

Minutes of the DCM Working Group Meeting

Held on Monday 14 September 2020, 2.00pm 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*, David McCallum – Craigs*, Fergus McDonald – Nikko Asset Management*, Sarah Minhinick – NZX*, Paul Morris – Milford Asset Management*, Ross Pennington – Chapman Tripp*, Dean Spicer – ANZ*, Jenni Walsh – NZFMA, Mark Woodward – Fonterra*. * indicates via video/teleconference

Apologies: Truong Le – CBA, Louise Tong – BNZ, Mark Woodward – Fonterra.

1. Apologies

Apologies received from Truong Le, Louise Tong and Mark Woodward were accepted.

2. Opening Remarks – Mark Butcher

Mark Butcher reminded the meeting that this is a meeting of the DCM Working Group formed to establish the broad purpose of the proposed DCM Committee with the aim of developing best practice guidance and recommendations to improve the operation of debt capital markets in New Zealand.

Participants were reminded of the need to act independently and be aware of antitrust and anticompetitive 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.

3. Minutes of the Previous Meeting

The Minutes of the previous meeting held on 23 June 2020 were accepted as a true and correct record of that meeting.

4. Draft Committee Charter

A DCM Committee Charter was drafted following the previous meeting and the first draft circulated on 27 July 2020 by email to the Working Group seeking review and comment. In late August Paul Atmore provided a summary of feedback received from the Group with necessary changes being made. An amended draft was reviewed by NZFMA's legal firm, Buddle Findlay, and a final draft recirculated to the Working Group and NZFMA Board for review.

Mat Carter recently raised some additional issues providing further comment on the draft via email and the committee discussed these points further at this meeting.

Committee Purpose

Possible overlap of the proposed DCM Committee and the NZFMA Rates and Credit Markets Committees:

Paul Atmore advised the purpose of the DCM Committee will be to provide a broader level of feedback from the wider market that will feed into both the Rates and Credit Markets Committee. The DCM Committee will provide suggestions and recommendations to further support this area of the market. The independence of both the Rates and Credit Markets committees will be retained and there is not expected to be any duplication of responsibilities.

Mat Carter commented that to the extent that this Committee is expected to have discussions on liquidity, trading conventions and secondary trading, he considers the makeup of the committee should include suitable members with a trading background.

Dean Spicer agreed and commented that the Charter includes reference to the Committee 'establishing guidance and policies' in respect to a number of areas.

It was agreed that the Committee will not be establishing policies and the document will be amended accordingly.

It was noted that the first paragraph of the Charter is NZFMA's standard generic statement for Committees.

It was further agreed to narrow the scope of the DCM Committee's purpose by removing reference to providing guidance on 'Closing rates' and 'Market liquidity'.

Mark Butcher commented that, although the Charter appears specific in a number of areas, the Committee is being formed in order to 'provide recommendations' to NZFMA, not to put forward directives. It is expected that this Committee will critique and provide feedback and recommendations to NZFMA on, for example, secondary market trading from a wider market perspective including investors and issuers.

Paul Morris and David McCallum confirmed their expectation that this Committee would be a vehicle to provide feedback and comment to the relevant NZFMA committees to further improve and support the NZ debt capital markets.

Mark Butcher raised the issue of ensuring via the DCM Committee that the wider market is able to easily provide feedback and ideas to the NZFMA Committees. Mark suggested the DCM Committee may look to further reduce and/or amend the list of guidance items and deliverables as detailed in the Charter.

It was agreed to amend the Charter to include an open-ended statement that the Committee will provide input to NZFMA Committees as required. Such feedback may be received from market participants that are not members of the DCM Committee but who's feedback will be accepted.

Inclusion of the example of a 'review of settlement related protocols and the impact of zero and negative interest rates' within the committee deliverables:

It was agreed to remove this example.

Formation

Appointment of Chair (clause 3.1.2):

Mat Carter noted this clause details the preference for the Chair to be selected from the issuer or investor market segment which is inconsistent with other NZFMA committee chair selection processes, and requested more detail around the Chair's responsibilities and powers.

Paul Atmore advised that the preference was in order to achieve some role neutrality and reduce competition-related concerns. Mark Butcher commented that the Committee Chair has no additional power and this reference to a 'preference' is in order to endeavour to appoint an 'independent' Chair.

Mat Carter noted his preference for a rotating chair from any market segment.

It was agreed to remove the preference statement from the clause.

Committee Construct

DCM Committee (clause 3.1.6):

Mat Carter recommended that the 'Committee Construct' guide detailing two representatives from NZX participant firms and one representative from NZX be amended to reduce the NZX participant firm representation to one only.

David McCallum commented that he considers two NZX participant firm representatives insufficient given the number available and the importance of retail investor feedback to this Committee.

Fergus McDonald commented that the retail market to some extent drives the subordinated and lower investment grade debt issues. From a funds management perspective, a number of NZX participants are important in moving some of the smaller debt issues that the institutional market does not often trade. His preference is for a wide group of market participants to capture views from a range of market areas. Paul Morris was in agreement.

Mark Butcher commented that the proposed Committee makeup was drafted as six representatives from the intermediary sector, six from the issuers and investors plus one each from legal and NZX which was considered a workable split.

The clause will remain labelled as a 'guide' and it was agreed to retain this unchanged.

Voting

Reference to 75% of the DCM Committee or Working Group (clause 8.2):

Mat Carter suggested reference to 'Working Group' be removed from this clause.

Paul Atmore clarified that any Working Group formed from the DCM Committee to consider specific matters will be in isolation from the Committee itself, and at no time will there be the ability for a Working Group member to vote at a DCM Committee meeting.

Agreed that the Charter document will be amended to clarify this.

Clarification on voting procedures (clause 8):

Mat Carter requested clarification around the voting process and Board resolutions.

Paul Atmore advised that all NZFMA committees have a 75% affirmative vote requirement should any matter need determining by a ballot. It was noted that consensus is always sought for decisions made by NZFMA committees and since NZFMA's reformation in 2007, no committee or Board voting has been necessary to achieve outcomes.

Any resolution agreed to by the DCM Committee will be forwarded to the NZFMA Board for support and approval. The NZFMA Board will not make resolutions which are passed on to the DCM Committee for action.

The current NZFMA Board representatives:-

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| - Andrew Allan, ANZ (Chair) | - Paul Duncan, Citigroup |
| - Chris Leuschke, Westpac | - Jun Banta, HSBC |
| - Nigel Annett, ASB | - Vanessa Rayner, RBNZ (Observer) |
| - Graeme Liddell, BNZ | - Matt Collin, Treasury (Observer) |
| - Nigel Gaudin, Kiwibank | - Paul Atmore, NZFMA CEO (ex officio) |

Dean Spicer asked if, once a resolution is passed by the DCM Committee and forwarded to the Board for approval and supported by the Board, is this resolution binding on market participants?

Paul Atmore advised that no resolution of the NZFMA Board is binding on the financial markets in New Zealand. NZFMA is not a regulator and it has no specific power to make significant changes to the operation of New Zealand's financial markets. NZFMA's purpose is to provide guidance and recommendations to support the financial markets in New Zealand. The aim of NZFMA is to promote effective self-regulatory initiatives, advocate for the industry, provide relevant education, and develop, promote and implement high professional standards.

Responsibilities

Inclusion of acronym OTC (clause 4.2):

It was agreed to remove 'OTC' from this clause.

Paul Atmore will amend the Draft DCM Committee Charter document to reflect the changes agreed at this meeting and will recirculate to the Working Group for final approval. [\[Action Point 1\]](#)

The approved Charter will then be forwarded to the NZFMA Board.

5. Procedure for Appointing Committee Members

Mark Butcher will forward a request to the DCM Working Group calling for nominations for suitable DCM Committee members that will be representative of the market participants from the required issuer, investor, and retail intermediary sectors. A short list will be established for approval by the Working Group and NZFMA Board. [\[Action Point 2\]](#)

6. Next Meeting

The inaugural meeting of the DCM Committee is expected to be called during October 2020

Meeting closed at 3.00pm