

Minutes of the DCM Working Group Meeting

Held on Tuesday 23 June 2020, 2.30pm at the offices of NZFMA,
Level 12, ANZ Centre, 171 Featherston Street, Wellington

Attendees: Paul Atmore – NZFMA, Mark Butcher – LGFA* (Chair), Mat Carter – Westpac*, Mike Faville – BNZ*, John Groom – NZFMA, David McCallum – Craig Partners*, Sarah Minhinnick – NZX*, Paul Morris – Milford Asset Management*, Ross Pennington – Chapman Tripp*, Angela Quirk – Fisher Funds*, Dean Spicer – ANZ, Cameron Waugh – CBA*, Thornton Williams – Fletcher Building*, Jenni Walsh – NZFMA, Mark Woodward – Fonterra*.

* indicates via video/teleconference

Apologies: Louise Tong – BNZ.

1. Welcome & Introductions – Paul Atmore

Paul Atmore opened the meeting by thanking all attendees and in particular Mark Butcher for agreeing to chair the group.

Paul provided background on NZFMA and the formation of the Working Group. Currently NZFMA support a number of committees including Rates, Credit Markets, FX, Accreditation, Operations, Legal and a Benchmark Oversight Committee. AFMA in Australia operate similarly to NZFMA and a DCM Committee exists within that Association. NZFMA have engaged with AFMA to understand the operation of that committee.

The broad purpose of the proposed DCM Committee is to develop best practice guidance to improve the operation of debt capital markets in NZ. Specifically, to increase clarity, transparency and consistency of market practice, ensure compliance obligations are met, drive efficiencies and ensure fair treatment of all stakeholders.

This inaugural meeting has been called to refine this purpose and agree on practical deliverables.

Participants were reminded of the need to act independently and be aware of antitrust and anti-competitive sensitivities that may exist at a meeting of competitors. This meeting is a forum for discussion to promote fair and efficient markets and participants are reminded to act independently and not to use this meeting or information obtained for any anti-competitive purpose.

Minutes of meetings may be available to the wider financial community.

2. Opening Remarks – Mark Butcher

Mark Butcher reminded attendees that this is a working group meeting with the intention of establishing the Committee's make-up, purpose and expected key deliverables (possible and practical). This meeting is not intended to discuss specific market events or practices.

[Ross Pennington joined the meeting]

It was noted that John Groom of NZFMA recently attended an AFMA DCM Committee meeting as an observer to gain an understanding of the operation of that group.

3. Refinement of Committee Purpose & Deliverables

There was general agreement that the key deliverables are symbiotic with the group's purpose.

Paul Atmore clarified the purpose of the NZFMA Credit Markets Committee which was formed to establish a transparent and accurate pricing mechanism to produce a set of daily closing rates (NZNG) reflective of the market. This committee meets regularly to provide oversight and review the calculated prices.

Paul Morris outlined some pricing deficiencies with respect to the NZFMA published rates. Paul Atmore commented that there are inherent difficulties providing accurate pricing in an illiquid and/or dysfunctional market and NZFMA continue to review and refine the capture and calculation process.

Ross Pennington suggested the group may wish to review the laws in respect of market manipulation following recent cases that have occurred in NZ.

Mike Faville considered that one purpose of the proposed committee should be to endeavor to work through ideas and issues in a forum that is removed from a deal context in order to workshop ideas and seek solutions to issues raised in support of the market.

Mark Butcher outlined the key deliverables of AFMA's DCM Committee which are –

- Maintenance of credit product conventions for primary issuance;
- Setting market conventions;
- Establish and maintain guidelines to promote fair and effective markets.

The AFMA DCM Committee currently has 20 members that includes representatives from investors, issuers, banks and brokers. Ross Pennington asked if formal representation from any regulator was available to the AFMA Committee. John Groom advised ASIC reps have attended their meetings from time to time when issues are raised although there is no formal committee membership arrangement. Paul Atmore commented that until recently the FMA had a presence on the NZFMA Benchmark Oversight Committee but has withdrawn due to the forthcoming requirement for NZFMA as a benchmark administrator to be regulated by the FMA. It is hoped that the FMA may be available at committee level on an issues basis when required. Paul Atmore and John Groom met with Sarah Vrede and Peter Nielsen of the FMA who confirmed their support of the proposed DCM Committee following a discussion with Paul Atmore and John Groom.

Dean Spicer suggested defining best market practice as a purpose of the WG. Matt Carter agreed and as an aside noted the differences between the Australian and NZ debt capital markets with Australia being a wholesale market. NZ's DCM Committee is unique and although the group should look to how AFMA's DCM Committee operate, NZ requires a bespoke structure to achieve the required outcomes.

It was noted that Sarah Minninnick of NZX is part of this WG. Sarah advised her role in this group is as a market facilitator, not as regulator, and representing the interests of the retail investors and providing support for the market.

The group did not consider standard documentation as an issue to be included in the deliverables.

Ross Pennington highlighted the importance of considering any legal obligations and interests of the regulator during committee discussion on all issues. Determining functional topics sitting within the broader outlined deliverables list may be useful.

Dean Spicer and Mat Carter considered the key deliverables should remain manageable.

Suggested deliverables raised during this meeting:

- Provide a forum for feedback on the pricing mechanism for NZFMA credit markets closing rates
- Improving market efficiencies
- New issue process
- Optimise primary issuance, wholesale v retail process
- Liquidity initiatives
- Advocacy (Paul Atmore advised NZFMA will drive any advocacy directed by a Committee, in conjunction with other industry bodies if appropriate, with any legal costs covered by NZFMA if advocacy relates to a general market issue, or if specific to a stakeholder group this would be apportioned by agreement)

The WG agreed the draft committee purpose as detailed below was acceptable.

“To develop best practice guidance to improve the operation of DCMs. This guidance will see to increase clarity, transparency and consistency of market practice, ensure compliance obligations are met, drive efficiencies and ensure fair treatment of all stakeholders.”

Noted that it is expected Treasury representative will be invited to attend DCM meetings in an observer capacity.

The WG discussed the construction of the proposed DCM Committee in terms of fair representation for all stakeholder groups. Possibility of rotation of members exists particularly in terms of buy-side representation.

NZFMA will draft a committee charter and circulate to this group for review and comment. **[Action Point 1]**



Mark Butcher will draft a DCM Committee proposed construct, purpose and deliverables document following this meeting's initial discussions and circulate to the WG for review and comment. **[Action Point 2]**

Meeting closed at 3.40pm