

FMI STANDARD 12: EXCHANGE OF VALUE SETTLEMENT SYSTEMS

FS12



DOCUMENT VERSION HISTORY

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INTRODUCTION

Application

- i. This standard applies to every operator of a designated FMI that provides exchange of value settlement services and 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)(vi) provides that a standard may deal with, or otherwise relate to, the management of legal risk.

Interpretation

- vi. Words and phrases used in this standard have the same meaning as in the Act.
- vii. **Exchange of value settlement system** means a system that settles transactions that involve the settlement of two linked obligations (for example, securities or foreign exchange transactions).
- viii. **Principal risk** means the risk arising where one of two linked obligations is settled but the other obligation is not.

Commencement

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

REQUIREMENTS

- 1) An operator settling transactions involving the settlement of two linked obligations must ensure that it eliminates principal risk for the FMI by making the final settlement of one obligation contingent upon the final settlement of the other obligation.
- 2) Clause (1) applies regardless of whether the FMI settles on a gross or net basis and regardless of when finality occurs.

(See Guidance for Standard 12: 'Exchange of Value Settlement Systems', in Guidance for the FMI Standards for more detail).