International Benchmarks News – New Zealand’s BKBM to be EU Compliant

The Bank Bill Benchmark Rate (BKBM) is New Zealand’s key interest rate benchmark and is widely used as a benchmark by financial institutions and companies in New Zealand and overseas. Developments in relation to BKBM will interest readers of the Newsletter, as many Australian financial institutions issue and trade NZD loans and instruments that reference it. The New Zealand Financial Markets Association (NZFMA) is the benchmark administrator for BKBM.

The European Union (EU) Benchmarks Regulation (BMR) applies to benchmarks used by EU regulated entities regardless of whether the benchmark administrator is located in the EU. Because BKBM is used by entities in the EU, it will fall within scope of the BMR and the transition terms currently apply. NZFMA, being located in New Zealand, is considered to be a third country administrator for the purpose of BMR.

The NZFMA has been active in responding to the requirements of BMR and, in consultation with the Financial Markets Authority (FMA), the RBNZ and the Ministry of Business, Innovation and Employment (MBIE), has agreed that seeking recognition via the ‘equivalence’ option is the most practical approach.

Consequently, MBIE has been in discussions with the European Commission (EC) in order to establish a framework for regulation that will meet the EC’s ‘equivalence’ requirements. MBIE has drafted legislation that will regulate Benchmark Administrators in NZ and the Bill is expected to be available for review in April 2019.

Meanwhile, the FMA is working on the drafting of the Licensing Regime for Benchmark Administrators and will provide timelines shortly on the implementation of the regime.

For its part, the NZFMA has conducted an assessment against the IOSCO Benchmark Principles and is about to commission an external audit/gap analysis against the IOSCO Principles. Moreover, the NZFMA is conducting a fall-back benchmark assessment via a market working group as part of this project.

AFMA is grateful to NZFMA for providing the information necessary to prepare the above update.