

FMI STANDARD 19: TIERED PARTICIPATION ARRANGEMENTS

FS19



DOCUMENT VERSION HISTORY

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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)(c) provides that a standard may deal with, or otherwise relate to, how operators must provide access to services under designated FMIs, including how persons may become participants of designated FMIs. Section 34(1)(e)(ix) provides that a standard may deal with, or otherwise relate to, risks arising out of interconnections (direct or indirect) between a designated FMI and activities in the financial system that are not activities under designated FMIs.

Interpretation

- vi. Words and phrases used in this standard have the same meaning as in the Act.
- vii. **Tiered participation arrangement** means an arrangement that occurs when indirect participants rely on the services provided by direct participants to use the FMI's central payment, clearing, or settlement systems.

Commencement

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

REQUIREMENTS

- 1) The operator must identify, monitor, and manage the material risks to the FMI arising from tiered participation arrangements.
- 2) Further to the requirements in clause (1), the operator must:
 - a) ensure that the FMI's rules, procedures, and contracts allow the operator to gather basic information about indirect participation in order to identify, monitor, and manage any material risks to the FMI arising from such tiered participation arrangements; and
 - b) identify material dependencies between direct and indirect participants that might affect the FMI; and
 - c) identify:
 - i) indirect participants responsible for a significant proportion of transactions processed by the relevant FMI; and
 - ii) indirect participants whose transaction volumes or values are large relative to the operational and financial capacity of the direct participants through which they access the FMI; and
 - d) review risks arising from tiered participation arrangements on at least an annual basis and taking action to mitigate all material risks following this review.

(See Guidance for Standard 19: 'Tiered Participation Arrangements', in Guidance for the FMI Standards for more detail).