

   b) if an FMI settles in commercial bank money, it must monitor, manage, and limit the credit and liquidity risks for the FMI arising from the commercial settlement banks; and

   c) establish and monitor adherence to strict criteria for commercial settlement banks that take account of, among other things, their regulation and supervision, creditworthiness, capitalisation, access to liquidity, and operational reliability; and

   d) monitor and manage the concentration of credit and liquidity exposures to the FMI’s commercial settlement banks; and

   e) if an FMI conducts money settlements on the operator’s or FMI’s books, minimise and control credit and liquidity risks in the FMI; and

   f) ensure that contracts with settlement banks clearly state when transfers on the books of individual settlement banks are expected to occur, that transfers are final when effected, and that funds received are transferable as soon as possible, to enable the operator and the participants to manage credit and liquidity risks.

(See Guidance for Standard 9: ‘Money Settlements’, in Guidance for the FMI Standards for more detail).