

NZX Regulation Decision

Class Ruling – Cash Market and Derivatives Clearing Participants – Changes to Settlement Operational Timetable – Reserve Bank of New Zealand Payment System Replacement Project Go-Live Day

6 January 2020



Class Ruling under the NZX Clearing and Settlement Rules

Background

1. The Reserve Bank of New Zealand (**RBNZ**) is undertaking a Payment System Replacement (**PSR**) Project. The project targets the replacement of both the Exchange Settlement Account System (**ESAS**) and the central securities depository system (**NZClear**). Targeted go-live weekend is 22-23 February 2020 with Monday, 24 February 2020 being the first business day after go-live.
2. As a part of the go-live, there will be a change to ESAS and NZClear's opening hours on Monday, 24 February only. This change in opening hours will make it difficult for NZX Clearing Participants to meet the current settlement timetable on that day.

Decision

1. On the basis that the information provided to NZX Regulation (**NZXR**) is full and accurate in all material aspects, NZXR grants a ruling on NZX Clearing and Settlement Rule (**C&S Rules**) 3.12.3 and NZX Clearing and Settlement Procedure 3.13.2 (**C&S Procedures**), and on C&S Rule 4.1.1 and C&S Procedure 4.2, that these provisions have application as follows, with respect to all cash market and derivatives Clearing Participants, on Monday 24 February 2020 (or, an alternative date that is the first Business Day following the implementation of the RBNZ PSR Project (**Go-Live Date**)) only -
 - A Clearing Participant or a Lending Clearing Participant must deliver to New Zealand Clearing Limited (**CHO**) the required amount of Eligible Collateral before 10.00 am;
 - Settlement Time for Net Open Positions on a Settlement Day – Shortfall Net Open Positions for Securities Transactions - 11.30 am; and
 - Settlement Time for Net Open Positions on a Settlement Day – Net Open Positions for Securities Transactions (other than Shortfall Net Open Positions) - 12.00 pm
2. For the avoidance of doubt, it is noted that all other applicable Rules continue to apply unchanged on Go-Live Date.
3. The Rules to which this decision relates are set out in Appendix One to this decision.

Reasons

4. In reaching the decision to provide this Ruling, NZXR has considered that:
 - a. RBNZ is undertaking a PSR project. The project targets the replacement of both the Exchange Settlement Account System (ESAS) and the central securities depository system (NZClear).
 - b. The planned Go-Live Date for the PSR project is the weekend of 22-23 February 2020, with the first Business Day following implementation being Monday 24 February 2020.

- c. There will be a change to ESAS and NZClear's opening hours on 24 February 2020 (or, an alternative date that is the first Business Day following the implementation of the Go Live Date) only. This will make it difficult for NZX Clearing Participants to meet the existing settlement timetable on that day.
- d. NZX Clearing has an ESAS account to receive daily New Zealand dollar cash funding from cash market and derivatives Clearing Participants, from 9.00am onwards. The cash funding is recorded in BaNCS and used by Participants to lodge collateral to meet their margin call requirement by 9.30am and meet their cash for settlement.
- e. On Go-Live Date, ESAS opening will be delayed by 30 minutes to 9.30am. Due to the time required to process payments on the opening of ESAS, NZX Clearing will not receive cash funding until after 9.30am. Therefore, Participants on a margin call will not be able to meet the standard Margin Call deadline.
- f. Participants who do not meet a margin call deadline face a credit event under the C&S Rules.
- g. NZX Clearing maintains SWIFT connectivity with NZClear to enable cash market Clearing and Depository Participants to perform lodges and uplifts between NZX Clearing and RBNZ settlement systems. On a regular Business Day, Participants can log in to NZClear from 9.00am to lodge stock prior to NZX's morning 10.30am fails settlement batch and 11.00am normal settlement batch.
- h. On Go-Live Date, NZClear's opening will be delayed by 1 hour to 10am. Due to the time required to lodge securities from the new NZClear, with which Participants will not be familiar, to NZX Clearing, Participants may face difficulty in lodging sufficient stock for NZX Clearing to run effective morning settlement batches. NZX will therefore delay the morning batches by one hour each.
- i. NZX Clearing has been requested by RBNZ to move its morning operational timeline to accommodate Go-Live Date.

The NZX Clearing best practice deadline for submission of cash for settlement (max cash) will also be moved to 10.00am

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Appendix One

NZX C&S Rules

Subject to Rule 3.12.4, Eligible Collateral shall be delivered by a Clearing Participant or Lending Clearing Participant in the following manner:

- (a) Money Collateral must be transferred by the Clearing Participant's or Lending Clearing Participant's Settlement Bank to CHO's Money Collateral Account in the manner described by Procedure. Money Collateral in NZ\$ must be transferred to CHO's Money Collateral Account by a Clearing Participant or Lending Clearing Participant instructing its Settlement Bank to pay Money to CDO's ESAS Account. Money Collateral in currencies other than NZ\$ must be transferred by a Clearing Participant or Lending Clearing Participant instructing its Settlement Bank to pay Money to CDO's account in the Clearing Bank in cleared funds. Money Collateral may only be provided in currencies for which CHO holds a Money Collateral Account;

Procedure 3.14

- (b) Eligible Securities must be delivered to CHO by transfer to CHO's Product Collateral Account in the manner described by Procedure; and

Procedures 3.14 and 3.18

- (c) Third Party Collateral must be delivered by the Clearing Participant or Lending Clearing Participant to CHO and must be in a form prescribed by Procedure.

Procedure 3.16

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- 4.1.1 **Time for Settlement:** The time for settlement of obligations arising under Net Open Positions will be specified in the Procedures. Such Procedures will prescribe for each class or category of Net Open Position a time or times during each Settlement Day at which settlement of Net Open Positions is required. Settlement of obligations in respect of Transactions arising in respect of Lending Transactions, Shortfall Amounts or Withheld Approved Product may occur at any time during a Settlement Day.

Procedure 4.2

NZX C&S Procedures

- 3.13.2 A Clearing Participant or a Lending Clearing Participant must deliver to CHO the required amount of Eligible Collateral before 9.30 am on the Business Day on which the Collateral is required to be delivered.



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4.2 Settlement Closing/Settlement Time

4.2.1 Settlement Closing for Net Open Positions is the time that is five minutes prior to a Settlement Time.

4.2.2 The Settlement Times for Net Open Positions on a Settlement Day for the purposes of Rule 4.1.1 will be as set out in the table below:

Time	Type of Net Open Position
10.00am	Net Open Positions for Derivatives Contracts
10.30am	Shortfall Net Open Positions for Securities Transactions
11.00am	Net Open Positions for Securities Transactions (other than Shortfall Net Open Positions)
3.00pm	Shortfall Net Open Positions calculated in respect of Approved Product that Clearing Participants failed to deliver at Settlement Closing for Settlement Time at 11.00am
3.30pm	Shortfall Net Open Positions calculated in respect of Approved product that Clearing Participants failed to deliver at Settlement Closing for Settlement Time at 10.30am

