



# NZX Limited Audit and Risk Committee (“ARC”)

TERMS OF REFERENCE

November 2016



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## Constitution

These Terms of Reference for the Audit and Risk Committee were approved by the NZX Limited Board on 29 November 2016. The Committee is a committee of the Board.

## Review and Approval

These Terms of Reference shall be reviewed at the instigation of the Audit and Risk Committee or the NZX Limited Board. Any changes to these Terms of Reference require the approval of the NZX Limited Board.

## Interpretation

*Board* means the board of directors of NZX Limited.

*Chief Executive* means the person holding office and designated NZX's Chief Executive Officer.

*Chief Financial Officer* means the person holding office and designated NZX's Chief Financial Officer or Head of Finance as the case may be.

*Committee* means the Audit and Risk Committee to which these Terms of Reference relate.

*Committee Chair* the chairperson of the Audit and Risk Committee to which these Terms of Reference relate.

*Designation Order* means the Reserve Bank of New Zealand (Designated Settlement System – NZCDC) Order 2010.

*Group* means the NZX Group comprising of NZX Limited and its subsidiaries.

*NZCDC Settlement System* means the settlement system owned and operated and by New Zealand Clearing and Depository Corporation Limited.

*NZX* means NZX Limited, and where the context permits, includes subsidiaries of NZX Limited.

*NZX Offering Documents* means offering documents prepared for financial products issued by NZX Limited.

*NZX Clearing* means New Zealand Clearing and Depository Corporation Limited and its wholly owned subsidiaries, New Zealand Clearing Limited and New Zealand Depository Limited.

*Regulatory Governance Committee* means the NZX Regulatory Governance Committee.

*Terms of Reference* means these terms of reference for NZX's Audit and Risk Committee.

## Purpose

The purpose of the Committee is to assist the Board in fulfilling its corporate governance responsibilities relating to NZX's risk management (excluding NZX Regulation) financial reporting, audit activities, treasury, finance matters, and any other matters referred to it by the Board.

## Responsibilities

The Committee, the Board, Management, and External Audit each have distinct roles and responsibilities relating to NZX's risk management and internal control frameworks, financial reporting processes and audit activities.

These roles and responsibilities can be broadly categorised as follows:

- **Management** - responsible for establishing effective risk management and internal control frameworks, and financial reporting and treasury processes.
- **External Audit** - responsible for auditing and publicly attesting to the fairness of NZX's financial statements, evaluating NZX's financial statements and evaluating NZX's system of internal control for the purpose of determining the nature, timing, and extent of their auditing procedures.
- **Board** - the business and affairs of NZX are managed under the direction and supervision of the Board. The Board's legal obligations are to NZX. The Board is responsible for ensuring that the expectations of shareholders and the business (including regulatory) objectives of NZX are aligned and that the operations of NZX meet applicable legal and regulatory requirements and are being effectively managed.

Specifically the Committee shall:

1. Review the adequacy, efficiency and effectiveness of NZX's risk management and internal control frameworks with management and External Audit.
2. Review with management and, where relevant, External Audit, the risks and exposures and mitigation strategies across the Group.
3. Review financial reporting practices (including those pertaining to offering documents).
4. Maintain open lines of communication among the Board, External Audit and management, as well as confirming their respective authority and responsibilities.
5. Review NZX Offering Documents being presented to external parties e.g. Product Disclosure Statements.
6. Perform the primary review of the policies and strategy for Finance, Insurance, Taxation, Delegations and Compliance. The Committee will also review breaches of policy/delegation limits.
7. Recommend the appointment of Internal and External Auditors to the Board.
8. Oversee the External Audit process.
9. Oversee the Internal Audit process to the extent that one is in place. Where an internal audit function is implemented, ensure that there is a direct line of communication between the Chair of the Audit and Risk Committee and the Head of Internal Audit.

10. Review relevant policies to ensure compliance with applicable laws and regulations to NZX and monitor the results of these compliance efforts.

The Committee shall take into consideration that NZX directors are required by law to act in the best interests of NZX when making decisions. In doing so, the NZX directors take into account the need for NZX to obey local and international laws and regulations as appropriate to its businesses.

NZX holds a licence to operate a financial product market and is the operator of a designated settlement system. The Financial Markets Conduct Act 2013 requires NZX to operate its financial products market in a fair, orderly and transparent manner. The Committee shall take these legal and regulatory requirements into consideration when making decisions which impact these areas of NZX.

The Committee's specific duties and responsibilities, underlying each of these areas, are detailed in Appendix 1.

## **Membership**

The Committee shall be appointed by the Board and shall consist of three non-executive NZX Directors. The Committee shall include at least one member with an appropriate accounting or financial background.

The Chair of the Board shall recommend to the Board the composition of the Committee.

The Chief Executive shall attend ex-officio, however the Committee Chair may at any time require the Chief Executive to withdraw to facilitate discussion. At least annually, the Committee will meet without executives present for at least part of the meeting.

The Committee Chair will be appointed by the Board but must not be the Chair of the Board.

## **Meetings**

Reasonable notice of meeting and the business to be conducted shall be given to the members of the Committee.

## **Committee**

The Committee shall hold at least four regular meetings per year.

Any other meetings will be held as the Committee Chair shall deem necessary in order to fulfill its duties. The Committee Chair is required to call a meeting if requested to do so by any Committee member, any Board director, or External Audit.

A quorum of the Committee is two members.

## **Attendance at Meetings**

The Chief Financial Officer shall attend all meetings.

Representatives of External Audit and management may be invited to attend part or all of any meeting, but the Committee may request they withdraw from any part of a meeting.

On a regular basis (no less than annually) the Committee shall meet with External Audit without management present, to discuss any matters that either party believe should be discussed confidentially.

From time to time the Committee may meet in separate sessions with management.

## Secretarial

The Board Secretary will act as Secretary to the Committee.

The Secretary shall ensure that the agenda and supporting documentation are circulated to Committee members, management and (where appropriate) External Audit prior to each meeting. Relevant extracts will be circulated to other management attending.

The Secretary shall be responsible for keeping the minutes of meetings of the Committee and circulating them to members and attendees of the meeting, and ensuring they are made available to other Board Directors.

The Secretary shall ensure that complete records of the proceedings of the Committee including agendas, minutes, papers, advice and reports are kept and all such documentation is appropriately and securely filed and retained in a permanent form.

## Authority

The Committee is authorised by the Board to undertake any activity within its Terms of Reference.

The Committee shall have the authority to direct any special investigations deemed necessary by itself or the Board.

The Committee shall have unrestricted access to External Audit and management and the ability to consult independent experts where considered necessary to carry out its duties.

External Audit has unrestricted access to the Committee, the Committee Chair, the Chair of the Board, and to the Chief Executive.

The Committee is authorised by the Board to obtain independent professional advice and to secure the attendance at meetings of persons with relevant experience or expertise if it considers this necessary.

## Reporting

Copies of the minutes of meetings of the Committee shall be made available to all members of the Board.

The Committee discharges its responsibilities inter alia by making recommendations to the Board. In relation to these recommendations, the Committee does not have any authority to commit the Board to their implementation other than concerning those matters specifically delegated to the Committee by the Board. In addition, the Committee is not responsible for supervising the performance of management and will not become involved in day-to-day operations or management functions and decision-making, except where specific delegations of authority are made to it by the Board.

The Committee shall provide a verbal report to the Board on its deliberations, together with the minutes of its meetings upon request, and at each scheduled Board meeting regarding any Committee business conducted since the last verbal report.

The Committee should be vigilant to ensure that issues that are properly the province of the full Board are dealt with by the full Board.

# Appendix 1

## Duties and Responsibilities of the NZX Audit and Risk Committee

This appendix supplements the NZX Audit, Finance and Risk Committee Terms of Reference. It expands upon the Committee's objective on pages 2-3 by providing details on the Committee's operational duties, responsibilities and procedures.

1. Review the adequacy, efficiency and effectiveness of NZX's risk management and internal control framework and review the significant risks and exposures to NZX and their mitigation strategies, with the exception of risks related to regulation matters (which are addressed by the Regulatory Governance Committee) and New Zealand Clearing and Depository Corporation Limited (which are addressed by that entity's governing body).
  - Evaluate the adequacy, efficiency and effectiveness of NZX's risk management and internal control frameworks, including financial and other authorisations, operational, legal and regulatory compliance, by reviewing reports from management, Internal Audit and External Audit, and monitoring management responses and actions to correct any noted deficiencies.
  - Inquire of management, Internal Audit and External Audit about significant risks or exposures, including illegal acts, fraud, and assess the steps management has taken to minimise such risk to NZX.
2. Review financial reporting practices
  - Review financial reporting issues and disclosure requirements.
  - Review and recommend to the Board significant changes in accounting policies and practices.
  - Review the annual and interim financial statements and determine whether they are complete and consistent with the information known to Committee members; assess whether the financial statements reflect appropriate accounting policies.
  - Recommend interim and annual financial statements to the Board for approval.
  - Review major judgement areas, including the nature and level of significant provisioning and the review of the carrying values of assets.
  - Review any legal matters that could significantly impact the financial statements.
  - Pay particular attention to complex and/or unusual transactions and disclosure items.
  - Review the other sections of the annual report before its release and consider whether the information is clear and consistent with Committee members' knowledge of NZX and its operations.
3. Review the preparation of offering documents:

- Review the processes used by management for the preparation of NZX Offering Documents in relation to including both offerings in New Zealand and overseas, whether to the public or to financial institutions or other private markets.
- Review NZX Offering Documents and due diligence reports, and determine whether they are complete and consistent with the information known to committee members.
- Assess whether the NZX Offering Documents reflect appropriate disclosure policies and legal obligations.
- Review major judgement areas, particularly statements of financial performance, statements of prospects or forecasts and directors' statements.
- Pay particular attention to complex and/or unusual transactions which require disclosure in the NZX Offering Documents.
- Review any legal matters which could significantly impact on the NZX Offering Documents.
- Ensure review and due inquiry by the full Board, to the extent required by law or by prudent practice.
- The Committee is not responsible for reviewing offering documents for financial products issued by Smartshares Limited.

#### 4. Oversee the External Audit process:

- Recommend to the Board the appointment of NZX's External Auditors.
- Review the reasonableness of the estimated and actual External Audit fees and recommend approval to the Board.
- Confirm the independence of External Audit including a review of other professional services and related fees.
- Review the annual audit plan of External Audit. Ensure there has been appropriate co-ordination between Internal Audit and External Audit in the development of the plans.
- Ensure there have been no restrictions placed upon External Audit that have impacted upon the scope and performance of the audit work undertaken.
- Review External Audit status reports, significant audit adjustments, management letters and any areas of debate or dispute between External Audit and management.
- Review the External Audit report.
- Request on an annual basis, from the External Auditor, a report detailing the following:
  - All critical accounting policies and practices used;
  - All alternative treatments within generally accepted accounting practice for policies and practices related to material items that have been discussed with management, including ramifications of use of such alternative disclosures and treatments along with the treatment preferred by the External Auditor;
  - Other written communications between the External Auditor and management that are material to the financial statements, such as any schedule of unadjusted differences.

- Its internal quality-control processes and any material issues arising from its most recent quality-control review, any issues from reviews by government professional authorities into their audits, relationships between the External Auditor and NZX, and their policy on audit partner rotation.
  - Inform the Board of any findings or issues contained in the annually requested External Auditors report.
5. Oversee the Internal Audit process
- If a full or partial outsourcing model is used for the delivery of internal audit services, recommend to the Board the appointment of NZX's Internal Auditors.
  - Review the reasonableness of the estimated and actual Internal Audit fees and recommend approval to the Board.
  - Review the annual Internal Audit plan. Ensure there has been appropriate co-ordination between Internal Audit and External Audit in the development of the plans.
  - Ensure there are no restrictions placed upon Internal Audit that would impact upon the scope and performance of the audit work undertaken.
  - Review Internal Audit findings and management's responses.
6. Maintain open lines of communication between the Board, Internal Audit, External Audit and management
- Review regular reports received from Internal Audit, External Audit and management.
  - Hold confidential sessions with the Internal and External Auditors to discuss any matters that the Committee or auditors believe require discussion without the presence of management.
  - Identify and direct any special projects or investigations deemed necessary.
  - Advise the Board of any actual or potential matters of concern, which may require its attention.
  - Provide a verbal report summarising the Committee's deliberations from each of its meetings, along with the minutes of the Committee meetings to the Board of NZX at its next meeting.
  - Evaluate the Committee's own performance on a regular basis.
  - Copies of the Committee's papers are available to all Directors of the Board of NZX on request.