

# NZFBF

NEW ZEALAND  
FINANCIAL BENCHMARK  
FACILITY



TE POU HERENGA PŪTEA O AOTEAROA

## Governance Conflicts Management Plan

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**NEW ZEALAND FINANCIAL BENCHMARK FACILITY**

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## Change Control

Date	Author	Update
February 2021	John Young	Initial Draft
April 2021	John Groom	Final
May 2024	John Groom & Chapman Tripp	Review and Update

## Introduction

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In response to the investigations and enforcement actions brought against the manipulation of financial benchmarks in many countries around the world, especially with regard to the Inter-Bank Offer Rate (IBOR) market, the International Organisation of Securities Commission (IOSCO) has published a set of guiding principles<sup>1</sup> for Financial Benchmarks to help restore and maintain public trust in the use of these benchmarks which form an important component in the financial markets ecosystem.

New Zealand’s financial market benchmarks did not experience the problems faced in other jurisdictions, but NZFBF as the Benchmark Administrator (BA) acknowledges and aligns with the principles set out by IOSCO (to the extent applicable).

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<sup>1</sup> [IOSCO Principles for Financial Benchmarks Final Report 2013](#)

The principles provide an expectations framework centred on four themes: Governance, Quality of the Benchmark, Quality of the Methodology used in the Benchmark, and Accountability. This document is intended to look at and address the third IOSCO principle (*Conflicts of Interest for Administrators*) regarding Governance, specifically the expectations and standards required around “Ownership and Control of the Benchmark Administrator”

In July 2021, the FMA established regulations for the licencing of Benchmark Administrators. The licencing regime is “opt-in” and while NZFBF is yet to apply, there is an intention to do so soon. As a result, NZFBF’s objective includes complying with the regulations. The FMA’s regulations state that conflicts of interest should not adversely affect the accuracy, integrity, reliability, or continued availability of the specified financial benchmark.

### Document Purpose

The purpose of this document is to identify the potential areas for conflicts of interest, to categorise these conflicts, provide an assessment as to whether they are perceived or actual and then to describe how these conflicts will be disclosed and managed. In so doing, we have followed the Institute of Directors "Conflicts of Interest Practice Guide" and the three-step process recommended being:

- Identify the Conflict
- Disclose the Conflict
- Manage the Conflict

### What is a conflict of interest?

A "conflict of interest" exists when a private interest or personal relationship interferes, appears to interfere, or could be reasonably expected to interfere, with the best interests of NZFBF.

There are three types of conflicts of interest covered by this policy:

- **Actual:** This occurs when a private interest would interfere with the best interests of NZFBF;
- **Apparent:** This occurs where a private interest would be perceived by a reasonable outsider as potentially interfering with the best interests of NZFBF; and
- **Potential:** This occurs when a private interest could at a later stage interfere with the best interests of NZFBF.

## Conflict Management Plan:

## Structure

### Conflict Identification:

#### 1. *Benchmark design*

The process for benchmark design improvement, which has developed over time, has historically been driven by market feedback through the use of committee structures (BKBM & Credit Markets). This process takes the form of direct input from the relevant Committees made up of representatives from NZFMA members. It could be **perceived** that the relevant Committee members have a direct interest in a design feature that would allow them, or their institution, to benefit in some manner.

While there is the **potential** for conflict in this input mechanism, it is important that this ‘market’ feedback is maintained to ensure the NZ benchmark remains applicable and relevant to all stakeholders, as well as being responsive to change in global regulatory requirements.

**Management Plan:**

*To manage this conflict, the independent Board of the NZFBF will provide oversight by having final decision rights on any changes to the Benchmark, including changes to methodology or design features.*

## 2. Benchmark setting

Banks who are directly involved in the establishment of this benchmark rate may also hold large derivative positions that are priced or revalued based of this same rate: this may generate the **perception** that Banks could have a self-interest/incentive in the outcome of the rate setting process.

**Management Plan:** *This conflict is managed through:*

- i. The quality of the benchmark administration design process, in that it does not rely on bank submissions but through the ‘capture’ of **actual** arms-length transactions (‘trades’) between participants via the interbank broker market or the use of executable bids and offers set by the aforementioned participants. This mechanism means that, unlike the submission process, it is harder to manipulate and a more realistic representation of what the benchmark is, in effect, supposed to reflect.*
- ii. There exists a comprehensive set of rules relating to benchmark determination processes that is publicly available, providing transparency and helps set expectations around conduct and outcomes. This process is monitored by NZFBF and reported to the compliance officer.*
- iii. There is visibility to the regulator, and the general public, of the transactions and/or bids and offers that are used to calculate the daily benchmark rate. This level of granular transparency enhances the accountability mechanism implicit in the above design process, detailed in (i) above, and serves as a powerful deterrent against attempts to influence the outcome of the benchmark.*

## 3. NZFBF Ownership & Control

- a) The data that is generated from the benchmark administration activities of NZFBF generate a significant revenue stream that in principle is the property of the NZFMA since the Intellectual

**Management Plan:**

*This **potential** for conflict will be managed through the joint financial planning process whereby both the NZFBF Board and the NZFMA Board will agree an annual financial budget for NZFBF. This will ensure that it can carry out its functions as a BA as well as maintaining compliance regarding the required regulatory minimum capital buffers.*

Property (IP) is owned by the NZFMA. NZFBF will be reliant on the NZFMA allocating a portion of that revenue to fund its core functions. From time to time, technical enhancement, hardware and infrastructure upgrades and increases in staff resourcing may require additional funding, some of which will be required by NZFBF to meet their licencing obligations.

- b) The proposed BA structure requires the NZFBF General Manager (GM) to have dual reporting lines. The GM will report all operational issues relating to benchmark administration to the NZFBF Board. The GM will operate within an agreed financial budget, set in consultation with the NZFBF Board and the NZFMA CEO/Board. On all other issues, the GM will report to the NZFMA CEO. This includes office administration, leave, remuneration and allocation of technical support. This dual reporting structure may represent a **potential** conflict where the interests of the NZFMA CEO impacts the NZFBF's ability to perform the BA role.

***Management Plan:***

*Where operational overlap creates the **potential** for conflict, the separation of duties and responsibilities of the NZFMA/NZFBF Boards will provide 'clear line of sight' to the management of NZFMA & NZFBF.*



### Conflict Identification:

#### 1. *Self-Reporting*

As noted earlier, NZFBF facilitates two Committees and Working Groups that have input into the NZFBF's benchmark processes. Sitting rules for these Committees require that participants **must** report any conduct related concerns on benchmarks at each meeting or to the conduct regulator. This situation could generate a **potential** conflict by creating a disincentive to 'engage' constructively for fear of self-incrimination/recrimination in reporting a conduct related matter.

#### **Management Plan:**

*NZFBF has an external 'Whistle-Blowing' policy in place that allows members to raise any conduct/criminal activity.*

*NZFBF 'Complaints Process' provides a mechanism where conduct issues can be reported and escalated.*

#### 2. *Independence of the Benchmark Administrator Board*

The NZFBF Board will be comprised of a minimum of three directors and a maximum of five directors. Generally, there will be a majority of independent directors from which the Chair and Deputy-Chair will be appointed. To ensure that the Board is able to provide the necessary level of oversight, especially given the specialist nature of Benchmark Administration, it will be necessary to have non-independent Board members who possess knowledge and experience of New Zealand Capital Markets. The breadth and depth of New Zealand's financial markets could present a challenge in finding Directors with those skills that are not conflicted by either being directly or indirectly connected to member banks. This could create **actual** conflicts or be **perceived** by stakeholders as allowing **potential** conflicts of interest to develop.

#### **Management Plan:**

*Industry experts are appointed as directors independent of their employer. They are expected to represent themselves as experts within the industry they work rather than representing their employers' interests.*

*The **perception** of conflict is mitigated through the independence of the Chair and the other (independent) directors, who will constitute the majority of voting/decision rights on the Board.*

*Where **actual** conflict exists Directors will be obliged to **declare** the conflict, and will if required by the Chair, recuse themselves from any votes/decisions. Guidance to Directors on this matter is given by the New Zealand Institute of Directors. NZFBF Directors, as 'Representatives', will **declare** any conflicts of interest.*

*The NZFBF Board will also consist of up to two non-voting observers from the public sector. They have no regulatory oversight of the Benchmark Administrator but will be in a position to provide comment on all matters before the Board and guide outcomes.*

### *3. Conflicts of Interest relating to third party relationships or suppliers*

- (a) Expert Developments Ltd, a software development and web hosting company, provides technical infrastructure support and server hosting to NZFBF. Expert also operates as a development company for other benchmark administrators, such as GRSS.

his situation could create **actual** conflicts but highlight the **potential** for conflicts to also arise in the future.

#### ***Management Plan:***

*NZFBF has a Service Level Agreement (SLA) and confidentiality agreement in place with Expert to ensure the provision of the required level of service and information/data protection.*