



## THE FUTURES INDUSTRY (CLIENT FUNDS) REGULATIONS 1990

PAUL REEVES, Governor-General

### ORDER IN COUNCIL

At Wellington this 3rd day of September 1990

Present:

HIS EXCELLENCY THE GOVERNOR-GENERAL IN COUNCIL

PURSUANT to section 41 (1) of the Securities Amendment Act 1988 and section 70 of the Securities Act 1978, His Excellency the Governor-General, acting by and with the advice and consent of the Executive Council, and in accordance with a recommendation of the Securities Commission, hereby makes the following regulations.

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## REGULATIONS

**1. Title and commencement**—(1) These regulations may be cited as the Futures Industry (Client Funds) Regulations 1990.

(2) These regulations shall come into force on the 1st day of October 1990.

**2. Interpretation**—(1) In these regulations, unless the context otherwise requires,—

“The Act” means the Securities Amendment Act 1988:

“Auditor” means a qualified auditor within the meaning of the Securities Act 1978:

“Client”, in relation to a dealer, means any person (including another dealer) on behalf of whom the dealer deals, or from whom the dealer accepts instructions to deal, in futures contracts, but does not include—

(a) The dealer; or

(b) A related party of the dealer:

“Client bank account”, in relation to a dealer, means a bank account that is established and maintained by a dealer in accordance with regulation 3 of these regulations for the purpose of receiving, holding, and disbursing client money:

“Client funds account”, in relation to a dealer, means an account that is established and maintained by a dealer in accordance with regulation 9 of these regulations for the purpose of effecting transactions in relation to futures contracts between a dealer acting on behalf of clients and any clearing house, other dealer, or futures broker:

“Client money”, in relation to a dealer, means money of any currency which in the course of carrying on business as a dealer in futures contracts—

(a) The dealer or any other person on its behalf holds for, or receives from or on behalf of, clients and which is not immediately due and payable on demand to the dealer or the other person for its own account; or

(b) The dealer pays into a client bank account in pursuance of an obligation to do so under regulation 18 of these regulations:

“Client property”, in relation to a dealer, means property of any kind, including credit facilities, title documents, and other securities but not including money, which in the course of carrying on business as a dealer in futures contracts the dealer or any other person on its behalf holds for, or receives from or on behalf of,

clients, and includes any specified client investments and any other property acquired with client money:

“Client records”, in relation to a dealer, means the accounting and other records which the dealer is required to keep pursuant to regulation 23 of these regulations:

“Dealer” means—

(a) A member of an authorised futures exchange; or  
 (b) A person who is authorised pursuant to section 38 (1) (b) of the Act to carry on the business of dealing in futures contracts,— but does not include—

(c) A person who deals in futures contracts solely on the person’s own behalf; or

(d) A recognised clearing house:

“Overseas bank” means, in respect of any country other than New Zealand, a bank licensed or otherwise authorised by the central banking authority of the country to carry on banking business in the country:

“Recognised clearing house” means a person who carries on business in New Zealand as a clearing house for an authorised futures exchange:

“Registered bank” has the same meaning as in section 2 of the Reserve Bank of New Zealand Act 1989:

“Related party”, in relation to a dealer, means,—

(a) Where the dealer is an individual, the dealer’s spouse or any child of the dealer:

(b) Where the dealer is a partnership,—

(i) Any partner or body corporate who or which directly or indirectly holds, controls, or beneficially owns a majority of the voting rights, or of the capital, of the partnership, or otherwise has effective control of the partnership; or

(ii) Any body corporate or other entity in which a majority of the voting rights, or of the capital, is directly or indirectly held, controlled, or beneficially owned by the partnership or which is otherwise effectively controlled by the partnership:

(c) Where the dealer is a body corporate,—

(i) Any individual or body corporate who or which directly or indirectly holds, controls, or beneficially owns a majority of the voting rights, or of the capital, of the body corporate, or otherwise has effective control of the body corporate; or

(ii) Any body corporate which is related to the body corporate within the meaning given to that expression by section 2 (5) of the Companies Act 1955, or is otherwise effectively controlled by the body corporate:

“Reserve Bank” means the Reserve Bank of New Zealand constituted under the Reserve Bank of New Zealand Act 1989:

“Specified client investment”, in relation to a dealer, means any investment that is made on behalf of a client in accordance with the written authority, whether general or specific, of the client and in accordance with regulation 22 of these regulations in any of the following types of property:

(a) Government stock, treasury bills, and any other public security as defined in the Public Finance Act 1989:

(b) Stock, loans, investments, or securities issued by any local authority as defined in the Local Authorities Loans Act 1956:

(c) Transferable certificates of deposit or negotiable certificates of deposit which are issued by a registered bank or in respect of which a registered bank is liable for repayment or redemption:

(d) Bills of exchange, promissory notes, bonds, or other investments or instruments issued, drawn, accepted, or endorsed by a registered bank:

(e) Any other securities in respect of which payment or redemption is to be made by or is guaranteed by a registered bank or any local authority as defined in the Local Authorities Loans Act 1956:

(f) Any other type of property that is designated by the Commission, by notice in the *Gazette*, for the purposes of these regulations.

(2) In these regulations, a reference to depositing any property in safe custody means depositing the property in accordance with regulation 14 of these regulations.

(3) Any term or expression which is not defined in these regulations, but which is defined in the Act or the Securities Act 1978, shall, unless the context otherwise requires, have the meaning given to it by the Act or the Securities Act 1978.

(4) In these regulations, a reference to a numbered form is a reference to the form so numbered in the Schedule to these regulations.

#### *Client Bank Accounts*

**3. Client bank accounts**—(1) Every dealer shall establish and maintain one or more client bank accounts in New Zealand with one or more registered banks.

(2) A dealer may establish and maintain one or more client bank accounts outside New Zealand with one or more overseas banks.

(3) Every client bank account—

(a) Shall be maintained by the dealer in the name of the dealer; and

(b) Shall include in its title the description “client bank account”.

**4. Acknowledgment of client bank account**—(1) Subject to subclause (2) of this regulation, no dealer shall pay any client money into a client bank account unless the dealer has obtained a written statement in form 1 signed by the person with whom the account is to be maintained acknowledging—

(a) That the account is one to which these regulations apply; and

(b) That all money that is at any time in the account is held by the dealer on behalf of clients of the dealer; and

(c) That the person is not entitled to combine the account with any other account, except with other client bank accounts maintained by the dealer with the person in respect of the dealer’s business as a futures dealer; and

(d) That the person is not entitled to exercise any right of set-off or counterclaim against money in the account in respect of any amount owed to the person by the dealer.

(2) If any person outside New Zealand declines to give such an acknowledgment, the dealer shall not pay any client money into the client bank account with the person unless the dealer has first—

- (a) Advised the client entitled to the money that the money may not have the protection afforded by regulation 20 of these regulations; and
- (b) Obtained the written agreement of the client in form 2 that, notwithstanding such advice, the money may be paid into the client bank account with the person.

**5. Operation of client bank accounts**—Every dealer shall ensure—

- (a) That each of its client bank accounts is not overdrawn; and
- (b) That no money other than client money is paid into or held in its client bank accounts, except as permitted by regulation 17 or regulation 18 of these regulations; and
- (c) That no money is paid out of its client bank accounts except in accordance with regulation 8 of these regulations.

**6. Client money to be paid into client bank account**—All client money received by a dealer shall, immediately after it is received, be paid into a client bank account.

**7. Money to be held on same day call**—Every dealer shall ensure that all client money deposited in or credited to a client bank account is held on same day call.

**8. Disbursements of client money from client bank account**—

(1) Every dealer shall ensure that no money is paid out of a client bank account except for the purpose of—

- (a) Making a payment for, or in connection with, the entering into, margining, or settling of a futures contract by the dealer on behalf of the client entitled to the money; or
- (b) Acquiring a specified client investment on behalf of the client entitled to the money, in accordance with the written authority, whether general or specific, of the client; or
- (c) Acquiring any property (other than a specified client investment) on behalf of the client entitled to the money, in accordance with the specific written authority of the client; or
- (d) Making a payment to the client entitled to the money; or
- (e) Making a payment to another person specified by the client entitled to the money in accordance with the specific written authority of the client; or
- (f) Meeting the amount of any fees, commissions, or other charges properly payable by a client to the dealer in respect of any dealing in futures contracts on behalf of the client; or
- (g) Making a payment to the dealer in reimbursement for any payment made by the dealer to or on behalf of a client for which the dealer is entitled to be reimbursed by the client; or
- (h) Withdrawing an amount pursuant to regulation 17 or regulation 18 (2) of these regulations.

(2) Every dealer shall ensure that no money is paid out of a client bank account in respect of a client unless there is standing to the credit of the client in the account sufficient funds to cover the payment.

*Client Funds Accounts*

**9. Client funds accounts**—(1) A dealer may establish and maintain one or more client funds accounts—

- (a) In New Zealand with a recognised clearing house or with another dealer;
  - (b) Outside New Zealand with a clearing house for a futures exchange or with a futures broker.
- (2) Every client funds account—
- (a) Shall be maintained by the dealer in the name of the dealer; and
  - (b) Shall include in its title the description “client funds account”.

**10. Acknowledgment of client funds account**—(1) Subject to subclause (2) of this regulation, no dealer shall pay any client money to any clearing house for a futures exchange or to another dealer or futures broker for crediting to a client funds account unless the dealer has obtained a written statement in form 3 signed by the person with whom the account is to be maintained acknowledging—

- (a) That the account is one to which these regulations apply; and
- (b) That all money that is at any time standing to the credit of the account is held by the dealer on behalf of clients of the dealer; and
- (c) That the person is not entitled to combine the account with any other account, except with other client funds accounts maintained with the person in respect of the dealer’s business as a futures dealer; and
- (d) That the person is not entitled to exercise any right of set-off or counterclaim against money credited to the account in respect of any amount owed to the person by the dealer.

(2) If any person outside New Zealand declines to give such an acknowledgment, the dealer shall not pay any client money for crediting to the client funds account with the person, unless the dealer has first—

- (a) Advised the client entitled to the money that the money may not have the protection afforded by regulation 20 of these regulations; and
- (b) Obtained the written agreement of the client in form 2 that, notwithstanding such advice, the money may be credited to the client funds account with the person.

**11. Notification by dealer that money must be credited to client funds account**—(1) Where a dealer, or any person acting for or at the request of a dealer, pays or credits money on behalf of a client of the dealer to a clearing house for a futures exchange or to another dealer or futures broker, the dealer or other person shall ensure that an instruction is given to the clearing house, dealer, or futures broker to whom the money is paid or credited that the money is client money and must be credited to the client funds account of the dealer.

(2) Every person who receives money or a credit for money with an instruction that it must be credited to a client funds account of a dealer with the person shall ensure that the money is credited to the account immediately after it is received.

**12. Obligations of dealer by whom client funds account is maintained**—Every dealer who maintains a client funds account with a

clearing house for a futures exchange or with another dealer or futures broker—

- (a) Shall not authorise any amount to be credited to the account other than amounts in respect of client money; and
- (b) Shall not authorise any amount to be debited to the account other than the amounts of any payments made—
  - (i) For, or in connection with, the entering into, margining, or settling of futures contracts on behalf of clients; or
  - (ii) To the dealer for the credit of a client bank account of the dealer.

**13. Obligations of person with whom client funds account is maintained**—Every clearing house, dealer, or futures broker with whom a client funds account is maintained in respect of another dealer shall ensure—

- (a) That no amount is credited to the account other than in accordance with an instruction given under regulation 11 of these regulations; and
- (b) That no amount is debited to the account other than the amounts of any payments made—
  - (i) For, or in connection with, the entering into, margining, or settling of futures contracts on behalf of clients of the dealer in respect of whom the account is maintained; or
  - (ii) To the dealer for whom the account is maintained for the credit of a client bank account of the dealer.

#### *Client Property*

**14. Client property to be placed in safe custody**—All client property received by a dealer which is capable of deposit in safe custody shall, immediately after it is received, be deposited in safe custody on behalf of the client entitled to the property with—

- (a) The Reserve Bank; or
- (b) A registered bank in New Zealand; or
- (c) An overseas bank outside New Zealand; or
- (d) A recognised clearing house; or
- (e) A person who is designated by the Commission, by notice in the *Gazette*, as a person with whom or which client property may be deposited in safe custody for the purposes of these regulations.

**15. Acknowledgment that client property will be held in safe custody**—(1) Subject to subclause (2) of this regulation, no dealer shall deposit any client property in safe custody with a person unless the dealer has obtained a written statement in form 4 signed by the person acknowledging—

- (a) That all client property deposited at any time in safe custody by the dealer with the person—
  - (i) Will be property to which these regulations apply; and
  - (ii) Will be held, in the case of a recognised clearing house, on behalf of the clients of the dealer and, in the case of other persons, on behalf of the client entitled to the property; and
- (b) That the person will not be entitled to combine any client property deposited in safe custody by the dealer with the person with any other property, except, in the case of a recognised clearing

house, with other client property deposited by the dealer with the person in respect of the dealer's business as a futures dealer; and

- (c) That the person will not be entitled to exercise any right of set-off or counterclaim against any client property deposited in safe custody by the dealer with the person in respect of any amount owed to the person by the dealer, except amounts owed by the dealer in respect of the deposit of the property.
- (2) If any person outside New Zealand declines to give such an acknowledgment, the dealer shall not deposit any client property in safe custody with the person unless the dealer has first—
  - (a) Advised the client entitled to the property that the property may not have the protection afforded by regulation 20 of these regulations; and
  - (b) Obtained the written agreement of the client in form 2 that, notwithstanding such advice, property of the client may be deposited in safe custody with the person.

**16. Dealing with client property**—(1) No dealer shall deal with any client property otherwise than in accordance with the terms and conditions on which the property was received by the dealer or in accordance with a specific written direction of the client entitled to the property.

(2) No person with whom any client property is deposited in safe custody by a dealer, or by whom any other client property of the dealer is held, shall deal with the property otherwise than in accordance with the terms and conditions agreed to between the dealer and the person for the deposit or holding of the client property or in accordance with a specific written direction of the dealer.

(3) If any person with whom any client property is deposited in safe custody by a dealer, or by whom any other client property of the dealer is held, has express notice in writing that the terms and conditions on which the property was received by the dealer (as modified by any subsequent specific written direction of the client entitled to the property) conflict with the terms and conditions agreed to between the dealer and the person for the deposit or holding of the client property (as modified by any subsequent specific written direction of the dealer), the person shall hold the property in trust for the client entitled to the property until such time as—

- (a) The dealer and the client entitled to the property jointly advise the person in writing as to the terms and conditions for the deposit or holding of the property; or
- (b) A court gives directions to the person as to the deposit, holding, or release of the property.

*General Provisions Relating to Client Bank Accounts, Client Funds Accounts, and Client Property*

**17. Payments that include client money**—Whenever any money is paid to a dealer and the money includes client money, the dealer shall pay the money into a client bank account and shall, immediately the funds are cleared for payment, withdraw from the account the money which is not client money.



**18. Dealer to deposit money in account to prevent shortfall—**

(1) Where, on any day, the amount of total liabilities of a dealer to all of the dealer's clients in respect of dealings in futures contracts exceeds the aggregate of—

- (a) The client money in client bank accounts and client funds accounts of the dealer; and
- (b) The net realisable value of the specified client investments of the dealer; and
- (c) The net realisable value of other client property deposited in safe custody by the dealer,—

the dealer shall immediately deposit in a client bank account of the dealer an amount of money equal to the amount of the excess, and the amount so deposited shall for the purposes of these regulations be deemed to be client money.

(2) Where—

- (a) A dealer has deposited money in a client bank account pursuant to subclause (1) of this regulation; and
- (b) The aggregate of—
  - (i) The client money in client bank accounts and client funds accounts of the dealer; and
  - (ii) The net realisable value of the specified client investments of the dealer; and
  - (iii) The net realisable value of other client property held or deposited in safe custody by the dealer,—

subsequently exceeds the amount of total liabilities of the dealer to all of the dealer's clients in respect of dealings in futures contracts, the dealer may withdraw from the account so much of the money deposited by the dealer in accordance with subclause (1) of this regulation as is no longer required to meet any excess under that subclause.

(3) For the purposes of this regulation, the expression "net realisable value" means on any day the net amount which the dealer could reasonably expect to realise on that day for the specified client investments, or other client property deposited in safe custody, as the case may be, which the dealer is authorised to realise on behalf of the clients for whom they are held.

(4) For the purposes of this regulation, the amount of any liability of a dealer that is designated in a foreign currency shall be calculated by applying the rate of exchange at which, on the day in question, the dealer could have purchased New Zealand dollars with the relevant foreign currency.

**19. Position where dealer is also a bank—**For the avoidance of doubt, it is hereby declared that any dealer that is a registered bank or an overseas bank shall be required to comply in all respects with these regulations, and any client bank account or client funds account that is established and maintained in accordance with these regulations with the dealer, either in respect of its own clients or by any other dealer in respect of the clients of the other dealer, shall be regarded as an account that complies with these regulations.

*Further Protection of Client Money and Client Property*

**20. Client money and client property not available to meet liability of dealer or other person—**(1) Subject to subclause (2) of this

regulation, no client money, no specified client investment, and no other client property—

(a) Shall be available for the payment of a debt, or for meeting any liability, of any dealer or any person with whom any client bank account or client funds account is maintained, investment is held, or other property is deposited or otherwise held, or of any other person other than the client entitled thereto:

(b) Shall be liable to be attached or taken in execution under the order or process of any court at the instance of a person suing in respect of any such debt or liability,—

notwithstanding any other law or enactment.

(2) Nothing in subclause (1) of this regulation affects—

(a) The right of a client of a dealer to recover money, investments, or other property to which the client is entitled; or

(b) Any claim or lien which the dealer has against or on the money, investments, or other property of any client; or

(c) The right of a dealer to withdraw any money from a client bank account for the purpose of making a payment on behalf of any client in accordance with regulation 8 (1) of these regulations, whether to itself or any other person; or

(d) The right of any person with whom a client funds account is maintained by a dealer to debit the account for the purpose of making a payment in accordance with regulation 13 (b) of these regulations, whether to itself or to any other person; or

(e) Any claim or lien which any custodian of an investment or other property has in respect of the deposit or holding of the investment or property.

(3) Notwithstanding subclause (2) of this regulation,—

(a) No person with whom a client bank account is maintained by a dealer shall—

(i) Combine the account with any other account, except with other client bank accounts maintained by the dealer with the person in respect of the dealer's business as a futures dealer; or

(ii) Exercise any right of set-off or counterclaim against money in the account in respect of any amount owed to the person by the dealer:

(b) No person with whom a client funds account is maintained by a dealer shall—

(i) Combine the account with any other account, except with other client funds accounts maintained by the dealer with the person in respect of the dealer's business as a futures dealer; or

(ii) Exercise any right of set-off or counterclaim against money credited to the account in respect of any amount owed to the person by the dealer:

(c) No person with whom any specified client investment or other client property is deposited in safe custody by a dealer, or otherwise held in respect of a dealer, shall—

(i) Combine the property with any other property, except, in the case of a recognised clearing house, with other client property deposited by the dealer with the person in respect of the dealer's business as a futures dealer; or

(ii) Exercise any right of set-off or counterclaim against the property in respect of any amount owed to the person by the

dealer, except amounts owed by the dealer in respect of the deposit or holding of the property.

**21. Protection of client money and client property where dealer is insolvent—**(1) This regulation applies to and in relation to every dealer or futures broker or clearing house for a futures exchange—

- (a) Who has been adjudged bankrupt; or
- (b) That is a company to which section 189A (1) of the Companies Act 1955 applies; or
- (c) Who is deceased and whose estate is being administered under Part XVII of the Insolvency Act 1967; or
- (d) That is a corporation or an associated person or a subsidiary of a corporation to which an Order in Council made under section 38 of the Corporations (Investigation and Management) Act 1989 applies; or
- (e) That is a registered bank or an associated person of a registered bank or a subsidiary of a registered bank to which an Order in Council made under section 117 of the Reserve Bank of New Zealand Act 1989 applies; or
- (f) Who or that has been expelled or suspended from membership of an authorised futures exchange.

(2) Subject to subclause (5) of this regulation, money in or credited to a client bank account or client funds account of any person to whom this regulation applies shall, as from the time and date at which this regulation commences to apply to the person, be subject to a single trust in favour of all of the clients for whom or on whose behalf the money is being held in the account or from whom the money was received for payment to the account, as the case may be.

(3) Specified client investments or other client property deposited in safe custody or otherwise held by any person to whom this regulation applies shall, as from the time and date at which this regulation commences to apply to the person, be subject to a single trust in favour of all of the clients for whom or on whose behalf the property is being held or from whom the property was received, as the case may be.

(4) In any case where the person to whom this regulation applies is a dealer or a futures broker or a clearing house that maintains a client bank account or a client funds account in respect of another dealer or that holds client property on behalf of clients of another dealer, the trust shall not be in favour of the dealer client, but instead shall be in favour of all of the relevant clients of the dealer.

(5) Nothing in subclause (2) of this regulation shall affect the right of any person with whom a client funds account is maintained by a dealer to debit the account for the purpose of making a payment in accordance with regulation 13 (b) of these regulations, whether to itself or any other person.

(6) Any trust created by this regulation shall be administered,—

- (a) In the case of a person who or that is a member of an authorised futures exchange, by one or more persons appointed by the chairperson of the exchange in that behalf;
- (b) In the case of a person who or that was, immediately before that person became a person to whom this regulation applies, a member of an authorised futures exchange, by one or more persons appointed by the chairperson of the exchange in that behalf:

(c) In the case of any other person, by one or more persons appointed by the Chairman of the Securities Commission.

(7) Where 2 or more persons are appointed to administer any trust under subclause (6) of this regulation, the notice of appointment shall state whether the powers of administration of the trust shall be exercised by those persons acting together or may be exercised individually.

*Miscellaneous Provisions*

**22. Specified client investments**—(1) All specified client investments shall be held in the name of—

(a) The client entitled thereto; or

(b) The dealer.

(2) Where a specified client investment is made by a dealer in the name of the dealer—

(a) The investment shall be and remain the property of the client entitled thereto; and

(b) The dealer shall take all reasonable steps to ensure that the investment is designated or identified as a client investment by the issuer of the investment or any custodian or other person having control of the investment.

(3) Every dealer shall ensure that no specified client investment of the dealer is combined with any other investment of the dealer which is not a specified client investment of the client entitled thereto.

(4) Notwithstanding this regulation but subject to regulation 16 of these regulations, the issuer or custodian of a specified client investment, and any other person having control of a specified client investment, shall act in relation to the investment on the instructions of the dealer.

**23. Accounting and other records**—(1) Every dealer shall at all times keep, in relation to the clients of the dealer, in such manner as will enable the audit thereof to be conveniently and properly carried out, accounting and other records that are separate from any other records of the dealer and correctly record and explain—

(a) Particulars of all amounts deposited in, and of all amounts withdrawn from, each client bank account:

(b) Separately from, but in addition to, the particulars referred to in paragraph (a) of this subclause, particulars of all amounts deposited in, and of all amounts withdrawn from, each client bank account pursuant to regulation 18 of these regulations:

(c) Particulars of all amounts credited or debited to each client funds account:

(d) Particulars of all specified client investments of the dealer:

(e) Particulars of all other client property deposited in safe custody or held by the dealer:

(f) Particulars of all dealings of each client with the dealer, including details of all amounts credited or debited to each client in each client bank account and each client funds account:

(g) Separately from, but in addition to, the particulars referred to in paragraph (f) of this subclause, where the client is another dealer who maintains a client funds account with the dealer, particulars of all amounts credited or debited by the dealer in respect of the client funds account of the other dealer.

(2) Every dealer shall ensure that the client records of the dealer are available on request for inspection by its auditor and by any person authorised by any authorised futures exchange of which the dealer is a member.

**24. Audit**—(1) Every dealer shall ensure, in respect of each financial year of the dealer, that its client records are audited by an auditor in order to ascertain whether—

- (a) The client records have been properly maintained;
- (b) The dealer has complied with the provisions of the Act and these regulations.

(2) Subject to subclause (4) of this regulation, for the purposes of carrying out such an audit for each financial year, the auditor shall examine the client records of the dealer—

- (a) On at least one occasion during each of the first, second, and third quarters of that financial year; and
- (b) On at least one occasion within 3 months after the close of that financial year.

(3) Forthwith after completion of each examination of the client records of the dealer, the auditor shall—

- (a) Prepare a report of the results of the examination; and
- (b) Send a copy of that report to the dealer; and
- (c) If the report discloses any breach of the Act or these regulations by the dealer, send a copy thereof to the Commission and any authorised futures exchange of which the dealer is a member.

(4) Paragraph (a) of subclause (2) of this regulation shall not apply in respect of any financial year to any dealer who is a member of an authorised futures exchange if the exchange carries out inspections of the client records of the dealer in respect of the financial year at intervals no greater than those specified in that paragraph.

**25. Offences**—(1) Any person who without reasonable justification or excuse contravenes, or fails to comply with, any provision of these regulations commits an offence, and is liable on summary conviction to a fine not exceeding \$5,000.

(2) Where an offence is committed under this clause by any person acting as the agent or employee of another person, that other person shall, without prejudice to the liability of the first-mentioned person, be liable under this clause in the same manner and to the same extent as if he or she had personally committed the offence.

(3) Notwithstanding anything in subclause (2), where any proceedings are brought by virtue of that subclause, it shall be a good defence to the charge if the defendant proves that the offence was committed without his or her knowledge or that he or she took all reasonable steps to prevent the commission of the offence and to remedy any effects of the act or omission giving rise to the offence.

(4) Where any body corporate is convicted of an offence against this Act, every director and every person concerned in the management of the body corporate shall be guilty of a like offence if it is proved that the act that constituted the offence took place with his or her authority, permission, or consent, or that he or she knew the offence was to be or was being committed and failed to take all reasonable steps to prevent or stop it.

Transitional Provisions

26. Transitional provisions—(1) For the purposes of these regulations, all client money and all client property that is, at the date of commencement of these regulations, held by a dealer or by any other person on its behalf shall be deemed to have been received by the dealer or other person on that date, and the provisions of these regulations shall apply in all respects to the money and property on and after that date.

(2) Nothing in regulation 4 or regulation 10 or regulation 15 of these regulations shall apply to any client money or client property that has already, at the date of commencement of these regulations, been paid into a client bank account or credited to a client funds account or deposited in safe custody with any person.

SCHEDULE
FORMS

Form 1

Reg. 4 (1)

ACKNOWLEDGMENT IN RESPECT OF CLIENT BANK ACCOUNTS

(To be given pursuant to regulation 4 (1) of the Futures Industry (Client Funds) Regulations 1990)

To: ..... [Full name of futures dealer]

Re.: ..... [Full title of account]

You have opened with us the above-mentioned client bank account in respect of your business as a futures dealer.

As required by regulation 4 (1) of the Futures Industry (Clients Funds) Regulations 1990, we acknowledge that—

- (a) The provisions of those regulations apply to the account; and
(b) All money that is at any time in the account will be held by you on behalf of your clients; and
(c) We will not be entitled at any time to combine the account with any other account, except with other client bank accounts maintained by you with us in respect of your business as a futures dealer; and
(d) We will not be entitled at any time to exercise any right of set-off or counterclaim against money in the account in respect of any amount owed to us by you.

Dated at ..... this ..... day of ..... 19.....

Full name of body giving the acknowledgment: .....

Address: .....

Signature of manager or other duly authorised officer: .....

SCHEDULE—continued

Regs. 4 (2), 10 (2), 15 (2)

Form 2

ACKNOWLEDGMENT BY CLIENT IN RESPECT OF OVERSEAS PERSONS

(To be given pursuant to the Futures Industry (Client Funds) Regulations 1990)

To: ..... [Full name of futures dealer]

I/We.: ..... [Full name(s) of client(s)]

acknowledge, in accordance with regulations 4 (2), 10 (2), and 15 (2) of the Futures Industry (Client Funds) Regulations 1990, that—

1. You have advised me (or us) that, in the course of your dealings in futures contracts, you will or may from time to time, on my (or our) behalf,—

- (a) Pay client money to your client bank account:
(b) Credit client money to your client funds account:
(c) Deposit client property in safe custody,—
with the following persons outside New Zealand:

.....
.....
.....

2. You have also advised me (or us)—

- (a) That none of those persons has given the acknowledgments required by regulations 4 (1), 10 (1), and 15 (1) of the Regulations; and
(b) That, as a consequence, the money or property may not have the protection afforded by regulation 20 of the Regulations.

3. Notwithstanding that advice, you are hereby authorised—

- (a) To pay money to the client bank account maintained by you with any of those persons:
(b) To credit money to the client funds account maintained by you with any of those persons:
(c) To deposit any of my (or our) property in safe custody with any of those persons,—

until such time as this authority is expressly revoked by me (or us) by notice in writing to you.

Dated at ..... this ..... day of ..... 19.....

Signature of client(s): .....

.....



SCHEDULE—continued

Form 3

Reg. 10(1)

ACKNOWLEDGMENT IN RESPECT OF CLIENT FUNDS ACCOUNTS

(To be given pursuant to regulation 10 (1) of the Futures Industry (Client Funds) Regulations 1990)

To: ..... [Full name of futures dealer]

Re.: ..... [Full title of account]

You have opened with us the above-mentioned client funds account in respect of your business as a futures dealer.

As required by regulation 10 (1) of the Futures Industry (Client Funds) Regulations 1990, we acknowledge that—

- (a) The provisions of those regulations apply to the account; and
- (b) All money that is at any time standing to the credit of the account will be held by you on behalf of your clients; and
- (c) We will not be entitled at any time to combine the account with any other account, except with other client funds accounts maintained by you with us in respect of your business as a futures dealer; and
- (d) We will not be entitled at any time to exercise any right of set-off or counterclaim against money credited to the account in respect of any amount owed to us by you.

Dated at ..... this ..... day of ..... 19....

Full name of body giving the acknowledgment: .....

Address: .....

Signature of manager or other duly authorised officer: .....

\_\_\_\_\_



SCHEDULE—continued

Reg. 15 (1)

Form 4

ACKNOWLEDGMENT THAT DEPOSITS OF CLIENT PROPERTY WILL BE HELD IN SAFE CUSTODY

(To be given pursuant to regulation 15 (1) of the Futures Industry (Client Funds) Regulations 1990)

To: ..... [Full name of futures dealer]

You have indicated that you would like from time to time to deposit in safe custody with us client property held by you in respect of your business as a futures dealer.

As required by regulation 15 (1) of the Futures Industry (Client Funds) Regulations 1990, we acknowledge that—

- (a) All client property deposited at any time in safe custody by you with us—
(i) Will be property to which those regulations apply; and
(ii) [In the case of an acknowledgment given by a recognised clearing house] will be held on behalf of your clients; and
(ii) [In the case of an acknowledgment given by any other person] will be held on behalf of the client entitled to the property; and
(b) We will not be entitled at any time to combine any client property deposited in safe custody by you with us with any other property, (except \*[in the case of an acknowledgment given by a recognised clearing house] with other client property deposited by you with us in respect of your business as a futures dealer); and
(c) We will not be entitled at any time to exercise any right of set-off or counterclaim against any client property deposited in safe custody by you with us in respect of any amount owed to us by you, except amounts owed by you in respect of the deposit of the property.

Dated at ..... this ..... day of ..... 19.....

Full name of body giving the acknowledgment: .....

Address: .....

Signature of manager or other duly authorised officer: .....

\*Delete whichever is inapplicable

SCHEDULE—continued

Form 5

Reg. 24

EXAMINATION REPORT

(In Terms of the Futures Industry (Client Funds) Regulations 1990)

In the matter of the client records of ..... [Specify name of the dealer]

1. I/We, ..... of ....., accountant(s), declare that I am a/we are qualified auditor(s) within the meaning of the Securities Act 1978.

2. In accordance with regulation 24 of the Futures Industry (Client Funds) Regulations 1990, I/we have examined the client records of ... .., dealer, carrying on business at ..... . The examination was completed—

\*(a) On the ..... day of .....19...., during the first (or second or third) quarter of the financial year that is due to end with the ..... day of .....19....; or

\*(b) On the ..... day of ..... 19...., within 3 months after the close of the financial year that ended with the ..... day of ..... 19....

3. The last examination of the client records of ..... was carried out on the ..... day of ..... 19.... by me/us (or by ..... on behalf of ....., an authorised futures exchange of which the dealer is a member).

4. I/we report that, to the best of my/our knowledge and belief—

(a) The client records have been properly maintained since the date of the last examination; and

(b) The client records have been available for inspection whenever requested by me/us; and

(c) The dealer has complied with the provisions of the Securities Amendment Act 1988 and the Futures Industry (Client Funds) Regulations 1990 since the date of the last examination,—

except as stated below:

.....  
.....  
.....

In my/our opinion, the following matters in relation to the client records should be communicated to the Securities Commission and the ....., an authorised futures exchange of which the dealer is a member, namely:

.....  
.....  
.....

Dated at ..... this ..... day of ..... 19....

.....  
.....

Auditor(s)

\*Delete if inapplicable.

MARIE SHROFF,  
Clerk of the Executive Council.

## EXPLANATORY NOTE

*This note is not part of the regulations, but is intended to indicate their general effect.*

These regulations come into force on 1 October 1990. The principal features of the regulations are that they—

- (a) Provide for the establishment and maintenance of client bank accounts and client funds accounts by dealers in futures contracts:
- (b) Require client money to be paid into or credited to those accounts:
- (c) Prescribe the obligations of dealers and other persons in relation to client bank accounts and client funds accounts:
- (d) Restrict the disbursements of client money from client bank accounts and the debiting of amounts to client funds accounts:
- (e) Prescribe requirements relating to the deposit of client property in safe custody:
- (f) Restrict the availability of client money and client property to meet liabilities of the dealer or other persons:
- (g) Give further protection to client money and client property in cases where the dealer is insolvent:
- (h) Prescribe conditions relating to certain client investments:
- (i) Require dealers to keep accounting and other records in relation to client bank accounts, client funds accounts, and client property:
- (j) Provide for the auditing of those accounting records:
- (k) Prescribe offences for contravention or failure to comply with the regulations.

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These regulations are administered in the Department of Justice.