

NZFBF

NEW ZEALAND
FINANCIAL BENCHMARK
FACILITY



TE POU HERENGA PŪTEA O AOTEAROA

NZFBF Benchmarks – Self-Assessed Statement of Compliance with the IOSCO Principles for Financial Benchmarks

November 2022

NEW ZEALAND FINANCIAL BENCHMARK FACILITY

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Contents

PART ONE – Background and Overview of New Zealand Financial Benchmark Facility Limited..... 3

PART TWO – Statement of Compliance..... 6

PART THREE – IOSCO Principles for Financial Benchmarks and NZFBF Compliance 7

PART ONE – Background and Overview of New Zealand Financial Benchmark Facility Limited

Introduction

The International Organization of Securities Commissions (IOSCO) published the “Final Report on Principles for Financial Benchmarks” (IOSCO Principles) in July 2013.

New Zealand Financial Benchmark Facility Limited (NZFBF) has governance, processes and controls designed to comply with the IOSCO Principles (to the extent applicable), and has expressed its compliance with the IOSCO Principles in the “Self-assessed Statement of Compliance with the IOSCO Principles for Financial Benchmarks” (Statement of Compliance).

Business overview

The New Zealand Financial Markets Association (NZFMA, the Shareholder) is a not-for-profit organisation that is the owner of the benchmarks. The NZFMA also contributes to New Zealand’s financial markets through dealer accreditation, education, and advocacy on behalf of its members. The NZFMA’s members largely consist of banks and brokers who are active in New Zealand’s wholesale financial markets. The NZFMA is governed by its Board.

In 2021, NZFBF, a subsidiary of the NZFMA, was established to operate New Zealand’s interest rate benchmarks following the introduction of Benchmark Administration regulation overseen by the Financial Markets Authority (FMA). New Zealand has created an opt-in benchmark licensing regime, with NZFBF established as the entity that plans to apply in 2023 to be licensed.

NZFBF’s Board consists of three independent directors, two non-independent directors and up to two observers who can be appointed from the Government sector. Governance documentation, available on NZFBF’s [website](#), include:

- a. NZFBF Constitution;
- b. NZFBF Board Charter;
- c. Code of Conduct and Conflict Management;
- d. Governance Conflict Management Plan;
- e. Complaints process; and,
- f. Whistle-blowing process.

The NZFBF Board meets at least six times a year and has principal oversight over the operation of NZFBF and all issues relating to methodology, calculation, and publication of benchmarks to ensure they remain compliant with the IOSCO Principles (to the extent applicable). This compliance will be subject to periodic external review.

The following Benchmarks are calculated and published by NZFBF and are defined as in-scope indices for this Statement of Compliance. Details of the Indices are provided in the

Operating Rules and Principles and the Calculation Methodology documents which can be found on NZFBF's [website](#):

- a. **BKBM** is representative of the rates at which banks are willing to borrow and lend to one another for terms of one, two, three, four, five and six months. As a result, the rate contains a credit component. The benchmark is set each business day during a two-minute trading window, held at 10:20am, via two brokers venues. Price-makers participate in this trading window providing executable bids and offers in the one, three- and six-month tenors. The benchmark for the three tenors is set using arms-length transactions transacted during the two-minute window or the midpoint of the executable bid and offer at 10.22am, if no trading occurs. BKBM rates for the two, four- and five-month tenors are set using straight line interpolation between the one- and three-month tenors, and the three- and six-month tenors. A waterfall methodology has been adopted to produce the benchmark if not all data inputs are available. NZFBF monitors the rate-setting process and conducts post rate-set checks to ensure rates have been set using the agreed methodology. BKBM is published at 10.41am and includes information on how each BKBM tenor has been set and details are also released of the transactions and/or executable bids and offers that have been used to determine BKBM.

- b. **OCR Compound Index** the Official Cash Rate (OCR) Compound Index simplifies the calculation of compound interest rates providing a standardised basis that is published by a recognised benchmark administrator. The OCR compound index is equivalent to a series of daily data representing the returns from a rolling unit of investment earning compound interest each day at the OCR. The change in the OCR Compound Index between any two dates can be used to calculate the interest rate payable over that period.
The interest rate payable over that period would be realised New Zealand Overnight Index Average (NZONIA) which is a term risk free rate. Realised NZONIA is a backward-looking rate based on the OCR, compounded daily in arrears over the relevant period. The OCR Compound Index is published each business day at 10:41am.

- c. **Closing rates** are produced as an end of day valuation tool. Closing Rates are representative of the rates at which banks are willing to buy or sell the relevant instruments to clients via Bloomberg. NZFBF collects marks from price-makers' Bloomberg pages on four occasions during the afternoon, predominantly for business continuity reasons, and the final data collection is taken at 4:32pm. The final data collection is used to calculate the closing rates. NZFBF monitors the rate-setting process and conducts post rate-set checks to ensure rates have been set using the agreed methodology. Closing rates are set for:
 - i. NZ Government bonds (NZGS);
 - ii. NZ Interest Rate Swaps (NZSW);
 - iii. NZ Overnight Indexed Swaps (NZOS);
 - iv. Bank bill/Overnight Index Swap Basis Swaps (NZBO)

- v. LIBOR/BKBM Basis Swaps (NZBL);
- vi. SOFR/BKBM Basis Swaps (NZBR);
- vii. SOFR/OCR Basis Swaps (NZRR); and,
- viii. NZ Credit Markets (NZNG).

NZGS, NZSW, NZOS, NZBO, NZBL, NZBR and NZRR closing rates are published at 4:46pm. NZNG closing rates are published at 4:47pm.

NZFBF takes primary responsibility for all aspects of the benchmark setting process. This involves leading the development of documentation relating to the benchmark process, the development and maintenance of the systems used to determine the benchmarks and the daily monitoring of the determination process. NZFBF is the contact point for any issues that arise and oversight of the Benchmark process.

PART TWO – Statement of Compliance

NZFBF confirm that, as of November 2022, governance, processes, and control activities designed to comply with the Principles for Financial Benchmarks published by the International Organization of Securities Commissions (the “IOSCO Principles”) regarding the indices listed in part one of this report have been implemented.

The accompanying description in Section III of the Statement of Compliance sets out details of our responses to the IOSCO Principles based on the activities as of November 2022. As described in Section III of the Statement of Compliance, principles two and fourteen do not apply to the indices.

- Principle two: Oversight of Third Parties –Third parties are not used to collect input data or to calculate and disseminate the benchmark. NZFBF is responsible for these tasks.
- Principle fourteen: Submitter Code of Conduct – Indices are not based on submissions.

The Board of New Zealand Financial Benchmark Facility Limited is, and shall be, responsible for the appropriate design and operation of the governance, processes, and control activities as well as for the compliance with the IOSCO Principles.

PART THREE – IOSCO Principles for Financial Benchmarks and NZFBF Compliance

The table below sets out the responses of NZFBF in terms of how it complies with the IOSCO Principles for in-scope indices listed in part one of this document as of November 2022.

Principle description	NZFBF response	Relevant documentation
1. Overall Responsibility of the Administrator		
The Administrator should retain primary responsibility for all aspects of the Benchmark determination process. For example, this includes:	<p>NZFBF considers that it complies with this principle.</p> <p>NZFBF maintains responsibility for all aspects of the Benchmark Determination process as noted by the Benchmark Services Agreement with NZFMA. Oversight of NZFBF's benchmark administration activities is provided by the NZFBF Board (Board).</p> <p>The BKBM Operating Rules and Principles (ORP), the OCR Compound Index Operating Principles and Methodology (OCRPM) and the Closing Rate Operating Guidelines and Principles (CRP) and Methodology documents, which can be found on NZFBF's website, cover the aspects of the Benchmark determination process referred to in this principle.</p>	<ul style="list-style-type: none"> • NZFBF Constitution • BKBM Operating Rules and Principles • OCR Compound Index Operating Principles and Methodology • Closing Rate Operating Guidelines and Principles, and methodology documents <p>The above documents are available on the NZFBF website</p> <ul style="list-style-type: none"> • NZFMA/NZFBF Benchmark Services Agreement
a) Development: The definition of the Benchmark and Benchmark Methodology;	a) The ORP, OCRP, OGP and Methodology documents contain the benchmark's definition and methodology to be followed for the calculation of BKBM, OCR Compound Index and Closing Rates. The ORP, OCRP, OGP and Methodology document's annual reviews were undertaken by NZFBF in 2022 in consultation with the NZFMA's Rates and Credit Market Committees or working groups. The NZFMA administers the committee structure as committees are made up of NZFMA members. NZFBF attends NZFMA's committees relevant to the benchmark determination process. Any proposed changes to the benchmark's definition or methodology are presented to and ratified by the NZFBF Board.	<ul style="list-style-type: none"> • BKBM Operating Rules and Principles • OCR Compound Index Operating Principles and Methodology • Closing Rate Operating Guidelines and Principles, and methodology documents <p>The above documents are available on the NZFBF website</p> <ul style="list-style-type: none"> • Rates and Credit Market Committee minutes • NZFBF working Group Minutes • NZFBF Board Minutes
b) Determination and Dissemination: Accurate and timely compilation and publication and distribution of the Benchmark;	b) NZFBF calculates BKBM, the OCR Compound Index and Closing Rates using the NZFMA's internal system (NZdata) and the benchmarks are disseminated on the NZFMA's website (with a 24-hour delay), emailed spreadsheets and via other vendors (e.g., Bloomberg and Refinitiv). BKBM and the OCR Compound Index are published at 10.41am and Closing rates between 4.46pm and 4.47pm. In case of delay in the publication of the benchmarks, subscribers are notified of the delay via market notice (email). These processes are set out in the ORP, OCRP OGP and Methodology documents.	<ul style="list-style-type: none"> • BKBM Operating Rules and Principles • OCR Compound Index Operating Principles and Methodology • Closing Rate Operating Guidelines and Principles, and methodology documents <p>The above documents are available on the NZFBF website</p> <p>Also see principle 15.</p>

Principle description	NZFBF response	Relevant documentation
<p>c) Operation: Ensuring appropriate transparency over significant decisions affecting the compilation of the Benchmark and any related determination process, including contingency measures in the event of absence of or insufficient inputs, market stress or disruption, failure of critical infrastructure, or other relevant factors; and</p>	<p>c) The ORP, OCRP, OGP, Methodology documents and NZdata documentation detail the responsibilities of NZFBF in the benchmark determination process including the calculation and dissemination of the benchmarks. It also contains procedures regarding changes in the methodology as well as the relevant consultation process for material changes. It sets out the procedures for data quality reviews, the calculation waterfall (BKBM) and provisions for instances where there is insufficient input data or market disruption events. Additionally, NZFBF has a Business Continuity Plan (BCP) in place to cover disruptions both to technical and office infrastructure.</p>	<ul style="list-style-type: none"> • BKBM Operating Rules and Principles • OCR Compound Index Operating Principles and Methodology • Closing Rate Operating Guidelines and Principles, and methodology documents • NZFBF Constitution • NZFBF Charter <p>The above documents are available on the NZFBF website</p> <ul style="list-style-type: none"> • NZ Data Comprehensive Overview, • Business Continuity Plan
<p>d) Governance: Establishing credible and transparent governance, oversight and accountability procedures for the Benchmark determination process, including an identifiable oversight function accountable for the development, issuance and operation of the Benchmark.</p>	<p>d) The NZFBF Board maintains governance responsibilities, contains a majority of independent directors, and provides oversight of the Benchmark determination process as noted in principle 5. The independent directors have backgrounds in industry, legal and regulatory bodies, while the non-independent directors are industry based. Observers can be drawn from Government agencies. NZFBF policy is that compliance is at shareholder level (NZFMA) who report to the NZFBF Board on benchmark activities.</p>	<ul style="list-style-type: none"> • NZFBF Board Charter <p>The above document is available on the NZFBF website</p>
<p>2. Oversight of Third Parties</p>		
<p>Where activities relating to the Benchmark determination process are undertaken by third parties - for example collection of inputs, publication or where a third-party acts as Calculation Agent - the Administrator should maintain appropriate oversight of such third parties. The Administrator (and its oversight function) should consider adopting policies and procedures that:</p> <p>a) Clearly define and substantiate through appropriate written arrangements the roles and obligations of third parties who participate in the Benchmark determination process, as well as the standards the Administrator expects these third parties to comply with;</p> <p>b) Monitor third parties' compliance with the standards set out by the Administrator;</p> <p>c) Make Available to Stakeholders and any relevant Regulatory Authority the identity and roles of third parties who participate in the Benchmark determination process; and</p>	<p>NZFBF considers that this principle does not apply.</p> <p>NZFBF does not use third parties for the Benchmark determination process.</p>	<ul style="list-style-type: none"> • BKBM Operating Rules and Principles • OCR Compound Index Operating Principles and Methodology • Closing Rate Operating Guidelines and Principles, and methodology documents <p>The above documents are available on the NZFBF website</p>

Principle description	NZFBF response	Relevant documentation
<p>d) Take reasonable steps, including contingency plans, to avoid undue operational risk related to the participation of third parties in the Benchmark determination process.</p> <p>This Principle does not apply in relation to a third party from whom an Administrator sources data if that third party is a Regulated Market or Exchange.</p>		
<p>3. Conflicts of Interest for Administrators</p>		
<p>To protect the integrity and independence of Benchmark determinations, Administrators should document, implement and enforce policies and procedures for the identification, disclosure, management, mitigation or avoidance of conflicts of interest. Administrators should review and update their policies and procedures as appropriate.</p> <p>Administrators should disclose any material conflicts of interest to their users and any relevant Regulatory Authority, if any.</p> <p>The framework should be appropriately tailored to the level of existing or potential conflicts of interest identified and the risks that the Benchmark poses and should seek to ensure:</p>	<p>NZFBF considers that it complies with this principle.</p> <p>NZFBF manages conflicts of interest via its Code of Conduct and Conflicts of Interest policy and Governance Conflicts Management Plan policy. These documents outline the identification and management of relevant conflicts as well as setting out the details around the Conflicts of Interest register. Conflict management is a standing agenda item for the NZFBF Board's bi-monthly meetings where they discuss and record potential conflicts of interest as they arise. The Governance Conflicts Management Plan contains the recorded conflicts and the controls in place to ensure that the potential impact and effects of conflicts of interest are managed and mitigated.</p> <p>The Director's Interest Register is made available to the Regulatory Authorities upon request.</p> <p>Design, amendments and implementation of the Code of Conduct and Conflicts of Interest policy are owned by Compliance, which is operated and managed by the NZFMA. The NZFBF Board is responsible for reviewing and ratifying any changes on an annual basis.</p>	<ul style="list-style-type: none"> NZFBF Constitution NZFBF Board Charter NZFBF Code of Conduct and Conflicts of Interest Governance Conflicts Management Plan <p>The above documents are available on the NZFBF website</p> <ul style="list-style-type: none"> NZFBF Director's Interest Register
<p>a) Existing or potential conflicts of interest do not inappropriately influence Benchmark determinations;</p>	<p>a) Existing or potential conflicts are identified and detailed as noted above. NZFBF is a distinct entity within the NZFMA group and has its own Board of Directors and Management Structure. NZFBF operates with secure physical and technological separation from the NZFMA to enhance its operational independence. Any manual intervention by NZFBF staff in the calculation of BKBM or Closing Rates is recorded in the NZData system and noted in the post publication compliance report.</p>	<ul style="list-style-type: none"> NZFBF Constitution NZFBF Board Charter NZFBF Code of Conduct and Conflicts of Interest Governance Conflicts Management Plan <p>The above documents are available on the NZFBF website</p>
<p>b) Personal interests and connections or business connections do not compromise the Administrator's performance of its functions;</p>	<p>b) Staff, Management and NZFBF Board members are required to declare any personal interests or connections through the conflict management policies noted above. Any reported conflicts are assessed at the appropriate level and reported to the NZFBF Board for review.</p>	<ul style="list-style-type: none"> NZFBF Code of Conduct and Conflicts of Interest Governance Conflicts Management Plan <p>The above documents are available on the NZFBF website</p>
<p>c) Segregation of reporting lines within the Administrator,</p>	<p>c) NZFBF has an organizational chart that clearly defines the roles of the NZFBF</p>	<ul style="list-style-type: none"> NZFBF Organisational Chart

Principle description	NZFBF response	Relevant documentation
where appropriate, to clearly define responsibilities and prevent unnecessary or undisclosed conflicts of interest or the perception of such conflicts;	and NZFMA, including reporting lines which reinforce the segregation of responsibilities and support the independence of benchmark determination. Job descriptions provide further details on the roles and responsibilities within NZFBF for the benchmark determination process.	<ul style="list-style-type: none"> NZFBF Job Descriptions
d) Adequate supervision and sign-off by authorised or qualified employees prior to releasing Benchmark determinations;	d) The production of BKBM, OCR Compound Index and Closing Rates is automated and as such NZFBF perform a monitoring role and check that all inputs for the Benchmark calculations are as observed. The General Manager, NZFBF has daily oversight of the benchmark determination processes, including the post publication compliance report. NZFBF staff have the required background and skills to perform these tasks. Staff can escalate issues to colleagues and/or management depending on severity. The required skills are documented in the Job Descriptions while ongoing training is covered in the NZFBF Recruitment and Workplace Policy document. As noted in a) any intervention in the BKBM and Closing Rate determination processes are subject to governance and oversight procedures.	<ul style="list-style-type: none"> NZFBF Operational Guidelines and Procedures NZFBF Recruitment and Workplace Policies NZFBF Job Descriptions
e) The confidentiality of data, information and other inputs submitted to, received by or produced by the Administrator, subject to the disclosure obligations of the Administrator;	e) & f) The Code of Conduct and Conflicts of Interest policy specifies how internal data should be handled and the confidentiality requirements. Staff are required to treat NZFBF information with the strictest confidence and ensure it is not disclosed or discussed with any person who is not an NZFBF representative, except where required or permitted under relevant regulations or legislation. Staff training on confidentiality obligations is conducted annually and obligations are covered in NZFBF Recruitment and Workplace Policy document.	<ul style="list-style-type: none"> NZFBF Code of Conduct and Conflicts of Interest <p>The above document is available on the NZFBF website</p>
f) Effective procedures to control the exchange of information between staff engaged in activities involving a risk of conflicts of interest or between staff and third parties, where that information may reasonably affect any Benchmark determinations; and		<ul style="list-style-type: none"> NZFBF Recruitment and Workplace Policies
g) Adequate remuneration policies that ensure all staff who participate in the Benchmark determination are not directly or indirectly rewarded or incentivised by the levels of the Benchmark.	g) The remuneration of NZFBF staff is not linked in any way to the level of the calculated benchmarks.	<ul style="list-style-type: none"> NZFBF Employment Contracts
An Administrator's conflict of interest framework should seek to mitigate existing or potential conflicts created by its ownership structure or control, or due to other interests the Administrator's staff or wider group may have in relation to Benchmark determinations. To this end, the framework should:	a) & b) NZFBF's benchmark determination process operates independently from the parent entity, the NZFMA, as stated in the organisational chart. The Governance Conflicts Management Plan highlights the conflict pertaining to NZFBF's ownership and control, and notes the interaction required between senior management and Boards of both	<ul style="list-style-type: none"> Governance Conflicts Management Plan <p>The above document is available on the NZFBF website</p>

Principle description	NZFBF response	Relevant documentation
<p>a) Include measures to avoid, mitigate or disclose conflicts of interest that may exist between its Benchmark determination business (including all staff who perform or otherwise participate in Benchmark production responsibilities), and any other business of the Administrator or any of its affiliates; and</p> <p>b) Provide that an Administrator discloses conflicts of interest arising from the ownership structure or the control of the Administrator to its Stakeholders and any relevant Regulatory Authority in a timely manner.</p>	<p>organisations to manage potential conflicts. The identification and recording of conflicts are managed by the NZFBF Board and is available for the Regulatory Authorities on request.</p>	
4. Control Framework for Administrators		
<p>An Administrator should implement an appropriate control framework for the process of determining and distributing the Benchmark. The control framework should be appropriately tailored to the materiality of the potential or existing conflicts of interest identified, the extent of the use of discretion in the Benchmark setting process and to the nature of Benchmark inputs and outputs. The control framework should be documented and available to relevant Regulatory Authorities, if any. A summary of its main features should be Published or Made Available to Stakeholders.</p> <p>This control framework should be reviewed periodically and updated as appropriate. The framework should address the following areas:</p>	<p>NZFBF considers that it complies with this principle.</p> <p>NZFBF has a documented risk-based control framework which is supported by the Risk Management Framework Guidelines for benchmark risk assessment. The framework considers potential risks related to the provision of benchmarks and the controls required to manage them. There is no use of discretion by the NZFBF in the benchmark determination process. NZFBF can manually intervene in the process to either input or correct data. This activity is logged within the system and recorded in the compliance reports.</p> <p>Controls have been identified for key processes around benchmark determination and comprise of automated and manual checks, regular reviews of best practice, conflict management and staff training.</p> <p>NZFBF's Risk Management Framework policy requires the NZFBF Board to review and approve the framework regularly. The framework is available to Regulatory Authorities and stakeholders on request.</p>	<ul style="list-style-type: none"> • NZFBF Constitution • NZFBF Board Charter • NZFBF Code of Conduct and Conflicts of Interest • NZFBF Whistle-blowing Process • NZFBF Complaints Process <p>The above documents are available on the NZFBF website</p> <ul style="list-style-type: none"> • NZFBF Risk Management Framework • NZFBF Board minutes
<p>a) Conflicts of interest in line with Principle 3 on conflicts of interests;</p>	<p>a) Please refer to NZFBF's responses to principle 3.</p>	
<p>b) Integrity and quality of Benchmark determination:</p> <p>i. Arrangements to ensure that the quality and integrity of Benchmarks is maintained, in line with principles 6 to 15 on the quality of the Benchmark and Methodology;</p>	<p>b) i) The NZFBF Board is responsible for the adequacy of controls to maintain the integrity and quality of the benchmark determinates as outlined in the NZFBF's responses to principles 6 to 15.</p>	
<p>ii. Arrangements to promote the integrity of</p>	<p>ii) NZFBF monitors and checks the daily benchmark setting process to ensure all</p>	<ul style="list-style-type: none"> •

Principle description	NZFBF response	Relevant documentation
Benchmark inputs, including adequate due diligence on input sources;	inputs are correct and the outputs are as expected. If any calculation issues arise NZFBF can pause the benchmark setting process to investigate and make the necessary adjustments. Such activity is logged, noted in the compliance report and if material, documented in an incident report. The NZFBF Board meets bi-monthly and receives operational reports including any incidents that have occurred regarding the benchmark's determination. Serious incidents are reported immediately by NZFBF to the NZFBF Board. Issues relating to the adequacy of input sources are considered on an ongoing basis by NZFBF in consultation with the NZFMA's Rates and Credit Markets Committees.	<ul style="list-style-type: none"> NZFBF Operational Guidelines and Procedures NZFBF Board Minutes
iii. Arrangements to ensure accountability and complaints mechanisms are effective, in line with principles 16 to 19; and	iii) The NZFBF Board reviews complaints received in accordance with the NZFBF's complaints policy. Further details are provided in principle 16.	
iv. Providing robust infrastructure, policies and procedures for the management of risk, including operational risk.	iv) Risks are identified through the NZFBF Board's formal risk assessment and mitigated by the control framework noted above in this principle (b)ii). The benchmark determination process is largely automated which mitigates risk of manual process/human error. The automated checks noted above further reduce operational risk and any errors that do occur are recorded in an incident report. The incident report will also recommend controls to mitigate the operational risk. The management of infrastructure risks are noted in principle 15.	<ul style="list-style-type: none"> NZFBF Risk Management Framework NZFBF Board minutes
c) Whistleblowing mechanism: Administrators should establish an effective whistleblowing mechanism to facilitate early awareness of any potential misconduct or irregularities that may arise. This mechanism should allow for external reporting of such cases where appropriate.	c) NZFBF has a whistle-blowing policy which provides a mechanism to report misconduct or irregularities that are identified during the benchmark determination process. The policy describes the obligations to disclose, the processes to be followed internally and the protections that are in place. There is also information if the issue needs to be escalated externally to the Financial Markets Authority. This policy is available on the NZFBF's website.	<ul style="list-style-type: none"> NZFBF Whistle Blowing policy <p>The above document is available on the NZFBF website</p>
d) Expertise: i. Ensuring Benchmark determinations are made by personnel who possess the relevant levels of expertise, with a process for periodic review of their competence; and	d) i) NZFBF is a small team of three with a complete focus on benchmark administration. The team consists of a General Manager, Analyst, and IT Manager, all with the appropriate backgrounds and experience. The team are required to regularly review NZFBF policies and documentation related to benchmark determination. Informal performance reviews are conducted bi-monthly, with an annual formal performance review to ensure	<ul style="list-style-type: none"> NZFBF Recruitment and Workplace Policies NZFBF Job Descriptions NZFBF Employment Contracts

Principle description	NZFBF response	Relevant documentation
	<p>personnel remain competent and benchmark education is undertaken.</p>	
<p>ii. Staff training, including ethics and conflicts of interest training, and continuity and succession planning for personnel.</p>	<p>ii) Training consists largely of on-the-job training by senior staff. This includes updates on the markets relevant to the benchmark, changes to the methodology and any other issues that impact the determination and publication of the benchmark. Staff also receive annual training on governance issues, such as conflict management and whistleblowing. The annual formal review, noted in d) i) above, also focuses on the required training needs for each person.</p>	
<p>Where a Benchmark is based on Submissions: Administrators should promote the integrity of inputs by:</p> <ul style="list-style-type: none"> a) Ensuring as far as possible that the Submitters comprise an appropriately representative group of participants taking into consideration the underlying Interest measured by the Benchmark; b) Employing a system of appropriate measures so that, to the extent possible, Submitters comply with the Submission guidelines, as defined in the Submitter Code of Conduct and the Administrators' applicable quality and integrity standards for Submission; c) Specifying how frequently Submissions should be made and specifying that inputs or Submissions should be made for every Benchmark determination; and d) Establishing and employing measures to effectively monitor and scrutinise inputs or Submissions. This should include pre-compilation or pre-publication monitoring to identify and avoid errors in inputs or Submissions, as well as ex-post analysis of trends and outliers. 	<p>The benchmark's determination does not include any steps based on submission.</p>	
5. Internal Oversight		
<p>Administrators should establish an oversight function to review and provide challenge on all aspects of the Benchmark determination process. This should include consideration of the features and intended, expected, or known usage of the Benchmark and the materiality of existing or potential conflicts of interest identified.</p> <p>The oversight function should be carried out either by a separate committee, or other appropriate governance arrangements. The oversight function and</p>	<p>NZFBF considers that it complies with this principle.</p> <p>The NZFBF Board has responsibility for the oversight of the benchmark processes including definition, methodology, calculation, and publication relating to all of NZFBFs' benchmarks. The NZFBF Board consists of three independent directors and two non-independent directors with industry, legal and regulatory backgrounds. The Board can also appoint two non-voting observers</p>	<ul style="list-style-type: none"> • NZFBF Constitution • NZFBF Board Charter • NZFBF Code of Conduct and Conflicts of Interest • Governance Conflicts Management Plan • Benchmark Operating Rules and Principles, and methodologies <p>The above documents are available on the NZFBF website</p>

Principle description	NZFBF response	Relevant documentation
<p>its composition should be appropriate to provide effective scrutiny of the Administrator. Such oversight function could consider groups of Benchmarks by type or asset class, provided that it otherwise complies with this Principle.</p> <p>An Administrator should develop and maintain robust procedures regarding its oversight function, which should be documented and available to relevant Regulatory Authorities, if any. The main features of the procedures should be Made Available to Stakeholders. These procedures should include:</p>	<p>from Government agencies. Further detail of the NZFBF Board’s role is noted in Principle 4.</p> <p>The oversight role and membership of the NZFBF Board are governed by the NZFBF Constitution, NZFBF Board Charter, Code of Conduct and Conflicts of Interest, and Governance Conflicts Management Plan. These documents are reviewed and approved on an annual basis and are available on NZFBF’s website.</p> <p>The NZFBF Board is in place to support the integrity, efficiency, and reputation of the Benchmarks. The NZFBF Board periodically reviews and provides challenge on all aspects of the Benchmark determination process and provide effective oversight of the Benchmark Administrator. This includes consideration of the features and intended, expected, or known usage of the Benchmarks and the materiality of existing or potential conflicts of interest are identified. The NZFBF Board also investigates any complaints that may be received in relation to the setting of the benchmarks.</p>	<ul style="list-style-type: none"> • NZFBF Board minutes • NZFMA Compliance reports
<p>a) The terms of reference of the oversight function;</p> <p>b) Criteria to select members of the oversight function;</p> <p>c) The summary details of membership of any committee or arrangement charged with the oversight function, along with any declarations of conflicts of interest and processes for election, nomination or removal and replacement of committee members.</p>	<p>a) to c) The NZFBF Board’s terms of reference are contained in the NZFBF Constitution, NZFBF Board Charter, Code of Conduct and Conflicts of Interest, and Governance Conflicts Management Plan. This includes the criteria to select NZFBF Board members, the process for election, nomination or removal and replacement of NZFBF Board members. Declarations of conflicts of interest are also covered in the aforementioned documents, as well as the Director’s letter of appointment.</p>	
<p>The responsibilities of the oversight function include:</p> <p>a) Oversight of the Benchmark design:</p> <p>i. Periodic review of the definition of the Benchmark and its Methodology;</p>	<p>a) i. The NZFBF Board’s policy is to conduct an annual review of the definitions and methodologies of the benchmarks.</p>	
<p>ii. Taking measures to remain informed about issues and risks to the Benchmark, as well as commissioning external reviews of the Benchmark (as appropriate);</p>	<p>ii. The NZFBF Board consider risks at each meeting based on the Risk Management guidelines and Matrix. The risks and their controls are reassessed at least annually. NZFBF and the NZFBF Board consider any new risks that arise and consider appropriate controls. The NZFBF Board’s Charter allows the NZFBF Board to seek independent advice on the benchmarks and the NZFBF Board is responsible for commissioning external reviews as necessary for the benchmarks.</p>	
<p>iii. Overseeing any changes to the Benchmark Methodology, including assessing whether the Methodology continues to appropriately measure the underlying Interest, reviewing proposed and implemented changes to the</p>	<p>iii. Any proposed changes to the Benchmark’s methodology are reviewed and approved by the NZFBF Board to ensure the benchmarks continue to appropriately measure the underlying interest and comply with</p>	

Principle description	NZFBF response	Relevant documentation
Methodology, and authorising or requesting the Administrator to undertake a consultation with Stakeholders where known or its Subscribers on such changes as per Principle 12; and	the required standards (e.g., IOSCO). The NZFBF Board also provide guidance on the need for consultation regarding any changes to benchmark methodology using the principles stated in the BKBM Operating Rules and Principles (ORP), the OCR Compound Index Operating Principles and Methodology (OCRPM) and Closing Rates Operating Guidelines and Principles (OGP).	
iv. Reviewing and approving procedures for termination of the Benchmark, including guidelines that set out how the Administrator should consult with Stakeholders about such cessation.	iv. The NZFBF Board reviews the benchmark's cessation process, as stated in the ORP, OCRPM and Closing Rate Methodology documents, at least annually to ensure it complies with the requirements of Regulatory Authorities and Stakeholders.	
b) Oversight of the integrity of Benchmark determination and control framework: i. Overseeing the management and operation of the Benchmark, including activities related to Benchmark determination undertaken by a third party;	b) i. The NZFBF Board meets bi-monthly to oversee the management and operation of the NZFBFs' benchmarks and reviews operational reports including calculation issues, complaints, and Benchmark reviews. No third parties are responsible for the benchmark determination process.	
ii. Considering the results of internal and external audits, and following up on the implementation of remedial actions highlighted in the results of these audits; and	ii. The NZFBF Board is responsible for reviewing the results of external audits and internal assessments, and oversees the actions required by NZFBF to ensure it complies with international standards and to enhance operational procedures, as noted in the Charter.	
iii. Overseeing any exercise of Expert Judgment by the Administrator and ensuring Published Methodologies have been followed.	iii. The benchmarks are not set using expert judgement. The daily compliance report records the benchmark setting process and would highlight where published methodologies have not been followed. This report is reviewed by the NZFMA's Compliance Officer and exceptions are reported to the NZFBF Board.	
Where conflicts of interests may arise in the Administrator due to its ownership structures or controlling interests, or due to other activities conducted by any entity owning or controlling the Administrator or by the Administrator or any of its affiliates: the Administrator should establish an independent oversight function which includes a balanced representation of a range of Stakeholders where known, Subscribers and Submitters, which is chosen to counterbalance the relevant conflict of interest.	The NZFBF's Governance Conflict Management Plan includes conflicts that may arise due to the ownership structure of the controlling interests, namely the NZFMA. To mitigate any potential conflicts the NZFMA has established a subsidiary, the NZFBF, to act as the Benchmark Administrator, with oversight from the largely independent NZFBF Board.	
Where a Benchmark is based on Submissions: the oversight function should provide suitable oversight and challenge of the Submissions by: a) Overseeing and challenging the scrutiny and monitoring of inputs or Submissions	a) to d) There are no Benchmarks based on submissions.	<ul style="list-style-type: none"> BKBM Operating Rules and Principles

Principle description	NZFBF response	Relevant documentation
<p>by the Administrator. This could include regular discussions of inputs or Submission patterns, defining parameters against which inputs or Submissions can be analysed, or querying the role of the Administrator in challenging or sampling unusual inputs or Submissions;</p> <p>b) Overseeing the Code of Conduct for Submitters;</p> <p>c) Establishing effective arrangements to address breaches of the Code of Conduct for Submitters; and</p> <p>d) Establishing measures to detect potential anomalous or suspicious Submissions and in case of suspicious activities, to report them, as well as any misconduct by Submitters of which it becomes aware to the relevant Regulatory Authorities, if any.</p>		<ul style="list-style-type: none"> • OCR Compound Index Operating Principles and Methodology • Closing Rate Operating Guidelines and Principles, and methodology documents <p>The above documents are available on the NZFBF website</p>
6. Benchmark Design		
<p>The design of the Benchmark should seek to achieve, and result in an accurate and reliable representation of the economic realities of the Interest it seeks to measure and eliminate factors that might result in a distortion of the price, rate, index or value of the Benchmark.</p> <p>Benchmark design should take into account the following generic non-exclusive features, and other factors should be considered, as appropriate to the particular Interest:</p>	<p>NZFBF considers that it complies with this principle.</p> <p>The benchmark design and the interest the benchmark is intended to measure is detailed in the BKBM Operating Rules and Principles for BKBM, the OCR Compound Index Operating Principles and Methodology and the Operating Guidelines and Principles for Closing Rates.</p> <p>Factors monitored regarding design include adequacy of sample, the number of active market participants, the size and liquidity of the relevant market, market concentration issues and the relative size of the market in relation to the volume trading in the markets that reference the benchmark.</p>	<ul style="list-style-type: none"> • BKBM Operating Rules and Principles • OCR Compound Index Operating Principles and Methodology • Closing Rate Operating Guidelines and Principles, and methodology documents <p>The above documents are available on the NZFBF website</p>
<p>a) Adequacy of the sample used to represent the Interest;</p>	<p>a) BKBM methodology is aligned with the size of New Zealand’s domestic money markets using transactions and/or executable bids/offers that are representative of where banks are willing to borrow or lend with one another. Furthermore, market participants are subject to eligibility criteria which seek to eliminate factors that may lead to distortions (e.g., minimum parcel sizes, maximum bid/offer spread, no gapping of prices during the rate-set window and having limits to buy and sell sufficient lines of bank paper).</p> <p>The OCR Compound Index methodology is aligned to the Reserve Bank of New Zealand’s Official Cash Rate. This rate is used across the banking system, for example as the rate used to remunerate ESAS account at the RBNZ (current balance \$57 billion).</p> <p>Closing Rate methodology is also aligned with the size of New Zealand’s domestic money markets using live and executable two-way (bid & offer) quotations extracted from price-makers Bloomberg ALLQ pages, Price-</p>	<ul style="list-style-type: none"> • BKBM Operating Rules and Principles • OCR Compound Index Operating Principles and Methodology • Closing Rate Operating Guidelines and Principles, and methodology documents <p>The above documents are available on the NZFBF website</p>

Principle description	NZFBF response	Relevant documentation
	<p>makers are subject to eligibility criteria which seek to eliminate factors that may lead to distortions (e.g., maximum bid/offer spreads and stale pricing).</p>	
<p>b) Size and liquidity of the relevant market (for example whether there is sufficient trading to provide observable, transparent pricing); c) Relative size of the underlying market in relation to the volume of trading in the market that references the Benchmark; d) The distribution of trading among Market Participants (market concentration);</p>	<p>b) to d) NZFBF and the NZFBF Board regularly review the volumes transacted through the BKBM rate set and the spreads applicable on executable bids and offers to ensure they provide an accurate representation. Trading of short-term bank paper outside of the two-minute rate-set window is also monitored. Any change in these variables is discussed and further information is sought either directly from the BKBM price-makers or via the NZFMA's Rates Committee.</p> <p>As noted above the OCR is used across the banking system.</p> <p>A similar process, to BKBM, is followed for Closing Rates with spreads and the number of stale prices monitored to ensure the Closing Rates provide an accurate representation. Any change in these variables is discussed and further information sought either directly from the Closing Rate price-makers or via the NZFMA's Credit Markets Committee.</p>	<ul style="list-style-type: none"> • BKBM Operating Rules and Principles • OCR Compound Index Operating Principles and Methodology • Closing Rate Operating Guidelines and Principles, and methodology documents <p>The above documents are available on the NZFBF website</p>
<p>e) Market dynamics (e.g., to ensure that the Benchmark reflects changes to the assets underpinning a Benchmark).</p>	<p>e) NZFBF, in consultation with the NZFMA's Rates and Credit Markets Committees, regularly reviews the design of BKBM, OCR Compound Index and Closing Rates as part of the process noted in b) - d) above to ensure the benchmarks remain representative. NZFBF conducts these reviews at least annually and forwards the outcome to the NZFBF Board for their comment and ratification.</p>	
7. Data Sufficiency		
<p>The data used to construct a Benchmark determination should be sufficient to accurately and reliably represent the Interest measured by the Benchmark and should:</p>	<p>NZFBF considers that it complies with this principle.</p> <p>BKBM operates a waterfall methodology based on the liquidity of the market it seeks to measure and are described in the Operating Rules and Principles, which is available on the NZFBF website, as follows:</p> <ol style="list-style-type: none"> Arm's-length transactions or executable bids or offers for one, three- and six-month tenors in the underlying interest; If only two of the one, three- and six-month tenors are available, interpolation of the third tenor; If only one of the one, three- and six-month tenors is available, interpolation of the other two tenors; and, 	<ul style="list-style-type: none"> • BKBM Operating Rules and Principles <p>The above document is available on the NZFBF website</p>

Principle description	NZFBF response	Relevant documentation
	<p>iv. For the three steps above, interpolation for two, four- and five-month tenors.</p> <p>If BKBM cannot be determined from the above process, NZFBF will revert to the previous day's rate.</p>	
<p>a) Be based on prices, rates, indices, or values that have been formed by the competitive forces of supply and demand in order to provide confidence that the price discovery system is reliable; and b) Be anchored by observable transactions entered into at arm's length between buyers and sellers in the market for the Interest the Benchmark measures in order for it to function as a credible indicator of prices, rates, indices, or values.</p> <p>This Principle requires that a Benchmark be based upon (i.e., anchored in) an active market having observable Bona Fide, Arms-Length Transactions. This does not mean that every individual Benchmark determination must be constructed solely of transaction data. Provided that an active market exists, conditions in the market on any given day might require the Administrator to rely on different forms of data tied to observable market data as an adjunct or supplement to transactions. Depending upon the Administrator's Methodology, this could result in an individual Benchmark determination being based predominantly, or exclusively, on bids and offers or extrapolations from prior transactions. This is further clarified in Principle 8.</p> <p>Provided that subparagraphs (a) and (b) above are met, Principle 7 does not preclude Benchmark Administrators from using executable bids or offers as a means to construct Benchmarks where anchored in an observable market consisting of Bona Fide, Arms-Length transactions.</p> <p>This Principle also recognizes that various indices may be designed to measure or reflect the performance of a rule-based investment strategy, the volatility or behavior of an index or market or other aspects of an active market. Principle 7 does not preclude the use of non-transactional data for such indices that are not designed to represent transactions and where the nature of the index is such that non-transactional data is used to reflect what the index is designed to measure. For example, certain volatility indices, which are designed to measure the expected volatility of an index of securities transactions, rely on non-transactional data, but the data is derived from and</p>	<p>a) & b) BKBM represents the mid-rates for prime bank eligible securities that are traded during a two-minute rate-set window, using broker venues. BKBM represents the rates at which banks are willing to borrow from, or lend to, one another for terms of one to six months.</p> <p>Each day price-makers provide executable bids and offers, in the one, three- and six-month tenors, in accordance with the rules contained in the BKBM Operating Rules and Principles. If trading occurs those transactions determine the benchmark and if there is no trading the tightest spread on the executable bids and offers are used.</p> <p>For transparency, post publication of the benchmark, NZFBF publishes either the buyers and sellers for traded tenors or the price-makers on the bid and offer to highlight that the benchmark has been set using arm's length transactions/pricing.</p> <p>Furthermore, market participants in the BKBM process are subject to several requirements by the Financial Markets Authority as described in section 8.4 of the BKBM Operating Rules and Principles. This guidance sets out legal obligations, the principles underlying the FMA's approach and examples of how participants of BKBM can meet their obligations. This guidance, amongst other things, requires banks to record contextual evidence that trading activity in BKBM is for a legitimate purpose.</p> <p>The OCR Compound Index is set using the RBNZ's monetary policy rate, the Official Cash Rate. The OCR is used widely in the marketplace, for example the RBNZ currently uses the rate to remunerate bank reserves held at the RBNZ, with a current balance circa \$50 billion. The RBNZ also uses the OCR as the base rate for many of its operations with the banking system.</p> <p>a) & b) NZFBF collects the OCR rate each morning from the RBNZ's official pages, via Bloomberg. NZFBF calculates the OCR Compound Index and publishes the OCR rate and index at 10:41am. This process follows the principles and methodology contained in the OCR Compound Index Operating Principles</p>	<ul style="list-style-type: none"> • BKBM Operating Rules and Principles • OCR Compound Index Operating Principles and Methodology • Closing Rate Operating Guidelines and Principles, and methodology documents <p>The above documents are available on the NZFBF website</p>

Principle description	NZFBF response	Relevant documentation
<p>thus “anchored” in an actual functioning securities or options market.</p>	<p>and Methodology. This document is available on the NZFBF website.</p> <p>Closing rates are set using executable bid/offer quotes set by approved price-makers to clients for the eight closing rate markets. The primary purpose of Closing Rates is to provide end of day valuations and as such if the Closing Rate process, as documented, is unable to calculate and publish the Closing Rates then no determination is provided.</p> <p>a) &b) NZFBF collects the closing rates at 4.32pm, completes data checks, calculates the closes, and publishes the rates between 4.46pm and 4.47pm. Data is also collected at four additional times prior to 4.32pm for business continuity purposes. If the 4.32pm data inputs are not available, the earlier data inputs will be used to calculate the Closing Rates. This process follows the guidelines and principles contained in the Closing Rate Operating Guidelines and Principles and the Methodology document for each Closing Rate market. These documents are available on the NZFBF website.</p>	
8. Hierarchy of Data Inputs		
<p>An Administrator should establish and Publish or Make Available clear guidelines regarding the hierarchy of data inputs and exercise of Expert Judgment used for the determination of Benchmarks. In general, the hierarchy of data inputs should include:</p>	<p>NZFBF considers that it complies with this principle.</p> <p>The BKBM Operating Rules and Principles contain clear guidelines on the hierarchy of data inputs for the determination of BKBM. The hierarchy is:</p> <ol style="list-style-type: none"> i. Arm’s-length transactions or executable bids or offers for one, three- and six-month tenors in the underlying interest; ii. If only two of the one, three- and six-month tenors are available, interpolation of the third tenor; iii. If only one of the one, three- and six-month tenors is available, interpolation of the other two tenors; and, iv. For the three steps above, interpolation for two, four- and five-month tenors. <p>If the above inputs are not available and the benchmark cannot be determined the previous day’s determination will be used. This method will likely be used in periods of low liquidity or market stress. This step can only be utilised for a period of five business days as stated in the ORP (section 7.7).</p> <p>The OCR Compound Index uses the RBNZ’s monetary policy rate, the Official Cash Rate. This rate is available daily via the RBNZ’s Bloomberg pages. If the RBNZ were to cease using the OCR it is assumed sufficient market would be provided so an alternative rate could be sourced. As such there is not a</p>	<ul style="list-style-type: none"> • BKBM Operating Rules and Principles • OCR Compound Index Operating Principles and Methodology • Closing Rate Operating Guidelines and Principles, and methodology documents <p>The above documents are available on the NZFBF website</p>

Principle description	NZFBF response	Relevant documentation
	<p>hierarchy of inputs for the OCR Compound Index.</p> <p>The Closing Rate Methodology documents, available on the NZFBF's website, provide guidelines on the inputs used to calculate the Closing Rates, as described in Principle 6, a description of the calculation method and examples of those calculations. If the inputs are not available, and the reason is technical, NZFBF have contingency procedures to contact Bloomberg directly to rectify the issue. If the issue cannot be rectified in a reasonable timeframe, NZFBF will obtain the data directly from the price-makers. If those prices are not available, for whatever reason, no closing rates are published.</p>	
<p>a) Where a Benchmark is dependent upon Submissions, the Submitters' own concluded arms-length transactions in the underlying interest or related markets;</p> <p>b) Reported or observed concluded Arm's-length Transactions in the underlying interest;</p> <p>c) Reported or observed concluded Arm's-length Transactions in related markets;</p> <p>d) Firm (executable) bids and offers; and</p> <p>e) Other market information or Expert Judgments.</p> <p>Provided that the Data Sufficiency Principle is met (i.e., an active market exists), this Principle is not intended to restrict an Administrator's flexibility to use inputs consistent with the Administrator's approach to ensuring the quality, integrity, continuity and reliability of its Benchmark determinations, as set out in the Administrator's Methodology. The Administrator should retain flexibility to use the inputs it believes are appropriate under its Methodology to ensure the quality and integrity of its Benchmark. For example, certain Administrators may decide to rely upon Expert Judgment in an active albeit low liquidity market, when transactions may not be consistently available each day. IOSCO also recognizes that there might be circumstances (e.g., a low liquidity market) when a confirmed bid or offer might carry more meaning than an outlier transaction. Under these circumstances, non-transactional data such as bids and offers and extrapolations from prior transactions might predominate in a given Benchmark determination.</p>	<p>a) to e) BKBM is not dependent upon submissions or expert judgement. The benchmark is set in a two-minute trading window using arms-length transactions or executable bids and offers in the underlying interest as noted above. As noted in principle 9, the NZFBF publishes details relating to how the benchmark is set each business day on its website.</p> <p>a) to e) The OCR Compound Index is not dependent upon submissions or expert judgement.</p> <p>a) to e) Closing Rates are not dependent upon submissions or expert judgement. The benchmarks are set using executable bid/offer quotes in Bloomberg ALLQ in the underlying interest as noted above.</p>	
9. Transparency of Benchmark Determinations		
<p>The Administrator should describe and publish with each Benchmark determination, to the extent reasonable without delaying an Administrator publication deadline:</p>	<p>NZFBF considers that it complies with this principle.</p> <p>NZFBF releases details each business day on the inputs used to calculate BKBM. They are described below:</p>	<ul style="list-style-type: none"> • BKBM Operating Rules and Principles • OCR Compound Index Operating Principles and Methodology

Principle description	NZFBF response	Relevant documentation
<p>a) A concise explanation, sufficient to facilitate a Stakeholder's or Market Authority's ability to understand how the determination was developed, including, at a minimum, the size and liquidity of the market being assessed (meaning the number and volume of transactions submitted), the range and average volume and range and average of price, and indicative percentages of each type of market data that have been considered in a Benchmark determination; terms referring to the pricing Methodology should be included (i.e., transaction-based, spread-based or interpolated/extrapolated);</p>	<p>a) BKBM is available each business day at 10:41am on a fee-paying basis or free-to-air with a 24-hour delay. The benchmark is published on the NZFMA's website (free to air with a 24-hour delay), via vendors and email to subscribers. A full description, including examples of the calculation process can be found in section 8.1 of the published Operating Rules and Principles. As noted in principle 6, the data release includes information on the banks, volumes and rate/s used to calculate the one, three- and six-month tenors, either via transactions or using executable bids and offers.</p> <p>Each day's publication of BKBM includes the hierarchy of data inputs that has been used to calculate each of the benchmark rates (one to six months). Each BKBM tenor is assigned one of the following codes:</p> <ul style="list-style-type: none"> • T – Traded • E – Executable bid and offer • I – Interpolated <p>The OCR Compound Index is published each day at 10:41am via the NZFMA's website, vendors, and an email to subscribers. A full description, including examples of the calculation method can be found in section 6.0 of the OCR Compound Index Operating Principles and Methodology documents (OCRCP).</p> <p>Closing Rates are published each day between 4.46pm and 4.47pm via vendors and email to subscribers. Certain closing rates are available on the NZFMA website free to air with a 24-hour delay. A full description, including examples of the calculation can be found in section 2.3 of the Closing Rate Methodology documents.</p>	<ul style="list-style-type: none"> • Closing Rate Operating Guidelines and Principles, and methodology documents <p>The above documents are available on the NZFBF website</p>
<p>b) A concise explanation of the extent to which and the basis upon which Expert Judgment if any, was used in establishing a Benchmark determination.</p>	<p>b) The use of expert judgement falls outside of the waterfall for setting BKBM. As noted in the BKBM Operating Rules and Principles the use of Expert Judgement relates to instruction provided by the Financial Markets Authority (see section 8.4). If the waterfall cannot determine the benchmark, then the previous day's determination will be used and notified on the NZFBF and NZFMAs' websites.</p> <p>The use of expert judgement is not used for determining the OCR Compound Index. It is very unlikely that the OCR Compound Index cannot be determined on any given business day.</p>	

Principle description	NZFBF response	Relevant documentation
	<p>The use of expert judgement is not used for determining the Closing Rates. As noted in the Closing Rate Methodology documents the use of expert judgement relates to instruction provided by the Financial Markets Authority (see section 2.8). If the Closing rate benchmark cannot be determined, then no Closing Rates are published.</p>	
10. Periodic Review		
<p>The Administrator should periodically review the conditions in the underlying Interest that the Benchmark measures to determine whether the Interest has undergone structural changes that might require changes to the design of the Methodology. The Administrator also should periodically review whether the Interest has diminished or is non-functioning such that it can no longer function as the basis for a credible Benchmark.</p> <p>The Administrator should Publish or Make Available a summary of such reviews where material revisions have been made to a Benchmark, including the rationale for the revisions.</p>	<p>NZFBF considers that it complies with this principle.</p> <p>The benchmark's underlying trading activity and executable bid/offer spreads are regularly monitored and reported to the NZFBF Board and the NZFMA's Rates and Credit Markets Committees for review. NZFBF also reports feedback or complaints received from stakeholders and subscribers relating to benchmark determination. The NZFBF Board has a standing agenda item (GM Report) to discuss these reports and the general functioning of the benchmark. NZFBF also runs an annual satisfaction survey with stakeholders and subscribers to receive feedback on all facets of the benchmark process and to ensure that they remain an effective benchmark administrator.</p> <p>If there is any notable change in the underlying interest or the methodology this is managed using the procedure described in section 4.2 of the BKBM Operating Rules and Principles (ORP), OCR Compound Index Operating Principles and Methodology (OCRPM) and Closing Rate Guidelines and Principles (CRGP). Generally, NZFBF form a working group of relevant stakeholders to determine the impact of the change on the benchmark and possible solutions. The analysis and any proposed change from the working group is referred to the NZFMA's Rates or Credit Markets Committees for further comment before going to the NZFBF Board for ratification. If the change is considered material, as described in section 4.2 of the ORP, OCRPM and CRGP, NZFBF will conduct a consultation which would include all stakeholders and subscribers.</p> <p>Once a change to the methodology is approved the resulting changes in the methodology will be updated in the ORP, OCRPM or CRGP. NZFBF publish a market notice on its website and an email is sent to all subscribers and stakeholders, with sufficient notice, advising the change and providing a link to the revised document.</p> <p>The methodology is subject to annual/periodic review as described in section 3.5 of the ORP and CRGP, and section 3.2 of the OCRPM.</p>	<ul style="list-style-type: none"> • BKBM Operating Rules and Principles • OCR Compound Index Operating Principles and Methodology • Closing Rate Operating Guidelines and Principles, and methodology documents <p>The above documents are available on the NZFBF website</p> <ul style="list-style-type: none"> • General Manager's report to the NZFBF Board • NZFBF annual satisfaction survey

Principle description	NZFBF response	Relevant documentation
11.Content of the Methodology		
<p>The Administrator should document and Publish or Make Available the Methodology used to make Benchmark determinations. The Administrator should provide the rationale for adopting a particular Methodology. The Published Methodology should provide sufficient detail to allow Stakeholders to understand how the Benchmark is derived and to assess its representativeness, its relevance to particular Stakeholders, and its appropriateness as a reference for financial instruments.</p> <p>At a minimum, the Methodology should contain:</p> <p>a) Definitions of key terms;</p>	<p>NZFBF considers that it complies with this principle.</p> <p><u>BKBM</u></p> <p>a) BKBM determination methodology and rationale is explained in the BKBM Operating Rules and Principles (ORP) which is publicly available on the NZFBF website and include the following: Key definitions are noted in appendix VII of the ORP.</p>	<p>b) BKBM Operating Rules and Principles</p> <p>The above document is available on the NZFBF website</p>
<p>b) All criteria and procedures used to develop the Benchmark, including input selection, the mix of inputs used to derive the Benchmark, the guidelines that control the exercise of Expert Judgment by the Administrator, priority given to certain data types, minimum data needed to determine a Benchmark, and any models or extrapolation methods;</p>	<p>b) Appendix II of the ORP provides the procedures for the Broker venues used for the rate-set window, the source of the data and the calculation methodology used to determine BKBM. Section 8.1 contains the BKBM waterfall which highlights the priority given to the various data inputs and the minimum data requirements. Examples are also provided for each step of the waterfall to provide a clearer understanding of the calculation methodology and the interpolation used to calculate the remaining tenors (two, four and five months).</p>	
<p>c) Procedures and practices designed to promote consistency in the exercise of Expert Judgment between Benchmark determinations;</p>	<p>c) Expert judgement is not used for the calculation of BKBM under normal market circumstances. Section 8.2 notes the use of the previous day's determination, if the BKBM waterfall cannot provide the benchmark determination on any given business day due to unforeseen circumstances. Section 8.4 states the Final Stage Methodology, which is implemented on instruction from the Financial Markets Authority and requires the price-makers to provide Expert Judgement.</p>	
<p>d) The procedures which govern Benchmark determination in periods of market stress or disruption, or periods where data sources may be absent (e.g., theoretical estimation models);</p>	<p>d) As noted in b) section 8.1 contains the waterfall if not all data inputs are available. If the waterfall was unable to determine the benchmark, for example during times of market stress, the previous day's rate would be used as noted in c). This method cannot be used beyond five business days.</p>	
<p>e) The procedures for dealing with error reports, including when a revision of a Benchmark would be applicable;</p>	<p>e) Section 5.1 of the ORP contains BKBM's policy of restatement. This section highlights the process followed, the definition of a material error, cut-off times for benchmark revision and the NZFBF's notification process to stakeholders and subscribers.</p>	

Principle description	NZFBF response	Relevant documentation
f) Information regarding the frequency for internal reviews and approvals of the Methodology. Where applicable, the Published Methodologies should also include information regarding the procedures and frequency for external review of the Methodology;	f) Policy requires NZFBF to review BKBM methodology on an annual basis, in consultation with the NZFMA's Rates Committee. The NZFBF Board provide oversight of this review. In practice, reviews occur more regularly with discussion held as and when issues are raised by price-makers, brokers, NZFMA committees, stakeholders, or subscribers. Any changes in methodology follow the process stated in section 4.2 of the ORP.	
g) The circumstances and procedures under which the Administrator will consult with Stakeholders, as appropriate; and	g) As noted in f) and Principle 10.	
h) The identification of potential limitations of a Benchmark, including its operation in illiquid or fragmented markets and the possible concentration of inputs.	h) As New Zealand's domestic money markets are relatively small in size, the BKBM calculation operates on a waterfall methodology as described in section 8.1 of the ORP to cater for low liquidity in the market. In times of market stress, the previous day's determination may be used as noted in section 8.2.	
The Administrator should document and Publish or Make Available the Methodology used to make Benchmark determinations. The Administrator should provide the rationale for adopting a particular Methodology. The Published Methodology should provide sufficient detail to allow Stakeholders to understand how the Benchmark is derived and to assess its representativeness, its relevance to particular Stakeholders, and its appropriateness as a reference for financial instruments. At a minimum, the Methodology should contain: a) Definitions of key terms;	<u>OCR Compound Index</u> a) The OCR Compound Index determination methodology and rationale is explained in the OCR Compound Index Operating Principles and Methodology (OCRPM) which is publicly available on the NZFBF website and include the following: Key definitions are noted in appendix I of the OCRPM.	<ul style="list-style-type: none"> OCR Compound Index Operating Principles and Methodology <p>The above document is available on the NZFBF website</p>
b) All criteria and procedures used to develop the Benchmark, including input selection, the mix of inputs used to derive the Benchmark, the guidelines that control the exercise of Expert Judgment by the Administrator, priority given to certain data types, minimum data needed to determine a Benchmark, and any models or extrapolation methods;	b) Section 6.3 and 6.4 of the OCRPM contains the source of the data and the calculation methodology used to determine the OCR Compound Index. Examples are also provided for each step of the calculation process to provide a clearer understanding of the calculation methodology.	
c) Procedures and practices designed to promote consistency in the exercise of Expert Judgment between Benchmark determinations;	c) Expert judgement is not used for the calculation of the OCR Compound Index under any circumstances. The OCR is published daily by the Reserve Bank of New Zealand and is reviewed every 6 to 8 weeks. The Financial Markets Authority ability to require price-makers to provide Expert Judgment does not apply to the RBNZ.	

Principle description	NZFBF response	Relevant documentation
d) The procedures which govern Benchmark determination in periods of market stress or disruption, or periods where data sources may be absent (e.g., theoretical estimation models);	d) The publication of the OCR by the RBNZ will still occur in times of market stress. The RBNZ may adjust the OCR in such circumstances, and this will feed into the OCR Compound Index's calculation methodology.	
e) The procedures for dealing with error reports, including when a revision of a Benchmark would be applicable;	e) Section 5.1 of the OCRP contains the OCR Compound Index's policy of restatement. This section highlights the process followed, cut-off times for benchmark revision and the NZFBF's notification process to stakeholders and subscribers	
f) Information regarding the frequency for internal reviews and approvals of the Methodology. Where applicable, the Published Methodologies should also include information regarding the procedures and frequency for external review of the Methodology;	f) Policy requires NZFBF to review the OCR Compound Index methodology on an annual basis, using a NZFBF working group. The NZFBF Board provide oversight of this review. Any changes in methodology follow the process stated in section 4.2 of the OCRP.	
g) The circumstances and procedures under which the Administrator will consult with Stakeholders, as appropriate; and	g) As noted in f) and Principle 10.	
h) The identification of potential limitations of a Benchmark, including its operation in illiquid or fragmented markets and the possible concentration of inputs.	h) The OCR Compound Index has few limitations as it is based on the Reserve Bank of New Zealand's Official Cash Rate. This rate is not affected by illiquid or fragmented markets.	
<p>The Administrator should document and Publish or Make Available the Methodology used to make Benchmark determinations. The Administrator should provide the rationale for adopting a particular Methodology. The Published Methodology should provide sufficient detail to allow Stakeholders to understand how the Benchmark is derived and to assess its representativeness, its relevance to particular Stakeholders, and its appropriateness as a reference for financial instruments.</p> <p>At a minimum, the Methodology should contain:</p> <p>a) Definitions of key terms;</p>	<p><u>Closing Rates</u></p> <p>Closing Rate determination methodology and rationale is explained in the Closing Rate Operating Guidelines and Principles (OGP) and the Closing Rate Methodology documents (CRM) which are publicly available on the NZFBF website and include the following:</p> <p>a) Key definitions are noted in appendix II of the OGP.</p>	<p>b) Closing Rate Operating Guidelines and Principles, and methodology documents</p> <p>The above document is available on the NZFBF website</p>
b) All criteria and procedures used to develop the Benchmark, including input selection, the mix of inputs used to derive the Benchmark, the guidelines that control the exercise of Expert Judgment by the Administrator, priority given to certain data types, minimum data needed to determine a Benchmark, and any models or extrapolation methods;	b) Section 2 of the CRM contains the source of the data and the calculation methodology used to determine the Closing Rates. Examples are also provided for each step of the calculation process to provide a clearer understanding of the calculation methodology.	
c) Procedures and practices designed to promote consistency in the exercise of Expert Judgment between Benchmark determinations;	c) Expert judgement is not used for the calculation of Closing Rates under normal market circumstances. If Closing Rates are not available, no determination is published. Section 2.8	

Principle description	NZFBF response	Relevant documentation
	of the CRM states the Final Stage Methodology, which is implemented on instruction from the Financial Markets Authority and requires the price-makers to provide Expert Judgement.	
d) The procedures which govern Benchmark determination in periods of market stress or disruption, or periods where data sources may be absent (e.g., theoretical estimation models);	d) As noted in b) section 2.3 contains the procedure if NZFBF deems the existence of market stress. In times of stress this allows all data inputs to be used for the calculation of Closing Rates.	
e) The procedures for dealing with error reports, including when a revision of a Benchmark would be applicable;	e) Section 5.1 of the OGP contains the Closing Rates policy of restatement. This section highlights the process followed, cut-off times for benchmark revision and the NZFBF's notification process to stakeholders and subscribers	
f) Information regarding the frequency for internal reviews and approvals of the Methodology. Where applicable, the Published Methodologies should also include information regarding the procedures and frequency for external review of the Methodology;	f) Policy requires NZFBF to review Closing Rate methodology on an annual basis, in consultation with the NZFMA's Rates and Credit Markets Committees. The NZFBF Board provides oversight of this review. In practice reviews occur more regularly with discussion held as and when issues are raised by price-makers, NZFMA committees, stakeholders, or subscribers. Any changes in methodology follow the process stated in section 4.2 of the OGP.	
g) The circumstances and procedures under which the Administrator will consult with Stakeholders, as appropriate; and	g) As noted in f) and Principle 10.	
h) The identification of potential limitations of a Benchmark, including its operation in illiquid or fragmented markets and the possible concentration of inputs.	h) As New Zealand's domestic money markets are relatively small in size and given the primary purpose of the Closing Rates is end of day valuation, any incident of illiquidity or fragmented markets is either managed by the process noted in d) or no Closing rates are published.	
<p>Where a Benchmark is based on Submissions, the additional Principle also applies:</p> <p>The Administrator should clearly establish criteria for including and excluding Submitters. The criteria should consider any issues arising from the location of the Submitter, if in a different jurisdiction to the Administrator. These criteria should be available to any relevant Regulatory Authorities, if any, and Published or Made Available to Stakeholders. Any provisions related to changes in composition, including notice periods should be made clear.</p>	<p>BKBM is not based on submissions.</p> <p>The OCR Compound Index is not based on submissions.</p> <p>Closing Rates are not based on submissions.</p>	

Principle description	NZFBF response	Relevant documentation
<p>12.Changes to the Methodology</p> <p>An Administrator should Publish or Make Available the rationale of any proposed material change in its Methodology, and procedures for making such changes. These procedures should clearly define what constitutes a material change, and the method and timing for consulting or notifying Subscribers (and other Stakeholders where appropriate, taking into account the breadth and depth of the Benchmark's use) of changes. Those procedures should be consistent with the overriding objective that an Administrator must ensure the continued integrity of its Benchmark determinations. When changes are proposed, the Administrator should specify exactly what these changes entail and when they are intended to apply.</p> <p>The Administrator should specify how changes to the Methodology will be scrutinized, by the oversight function.</p> <p>The Administrator should develop Stakeholder consultation procedures in relation to changes to the Methodology that are deemed material by the oversight function, and that are appropriate and proportionate to the breadth and depth of the Benchmark's use and the nature of the Stakeholders. Procedures should:</p> <p>a) Provide advance notice and a clear timeframe that gives Stakeholders sufficient opportunity to analyse and comment on the impact of such proposed material changes, having regard to the Administrator's assessment of the overall circumstances; and</p> <p>b) Provide for Stakeholders' summary comments, and the Administrator's summary response to those comments, to be made accessible to all Stakeholders after any given consultation period, except where the commenter has requested confidentiality.</p>	<p>NZFBF considers that it complies with this principle.</p> <p>NZFBF, in consultation with the NZFMA's Rates and Credit Market Committees, and the NZFBF Board, will publish or make available the rationale of any proposed material change in its BKBM, OCR Compound Index or Closing Rates Methodology as stated in section 4.2 of the BKBM Operating Rules and Principles and Closing Rates Operating Guidelines and Principles. A material change would be defined as, but not limited to, any change to the methodology that would alter the definition or representativeness of the benchmark, the calculation of the benchmark, the format in which it is released and/or the timing of that release.</p> <p>The BKBM Operating Rules and Principles. OCR Compound Index Methodology and Closing Rate Operating Guidelines and Principles also include the following:</p> <p>a) Material changes to the methodology are communicated to subscribers and stakeholders via a consultation with adequate time for response, typically four to six weeks.</p> <p>b) Following the consultation's close NZFBF, in consultation with the NZFMA's Rates and Credit Market Committees and/or a NZFBF Working Group, consider the feedback. A summary of the feedback, anonymised, and proposed next steps would be published to all stakeholders and subscribers, for further comment before a final decision is recommended to the NZFBF Board for ratification.</p> <p>A market notice is distributed to all stakeholder outlining the change to the methodology, why this change has been undertaken, and the implementation date.</p>	<ul style="list-style-type: none"> • BKBM Operating Rules and Principles • OCR Compound Index Operating Principles and Methodology • Closing Rate Operating Guidelines and Principles, and methodology documents <p>The above documents are available on the NZFBF website</p>
<p>13.Transition</p> <p>Administrators should have clear written policies and procedures, to address the need for possible cessation of a Benchmark, due to market structure change, product definition change, or any other condition which makes the Benchmark no longer representative of its intended Interest. These policies and procedures should be proportionate to the estimated breadth and depth of contracts and financial instruments that reference a Benchmark and the economic and financial stability impact that might result from the cessation of the Benchmark. The Administrator should take into account the views of Stakeholders and any relevant Regulatory and National Authorities in determining</p>	<p>NZFBF considers that it complies with this principle.</p> <p>The policy for the benchmark's cessation is included in the BKBM Operating Rules and Principles (ORP), the OCR Compound Index Operating Principles and Methodology and the Closing Rate Methodology documents. The policy notes:</p> <ul style="list-style-type: none"> • The factors which may lead to cessation of the benchmark, such as the benchmark no longer being representative or being unable to source input data; • Notification to stakeholders and subscribers of the benchmark, including Regulatory Authorities; • The content of that notification; 	<ul style="list-style-type: none"> • BKBM Operating Rules and Principles • OCR Compound Index Operating Principles and Methodology • Closing Rate Operating Guidelines and Principles, and methodology documents <p>The above documents are available on the NZFBF website</p>

Principle description	NZFBF response	Relevant documentation
<p>what policies and procedures are appropriate for a particular Benchmark.</p> <p>These written policies and procedures should be Published or Made Available to all Stakeholders.</p> <p>Administrators should encourage Subscribers and other Stakeholders who have financial instruments that reference a Benchmark to take steps to make sure that:</p>	<ul style="list-style-type: none"> The notice period; and, The steps taken by NZFBF if it can no longer continue to act as the Benchmark Administrator. 	
<p>a) Contracts or other financial instruments that reference a Benchmark, have robust fall-back provisions in the event of material changes to, or cessation of, the referenced Benchmark; and</p>	<p>a) The Official Cash Rate (OCR) is the fall-back benchmark interest rate for BKBM. The fallback rate is administered and published by Bloomberg who calculate a term risk free rate in arrears and add a credit spread. Bloomberg was appointed by ISDA who published a fall-back protocol for legacy derivative transactions, as well as a fall-back supplement for new derivative transactions in December 2021.</p>	<p>The RBNZ's announcement supporting the OCR as the fall-back on 28 January 2020 can be found here</p> <p>ISDA's December 2021 announcement can be found here</p>
<p>b) Stakeholders are aware of the possibility that various factors, including external factors beyond the control of the Administrator, might necessitate material changes to a Benchmark.</p>	<p>b) The ORP, OCR Compound Index Operating principles and Methodology and the Closing Rate Operating Guidelines and Principles (section 3.5) defines the various external factors beyond the NZFBF's control that might necessitate material changes to the benchmark. These could include:</p> <ul style="list-style-type: none"> Structural changes in the market used to set the benchmark; The non-functioning of that market; and, Any other external changes, which may mean the benchmark is no longer representative. 	<ul style="list-style-type: none"> BKBM Operating Rules and Principles OCR Compound Index Operating Principles and Methodology Closing Rate Operating Guidelines and Principles, and methodology documents <p>The above documents are available on the NZFBF website</p>
<p>Administrators' written policies and procedures to address the possibility of Benchmark cessation could include the following factors, if determined to be reasonable and appropriate by the Administrator:</p> <p>a) Criteria to guide the selection of a credible, alternative Benchmark such as, but not limited to, criteria that seek to match to the extent practicable the existing Benchmark's characteristics (e.g., credit quality, maturities and liquidity of the alternative market), differentials between Benchmarks, the extent to which an alternative Benchmark meets the asset/liability needs of Stakeholders, whether the revised Benchmark is investable, the availability of transparent transaction data, the impact on Stakeholders and impact of existing legislation;</p>	<p>c) If BKBM or the Closing rates were deemed to be no longer representative be that by the NZFBF, the NZFBF Board, the NZFMA Board, or a Regulatory Authority, NZFBF in consultation with an appointed working group would consider alternative rates. The following issues would be considered; the intended use of the benchmark, similarities with the current benchmark, the depth of the market relative to the benchmarks intended use, how the benchmark would be set and how an orderly transition could be achieved. The working group would consider several options and consult with Regulatory Authorities, stakeholders and subscribers.</p>	<ul style="list-style-type: none"> BKBM Operating Rules and Principles OCR Compound Index Operating Principles and Methodology Closing Rate Operating Guidelines and Principles, and methodology documents <p>The above documents are available on the NZFBF website</p>
<p>b) The practicality of maintaining parallel Benchmarks (e.g., where feasible, maintain the existing Benchmark for a defined period of time to permit existing</p>	<p>d) to e) The process noted above would also consider how long the current benchmark could continue. This would include:</p>	

Principle description	NZFBF response	Relevant documentation
<p>contracts and financial instruments to mature and publish a new Benchmark) in order to accommodate an orderly transition to a new Benchmark;</p> <p>c) The procedures that the Administrator would follow in the event that a suitable alternative cannot be identified;</p> <p>d) In the case of a Benchmark or a tenor of a Benchmark that will be discontinued completely, the policy defining the period of time in which the Benchmark will continue to be produced in order to permit existing contracts to migrate to an alternative Benchmark if necessary; and</p> <p>e) The process by which the Administrator will engage Stakeholders and relevant Market and National Authorities, as appropriate, in the process for selecting and moving towards an alternative Benchmark, including the timeframe for any such action commensurate with the tenors of the financial instruments referencing the Benchmarks and the adequacy of notice that will be provided to Stakeholders.</p>	<ul style="list-style-type: none"> • Input from the price-makers; • The Benchmark Administrators ability to continue in that role; and, • Any consultation and instruction from the Financial Markets Authority (FMA) that provides further guidance on next steps. The FMA administers an opt-in licensing regime for benchmark administrators that was introduced in 2022. The licensing regime provides the FMA with powers to ensure the Benchmark Administrator has sufficient capital to continue operating and to compel price-makers to provide expert opinion so the current benchmark can continue for a period of time. <p>The outcome of this process would be communicated to stakeholders and subscribers, via market notice, with sufficient time for an orderly transition as agreed by the NZFBF Board, Regulatory Authorities, and other stakeholders.</p>	
14.Submitter Code of Conduct		
<p>Where a Benchmark is based on Submissions, the following additional Principle also applies:</p> <p>The Administrator should develop guidelines for Submitters (“Submitter Code of Conduct”), which should be available to any relevant Regulatory Authorities, if any and Published or Made Available to Stakeholders.</p> <p>The Administrator should only use inputs or Submissions from entities which adhere to the Submitter Code of Conduct and the Administrator should appropriately monitor and record adherence from Submitters. The Administrator should require Submitters to confirm adherence to the Submitter Code of Conduct annually and whenever a change to the Submitter Code of Conduct has occurred.</p> <p>The Administrator’s oversight function should be responsible for the continuing review and oversight of the Submitter Code of Conduct.</p> <p>The Submitter Code of Conduct should address:</p> <ol style="list-style-type: none"> a) The selection of inputs; b) Who may submit data and information to the Administrator; c) Quality control procedures to verify the identity of a Submitter and any employee(s) of a Submitter who report(s) data or information and the authorization 	<p>NZFBF considers that this principle does not apply.</p> <p>The benchmark determination process is not based on submissions, so this principle does not apply.</p>	<ul style="list-style-type: none"> • BKBM Operating Rules and Principles • OCR Compound Index Operating Principles and Methodology • Closing Rate Operating Guidelines and Principles, and methodology documents <p>The above documents are available on the NZFBF website</p>

Principle description	NZFBF response	Relevant documentation
<p>of such person(s) to report market data on behalf of a Submitter;</p> <p>d) Criteria applied to employees of a Submitter who are permitted to submit data or information to an Administrator on behalf of a Submitter;</p> <p>e) Policies to discourage the interim withdrawal of Submitters from surveys or Panels;</p> <p>f) Policies to encourage Submitters to submit all relevant data; and</p> <p>g) The Submitters' internal systems and controls, which should include:</p> <ul style="list-style-type: none"> i. Procedures for submitting inputs, including Methodologies to determine the type of eligible inputs, in line with the Administrator's Methodologies; ii. Procedures to detect and evaluate suspicious inputs or transactions, including inter-group transactions, and to ensure the Bona Fide nature of such inputs, where appropriate; iii. Policies guiding and detailing the use of Expert Judgment, including documentation requirements; iv. Record keeping policies; v. Pre-Submission validation of inputs, and procedures for multiple reviews by senior staff to check inputs; vi. Training, including training with respect to any relevant regulation (covering Benchmark regulation or any market abuse regime); vii. Suspicious Submission reporting; viii. Roles and responsibilities of key personnel and accountability lines; ix. Internal sign off procedures by management for submitting inputs; x. Whistle blowing policies (in line with Principle 4); and xi. Conflicts of interest procedures and policies, including prohibitions on the Submission of data from Front Office Functions unless the Administrator is satisfied that there are adequate internal oversight and verification procedures for Front Office Function Submissions of data to an Administrator (including safeguards and supervision to address possible conflicts of interests as per paragraphs (v) and (ix) above), the physical separation of employees and reporting lines where appropriate, the consideration of how to identify, disclose, manage, mitigate and avoid existing or potential incentives to manipulate or otherwise influence data inputs (whether or not in order to influence the Benchmark levels), including, without limitation, through appropriate remuneration policies and by effectively addressing conflicts of interest which may exist between the Submitter's Submission activities (including all staff who perform or otherwise participate in Benchmark Submission responsibilities), and any other business of the Submitter or of any of its affiliates or any of their respective clients or customers. 		

Principle description	NZFBF response	Relevant documentation
<p>15. Internal Controls over Data Collection</p> <p>When an Administrator collects data from any external source the Administrator should ensure that there are appropriate internal controls over its data collection and transmission processes. These controls should address the process for selecting the source, collecting the data and protecting the integrity and confidentiality of the data. Where Administrators receive data from employees of the Front Office Function, the Administrator should seek corroborating data from other sources.</p>	<p>NZFBF considers that it complies with this principle.</p> <p>The NZFBF’s internal controls regarding data collection and transmission processes are documented in the NZdata System Technical Overview, the Bloomberg API Reference, and the Comprehensive Overview document.</p> <p>The NZdata System collects data using the Bloomberg Server API (SAPI) system and via a public facing website. The Bloomberg Server API system consists of an on-premise application (feed handler) which connects securely to Bloomberg’s “Zero Footprint” Cloud Data Centre.</p> <p>The NZdata system features a feed handler that makes secure API calls to the Bloomberg Cloud to authenticate and fulfil the requests. The data returned from the Bloomberg Cloud is then processed and stored in an SQL database hosted on the same server as the NZdata System.</p> <p>Once the data is collected it is made available to the helpdesk, via market monitors on the NZdata website. Only users with active accounts, secure passwords and sufficient permissions can view the collected data.</p> <p>For BKBM, data that is captured from brokers via the website is verified against the data supplied via emails from the same brokers to the helpdesk email account. Any discrepancies are followed up directly with the broker. If the data captured via the website is found to be incorrect then the helpdesk makes an adjustment for this before the benchmark is calculated. NZdata logs any manual intervention by the administrator. If the error is found to be in the broker’s email, then that broker must send another email containing the correct data.</p> <p>For OCR Compound Index, the NZdata system subscribes directly to the Reserve Bank of New Zealand’s OCR tickers via Bloomberg’s Server API. The NZdata system uses both the RBNZ’s OCR tickers, one which updates each morning, daily, and the other that updates immediately after the OCR announcement. The NZdata system will use the rate which was most recently updated. The timing of the OCR Compound Index calculation and publication, and that of the OCR announcements allows a few hours, if not days and weeks, to verify the correct rate OCR used in the daily calculation. If the data is not available from Bloomberg, then the previous day’s rate is used. Should the OCR rate change and not be available on the day then the new rate can be manually added to the calculation by the systems administrator.</p>	<ul style="list-style-type: none"> • BKBM Operating Rules and Principles • OCR Compound Index Operating Principles and Methodology • Closing Rate Operating Guidelines and Principles, and methodology documents <p>The above documents are available on the NZFBF website</p> <ul style="list-style-type: none"> • NZdata System Technical Overview • Bloomberg API Reference • Comprehensive Overview Document

Principle description	NZFBF response	Relevant documentation
	<p>For Closing Rates, the NZdata system completes several pre-close checks of the data-inputs as stated in the Closing Rate Methodologies (e.g., stale rates), which is designed to exclude data inputs that are outside a pre-defined bid/offer range. For those data inputs that are outside the pre-set bid/offer an automatically generated email will be sent by the system to the relevant price-maker/s as a notification to ensure their prices on Bloomberg are up to date. The price-maker can then, at their discretion, determine if they need to take any action. This process is important, given the small size of New Zealand’s financial markets, to ensure accurate and sufficient data inputs are included and the Closing Rate process is robust. NZdata system retains all the records of this process indefinitely.</p> <p>The server on which the NZdata System resides can only be accessed by authorised administrators, namely the IT Manager and the CIO of our IT service provider and has an internal firewall that only allows remote desktop sessions (for authorised admins), website access and vendor connections. Only authorised IP addresses are allowed to connect to the Vendor Feed with each vendor assigned a specific port per connection. Any connections from unauthorised IP addresses are dropped.</p> <p>The NZdata server is secured using a combination of hardware and software firewalls with access controlled on a per user basis. Only the authorised personnel from the hosting provider and the helpdesk have full remote access to the NZdata server and only from authorised premises (specific IP addresses).</p> <p>The server software is kept up to date via regular automatic updates as supplied by the software vendors and applied on a weekly basis or as vulnerabilities are identified and notified. All updates can be rolled back in case of unexpected outcomes.</p> <p>The NZdata website is only accessible via HTTPS protocol which is secured using a certificate which is renewed every 3 months. This protects any data or communications between the user and the server.</p> <p>Physical access to the server room on the hosts premises is allowed only for authorised persons. The NZdata server resides on a separate network to the NZFMA and NZFBF office networks. The NZFMA and NZFBF networks are also separated from each other using onsite networking equipment.</p> <p>The BKBM process is monitored by the NZFBF team and as such they can see the volume and yield inputs at the broker venues, via Bloomberg, and any trading activity that occurs during the two-minute</p>	

Principle description	NZFBF response	Relevant documentation
	<p>window. The BKBM trading-window closes, at 10.22am, the data is collected at 10.23am for each of the benchmarks and is submitted to the NZFMA's NZdata system through secure data collection mechanisms, as noted above.</p> <p>The process for the OCR Compound Index involves verifying the vendor screens have updated at 10:41am. The subscriber spreadsheet is also checked daily and there is an end of month reconciliation against NZFBF's test data.</p> <p>The process for Closing Rates is similar to BKBM with the final data inputs collected at 4:32pm and submitted to the NZFMA's NZdata system through the secure data collection mechanisms noted above.</p> <p>Prior to being used to calculate the Benchmarks, the data is validated by NZFBF. This includes ensuring the rules contained in the BKBM Operating Rules and Principles, the OCR Compound Index methodology and the Closing Rate Operating Guidelines and Principles have been adhered to. If any issues arise the NZFBF contact the relevant party/parties.</p> <p>NZFBF uses the same systems and internal controls as noted above. Additionally, any incidents, error or breaches are reported to the compliance officer and the NZFBF Board.</p>	
16.Complaints Procedures		
<p>The Administrator should establish and Publish or Make Available a written complaints procedures policy, by which Stakeholders may submit complaints including concerning whether a specific Benchmark determination is representative of the underlying Interest it seeks to measure, applications of the Methodology in relation to a specific Benchmark determination(s) and other Administrator decisions in relation to a Benchmark determination.</p> <p>The complaints procedures policy should:</p>	<p>NZFBF considers that it complies with this principle.</p> <p>NZFBF has a Complaints Process in place for all aspects relating to the benchmarks, methodologies, and determinations. The relevant document is available on the NZFBF website. This document describes the complaints process, including the steps to be taken on receipt of a complaint.</p>	<ul style="list-style-type: none"> • NZFBF Complaints process <p>The above document is available on the NZFBF website.</p> <ul style="list-style-type: none"> • BKBM Operating Rules and Principles • OCR Compound Index Operating Principles and Methodology • Closing Rate Operating Guidelines and Principles, and methodology documents
<p>a) Permit complaints to be submitted through a user-friendly complaints process such as an electronic Submission process;</p>	<p>a) Complainants can contact either the General Manager NZFBF, the Chair of the NZFBF's Board or the CEO, NZFMA by phone or email.</p>	<p>The above documents are available on the NZFBF website</p>
<p>b) Contain procedures for receiving and investigating a complaint made about the Administrator's Benchmark determination process on a timely and fair basis by personnel who are independent of any personnel who may be or may have been involved in the subject of the complaint, advising the complainant and other relevant parties of the outcome of its investigation within a reasonable period and retaining all records concerning complaints;</p>	<p>b) The complaints process includes details on the information the complaint needs to provide, in any form, and the steps the NZFBF take once a complaint has been received including timeframes.</p> <p>The document also provides information on complaining directly to the Financial Markets Authority if the complainant is unsatisfied with the outcome of the NZFBF's process or the complainant wishes to complain directly to the Financial Markets Authority.</p>	

Principle description	NZFBF response	Relevant documentation
c) Contain a process for escalating complaints, as appropriate, to the Administrator's governance body; and	c) As noted above complaints can be made to the Chair of the NZFBF's Board or the Financial Markets Authority.	
d) Require all documents relating to a complaint, including those submitted by the complainant as well as the Administrator's own record, to be retained for a minimum of five years, subject to applicable national legal or regulatory requirements.	d) All documentation related to any complaint will be retained for a minimum of seven years in line with current New Zealand standards.	
Disputes about a Benchmarking determination, which are not formal complaints, should be resolved by the Administrator by reference to its standard appropriate procedures. If a complaint results in a change in a Benchmark determination, that should be Published or Made Available to Subscribers and Published or Made Available to Stakeholders as soon as possible as set out in the Methodology.	Section 5.1 of the ORP, OCRP and OGP sets out the parameters for a restatement of a benchmark determination. A market notice will be distributed to stakeholders informing them of this restatement as soon as possible by NZFBF.	
17.Audits		
<p>The Administrator should appoint an independent internal or external auditor with appropriate experience and capability to periodically review and report on the Administrator's adherence to its stated criteria and with the Principles. The frequency of audits should be proportionate to the size and complexity of the Administrator's operations.</p> <p>Where appropriate to the level of existing or potential conflicts of interest identified by the Administrator (except for Benchmarks that are otherwise regulated or supervised by a National Authority other than a relevant Regulatory Authority), an Administrator should appoint an independent external auditor with appropriate experience and capability to periodically review and report on the Administrator's adherence to its stated Methodology. The frequency of audits should be proportionate to the size and complexity of the Administrator's Benchmark operations and the breadth and depth of Benchmark use by Stakeholders.</p>	<p>NZFBF considers that it complies with this principle.</p> <p>NZFBF appoints external auditors for limited assurance that the benchmark, determination process and governance comply with the IOSCO principles (to the extent applicable). The NZFBF Board is responsible for commissioning external reviews and an external audit will be completed as required.</p> <p>NZFBF does not have an internal audit function given its small size but will complete a self-assessment every two years.</p> <p>All audit and assurance reports, including management responses, are reviewed by the NZFBF Board.</p>	<ul style="list-style-type: none"> Relevant benchmark documentation is available on the NZFBF website. NZFBF Board Annual Plan
18.Audit Trail		
Written records should be retained by the Administrator for five years, subject to applicable national legal or regulatory requirements on:	<p>NZFBF considers that it complies with this principle.</p> <p>NZFBF maintain all records related to the benchmarks for seven years. This information is freely available to the Financial Markets Authority either via the website or on request.</p>	<ul style="list-style-type: none"> Relevant benchmark documentation is available on the NZFBF website. The NZdata Technical Overview document details how backups are synced daily and stored on to the server. The data includes: <ul style="list-style-type: none"> All market data and any other
a) All market data, Submissions and any other data and information sources relied upon for Benchmark determination;	a) All data used to calculate the benchmarks including the data scraped from Broker pages and the brokers	

Principle description	NZFBF response	Relevant documentation
	confirmation emails which are retained for seven years.	data and information sources relied upon for Benchmark determination, and
b) The exercise of Expert Judgment made by the Administrator in reaching a Benchmark determination;	b) Expert Judgment is not used in the determination of the benchmarks. Any manual intervention by the benchmark administrator in the benchmark determination process, to for example correct data inputs, is logged in the NZdata system, and noted in the compliance report. The logs are retained for seven years.	<ul style="list-style-type: none"> ○ Other changes in or deviations from standard procedures and Methodologies, including those made during periods of market stress or disruption. ○ Email correspondence
c) Other changes in or deviations from standard procedures and Methodologies, including those made during periods of market stress or disruption;	c) Any changes to standard procedures are recorded as noted above, and an Incident Report is written. This report is shared with the NZFBF Board and will be made available to Regulatory Authorities on request. Records are retained for seven years.	
d) The identity of each person involved in producing a Benchmark determination; and	d) The system logs and reporting noted above provides information on the identity of all participants in the benchmark determination process.	
e) Any queries and responses relating to data inputs.	e) NZFBF retains all correspondence in relation to queries regarding benchmark data inputs for seven years. This includes relevant phone conversations and email trails.	
If these records are held by a Regulated Market or Exchange the Administrator may rely on these records for compliance with this Principle, subject to appropriate written record sharing agreements.	This is not applicable.	
<p>When a Benchmark is based on Submissions, the following additional Principle also applies:</p> <p>Submitters should retain records for five years subject to applicable national legal or regulatory requirements on:</p> <ul style="list-style-type: none"> a) The procedures and Methodologies governing the Submission of inputs; b) The identity of any other person who submitted or otherwise generated any of the data or information provided to the Administrator; c) Names and roles of individuals responsible for Submission and Submission oversight; d) Relevant communications between submitting parties; e) Any interaction with the Administrator; f) Any queries received regarding data or information provided to the Administrator; g) Declaration of any conflicts of interests and aggregate exposures to Benchmark related instruments; h) Exposures of individual traders/desks to Benchmark related instruments in order to facilitate audits and investigations; and 	BKBM, OCR Compound Index and Closing Rates are not based on submissions.	<ul style="list-style-type: none"> • Relevant benchmark documentation is available on the NZFBF website.

Principle description	NZFBF response	Relevant documentation
i) Findings of external/internal audits, when available, related to Benchmark Submission remedial actions and progress in implementing them.		
<p>19. Cooperation with Regulatory Authorities</p> <p>Relevant documents, Audit Trails and other documents subject to these Principles shall be made readily available by the relevant parties to the relevant Regulatory Authorities in carrying out their regulatory or supervisory duties and handed over promptly upon request.</p>	<p>NZFBF considers that it complies with this principle.</p> <p>NZFBF maintain a co-operative relationship with the Financial Markets Authority and New Zealand’s Central Bank, the Reserve Bank of New Zealand (RBNZ). Documents relating to methodology and calculation of BKBM, OCR Compound Index and Closing Rates are publicly available on the NZFBF’s website. The RBNZ have a representative on the NZFBF Board, in an observer role.</p> <p>NZFBF and the NZFBF Board work closely with the Financial Markets Authority and other Government agencies on all benchmark related issues. NZFBF will make information available either via its website, or on request, to the relevant authorities within strict timeframes. NZFBF plan to become a Financial Markets Authority Licenced Benchmark Administrator in 2023.</p>	<ul style="list-style-type: none"> Relevant governance and benchmark documentation is available on the NZFBF website.