

# FMI STANDARD 15: GENERAL BUSINESS RISK

Document FS15



## 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 central securities depository; or
  - (c) a securities settlement system; 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 sets out the matters that standards may deal with or otherwise relate to. Section 34(1)(e)(i) provides that a standard may deal with, or otherwise relate to, the management by operators of general business risk.

### Interpretation

- vi. Words and phrases used in this standard have the same meaning as in the Act.
- vii. **Essential services** means:
  - (a) for services provided by designated FMIs which are assessed as systemically important by the regulator under section 24 of the Act, all services contributing to the assessment that an FMI is systemically important; and
  - (b) for services provided by designated FMIs that are not assessed as systemically important under section 24 of the Act, any services covered by the protections in subpart 5 of part 3 of the Act.

### Commencement

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

## REQUIREMENTS

- 1) An operator must identify, monitor, and manage general business risk, including losses from poor execution of business strategy, negative cash flows, or unexpected and excessively large operating expenses.
- 2) An operator must hold sufficient liquid net assets funded by equity, such as common stock, disclosed reserves, and/or retained earnings, to cover potential general business losses so that the FMI can continue operations and essential services if those losses materialise.
- 3) An operator (except where it is a central bank) must ensure that liquid net assets funded by equity are at all times sufficient to ensure a recovery or orderly wind-down of the FMI's operations and essential services. For the purposes of this clause an operator may include equity held under international risk-based capital standards, where relevant and appropriate.
- 4) An operator must ensure that it maintains a viable recovery or orderly wind-down plan for the FMI (see *Standard 17A: 'Contingency plans'*), and ensure (except where the operator is a central bank) that it holds sufficient liquid net assets funded by equity to implement this plan.
- 5) An operator (except where it is a central bank) must hold liquid net assets funded by equity equal to at least six months of current operating expenses (see also requirement in *Standard 17A: 'Contingency plans'*). These assets must be held in addition to resources held to cover participant defaults or other risks covered under *Standard 4: 'Credit Risk'* and *Standard 7: 'Liquidity Risk'*.
- 6) An operator must ensure that:
  - a) assets held to cover general business risk are of high quality and sufficiently liquid so that the operator can meet the FMI's current and projected operating expenses under a range of scenarios, including in adverse market conditions; and
  - b) it maintains a viable plan for raising additional equity should the operator's equity fall close to, or below, the amount needed, except where the operator is a central bank.
- 7) In relation to the plan referred to in clause (6)(b) an operator must:
  - a) review the plan annually; and
  - b) ensure that the outcome of the review is approved by the operator's board of directors.

(See *Guidance for Standard 15: 'General Business Risk'*, in *Guidance for the FMI Standards for more detail*).