



# NZX Limited Clearing Committee

## TERMS OF REFERENCE

July 2017



## REVIEW

Version	Date	Author / Reviewer	Nature of amendment
0.9	27/05/2015	Benjamin Phillips	Final Draft
1.0	25/01/2016	Courtney Mearns	Amendments
1.1	07/07/2017	Kristin Brandon	Minor composition amendments



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# 1 Constitution

These Terms of Reference for the Clearing Committee ("**Committee**") were approved by the NZX Limited ("**NZX**") Board ("**Board**") on 29 November 2016. The Committee is a committee of the Board.

## 2 Review and Approval

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

## 3 Purpose

The purpose of the Committee is to assist the Board in fulfilling its governance responsibilities to ensure that New Zealand Clearing Limited ("**NZCL**") continues to have adequate capital resources available to it to meet its obligations as Central Counter Party for trades on NZX's markets. The Committee shall not be responsible for matters that fall within the responsibility of NZX's Audit and Risk Committee.

## 4 Responsibilities

The Committee will monitor the risk capital requirements of NZCL, risk capital calculations (including the underlying parameters and assumptions), liquidity requirements and margin policy.

The Committee shall also consider proposing changes to the Board to the following:

- risk capital assumptions and parameters;
- risk capital requirements;
- liquidity requirements; and
- any other factor that may impact the appropriate level of risk capital, including the margin policy.

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 is an operator of a designated settlement system. The Reserve Bank of New Zealand (Designated Settlement System – NZCDC) Order 2010 requires NZX to operate the settlement system in accordance with the Principles for Financial Market Infrastructures, which include a requirement to consider the stability of the broader financial system, other relevant public interest considerations, and the objectives of relevant stakeholders. The members of the Committee shall take these legal and regulatory requirements into consideration when advising the Board, and making decisions which impact these areas of NZX.



## 5 Governance

### 5.1 Membership

The Committee shall be appointed by the Board and shall be comprised of either at least one external independent person ("Non-Director Member") and a minimum of two NZX directors, or a minimum of three NZX directors. The Committee shall have a maximum of five members, the majority of whom shall be independent. An independent director shall be appointed as chair ("**Committee Chair**").

### 5.2 Meetings

Except as set out in these Terms of Reference, the Committee will establish its own procedures.

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

The Committee shall meet a minimum of twice annually, and will otherwise meet as the Committee Chair considers necessary in order to fulfil its duties. The Committee Chair is required to call a meeting if requested to do so by any Committee member or any Board Director.

A quorum of the Committee is at least two thirds of members (rounded up to the nearest whole number).

### 5.3 Secretarial

The Secretary shall ensure that the agenda and supporting documentation are circulated to Committee members prior to each meeting.

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 ensure they are made available to other Board Directors.

### 5.4 Conflicts Management

In order to safeguard against potential conflicts of interest that could arise in relation to the provision of risk capital to NZCL and NZX's other commercial interests, the Committee shall seek external, independent advice regarding risk capital.

The Committee shall seek such advice:

- on a regular basis (once annually at a minimum) in relation to the adequacy of risk capital and the appropriateness of the calculations used to formulate the risk capital requirements ("**Annual Risk Capital Report**"); and
- in relation to the approval of any new Approved Products for the purpose of the New Zealand Clearing Limited Clearing and Settlement Rules.

A copy of this advice will be provided to the Board.

Copies of advice regarding risk capital, relied upon in relation to the implementation of a new initiative, or new approved product application, shall be made available for inspection by the Reserve Bank of New Zealand and Financial Markets Authority (together the "**Joint**

**Regulators**”) and NZX’s Conflicts Committee. The adequacy of these conflicts management arrangements shall be subject to the annual review of NZX’s Conflicts Committee. The adequacy of these arrangements shall be subject to the annual review of NZX’s Conflicts Committee.

## 6 Attendance at meetings

NZX management shall make available all relevant persons with expertise in Clearing and Risk to assist the Committee in its formulation of recommendations related to those areas specified in section 4. The Committee may invite any person (including NZX Clearing management and the independent reviewer appointed by the Board used to review the risk capital) to attend part or all of the meeting to assist the Committee with its work. The Committee may also, at its sole discretion, require that an invited party withdraw from any part of the meeting.

Chief Operations Officer/Head of Risk and the Risk Manager shall have direct and ongoing access to the Clearing Committee to raise issues relating to risk capital and liquidity.

## 7 Authority

The Committee will be responsible for reviewing and discussing the following matters and reports at its meetings:

- **Risk Report** – Outlining the historical clearing volumes of the previous period and their impact on available risk capital.
- **Risk Capital Review** – Annual report produced outlining:
  - the framework and process for estimating risk capital requirements for NZX Clearing;
  - a detailed analysis of the capital requirements for cash equities, dairy derivatives, and equity derivatives over the next 2 years; and
  - a description of the ongoing governance and processes with respect to the:
    - assessment of the adequacy of risk capital, and
    - ability to obtain increases in such capital if and when required on a timely basis.
- **Independent Risk Capital Review** – Annual Risk Capital Report.

Where the Committee identifies a required change to the risk capital assumptions and parameters, risk capital requirements, Liquidity requirements and/or any other factor which may impact the appropriate level of risk capital, it will provide the Board with a recommendation in relation to these.

The Committee is authorised by the Board to obtain independent professional advice (including regarding risk capital) at any time if it considers this necessary.

## 8 Reporting

Copies of the minutes of meetings of the Committee shall be circulated to the Board, and shall be made available for inspection by the Joint Regulators and NZX’s Conflicts Committee.

The Committee discharges its responsibilities inter alia by reporting to the Board.



The Committee shall provide a report (which may be oral) to the Board on its proceedings since the previous such report at each scheduled regular Board meeting.

The Committee shall ensure that matters that are properly the province of the full Board are dealt with by the full Board.

