

Navigation tables for proposed changes in relation to Client Assets review

Navigation table for proposed Participant Rule changes

Current Rules	New Rules	Explanation
18.1.1. Client Asset definition	Definition section	Moved the definition of Client Assets to the definition section, and proposed changes to reflect that funds or Securities received by a Market Participant Accepting Client Assets to be held on behalf of a client are included as Client Assets under the Rules, regardless of whether there is an associated transaction. We understand this aligns with existing market practice.
18.1.2. Interpretation	18.1.1. Interpretation	No changes
18.2.1. Outstanding Obligations	18.7.5	The definition of Outstanding Obligations has been moved into the Client Asset Reconciliation requirements at Rule 18.7. Additionally, the definition has been clarified to reflect the current interpretation of Outstanding Obligations, being broader than the existing definition. See section 2.1 of the Consultation Paper for further detail.
18.3.1. Client Funds Account definition	Definition section	Moved the definition of Client Funds Account to the definition section, with minor proposed amendments for clarity.
18.3.2. Client Funds Accounts	18.3.1	No changes
18.3.3. Buffer	18.8.3	Changes proposed to align with legislation in relation to when Buffer may be deposited and held in a Client Funds Account.
18.3.4 Buffer must be reasonable	18.8.4	No changes
18.4.1 Continuous obligation	Deleted	Deleted on the basis outlined at section 1.1 of the Consultation Paper.

18.4.2. Client Assets to equal Outstanding Obligations at end of day	18.7.1	No proposed changes to the obligation, language simplified for clarity.
18.4.3 Market Participant Securities not to be included in total Client Assets	Deleted	Proposing to delete this on the basis that only Securities <i>held on behalf of a client</i> may be included in the total Client Asset calculation at 18.7.4.
18.5.1. Trust obligation	18.2.1	No proposed changes to this obligation, new drafting to include reference to when the obligation is discharged.
18.5.2 Discharging trust obligation	18.2.3	Drafting changes to include that obligations are discharged at the point they are applied in accordance with Rule 18.5.
18.6.1(a) Bank Client Funds Account requirements	18.4.1	Proposed change to require bank acknowledgement to be in a form that is acceptable to NZX. Refer to section 1.2 of Consultation Paper.
18.6.1(b) Depositing Client Funds into non-CFA	18.3.2	Proposed change includes requirement that Market Participants must hold Client Funds in a Client Funds Account. Clarification of current market practice.
18.6.1(c) Notify of changes to Client Funds Account	18.4.5	No changes – Guidance Note includes guidance as to when notification is required.
18.6.1(d) Notification in relation to Buffers	18.8.7	Drafting changes to clarify notification requirement, Guidance Note provides additional guidance as to when Buffer is reasonably necessary.
18.6.1(e) Client Funds Account not be overdrawn	18.4.2	Drafting changes to clarify requirement, no change to obligation.
18.6.1(f) Client Funds to not be used as security	18.2.2	Broadened to clarify that Client Assets generally should not be used to discharge obligations of any person other than for the client. See section 1.1 of Consultation Paper.

18.6.1(g) Bank to ledger reconciliation	18.6.1	No change to requirement
18.6.1(h) Client Asset reconciliation	18.7.2	No change to requirement, clarification amendments. See section 2.1 of Consultation Paper. Additionally clarifies that reconciliation must be completed by 12pm the following Business Day, aligning with existing Guidance Note.
18.6.1(i) Notification if unable to perform reconciliations	18.6.2 18.7.7(a)	No change to requirement
18.6.1(j) Record keeping	Deleted	Covered in record keeping section of Rules in terms of records required to be kept at Rule 20.7.
18.6.2(a) Notify of overdrawn Client Funds Account	18.4.3	No change to requirement
18.6.2(b) Notify if total Client Assets do not equal Outstanding Obligations	18.7.7(b)	No change to requirement
18.6.2(c) and (d) Notify of breach	Deleted	Guidance states that NZX considers any breach of Section 18 is “significant” and must be notified in accordance with Rule 21.7.
18.7. Payment into Client Funds Account	18.3.3	<p>Guidance to clarify the nature of client funds that must be held on trust, to ensure this applies broadly and only excludes payments where the client does not intend for the funds to be held by the Market Participant, e.g., fees, other payments intended for the Market Participant.</p> <p>Clarification that all Client Funds received by Market Participants into an account that is not a Client Funds Account should be deposited into a Client Funds Account as soon as reasonably possible upon receipt.</p> <p>Guidance provided that as soon as reasonably possible may be the next business day where the funds are received outside of Bank hours.</p>

18.8 Funds received after settlement	Deleted	New 18.3.3 and associated Guidance covers this point where “as soon as reasonably possible upon receipt” is interpreted as the next business day where funds are received outside of Bank hours. Client Funds received from the Clearing House post-settlement should be treated in the same way as any other Client Funds received.
18.9 Funds received outside of Bank trading hours	Deleted	New 18.3.3 and associated Guidance covers this point where “as soon as reasonably possible upon receipt” is interpreted as the next business day where funds are received outside of Bank hours.
18.10.1 Application of funds	18.5.	Proposed changes include additional uses of funds, refer to section 1.3 of Consultation Document.
18.10.2 Withdrawal of Buffer	18.8.9	Obligation not changing, drafting amended to align with proposed new Rule settings.
18.11 Method of payment	18.9	Proposed changes to reflect current practices, including cheques no longer being used.
18.12 Method of receipt	Deleted	No longer needed with 18.3.2 and 18.3.3 requiring Client Funds to be held in a Client Funds Account, and Market Participants to move any Client Funds received into a non-Client Funds Account into a Client Funds Account as soon as reasonably possible.
18.13 Distribution of Client Assets	Deleted	Deleted to reflect that distribution of Client Assets on insolvency of Market Participant will occur in accordance with insolvency laws.
18.14. Money handling procedures	18.10	No change
18.15. Depository Account disclosure	18.11	Amendments to reflect that disclosure should be provided to both retail and institutional clients (where institutional clients may not have client agreements).

Navigation table for proposed changes to the Client Assets Guidance Note

Current Rule	New Rule	Explanation
1. Introduction	Section 1	No substantive changes
2.1. Key definition: Client Assets	Section 2	Guidance around what are considered Client Assets aligns with existing guidance. Drafting changed for clarity.
2.2. Key Definition: Buffer	Section 5.2	Description of Buffer moved to section 5.2, with some changes to align with the Client Funds Legislation. Removed the last paragraph in relation to Nominee holdings for a client as this is not accurate, where Securities are held on behalf of a client in a Nominee Account these are included as Client Assets (the Rules no longer cover Custody requirements, which were removed in 2015).
2.3. Key definition: Client Funds Account	Section 3.1	Definition of Client Funds Account moved to 3.1. Requirement to map each Client Funds Account to an individual ledger included in new Rule 18.4.4 and included at section 3.4 of the Guidance.
3.1. Outstanding Obligations	Section 4.2.	Calculation of Outstanding Obligations described at section 4.2. Existing definition changed in Rules to reflect market practice and Guidance updated accordingly.
3.2. Gross Segregation	Section 4.2	Requirement maintained in relation to calculating Outstanding Obligations on a gross basis
3.3. Trades on other exchanges	Removed section	The Rules are agnostic as to the purpose of the Client Assets being held by the Market Participant, the Rules apply equally to Client Assets held on behalf of a client regardless of the purpose of holding such assets.
3.4. Securities settled outside the legal transfer system	Removed section	The Rules are agnostic as to the purpose of the Client Assets being held by the Market Participant, the Rules apply equally to Client Assets held on behalf of a client regardless of the purpose of holding such assets.

3.5. Delivery versus payment	Removed section	Section 4.2 is clear that an obligation will not arise where the Market Participant has not received Client Assets.
3.6. Protection of Client Assets	Removed section	Protection of Client Assets covered under Section 2 – the point relating to unpresented cheques is no longer relevant.
4.1. Client Assets, Buffers, and Outstanding Obligations	Removed section	This applies to the existing continuous obligation under Rule 18.4.1, which has been removed. Refer to section 2.1 of the Consultation Paper for more detail.
4.2. The Client Assets reconciliation	Section 4	New Section 4 of the Guidance Note covers requirements in relation to Client Assets reconciliation. The existing guidance around unidentified items is included at Section 4.2 in relation to calculating Outstanding Obligations.
4.3. Inclusion of Securities in Total Client Assets	Section 4.3	New Section 4.3 covers the assets that can be included as part of total Client Assets. Maintained guidance that only securities attributable to clients may be included. Note: Removed the final four paragraphs of this section as they did not align with updated Rules.
4.4. Record keeping and reporting	Section 4.4	Maintained existing guidance, and added reference to Rule 20.7 which requires Market Participants to maintain certain accounting records.
4.5. Bank balances	Sections 4.1 and 3.4	Requirement to use reconciled bank balances in Client Asset reconciliation maintained at section 4.1. Bank reconciliation processes moved to section 3.4.
4.6. Notifications	Section 6 in relation to breaches	Guidance Note now provides at section 6 that any breach of Section 18 (outside of an intra-day general ledger overdraft not resulting in a physical bank account overdraft) is considered significant for the purposes of Rule 21.7.1, and should be

	Section 5.5 in relation to Buffer Section 3.3 in relation to Client Funds Account overdraft	notified to NZX on this basis. Rule 21.7.1 provides for the detail of what must be included in the notification.
4.7. Brokerage Sweep	Removed section	This is no longer relevant with the updated guidance on Buffer provided at Section 5.
5. Buffer Maintenance	Section 5	Section 5 covers guidance in relation to Buffer. This guidance now better aligns with the requirements of the Client Funds Legislation. Refer to section 2.2 of this Guidance Note for further information.
6.1. Client Funds Account Set Up	Section 3.1	Guidance on Client Funds Account set up provided at section 3.1 with some clarification drafting changes
6.2. Client Funds Account Overdrafts	Section 3.3	Guidance on overdrafts provided at section 3.3 with some clarification drafting changes.
6.3. Application of Funds	Section 3.5	Guidance on application of Client Funds provided at section 3.5 with drafting changes to reflect changes to Rule 18.5, including guidance as to what constitutes an express direction from a Client.
6.4. CFA Bank Reconciliations	Section 3.4	Guidance on bank to ledger reconciliation requirements provided at section 3.4 with some clarification drafting changes.
Appendix 1 – Client Assets Reconciliation template	New Appendix C to Rules	Moved into excel spreadsheet for in-built formulas and to be included as Appendix C to the Rules. Some changes to account for clarifications in relation to Client Asset reconciliation.
Appendix 2 – Client Assets Log	New Appendix D to Rules	Moved into excel spreadsheet to be included as Appendix D to the Rules.

Appendix 3 – Prescribed wording for inclusion in Bank Trust letters	Appendix	Now the only appendix to the Guidance Note, provides four different sample wordings for the Bank acknowledgements.
Appendix 4 – Client Funds Account Overdraft Reporting	Included at Procedure 6.1.	Notification requirements when notifying NZX of an overdraft in relation to Client Funds Account or associated general ledger account now included at Procedure 6.1.