NEW ZEALAND FINANCIAL MARKETS ASSOCIATION MARKET REPORT FOR ASIA SECURITIES FORUM 2024

NEW ZEALAND FINANCIAL MARKETS ASSOCIATION - OVERVIEW

The New Zealand Financial Markets Association (NZFMA) was formed in 2007 as the industry association for institutional participants in New Zealand's wholesale financial markets.

NZFMA is a not-for-profit incorporated society with 6 staff, of which 4 are part-time.

NZFMA represents the common interests of its members as institutional participants in New Zealand's wholesale financial markets by:

- advocating on matters of common interest to Members which are relevant to the good reputation and efficient operation of New Zealand's wholesale financial markets and their regulation by government and regulatory authorities,
- promoting and assisting the maintenance, reform and development in New Zealand of competitive and resilient wholesale financial markets that operate in a fair and efficient manner,
- promoting and assisting professionalism in the conduct of business in New Zealand's wholesale financial markets, including though facilitating the development and maintenance of common conventions and guidance that support efficient and ethical practices by Members; and maintaining a repository of standard market documentation,
- promoting high professional standards in New Zealand's wholesale financial markets by co-ordinating the delivery of fit-for-purpose education programmes to any appropriate individuals, and awarding accreditation by the Association to employees of Member organisations who reach a required level of professional skill and knowledge,
- promoting New Zealand's wholesale financial markets as essential elements of the New Zealand financial system, capital markets and economy, and
- facilitating the provision of financial benchmarks that support the operation of New Zealand's wholesale financial markets.

RECENT NOTABLE INITIATIVES – LED BY NZFMA

Significant update to New Zealand Business Day Definition Guidance

Key issues:

- lack of clarity and consistency across NZFMA's current business day convention documentation,
- inconsistent application of current business day conventions, primarily regarding transacting and settling on Auckland and Wellington Anniversary Day public holidays,
- operational and technology challenges arising from New Zealand's lack of alignment with other jurisdictions which all recognise and apply only one financial centre calendar per currency, and
- inconsistent recognition of financial centre calendars for New Zealand wholesale over-the-counter financial markets products. For example, Copp Clarke calendar currently identifies New Zealand as a single financial centre, whereas key ISDA documentation identifies two financial centres (Auckland and Wellington) for New Zealand.

Key proposals:

- a new NZFMA's Business Day Definition will **establish Auckland and Wellington Anniversary Day public holidays** (alongside all other regionally observed New Zealand public holidays) **as good business days** for the purposes of transacting and settling in New Zealand's wholesale over the-counter financial markets, and

- NZFMA will undertake advocacy with all relevant stakeholders (for example with the International Swaps and Derivatives Association) to create consistent recognition of **a single financial centre calendar** for New Zealand wholesale over-the-counter financial markets transactions and settlements.

Consultations on the future of BKBM – New Zealand's key interest rate benchmark

NZFMA has facilitated the provision of financial benchmarks since 2008. In 2021, in anticipation of the introduction of New Zealand's administrators of financial benchmarks regime, NZFMA established a wholly owned subsidiary, the New Zealand Financial Benchmark Facility Limited (NZFBF), to provide independent financial benchmark administration services exclusively for NZFMA. Prior to the establishment of NZFBF, NZFMA had undertaken the administration of BKBM.

NZFBF's objective is to deliver effective and efficient calculation and publication of a range of financial benchmarks, ensuring compliance with New Zealand's administrators of financial benchmarks regime, and alignment with the International Organization of Securities Commissions (IOSCO) Principles for Financial Benchmarks, to the extent applicable.

In May 2022 NZFMA requested that NZFBF lead a project to:

- evaluate alternative BKBM determination mechanisms, and to
- evaluate possible alternative benchmarks, including identifying potential transition planning.

The drivers for this initiative were:

- the gradual decline of traded volumes of Registered Bank Securities (RBS) in the BKBM rate-set,
- international jurisdictions adopting overnight risk-free, or near risk-free, benchmarks to replace credit-based benchmarks, noting, however, that Australia continues to use a credit-based benchmark, and
- concern that any further reductions in RBS volumes in the BKBM rate-set could increase the risk of an abrupt cessation of BKBM, which in turn could have financial stability implications due to the quantum of financial derivatives and lending contracts that are set with reference to BKBM.

NZFBF has recently co-ordinated two consultations on the future of BKBM and has developed a set of recommendations, having considered submissions.

RECENT NOTABLE INITIATIVES – NEW ZEALAND FINANCIAL MARKETS

Mandatory climate-related disclosures

The goal of mandatory climate-related disclosures is to:

- ensure that the effects of climate change are routinely considered in business, investment, lending and insurance underwriting decisions;
- help climate reporting entities better demonstrate responsibility and foresight in their consideration of climate issues; and
- lead to more efficient allocation of capital, and help smooth the transition to a more sustainable, low emissions economy.

What reporting requires

Reporting is required against climate standards issued by the External Reporting Board (XRB). These climate standards are based on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) after thorough public consultation.

The climate-related disclosure framework is structured around four thematic areas that represent core elements of how organisations operate.

They are:

- governance
- strategy
- risk management
- metrics and targets.

Organisations that have to make disclosures

And next…

JULY 2024

Consultation: Guidance on references to climate statements in disclosure documents – proposed information sheet

About this consultation

The Financial Markets Authority – Te Mana Tātai Hokohoko (FMA) is seeking feedback on a proposed information sheet that provides guidance for climate reporting entities (CREs) in relation to the following disclosure documents, in light of the climate-related disclosures (CRD) regime:

- any current or new Product Disclosure Statement (PDS) for their financial products
- the Other Material Information (OMI) on the offer register on Disclose for their financial products
- any Statement of Investment Policies and Objectives (SIPO) on the offer register on Disclose
- any annual report.

Setting out our guidance for CREs' disclosure documents in light of the new CRD regime contributes to our objective of promoting the confident and informed participation of businesses, investors and consumers in our financial markets.

RECENT NOTABLE INITIATIVES – NEW ZEALAND FINANCIAL MARKETS

Financial institutions conduct regime

The Financial Markets (Conduct of Institutions) Amendment Act 2022 was passed into law on 29 June 2022. The legislation introduces a new regime regulating the conduct of financial institutions that will come fully into force on 31 March 2025.

Once it comes into force, the new regime will:

- Require banks, insurers and non-bank deposit takers (together, financial institutions) to be licensed in respect of their general conduct towards consumers. The licensing regime will be monitored and enforced by the Financial Markets Authority (FMA).
- Require financial institutions to establish, implement and maintain effective fair conduct programmes throughout their businesses that ensure they meet the requirement to treat consumers fairly.
- Require financial institutions to comply with their fair conduct programme.
- Require financial institutions and intermediaries involved in the chain of distribution to comply with regulations that regulate incentives. These regulations will be able to prohibit sales incentives based on volume or value targets, e.g. soft commissions such as overseas trips, bonuses for selling a certain number of financial products, or leader boards.

ASX's proposal for re-introduction of New Zealand Government Bond futures

ASX has received an increasing number of inquiries from participants and investors globally regarding the availability of an NZGB futures contract. International interest has grown, particularly since NZGB inclusion in the FTSE World Government Bond Index. NZGBs offer an attractive premium to an expanded pool of risk capital.

NZ debt issuance has steadily increased over the last five years and is forecast to remain elevated, reaching $209bn by 2027. Additionally, the NZ Debt Management Office has a commitment to maintaining a minimum level of supply of NZGBs on issue (not less than 20% GDP over time*).

The RBNZ is currently conducting a comprehensive review of their liquidity policy (the Liquidity Policy Review 'LPR'). This has brought focus to the topic of liquidity broadly within the NZ market and resilience of the market in times of stress and the role that exchange traded futures contracts could play in covering duration risk.

Project progress and indicative next steps (subject to internal and regulatory approvals)