

## **Reserve Bank of New Zealand and NZX limited**

### **Memorandum of Understanding on Clearing and Settlement**

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#### **Parties to the Memorandum of Understanding**

This Memorandum of Understanding (MOU) is entered into between the following parties:

- NZX Limited (“NZX”);
- Reserve Bank of New Zealand (“the Bank”);
- In addition reference is made in this document to the following:
  - NZClear – a division of the Bank
  - NZCSD – a subsidiary of the Bank
  - New Zealand Clearing and Depository Corporation Limited (“NZX CHO”) – a 100% owned subsidiary of NZX
  - New Zealand Clearing Limited (“NZX CCP”)
  - New Zealand Depository Limited (“NZX CSD”)
- References herein to the Bank include NZClear and NZCSD.
- References herein to NZX include each of NZX CHO, NZX CCP and NZX CSD.

The two parties to the MOU are open to negotiate the participation of other parties if they provide settlement services in New Zealand.

#### **Background and Purpose of the Memorandum**

1. The two parties to this MOU are the major providers of clearing and settlement services in New Zealand. NZClear (formerly Austraclear) predominantly settles over-the-counter (OTC) transactions using Real Time Gross settlement (RTGS); securities are accessed via the system’s depository, NZCSD. NZX CHO predominantly settles exchange-based transactions through a central counterparty clearing house, with securities accessed via a dedicated depository, NZX CSD. Both of these settlement systems and depositories are capable of handling equities and fixed interest securities.
2. Market participants have expressed a preference for the Bank and NZX to work together to provide an efficient and seamless securities settlement service to the New Zealand

capital markets. This view was reinforced by the Capital Markets Taskforce (December 2009) which recommended that:

“The NZX and Reserve Bank should work together to improve our clearing and settlement infrastructure, including development of a central counterparty.”

3. The Bank and NZX have a **joint objective** to ensure that New Zealand’s clearing and settlement infrastructure supports the development of our capital markets by being efficient, sound and responsive to industry needs.
4. The purpose of this MOU is to set out the key principles and terms by which Bank and NZX will conduct their clearing and settlement activities in pursuit of this **joint objective**.

### **Principles of cooperation and responsibilities**

5. The MOU is based on five key principles of cooperation in relation to the clearing, settlement and depository activities of the two parties. These principles and the related responsibilities of the parties are set out below:

- I. **Open Market.** Capital market participants will continue to choose where to place their business. NZX and the Bank will make their own independent decisions on how best to compete for clearing and settlements business.
- II. **Interoperability.** The Bank and NZX will ensure seamless and efficient interoperability between the NZX CCP and NZClear depositories. The parties will create no legal or operational impediments to the movement of securities between the depositories.

Both parties further commit to support interfaces between the two depositories to ensure that capital market participants can easily and efficiently transfer securities between the two systems.

- III. **Competitive pricing to enhance interoperability.** The two parties will continue to compete for business and set their prices independently. The Bank and NZX agree that:
  - Both parties will endeavour to enhance interoperability over time by considering ways to reduce costs to customers related to the movement of securities between the two depositories, with any such consideration being conditional on review for legal and regulatory compliance;
  - No membership fee will be charged to the other party for being a member or participant in their respective systems; and
  - Pricing of all clearing, settlement and depository services will be fully transparent in order to give market participants accurate and complete information.
- IV. **Liquidity support.** The NZX CCP will be eligible for backup liquidity support from the Bank, subject to:
  - the NZX CCP maintaining its designation status; and

- the NZX CCP meeting the eligibility criteria for Reserve Bank counterparties.

On-demand access will be provided to the Bank's overnight reverse repo facility (ORRF). This is a fully secured lending facility. Eligible collateral and other terms and conditions are set out on the Bank's website.

- V. **Industry advisory council.** The parties will establish a joint industry advisory council in order to help create a unified approach to dealing with industry issues. The council will have representation from the system operators (NZX CCP, NZClear), market participants (sharebrokers, custodians, banks and institutional investors) and other stakeholders.

Formation of the advisory council does not preclude the continued existence of system-specific user groups.

The council should meet at least six monthly. Its objectives will be to:

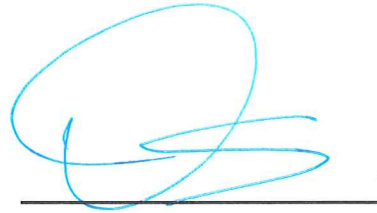
- Promote a clearing and settlement infrastructure that is efficient, sound and responsive to industry needs;
- Provide feedback to the service providers on the performance of both settlement systems;
- Provide guidance to the settlement system operators on strategic and operational matters relating to clearing and settlement; and
- Identify trends and issues that are relevant to the further development of securities settlement systems in New Zealand
- Facilitate joint industry representation at international fora for clearing and settlement operations.

### **Governance of issues under the MOU**

6. Following the signing of this MOU, the two parties will meet regularly and at least every six months, at a senior level, in order to monitor and manage issues related to the MOU. The parties may choose to establish a joint technical group to deal with common operational issues, for example related to interoperability.
7. The Bank and NZX agree that a technical breach of this MOU by either party shall not automatically result in the entire MOU being invalidated, and in particular, the technical interoperability provisions and the provision of liquidity are "strong" clauses that shall be resilient to any breaches with respect to industry advisory or other joint governance issues.
8. The terms of this MOU will be reviewed at the end of the first year and thereafter every five years from the date of signing, or at the request of one or both parties in the event of a significant change of circumstances in the clearing and settlements business.

Signed by:

**NZX Limited**

A stylized, handwritten signature in blue ink, consisting of a large loop followed by several horizontal strokes, positioned above a solid black horizontal line.

Chief Executive

**Reserve Bank of New Zealand**

A handwritten signature in blue ink that reads "Alan Bollard", positioned above a solid black horizontal line.

Governor

Dated this 6<sup>th</sup> day of October 2010