

FMI STANDARD 2: GOVERNANCE

FS2



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 Markets Infrastructure Act (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 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 sets out the matters that standards may deal with or otherwise relate to. Section 34(1)(a) provides that a standard may deal with, or otherwise relate to, the governance of operators or of designated FMIs.

Interpretation

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

Commencement

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

REQUIREMENTS

- 1) An operator must ensure that governance arrangements pertaining to the operation of the FMI:
 - a) are clear and transparent; and
 - b) promote the safety and efficiency of the FMI; and
 - c) support the stability of the broader financial system and other relevant public interest considerations, and the objectives of relevant stakeholders.
- 2) Further to the requirements in clause (1) an operator must also ensure that:
 - a) there are documented objectives for the FMI that place a high priority on the safety and efficiency of the FMI, and that explicitly support financial stability and other relevant public interest considerations; and
 - b) the FMI has documented governance arrangements that:
 - i) provide clear and direct lines of responsibility and accountability; and
 - ii) are disclosed in an appropriate manner to owners, the regulator, participants, and the public; and
 - c) the roles and responsibilities of its board of directors are clearly specified, and there must be documented procedures for its functioning, including policies and procedures to identify, address, and manage member conflicts of interest; and
 - d) the board of directors consistently reviews both the board's overall performance and the performance of its individual directors in relation to the FMI; and
 - e) the board of directors contains suitable members with the appropriate skills and incentives to fulfil its roles as operator of the FMI (including non-executive directors); and
 - f) in relation to the FMI's management, that:
 - i) the roles and responsibilities of management are clearly set out and delineated from the roles of the board of directors, and documented; and
 - ii) management has the appropriate experience, a mix of skills, and the integrity necessary to discharge its responsibilities for the operation and risk management of the FMI; and
 - g) there is a clear, documented risk management framework for the FMI that includes the FMI's risk tolerance policy, assigns responsibilities and accountability for risk decisions, and addresses decision making in crises and emergencies; and
 - h) there are governance arrangements for the FMI that ensure the risk management and internal control functions have sufficient authority, independence, resources, and access to the board of directors; and
 - i) its board of directors takes responsibility for ensuring that:
 - i) the design, rules, overall strategy, and major decisions appropriately reflect the legitimate interests of the FMI's direct and indirect participants, and other relevant stakeholders; and
 - ii) major decisions are clearly disclosed in a reasonable timeframe after the decision is taken to relevant stakeholders and, where there is a broad market impact, the public.

(See Guidance for Standard 2: 'Governance', in Guidance for the FMI Standards for more detail).