



NZX's Approach to Policy

November 2023

Version 1.3

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Introduction

NZX is a licensed market operator. As such, under the Financial Markets Conduct Act 2013 (**FMC Act**) NZX is required to the extent that is reasonably practicable, to do all things necessary to ensure that each of its licensed markets is a fair, orderly, and transparent market.

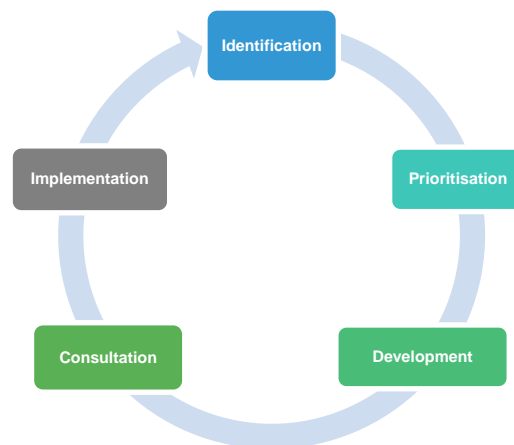
In the context of this obligation, NZX, with the support of NZ RegCo, monitors emerging market trends and behaviours (both in New Zealand and globally) to ensure that the rules, procedures¹ and guidance which establish the policy settings that regulate NZX's markets, remain appropriate.

Sometimes, changes are required to NZX's regulatory settings to enable NZX's licensed markets to operate on a fair, orderly and transparent basis, or to facilitate market development. This may be caused by changes in the macro-environment, such as changes in the broader regulatory environment, technology, market behaviour or economic conditions.

NZX Policy is responsible for regulatory policy at NZX, which includes responsibility for developing and amending the rules, procedures and guidance for NZX's markets. NZX Policy works closely with NZ RegCo in the development and consideration of policy initiatives. NZ RegCo is a subsidiary of the NZX Group, that is structurally separate from NZX's commercial function, with responsibility for monitoring and enforcing the rules under which NZX's markets operate.

What does this document cover?

This document explains NZX's approach to the policy decision making process, which comprises the following stages:



¹ The relevant rules are the: NZX Listing Rules, Fonterra Shareholders' Market Rules, NZX Participant Rules, Derivatives Market Rules, and the NZ Markets Disciplinary Tribunal Rules. The reference to procedures in this document is to NZX's regulatory procedures rather than internal procedural documents, being the: NZX Participant Rule Procedures, Derivatives Market Procedures, and the NZ Markets Disciplinary Tribunal Procedures.

This document describes each stage of the policy-decision making process, as follows:

Identification: This section describes the manner in which NZX identifies policy initiatives (including how NZX monitors for changes in the macro-environment), and the considerations that are relevant to preparing the initial scope of a proposed policy initiative.

Prioritisation: This section describes the policy prioritisation matrix and describes how policy initiatives are prioritised on both a regular and ad-hoc basis (including a description of the role of the NZX Board).

Development: This section describes how policy initiatives that have been prioritised for initiation are developed, and includes a description of the role of NZ RegCo.

Consultation: This section describes NZX's arrangements for engaging and consulting with stakeholders in relation to policy initiatives, and explains how consultation feedback is assessed.

Implementation: This section describes how policy initiatives are implemented, including the requirements for FMA approval of rule amendments.

What principles does NZX follow when making policy decisions?

NZX considers that policy initiatives should:

- promote the operation of NZX's markets on a fair, orderly and transparent basis;
- promote the integrity of NZX's markets;
- promote broader market development, including innovation and flexibility for NZX's markets; and
- support NZX's compliance with its regulatory obligations.

1 Identification of Policy Projects

How are policy initiatives identified?

NZX Policy engages with NZX's internal business units (in addition to NZ RegCo) and external stakeholders to identify potential policy initiatives. NZ RegCo also identifies potential policy initiatives for NZX's consideration.

The manner in which policy initiatives are identified is described below.

NZX and NZ RegCo insights

NZX identifies potential policy initiatives through observations derived from its role as New Zealand's exchange, and its understanding of the New Zealand capital markets environment. NZX is a member of many industry bodies and organisations that provide thought leadership, such as the World Federation of Exchanges (WFE), the Sustainable Sock Exchange Initiative, and the Aotearoa Circle's Sustainable Finance Forum's Leadership Group. The NZX Data and Insights team also generates research to support NZX's identification of potential initiatives. In addition, NZ RegCo may identify potential policy initiatives that arise from its insights as the frontline regulator of NZX's markets.

Trend monitoring

NZX Policy monitors market-trends on both an international and a domestic level. In particular, NZX Policy monitors developments reported by national and international industry and regulatory bodies, including:

- World Federation of Exchanges (WFE);
- International Organisation of Securities Commissions (IOSCO);
- Reserve Bank of New Zealand;
- Financial Markets Authority (FMA);
- External Reporting Board (XRB);
- Futures Industry Association;
- other comparable exchanges (including ASX and SGX).

In addition to monitoring market development trends, NZX Policy also monitors and reacts to emerging macro-conditions, as seen with the Covid-19 pandemic.

Engagement with stakeholders

NZX Policy works closely with internal NZX stakeholders (including the NZX Markets Development and NZX Strategy teams) to identify trends or changes in market behaviours that may require a policy change, and market development opportunities. NZX Policy and NZ RegCo also maintain a close bilateral working relationship which enables identification of areas for potential policy change. This relationship is documented in the NZX Policy and NZ RegCo relationship charter.

NZX's internal Risk Management Committee, is a management committee that also provides a formal forum for the discussion of trends that may affect the operation of NZX's business, including in relation to policy decision-making.

NZX Policy also engages with external market stakeholders, to understand their views as to the requirements for changes to NZX's regulatory policy. In order to facilitate these discussions, NZX Policy has regular relationship meetings with key industry stakeholder groups (for example: the Securities Industry Association (**SIA**), and New Zealand Shareholders' Association (**NZSA**), New Zealand Corporate Governance Forum (**NZCGF**), Listed Companies Association (**LCA**) and Institute of Directors (**IoD**)).

The NZ Corporate Governance Institute was established in 2022. The role of the Institute includes providing recommendations to NZX in relation to NZX's corporate governance settings for the NZX Main Board by identifying proposed amendments to the NZX Corporate Governance Code and the Listing Rules for NZX's consideration. More information about the role of the Institute and its current members is available [here](#).

What types of policy initiatives does NZX undertake?

NZX's policy initiatives, will fall within one of the following categories, consistent with the purposes of the FMC Act:

Market conduct: Evolving market conditions or behaviours may sometimes necessitate amendments to NZX's policy settings to ensure that NZX can maintain the integrity of its markets, enabling them to operate on a fair, orderly, efficient, and transparent basis.

Market innovation: NZX considers that the development of innovation and flexibility for New Zealand's capital markets is an integral part of NZX Policy's mandate. The market integrity effects of market development initiatives are carefully considered, when assessing an initiative that may also derive commercial benefits to NZX.

Market hygiene: NZX Policy periodically conducts conformance type updates to NZX's policy settings to ensure consistency with legislative changes or other macro-settings, or to improve the operation or clarity of NZX's rules and associated documents.

Initial scoping of policy initiatives

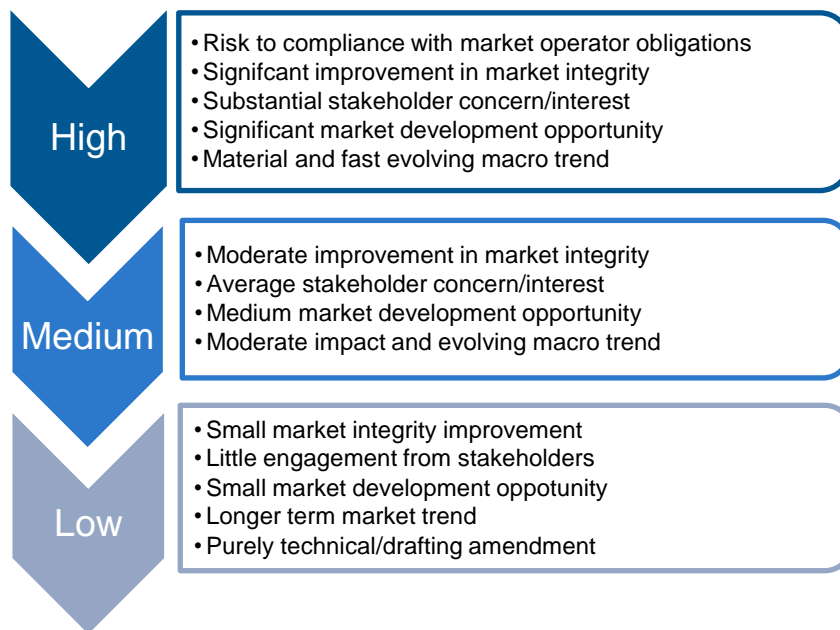
Once a potential policy initiative has been identified, NZX Policy engages with relevant NZX internal stakeholder and external stakeholders to ensure that NZX Policy understands:

- the nature of the potential policy initiative, including whether it requires a Rule amendment or change to NZX's regulatory guidance;
- why the policy initiative is required, and the issue that the policy initiative is intended to address;
- how the proposed policy initiative aligns with NZX's FMC Act licensed market operator obligations;
- the estimated resource required for the initiative;
- whether any timeframes must be met in relation to the proposal (for example: in respect of legislative change or market development opportunities); and
- NZ RegCo's preliminary view of the merits of the proposal.

2 Prioritisation of Policy Projects

Prioritisation Matrix

NZX applies the following matrix to assess the priority of proposed policy initiatives:



A policy initiative will **not** be progressed if it is assessed to have a negative effect on market integrity, or NZX's compliance with its FMC Act licensed market operator obligations.

Prioritisation Process

NZX Policy conducts an annual planning process which comprises the identification, prioritisation and allocation of resources towards potential policy projects for the year, which is documented in an annual workplan.

This process involves NZX Policy developing its understanding of the proposed policy initiatives and making an initial assessment of those initiatives against the prioritisation matrix set out above. NZX Policy also considers the prioritisation assessment made by internal NZX teams of the initiative, including through the consideration of the NZ RegCo annual strategic plan. Policy initiatives that are required to prevent non-compliance with NZX's licensed market operator obligations will be given the highest priority for implementation.

NZX Policy then creates a draft workplan which identifies the initiatives for implementation for the upcoming year, which sets out an indicative timeline for the relevant initiatives. The draft workplan is then considered by an internal NZX management steering group and the NZ RegCo CEO, before being provided to the NZ RegCo Board for consideration, and the NZX Board for approval, and is considered as part of the NZX Board's annual strategy review and business plan process.

Sometimes, NZX may need to re-assess the priority that has been assigned to a policy initiative. This could occur where NZX is required to introduce an additional policy initiative to enhance market integrity, enhance NZX's ability to comply with its obligations as a licensed market operator, or promote market innovation. This could happen as a result of unforeseen market developments or changes in the macro-environment. NZX Board approval will be sought for these types of ad-hoc changes to the extent that they require material changes to the projects identified in the NZX Policy workplan.

In the unlikely event that NZ RegCo disagrees with the inclusion of a policy initiative in the NZX Policy workplan, this is highlighted to the NZX Board for its consideration in determining whether to approve the workplan.

Transparency of NZX's policy priorities

A summary of the NZX Policy workplan is published on nzx.com, in order to provide transparency to stakeholders of the policy initiatives that NZX has identified for implementation, and the proposed consultation periods for each initiative.

NZX Policy also meets with the FMA and key stakeholders on a regular basis to provide visibility of the status of current and upcoming policy initiatives.

3 Development of a policy initiative

Once a policy initiative has been included in the NZX Policy workplan, NZX Policy engages with internal stakeholders to further develop and refine the initiative. This includes engagement with NZ RegCo in accordance with the NZX Policy and NZ RegCo Relationship Charter and NZX Delegated Authority Policy.

NZX Policy may engage external experts in relation to complex or technical proposals, and sometimes undertakes bi-lateral engagement with stakeholders to further refine the proposal.

NZX Policy provides regular updates to the RegCo CEO, for escalation to the RegCo Board and to the NZX Board in relation to upcoming consultations, to ensure that there is appropriate governance oversight of proposed policy initiatives.

4 Consultation arrangements

Consultation engagement principles

Engaging with stakeholders and considering their views is a critical part of our policy decision-making process. NZX therefore designs the process for our consultations with an emphasis on improving market integrity, by ensuring that the process allows us to receive a wide-range of stakeholder views. Engagement with public and industry stakeholders gives us valuable insights on the implications of proposed changes and together, these responses help play a vital role in guiding NZX towards maintaining a fair, orderly and transparent market.

NZX consultations are designed to clearly identify the specific issues on which we are seeking comment. We appreciate that submissions on topics of consultation can often require significant effort, resources and time from public and industry stakeholders. We

ensure that our consultations allow adequate time for interested parties to prepare submissions, and we provide extensions on a case-by-case basis, when required.

Consultation process

NZX Policy consultations are undertaken in accordance with the following principles:

- depending on the nature of the proposal, bi-lateral consultation and engagement may be undertaken with key affected stakeholders, in order to refine the proposal for consideration;
- consultations are published to the market early and provide stakeholders and the public with adequate time to make a submission;
- if the consultation is targeted towards a specific group of stakeholders, this is specified and the relevant stakeholders are individually notified of the consultation;
- stakeholder engagement in relation to current and upcoming consultations acts as a mechanism to provide transparency of upcoming change that may result from a policy initiative;
- consultation materials are drafted in plain language and are easily accessible on our website [here](#);
- consultation papers clearly state the purpose of the consultation and the wider implications of the matters on which we are consulting;
- we provide the necessary guidance and support to stakeholders who have difficulties or queries in relation to the consultation paper; and
- consultations are conducted in good faith and as a two way process between NZX and stakeholders.

Consultation methods

NZX's consultation processes may be conducted through:

- consultation papers or response papers which are published on our website;
- public and stakeholder workshops or seminars;
- email correspondence; and
- telephone conversations, or meetings, as necessary.

Stakeholder groups often provide a valuable mechanism for NZX to obtain the views of stakeholders affected by NZX's proposals. NZX actively engages with specific stakeholder groups in relation to proposed policy changes, this may include:

- initial discussions with stakeholder group members prior to the formal release of consultation materials;
- providing members of stakeholder groups with the opportunity to confidentially review proposed consultation materials;
- dedicated workshops that are designed to provide a mechanism for feedback and discussion in relation to a proposal, where the proposal has a material effect on members of a stakeholder group; and
- regular relationship meetings, which provide an opportunity for NZX to provide an update on relevant proposals.



NEW ZEALAND'S EXCHANGE
TE PAEHOKO O AOTEAROA

The nature of the consultation method will depend on the nature of the change that is being proposed. A summary of the consultation methods that apply to different types of policy decisions are set out in the table, below.



NEW ZEALAND'S EXCHANGE
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Nature of Policy Initiative	Consultation Materials	Consultation and Engagement Process
<p>New rules</p> <p>Amendments to existing rules.</p> <p>Material changes to NZX's regulatory policy (including guidance).</p>	<p>Consultation Papers – Provide a background to the issues being consulted on, as well as the reasoning and potential implications of the changes being consulted on.</p> <p>Consultation Papers are usually accompanied with exposure drafts which provide detail of the specific changes to the rules or guidance note.</p>	<p>NZX Policy conducts formal public consultation, including by publishing consultation materials on the NZX website here. NZX Policy (with the assistance of NZ RegCo) endeavours to ensure that affected parties are informed of the consultation.</p> <p>We normally allow at least one month from the publication of consultation materials until the closing date for submissions. An indicative timeline for amendments to the NZ Markets Disciplinary Rules is contained in those Rules.</p> <p>Where an additional workshop or seminar is necessary, this is conducted during the submission window.</p>
<p>New Procedures</p> <p>Amendments to Procedures</p> <p>Updates to Practice Notes</p>	<p>Exposure Draft of proposed changes.</p>	<p>Where the proposed amendment is material, NZX Policy conducts direct bilateral targeted consultation with key or representative stakeholders. The consultation materials are not published on nzx.com.</p>
<p>Minor, or immaterial changes to procedures or regulatory policy (including guidance)</p>		<p>If the proposed amendment is not material, NZX does not undertake consultation.</p>
<p>Participant or Issuer engagement</p>	<p>Workshops, or direct conversation</p>	<p>NZX Policy may seek to engage on a bilateral basis with Participants or Issuers, to identify trends or behaviours that are relevant to NZX's policy settings.</p> <p>NZX Policy also has quarterly meetings with external stakeholder groups to assist in the identification of potential amendments to NZX's policy settings.</p>

Consideration of consultation feedback

NZX considers feedback received through consultation and engagement in relation to a policy initiative in accordance with its principles for policy decision-making and any bespoke principles that apply to an initiative. Submission responses are considered on their merits regardless of the nature of the commercial relationship between NZX and the submitter.

In refining a policy initiative, NZX Policy (in consultation with NZ RegCo) considers the issues raised by submitters, and whether the policy proposal outlined in the consultation materials, should be amended. Often, an NZX director is delegated authority from the NZX Board to assist management in the consideration of consultation feedback in relation to more complex or controversial proposals. Amendments to a proposal are reported to the NZ RegCo Board for its consideration, prior to the finalisation of a proposal.

Consultation response

In respect of more material changes to NZX's market rules or guidance, NZX will usually publish a consultation response paper summarising the submissions received through consultation and describing any changes that have been made to the policy proposal as a result of that feedback.

In some cases, where NZX receives strong or disparate views, NZX may outline its initial views in a consultation response paper, and invite further submissions.

5 Implementation

Internal approval

Changes to NZX's policy settings must be approved by the NZX Board in accordance with NZX's Delegated Authority Policy. This requires the NZX Chair and NZX/ NZ RegCo cross-over director's approval of changes made to the market rules, and review of material changes to guidance, and prior engagement with the NZ RegCo Board.

NZX Policy engages with NZ RegCo in relation to the development of a policy initiative in accordance with the arrangements set out in the NZX Policy and NZ RegCo relationship charter. In the event that NZ RegCo disagrees with the approach taken by NZX Policy in relation to a policy initiative, this is reported to the NZX Board for its consideration in determining whether to approve the policy proposal.

FMA process

Under the FMC Act, amendments to NZX's market rules are subject to formal approval from the FMA. The FMA must approve amendments to NZX's market rules unless the FMA is satisfied that it is not in the public interest to do so, having regard to the purposes of the FMC Act or the consistency of the rule amendments, with NZX's licensed market operator obligations.

Notification to the market

NZX provides the market with 20 business days' notice of an upcoming amendment to its market rules, by releasing an announcement on NZX's market announcement platform. NZX and NZ RegCo also inform issuers and participants about upcoming amendments on a bi-



lateral basis. Changes to guidance notes are not formally announced to the market but are made available on nzx.com. Upcoming rule and guidance note amendments can be viewed on the 'Upcoming Rules & Guidance Changes' tab on nzx.com, a link of which can be found [here](#).

NZX keeps the market informed of current and future policy initiatives through regular engagement including through newsletters and stakeholder engagement meetings. In addition, NZX publishes a summary of the NZX Policy workplan on nzx.com, to provide visibility to stakeholders of planned policy initiatives.

How can you find out more?

If you would like any further information about NZX's approach to policy decision-making please email: policy@nzx.com.

Version Control Table

Version	Author / Reviewer	Date	Nature of Amendments
1.0	Kristin Brandon / NZX Board	June 2021	Foundation document
1.1	Kristin Brandon	June 2022	Cosmetic changes and inclusion of NZ Corporate Governance Institute
1.2	Kristin Brandon	August 2023	Changes to reflect operation of NZ Corporate Governance Institute
1.3	Kristin Brandon / NZX Board	November 2023	Updates to reflect changes to prioritisation and planning processes.