



NZFBF BOARD CHARTER

December 2021

NEW ZEALAND FINANCIAL BENCHMARK FACILITY

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1. CHANGE CONTROL

Date	Author	Update
June 2020	John Groom	Draft
April 2021	John Groom	Final
June 2021	Jenni Walsh	Amend clauses 6.1(b) & (c)
December 2021	Various	NZFBB Board Review

2. NEW ZEALAND FINANCIAL BENCHMARK FACILITY LIMITED – BACKGROUND

2.1 The New Zealand Financial Markets Association (**NZFMA**, the **Shareholder**) is a not-for-profit organisation that has been responsible, among other things, for the administration and calculation of the key New Zealand interest rate benchmarks since 2008. The NZFMA's members largely consist of banks and brokers who are active in New Zealand's financial markets. The NZFMA is governed by its Board, made up of members, and a number of working committees:

- (a) Rates;
- (b) Credit Markets;
- (c) Operations;
- (d) Foreign Exchange;
- (e) Accreditation; and
- (f) Legal.

2.2 The current interest rate benchmarks are BKBM, the OCR Compound Index and Closing Rates (**Benchmarks**) for the following markets:

- (a) NZ Government bonds;
- (b) NZ Interest Rate Swaps;
- (c) NZ Overnight Indexed Swaps;
- (d) NZD/USD Basis Swaps;
- (e) NZ Bills/OIS Basis Swaps;
- (f) NZ RFR/BKBM Basis Swaps;
- (g) NZ RFR/RFR Basis Swaps; and,
- (h) NZ Credit Markets.

2.3 In 2021, New Zealand Financial Benchmark Facility Limited (**NZFBB**, or the **Company**), a not-for-profit 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**).

- 2.4 The NZFMA worked to develop Benchmarks consistent with global best practice. Initiatives such as the use of transactions to support the calculation of BKBM, the publishing of all transactions in an effort to provide full transparency and the establishment of the Benchmark Oversight Committee to provide appropriate governance have contributed to a market environment where no formal issues of misconduct have arisen. The NZFBF will continue this work, to be overseen by NZFBF's board of directors (the **Board**).
- 2.5 As the global environment for benchmarks has been plagued by misconduct events, regulators in the major economies have moved to regulate benchmarks using the IOSCO Principles for Financial Benchmarks as a guideline for best practice. As a result of this global regulation, benchmarks in New Zealand need to be of an equivalent standard to those in other countries, particularly the major economies, to enable their use by regulated entities globally. Not achieving this could have a detrimental impact on the ability of New Zealand banks to fund offshore and corporate/investment institutions to hedge. For this reason, New Zealand has established a legislative benchmark licensing regime. NZFBF has been established to be the licensed entity to undertake benchmark administration.
- 2.6 This Board Charter sets out the responsibilities and framework for the operation of the Board.

3. BOARD OBJECTIVE

- 3.1 NZFBF is responsible for performing the functions and duties, and exercise the powers, of a licensed benchmark administrator under the Financial Markets Conduct Act 2013.
- 3.2 The Board's objective is to oversee the effective and efficient publication of the Benchmarks, while ensuring all work related to their design, calculation and publication complies with the New Zealand benchmark administration licensing regime overseen by the FMA and the IOSCO Principles for Financial Benchmarks (to the extent applicable).
- 3.3 In developing this Board Charter, NZFBF has followed the guidance set out in the FMA's Corporate Governance in New Zealand: Principles and Guidelines.

4. BOARD DUTIES AND RESPONSIBILITIES

- 4.1 To meet NZFBF's objectives, the Board is responsible for

Core duties

- (a) managing the business and affairs of the Company;
- (b) providing strategic leadership;

- (c) setting the culture for the Company and overseeing the conduct of management, staff and contractors;
- (d) putting in place rigorous risk management processes and internal controls and monitoring risks identified;

Oversight duties of Benchmark Administrator

- (e) ensuring that the Benchmarks meet the criteria set out in any terms and conditions of license set by the FMA (**Conditions**);
- (f) reviewing and facilitating compliance with the IOSCO Principles for Financial Benchmarks (to the extent applicable)(the **Standards**);
- (g) making final decisions on Benchmark design changes and signing off on Benchmark design changes by reviewing the process for the methodology, design, calculation and publication of the Benchmark (**Process**);
- (h) reviewing international developments and considering their impacts, including developing any changes required to the Process in order to continually comply with the Standards;
- (i) reviewing and providing feedback on the design, methodology, calculation and publication of the Benchmarks by reviewing a selection of activities to determine whether they:
 - (i) are consistent with the Conditions and Standards;
 - (ii) reflect a credible market for an interest measured by the Benchmarks;
 - (iii) are logical and appropriate in the circumstances, with any discretions reasonably exercised; and
 - (iv) have been made in accordance with the Company's processes and delegated authorities approved by the Board;
- (j) approving any new benchmarks or the collection of any new benchmark related data;

Oversight of Management

- (k) establishing policies and delegated authorities within the Company;
- (l) approving strategic objectives and performance as recommended by the General Manager;
- (m) reviewing the implementation of the strategic objectives;
- (n) reviewing policies and delegated authorities established within the Company;
- (o) selecting, appointing, determining the terms and conditions, evaluating the performance and succession planning for the General Manager and other senior

management;

- (p) reviewing and approving the remuneration of the General Manager and senior management;
- (q) establishing relevant service levels and key performance indicators (**KPIs**) in respect of the Company's oversight function and the Benchmarks' performance;
- (r) reviewing and providing feedback in respect of the Benchmarks' performance and the Company's oversight function against applicable KPIs;

Financial

- (s) negotiating a funding arrangement with the Shareholder;
- (t) setting the Company's annual budget, having regard to:
 - (i) complying with the Conditions and Standards; and
 - (ii) the Shareholder's other activities;
- (u) consulting the Shareholder on the budget;
- (v) approving major capital expenditure, acquisitions and divestures outside any delegated authority of senior management;
- (w) procuring an external review of the Benchmark's compliance with the Conditions as required by the FMA;
- (x) reviewing and approving the Company's audited financial statements;
- (y) fostering good communications with the Company's auditors, reviewing their performance and ensuring that there is a change of audit partner at least every 7 years;

Managing compliance

- (z) setting high standards of ethical behaviour and holding management accountable for these standards being adhered to throughout the Company, including by regularly reviewing the Company Code of Conduct;
- (aa) reviewing and providing feedback in respect of Company arrangements for referring matters for investigation and its compliance with these arrangements;
- (bb) managing complaints related to the Company's Benchmarks as prescribed in the Company's Complaints Policy;
- (cc) managing whistle-blowing related to the Company's Benchmarks as prescribed in the Company's Whistle-blowing Policy;

General

- (dd) engaging and managing interactions with stakeholders, including the regulators, the Shareholder and its Members, the Rates and Credit Markets Committees, the wider

financial market and the public, including by releasing public statements by the Company;

- (ee) meeting with the chairs of the Rates and Credit Markets Committees at least annually;
- (ff) consulting the Rates and Credit Markets Committees on any changes to the Benchmark process and any other matters where their expertise may be beneficial;
- (gg) reviewing regular reporting from the Rates and Credit Markets Committees;
- (hh) considering issues referred to it by the Shareholder or the Rates and Credit Markets Committees; and
- (ii) referring to the Shareholder or the Rates and Credit Markets Committees matters that the Board considers may require a response from the Shareholder or the Rates and Credit Markets Committees.

5. BOARD COMPOSITION

- 5.1 The number and appointment of directors is determined by the Shareholder in accordance with the constitution.
- 5.2 The Board will review its composition at least annually, taking into account the provisions of this Charter, and may advise or make recommendations to the Shareholder about further appointments to the Board, taking into account the provisions of this Charter.
- 5.3 On the resignation of a director, the Board may advise or make recommendations to the Shareholder about prospective appointees, taking into account the provisions of this Charter.
- 5.4 It is intended that the Board shall consist of non-executive directors:
 - (a) at least three of whom meet the independence test set out in this Charter (**Independent Directors**); and
 - (b) at least two other directors that need not meet the independence test (**Market Directors**).
- 5.5 Ideally, all directors should ordinarily reside in New Zealand.
- 5.6 If required pursuant to the Company's benchmark administration licence, the Shareholder may not appoint a new person as a director unless and until it receives confirmation from the FMA that it does not object to that director's appointment.

Observers

- 5.7 Subject to approval by the chair, the General Manager of the Company may attend meetings as an observer.
- 5.8 In addition to the General Manager, the Board may permit up to two persons holding positions in the public sector to attend meetings as observers. These

persons should have significant experience in financial markets and bring skills, experience and thought leadership that will be useful to the Board. These persons should bring a public perspective to the issues faced by the Company and the Board. These members could be drawn from, but not limited to, the Financial Markets Authority, Reserve Bank of New Zealand and/or The Treasury.

5.9 Observers shall be entitled to speak at meetings but shall not vote.

Director Skills

5.10 The Board should consist of directors with the necessary skills, knowledge and experience relevant to interest rate benchmark setting, preferably in a New Zealand context. Directors' attributes should complement one another and include diversity reflecting stakeholders.

5.11 The Board should be "sufficiently independent" of the Shareholder as defined in clause 6(4) of Schedule 28 of the Financial Market Conduct Regulations 2014.

5.12 The Independent Directors:

- (a) must satisfy the independence criteria set out in this Charter; and
- (b) should have a working knowledge of New Zealand's financial markets.

5.13 The Market Directors should have an extensive knowledge of, and experience in, New Zealand's financial markets. Ideally, a Market Director should have at least 15 years' experience.

5.14 In addition to the matters set out above, all directors should:

- (a) understand New Zealand's interest rate benchmarks and their impact on other instruments, both domestically and globally;
- (b) bring skills, diversity and thought leadership that complements that of other Board members;
- (c) confirm they have no current involvement in the interest rate benchmark setting process before being considered;
- (d) confirm they are able to operate in the NZFBF's best interests (and, in the case of the Market Directors, to the exclusion of the interests of any NZFMA member they may also work for to the extent that is required to operate in the Company's best interests) and have sufficient time available to properly undertake their duties;
- (e) abide by the Company's Code of Conduct;
- (f) disclose any conflicts of interests that arise in accordance with the requirements of the Companies Act 1993 and manage those conflicts using the Company's Conflicts Management Plan;
- (g) not have been the subject of any investigation or adverse admissions or findings made, or regulatory action taken by or to any authority with

disciplinary or regulatory functions in respect of persons engaging in a profession or an occupation; and

- (h) not have been the subject of any investigation or adverse admissions or findings made, or disciplinary or regulatory action taken by an authority with regulatory functions over a market in respect of participation in a market (either in their personal capacity or as a director or senior manager of an entity, or otherwise have exercised significant influence over the management and administration of that entity).

6. INDEPENDENT DIRECTOR CRITERIA

6.1 A director is to be regarded as independent if that person:

- (a) does not have control or significant influence over the Company (other than in their capacity as a director of the Company);
- (b) is not an officer or member of the Shareholder;
- (c) is not employed, and has not been previously employed, in any capacity by the Company, the Shareholder, or by a member of, or subscriber to, the Company or the Shareholder, excluding members or subscribers who are government agencies, unless there has been a period of three years between ceasing such employment and their appointment to the Board;
- (d) is not a current consultant or adviser to the Company or the Shareholder, or, in relation to material matters, to a member of the Shareholder, excluding members who are government agencies;
- (e) is not a director of any related company, or of any service providers to the Company or the Shareholder; and
- (f) has not served on the Board for a period exceeding 12 years, though the Board will annually review the independence of directors who have served for more than ten years.

7. BOARD REVIEW

7.1 The Board will set performance measurements for the Board and senior management, in consultation with an independent third-party advisor.

7.2 The Board will complete regular reviews of Board and senior management performance, with an independent third-party review.

7.3 An independent third party will review the chair's performance regularly.

8. MEETINGS

8.1 Meetings will be conducted in accordance with the Company's constitution and otherwise as determined by the chair.

- 8.2 It is intended that there should be at least six Board meetings a year, held approximately every two months, or as required. Notice of indicative regular meeting dates will be posted on the Company's website.
- 8.3 Directors are expected to attend all meetings and may be required to give an explanation to the chair if they miss a meeting.
- 8.4 Directors may seek independent advice relating to the performance of their duties by making a request to the chair. The chair will determine on a case by case basis whether it is appropriate for the Board to pay for the services.

9. COMMITTEES

- 9.1 The Board may from time to time establish committees to assist it in carrying out its responsibilities and shall adopt charters setting out matters relevant to the composition, responsibilities and administrations of such committees, and other matters that the Board may consider appropriate.
- 9.2 The committees shall assist the Board in carrying out its functions, however responsibility in carrying out all Board functions remains with the entire Board.
- 9.3 Proceedings of each committee shall be promptly reported to the Board.

10. BOARD AND MANAGEMENT

The General Manager

- 10.1 The Board may delegate management responsibilities to the General Manager in accordance with the formal delegations set out in the General Manager's contract of employment.
- 10.2 Management will supply the Board with information in a form, timeframe and quality that will enable the Board to discharge its duties effectively. Directors are entitled to request additional information at any time when they consider it appropriate.

Remuneration

- 10.3 The Board shall ensure that remuneration paid to directors and management is fair and reasonable having regard to market data in respect of remuneration for broadly equivalent roles.

11. CHAIR

- 11.1 The Board shall appoint one chair and one deputy chair, in consultation with the Shareholder. Both positions should be held by directors that meet the independence test.
- 11.2 The General Manager will facilitate and supervise any secret ballots to elect the chair and deputy chair of the Board in the event that a secret ballot is required to appoint the positions.
- 11.3 The chair will provide leadership to the Board, ensuring that the Board's processes

and actions are consistent with this Charter and its other policies.

- 11.4 The chair will chair Board meetings ensuring that:
- (a) meeting discussion content is confined to governance matters as defined in this Board Charter;
 - (b) all Board members are treated even-handedly and fairly; and
 - (c) all Board members are encouraged to contribute to the Board's deliberations.
- 11.5 The chair will ensure that all directors understand their responsibilities and have access to any necessary training, be that technical or related to their director responsibilities, to ensure this is achieved.

12. CONFLICTS OF INTEREST

- 12.1 Directors must disclose to the Board any actual, apparent or potential conflicts of interest and comply with the Companies Act 1993 and the Company's Conflict Management Plan in recording the conflict.
- 12.2 A director must excuse themselves from all discussion or decisions in respect of any matter in which they may have an actual conflict. The chair will determine whether a director will receive documentation in respect of any matter in which they may have an actual conflict.

13. CONFIDENTIALITY

- 13.1 All discussions, papers and records of Board meetings will remain confidential to the Company, unless there is specific direction from the Board, or disclosure is required by law.
- 13.2 Records of Board meetings shall be made available to relevant regulators (e.g., FMA, the Reserve Bank of New Zealand, the Commerce Commission) on request.