

16 September 2020

Dear NZdata Subscriber

I wish to inform you of a calculation error that was identified on the 17th of August 2020 affecting the value of some instruments within the NZ Credit Market Pricing Service. The calculation algorithm incorporates a weighting based on a market parcel size that is allocated to the instrument when loaded into the calculation system. The error occurred due to the wrong market parcel size being loaded against some instruments.

The NZFMA has calculated the impact of this error and in all cases we have back tested for, the variation error is still within the normal range of price variation for the affected instruments. The variation range is defined as within one standard deviation of the mean for the instrument. In line with normal practice the NZFMA will not retrospectively recalculate all Credit Market instruments affected by this error given the time that has transpired since the error was identified. This market parcel loading error first occurred in April of 2017.

Since identifying this error on the 17th of August, the NZFMA has checked and corrected all relevant market parcels to ensure that the instruments are calculated in line with the Operating Rules and Principles. We have also put in place additional checking and input validation procedures to minimise the risk of this type of error occurring in the future.

Should you have any further queries regarding this incident, please would you contact myself or John Groom at the NZFMA office. The NZFMA is disappointed the error has occurred but is confident that the steps taken will ensure future coding errors do not occur.

Yours sincerely

A handwritten signature in blue ink, appearing to read "PA", is written over a light blue rectangular background.

Paul Atmore
Chief Executive Officer