

FMI STANDARD 16: CUSTODY AND INVESTMENT RISKS

FS16



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 categories 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)(v) provides that a standard may deal with, or otherwise relate to, the management by operators of custody and investment risk.

Interpretation

- vi. Words and phrases used in this standard have the same meaning as in the Act.
- vii. **Custodian** means an entity that safe keeps and administers securities or other assets for its customers, such as a licensed deposit taker or regulated trustee company.
- 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 must safeguard assets held for FMI operations, including participant assets held for this purpose, and minimise the risk of loss on, and delay in access to, these assets. These assets must be invested in instruments with minimal credit, market, and liquidity risks.
- 2) Further to the requirements in clause (1), an operator must:
 - a) ensure that assets described in clause (1) are held by custodians with robust accounting practices, safekeeping procedures, and internal systems that fully protect these assets, and who comply with all legal and regulatory obligations; and
 - b) have prompt access to the assets described in clause (1); and
 - c) evaluate its exposures to its custodians, considering the full scope of its relationships with each custodian; and
 - d) have an investment strategy which is consistent with its overall risk management strategy and fully disclosed to the FMI's participants.
- 3) For the purposes of clause 2(d), the investments must be secured by, or be claims on, high-quality debtors. These investments must allow for quick liquidation with minimal adverse price effect.

(See Guidance for Standard 16: 'Custody and Investment Risks', in Guidance for the FMI Standards for more detail).