

Market Operator Obligations Review – NZX

Findings from the FMA's review of how well NZX is meeting its licensed market operator obligations, for the period 1 January to 31 December 2017

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Executive summary

Purpose of this report

We are required by law to report at least annually on how well NZX is meeting its licensed market operator obligations¹. Broadly, these relate to the areas of operation that are regulatory in nature. Publishing the report provides transparency into our oversight of NZX.

This is our seventh review, which covers the 2017 calendar year ('the review period'). See Appendix 1 for details of how we conducted this review.

Key findings

During the review period NZX was generally compliant with its obligations; this report only highlights exceptions. In our view, a lack of market expertise in the market surveillance function means NZX is not meeting its obligation to have adequate arrangements to monitor the conduct of participants on, or in relation to its markets. While NZX disagrees with our conclusion, to resolve this issue NZX has committed to recruit additional resource into this function, which both the FMA and NZX consider will benefit market integrity.

We did not find any other systemic issues in relation to NZX's compliance with its market operator obligations. Apart from in market surveillance we consider NZX has made improvements in other areas of regulation and enforcement.

During 2017 NZX demonstrated that it complied with the majority of its obligations by:

- ensuring, wherever practical, that its licensed markets operated in a fair, orderly and transparent way

- putting in place adequate arrangements to notify market participants' disclosures, and continuing to make these disclosures available
- having adequate arrangements for handling conflicts between its commercial interests and the need to ensure its markets are fair, orderly and transparent
- having adequate arrangements to enforce compliance with market rules
- having sufficient resources (including financial, technological and human resources) to operate its licensed markets properly.

However, we have made some suggestions where we think improvements could be made. We will continue to engage with NZX on these, as both the FMA and NZX seek to support confident and informed participation in fair, orderly and transparent financial markets.

We have grouped our main findings into two focus areas: Frontline market surveillance and conflict management. We also address our findings on other matters relevant to NZX's licensed market operator obligations, and highlight where we have followed up on the findings of our 2016 review.

¹: The market operator obligations are set out in Appendix 1.

Findings

Focus area: Frontline market surveillance

As the frontline regulator for its markets, NZX must make adequate arrangements for monitoring the conduct of market participants. Effective market surveillance is essential to maintaining market integrity. NZX must have adequate and appropriately skilled resources to ensure it operates and regulates its markets in a fair, orderly and transparent way².

Last year we observed that NZX had experienced relatively high turnover and had filled vacancies in the NZX Surveillance team with less experienced personnel, so we have focused our review on market surveillance matters.

During the review period NZX also trialled a new pricing structure designed to attract algorithmic trading. Having completed the trial, NZX plans to implement changes to its pricing structure in 2018, which will further increase algorithmic trading and the complexity of market surveillance.

We looked at NZX's inquiry logs and a selection of surveillance and other files. We selected files where NZX determined there was no wrongdoing, or where a breach was identified and NZX Surveillance referred a matter to other teams in NZX Regulation for further action. We discussed matters directly with NZX Surveillance staff and spoke to market participants about market surveillance matters.

Our review concluded:

- there is still insufficient depth of market knowledge and experience, despite an increased focus on training and process enhancement. We have concerns about the ability of this function to recognise or identify potential misconduct
- there were instances of a lack of timely progression of potential market misconduct matters

- the function was not sufficiently prepared for market developments, including the increase in algorithmic trading due to the new pricing structure.

Agreed action

NZX will hire an appropriately experienced person to assist with market monitoring and upskilling of the market surveillance function.

Quality of information provided to FMA

We work closely with NZX on trading misconduct matters. As a frontline regulator, NZX is often required to investigate trading misconduct before referring a matter to us. NZX also provides us with trading information to assist our investigations.

During the review period there were a number of occasions that information provided by NZX Surveillance was below our expectations. Information was either not what was requested or was of poor quality. In each case we sought further information from NZX or other sources.

High-quality and timely information allows for swift review and decision-making. This means we can more efficiently act to stop or prosecute potential wrongdoing, strengthening public confidence in financial markets.

Poor-quality information causes us to question the accuracy of information NZX provides. After reviewing NZX Surveillance files we are concerned that preliminary inquiries may have been closed after incorrect assumptions or information was relied on as a justification for trading. This creates the potential for market misconduct to go unidentified. However, in each of the cases identified we have considered the appropriate follow-up action to take.

²: Appendix 2 sets out the operational structure of NZX and NZX Regulation.

Market knowledge and experience

NZX markets are unique and the monitoring of these markets is a specialist activity. During the review period NZX Surveillance undertook a training programme with a focus on:

- technical and systems knowledge
- the statutory and rules regime
- trading practices
- international practice and market trends.

We acknowledge the work NZX is doing to upskill in this extremely complex and technical area by enhancing training programmes, reviewing processes, and improving market surveillance infrastructure. However, we do not consider the knowledge and skill of the function to be at the level required to adequately monitor NZX markets. Our interactions with NZX Surveillance and feedback from market participants indicates this.

NZX intends to recruit an appropriately experienced person

After discussing our findings, NZX has confirmed it intends to recruit an additional staff member with appropriate experience to assist with market monitoring and upskilling of the market surveillance function. The individual will provide specialist support to NZX Surveillance to support ongoing monitoring of trading on NZX markets, and the identification, review and investigation of potential trading misconduct. While NZX has started the recruitment process we understand it will take time to identify and on-board the right candidate.

This recruitment, and the ongoing improvement of the NZX Surveillance function, will be a focus of ours over the next review period. We will work with NZX throughout the review period to ensure NZX brings its market surveillance function up to the standards required.

Preparedness for market developments

Markets change, and monitoring tools and skills must remain fit for purpose. NZX advised us that the increase in smaller, algorithmic trading continued in 2017. This increase means there is potential for new variants of market misconduct.

During the review period NZX upgraded its existing SMARTS surveillance platform, enabling SMARTS to better support NZX Surveillance's oversight of algorithmic trading. NZX also sent representatives to securities industry conferences where emerging trends in market misconduct and surveillance are discussed.

Proposed initiatives for 2018

NZX has advised that it has a number of initiatives planned for 2018 to improve its market surveillance activities. Some of these initiatives are directly focused on increasing understanding of algorithmic trading. NZX also advises it will undertake a thematic review of algorithmic trading, in support of ongoing monitoring of market and compliance trends. The focus of this review will be issues, practices and conduct in relation to algorithmic trading activity on NZX markets. NZX chose this topic in recognition of:

- broader market perceptions of the influence that algorithmic trading may be having on NZX markets
- the anticipated future importance of algorithmic trading as an order execution model.

NZX will publish its findings and any recommendations.

We support these projects and changes to improve NZX's preparedness, but note that some of this preparatory work is overdue given NZX initiated changes to its pricing model that have facilitated the increase in algorithmic trading.

Focus area: Conflict management

NZX must have adequate arrangements in place to manage any actual or perceived conflicts of interest between its commercial interests and its role as a frontline regulator.

The NZX board has ultimate responsibility for fulfilling NZX's regulatory responsibilities. The board delegates the day-to-day responsibility for this to the Head of Market Supervision (HOMS). The HOMS reports directly to the board, to ensure the regulatory function is not subject to undue commercial pressures. Sub-committees help the board fulfil the governance responsibilities for its regulatory function.

On behalf of the NZX board, the Conflicts Committee (CC) reviews and considers the effectiveness of NZX's policies and procedures for ensuring that any perceived or actual conflict of interest is appropriately managed, including any conflicts between NZX's regulatory responsibilities and commercial interests. The CC is made up of three non-executive directors of NZX and one independent person³.

As part of our review we looked at information provided to the CC and meeting minutes, and interviewed a committee member⁴. We focused on how the CC operates, the type of information the committee considers, and whether the committee tests the appropriateness of NZX's conflict management arrangements.

Conflicts during the review period

During the review period we became aware of one instance of a perceived conflict of interest that could have been dealt with better. In this instance an employee from NZX's commercial operations questioned a market participant on matters that we believe should have been dealt with by NZX's

regulatory function. While this was a discrete incident and interaction promptly ceased following intervention from the FMA, the employee seemed unaware of any potential or perceived conflict of interest. The interaction was also not seen as a conflict by NZX senior management and therefore was not escalated to the CC despite the FMA's intervention. We expect NZX to consider all potential conflicts at an appropriate level, and address all actual or potential conflicts to prevent reoccurrence.

We are also aware of non-public trading information being shared with staff members in a commercial area of NZX. This information related to the trading behaviours in certain securities. We do not believe the reason for sharing the information was within any of the purposes permitted in the NZX Regulatory Code of Conduct⁵.

While the information did not identify individual traders and we are satisfied there was no market harm intended or caused in this instance, we consider it was inappropriate to share the information. After discussing this with NZX, NZX advised that it has put further controls in place to ensure any sharing of this type of information must first be reviewed and, if appropriate, approved by management. NZX has also provided all employees with compulsory ongoing training on the NZX Conflicts Management Policy to reinforce understanding of information-handling requirements.

Adherence to conflict management arrangements

In 2017 the CC commissioned Buddle Findlay to review its conflict management arrangements. The review considered the adequacy of arrangements within NZX for dealing with potential or actual conflicts, with a primary focus on NZX's regulatory

3: In 2017 one non-executive director of NZX and the independent person changed.

4: A non-executive board member of NZX.

5: <https://www.nzx.com/about-nzx/investor-centre/governance/policies>

functions. This was the third year in a row that Buddle Findlay has undertaken this review. Buddle Findlay found the controls and procedures for managing conflicts worked effectively during 2017 and all material recommendations from the previous review had been actioned. As we note above, we are aware of one potential conflict during the review period that was not seen as a conflict by NZX and was not escalated. We expect similar matters to be escalated going forward and are comfortable with the findings of the Buddle Findlay review.

Recommendation

NZX should ensure potential and actual conflicts are recorded and escalated to the CC for consideration. In particular, this should include situations where an outside agency, such as the FMA, brings potential conflict matters to NZX's attention.

Proposed initiatives for 2018

NZX has advised that in 2018 it intends to complete a holistic review of the NZX Conflicts Management Policy. NZX considers that, while the policy is fit for purpose, this review will improve the structure and readability of the policy. We support NZX improving this policy to assist with both internal and external understanding of the Conflicts Management Policy.

Other matters

Technology

NZX must have sufficient technological resources to operate its markets properly. A failure in provider infrastructure or inadequate cyber resilience can impact market integrity and confidence.

During the review period there were two trading system incidents. These incidents had a total impact on NZX markets of between 30 and 180 minutes. We note that one of the outages was due to human error and support NZX reviewing the ability to further automate trading events. NZX has identified the cause of the second incident and has made changes to the trading system to stop the issue occurring again. We do not consider that these discrete outages indicate a failure to maintain market infrastructure.

Market services

During the review period NZX Market Services was responsible for eight operational errors which, due to incorrect information being available to market, or trading system users having to take action to assist with correcting an error, had a negative impact. None of the errors caused an inability for NZX to operate the market. Seven were due to human error.

NZX continued its project to improve its market announcement platform and automate the publication of specific information received over the platform. NZX advises that this change, along with remedial action to automate four of the processes that resulted in the operational errors, should reduce the number of operational errors in the future. The number of operational errors is similar to previous review periods and is concerning. We support NZX continuing its work to reduce the risk of operational errors by continuing to automate processes where possible.

Rule reviews and other policy initiatives

NZX's obligation to have adequate arrangements for monitoring conduct on its markets includes making sure its market rules and guidance remain appropriate and relevant to current trends and market conditions. We are satisfied NZX reviews its rules as necessary to ensure they remain appropriate.

In 2017 NZX began a review of the Main Board/NZDX Listing Rules and market structure, publishing a discussion document to the market for consultation. In April 2018 NZX published a consultation paper outlining proposed changes to the Listing Rules and reasoning. NZX notes there is strong support for simplification of the current equity market structure and aims to have updated Main Board/NZDX Listing Rules approved and published by the end of 2018.

During the review period NZX updated the NZX Corporate Governance Code as part of a review of corporate governance, and released a guidance note in relation to environmental, social and governance reporting to help support reporting under the code.

NZX also made minor amendments to other rule sets during the review period.

Access to historical issuer announcements

NZX now provides all announcements for each issuer, online and free of charge. Attachments to announcements are available for the preceding six-month period, with all other attachments available via paid subscription. We have been informed by NZX that they intend to expand this access in 2018, to enable all documents attached to announcements to be freely available. We support these enhancements to the availability of issuer information.

Enhanced regulatory coordination

In October 2017, NZX confirmed certification of its status as a 'foreign regulator' under the Mutual Assistance in Business Regulation Act (AU) 1992. Certification enables NZX to access information directly from ASIC⁶, enhancing the efficiency and effectiveness of NZX's surveillance and investigation capabilities.

On 22 February 2018, NZX became an associate member of the Futures Industry Association. FIA is an international global trade organisation for derivatives markets. Membership allows NZX to increase its international presence by providing access to global participants and other exchanges.

6: Australian Securities and Investments Commission, Australia's corporate, markets and financial services regulator.

Follow-up from 2016 review

Governance

Last year we suggested that NZX consider whether it could improve its regulatory governance committee's (RGC) assessment process for reviewing the quality of regulatory decisions. The RGC subcommittee monitors the quality of NZX's regulatory decision-making, and ensures the NZX Board is properly informed of regulatory activity.

In 2017 NZX refined the reporting and assessment process to provide the RGC with underlying information and analysis on trends relating to NZX's interaction with market participants and issuers, in relation to waivers and breaches. These changes mean the RGC is proactively provided with additional information to inform its review process.

As part of our ongoing monitoring and this review, we looked at the quarterly reporting to the RGC and minutes for its meetings. We are satisfied NZX has made improvements in this area and the RGC is adequately testing the quality of regulatory decision-making.

Regulation and enforcement

Last year we made three suggestions related to regulation and enforcement by NZX:

1. NZX should ensure levels of enquiry and professional scepticism stay consistently high when it investigates potential non-compliance by market participants.

We reviewed NZX files and RGC reporting to test NZX's levels of enquiry and professional scepticism when investigating potential non-compliance by market participants. While we have concerns about the quality of preliminary enquiries made in the market surveillance function in some instances, NZX has made improvements in other areas of regulation

and enforcement. In particular, we have seen an increase in collaboration, and NZX has engaged earlier with us on a number of matters. We encourage broader and deeper collaboration between the NZX and FMA teams. We are satisfied that the levels of enquiry and professional scepticism are generally appropriate within NZX's regulatory and enforcement functions.

2. We encouraged NZX to make greater use of the NZ Markets Disciplinary Tribunal (NZMDT) where there is reasonable evidence of more than a minor breach of the rules.

As in 2016, 2017 saw a relatively small number of cases (three) brought before the NZMDT. NZX advises that it actively considers whether referral to NZMDT is the most appropriate enforcement outcome for breaches of NZX's market rules, in the context of NZX's enforcement policy, enforcement priorities and precedent. We reviewed a number of enforcement cases from the review period and consider appropriate action was taken in each. We do not consider the low number of referrals to be an indication of NZX not utilising the NZMDT, but rather a reflection of recent enforcement matters. NZX should continue to make use of the NZMDT where there is reasonable evidence of more than a minor breach of the rules.

3. We encouraged NZX to think about the scope it has to disclose that it has started enquiries into a significant market issue.

Since our last report, NZX has made a number of public statements about enquiries into significant market issues. We agree with NZX's view that this approach appropriately balances the requirements of due process with the value of public and investor awareness of action being taken by NZX.

NZX investigations and inquiries can be novel and complex, and can take an extended period to

complete. NZX aims to provide formal notice of its intention to refer matters to the NZMDT within four months of commencing an inquiry. NZX aims to conclude other matters within three months⁷. While NZX has referred or closed the majority of cases within its published timeframes, we are aware of one taking over a year before NZX notified us it was considering referring the matter to the NZMDT. Timely enforcement decision-making helps to maintain market integrity. Where a matter is complex or takes an extended period of time, we expect NZX to manage the expectations of all involved by way of regular updates.

Recommendation

Where matters extend past agreed service levels, NZX should consider how to expedite an investigation or leverage regulatory expertise to assist with decision-making – for example, discussing with the RGC the approach taken to a complex open case.

During the review period NZX increased transparency of enforcement activity by publishing anonymised case studies when the NZMDT issued a private reprimand. In January 2018 NZX also published its first Investigation Report, about the continuous disclosure investigation of Fletcher Building Limited. While these approaches help increase transparency of enforcement activity, anonymised case studies can contain less detail than a full NZMDT decision, meaning less detailed precedent being available for market participants.

We consider anonymised versions of full NZMDT decisions would be a more useful precedent, especially where a case relates to fundamental market principles such as continuous disclosure. NZX should seek to ensure that where an NZMDT decision results in a private reprimand, any publication of facts contains all details and is published in a way that mean other issuers and market participants can refer to the matter as precedent.

7: NZX Regulation, Our Approach to Enforcement (August 2016): <https://www.nzx.com/regulation/nzx-regulation/publications>

Appendix 1: Our review

Our role

Under the FMC Act, we are required to review at least annually how well a licensed market operator is meeting its obligations, and to publish a written report. This review supports our priorities, outlined in our Strategic Risk Outlook 2017, which focus on capital market growth and integrity, and ensuring frontline regulators are effective in their role.

We had regular meetings with NZX in 2017. Our memorandum of understanding, signed in January 2015, sets out the principles for engagement and co-operation, and provides for regular operational meetings. This means NZX keeps us up to date about its key initiatives and developments throughout the year. We also have an agreed set of protocols for communications when we deal with normal business activities concerning both of us. These include continuous disclosure inquiries and reviewing offer documents.

This regular interaction and coordination contributed to how well NZX met its market operator obligations in 2017 and to our findings in this report.

NZX's markets

NZX is licensed to operate the following markets:

- NZX main board
- NZX debt market
- NZX alternative market
- Fonterra shareholders' market
- NZX derivatives market
- NXT market

Details of NZX's licences are on [our website](#).

While there were five clearing system incidents during the review period, we make no comment on these incidents in this report. The FMC Act explicitly excludes NZX's wholly owned subsidiary New Zealand Clearing and Depository Corporation (NZCDC) from our review. NZCDC operates a designated settlement

system and is regulated jointly by the FMA and the Reserve Bank of New Zealand.

Market operator obligations

In the FMC Act, 'market operator obligations' mean:

- the general obligations contained in section 314 of the FMC Act:
 - to ensure, as practicable, that each licensed market is fair, orderly and transparent
 - to have adequate arrangements for notifying disclosures from participants in its markets, and for continuing to make them available
 - to have adequate arrangements for handling conflicts between its commercial interests and the obligation to ensure its markets operate in a fair, orderly and transparent manner
 - to have adequate arrangements for monitoring the conduct of participants in its markets
 - to have adequate arrangements for enforcing compliance with market rules
 - to have sufficient resources (including financial, technological and human resources) to operate its licensed markets properly
- an obligation to respond to a request from the FMA to make changes to market rules (section 333)
- an obligation to give the FMA an annual self-assessment of compliance with its obligations (section 337)
- an obligation to act on the directions of the FMA or the Minister, if the operator is found to be failing to meet any of its obligations (sections 340 to 342)
- any obligation imposed as a condition of a market operator's licence.

Information reviewed

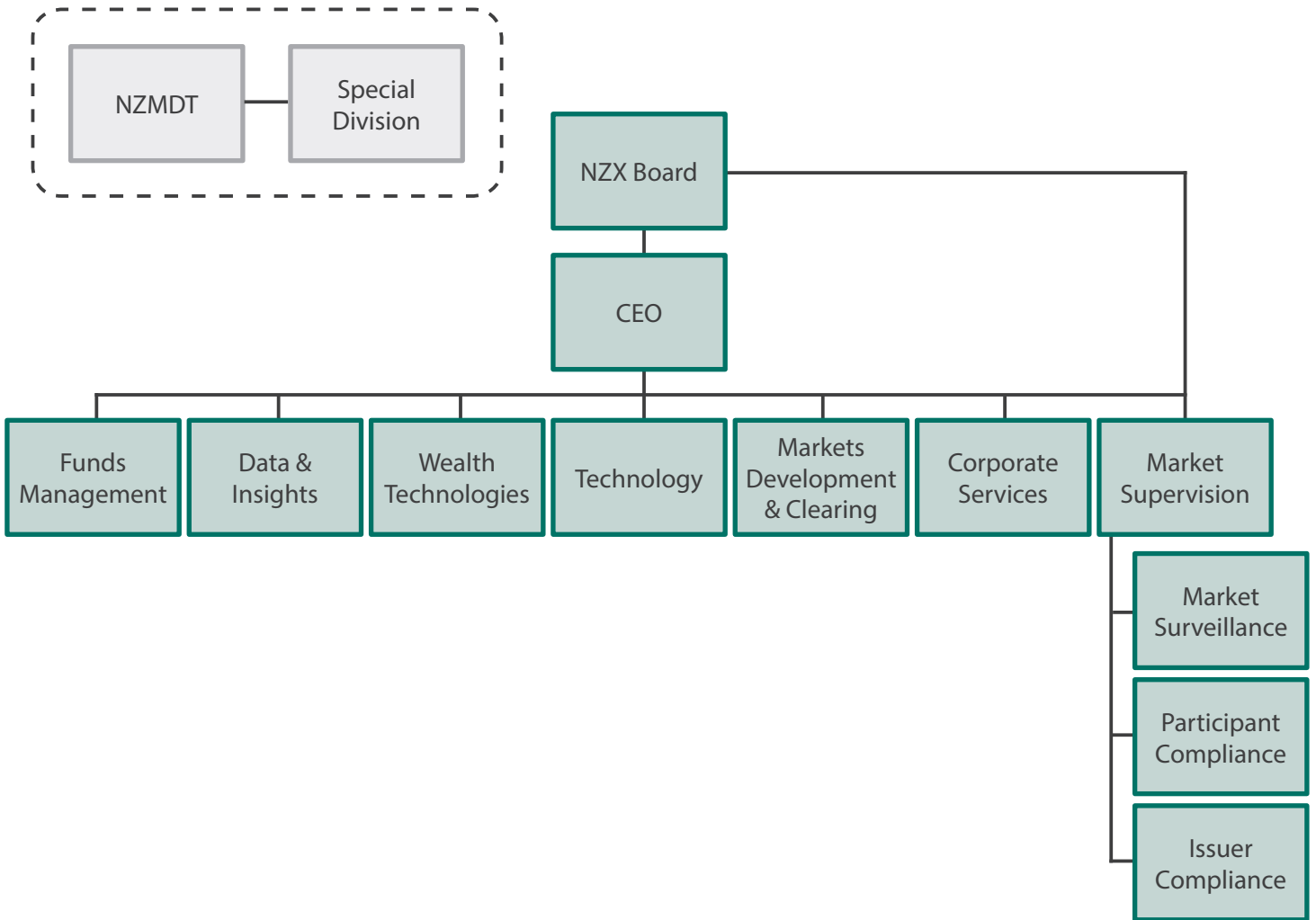
Our ongoing oversight of NZX in 2017 included:

- periodic operational meetings
- review of quarterly documentation under the memorandum of understanding
- discussions about market matters arising as required
- consulting on NZX policies and proposed rule changes where appropriate
- liaising on market misconduct matters
- feedback on NZX referrals to the FMA under the FMC Act.

For the purposes of this report, we also took account of the following:

- NZX's self-assessment of performance against its statutory obligations, provided in March 2018 (to comply with section 337 of the FMC Act)
- an onsite review of issuer compliance, surveillance, participant compliance and enforcement files
- NZX board and committee papers and minutes
- NZX procedures and policies.

Appendix 2: NZX structure



Appendix 3: Market conditions

NZX advised us of the following trends in New Zealand capital markets

- Trading activity was strong in 2017, with the total number of trades for the year up 17% over 2016. As with the previous three years, the shift in trading activity to smaller, automated trades (algorithmic trading) continued in 2017. Therefore, while the number of trades was up sharply, the increase in value traded was more subdued, being flat on 2016. The headline S&P/NZX 50 Gross Index was up 22% on 2016, the strongest growth in five years.
- The ownership composition of the NZX share market changed during the Review Period, with New Zealand retail investor ownership declining slightly from 23.2% to 22.6%, while portfolio-style investment increased from 77.5% to 79.4%, the highest level in 12 years. Foreign ownership increased from 36.3% in 2016 to 37.9%, the highest level since 2009. The remarkable uptake of both a2 Milk (ATM) and Xero (XRO), (now majority owned by offshore investors) has had a notable influence on the overall proportion of foreign ownership of New Zealand companies. The significant effect of this foreign ownership is apparent in the JBWereEquity Ownership Survey, where, if these two constituents were excluded, there would have been a 0.6% decrease in the level of foreign ownership in New Zealand in 2017.
- In 2017, one new company, Oceania Healthcare Limited, listed on the NZX Main Board. TIL Logistics Limited joined the NZX Main Board through a reverse listing into Bethunes Limited.
- At the end of the review period the NXT Market had three companies listed, following the delisting of G3 Group Limited in October 2017 due to lack of liquidity.
- There are 16 companies listed on the NZAX, following the migration of GeoOP Limited to the Main Board in December 2017.
- There was one primary capital raise of \$480m of equity and \$3.109b in secondary issuances of equity during the review period. The market capitalisation of the NZX Main Board as at 31 December 2017 was \$135.2b.
- In December 2017 the ratio of total equity and fund market capitalisation to GDP was at 50%, an increase of 4.9% on 2016 and the highest level since 2000.
- The NZDX had a steady pipeline in 2017, with many firms taking advantage of the reduced disclosure requirements in the new legislative environment. Twenty issuers issued debt in 2017, cumulatively raising \$3.23b, causing the NZDX's capitalisation to increase to \$26.4b, or 9.7% of GDP.
- NZX Dairy Derivatives saw a strong start to 2017, which carried throughout the year as volumes surpassed 2016 and 2015 annual volumes in Q3 2017, to become the largest trading year to date at a total of 311,675 lots, 57% up on 2016. The record volumes also led to more than US\$1b in notional volume being traded in the calendar year – a first for the Derivatives Market. In response to customer demand, NZX expanded its product suite in 2017, launching Skim Milk Powder (SMP) Options in December. Early trading has been encouraging, and complements the 78% increase seen in SMP Futures in 2017. NZX NZ Milk Price Futures and Options continued to grow in 2017, as education on the use of these contracts as risk management tools developed. Since launch in May 2016, 11,868 contracts or 71.2 million kilograms of milk solids (kg MS) has been traded

on the Derivatives Market (an equivalent of 3.8% of New Zealand's annual physical milk supply). Derivatives Market development activities (bringing new traders and participants into the market) also continue to advance, with the number of unique end users connecting and actively trading the market increasing 60% in 2017.

NZX also advised us of the following global trends in capital markets:

- Stock markets around the world experienced positive growth in 2017, despite increased political and economic uncertainty. US shares had their best year since 2013 with the S&P 500 posting an annual gain of 19.4% and the Dow Jones Index increasing 25.1% over the year. For the first time, the S&P 500 Index saw an increase every month over the year.
- Other global exchanges also saw their indices increase. In Europe, UK shares hit record highs and increased 7.6% in 2017, with the FTSE 100 closing at a high of 7,687 points on 29 December 2017. In Asia, the Shanghai Shenzhen CSI 300 Index increased 21.8% and the Hong Kong Hang Seng Index increased 36.0%.
- Australia's S&P/ASX 200 Index increased 7.2% in 2017, supported by the performance of commodity producers. At the end of Q3 2017, 78 companies had listed on the ASX, compared to 57 for the same period in 2016 – an increase of 36.8%. Of those 78 companies that floated, 28 (36%) were from the materials industry. However, total capital raised fell to A\$2.6b, from A\$4.8b in the first three quarters of 2016⁸.
- Global equity capital markets activity (including both primary and secondary capital-raising activity) totalled US\$780b during 2017, a 19% increase compared to 2016. Global initial

public offering (IPO) activity during 2017 was the highest since 2007, with 1,624 IPOs raising US\$188.8b, compared with 1,093 IPOs raising US\$134.5b in 2016. The Asia-Pacific region still dominated global activity both by number of deals and proceeds in 2017, accounting for more than half (58%) of global deal numbers and more than a third (39%) of global proceeds. While global IPO activity during Q4 2017 increased to 409 IPOs, representing an increase of 11% compared to Q4 2016, the Q4 2017 proceeds of US\$56b represented an increase of only 6%, signalling smaller IPOs⁹.

8: Business Insider Australia

9: Thomson Reuters Equity Capital Markets / Global IPO trends: Q4 2017 Ernst & Young December 2017

Glossary

ASIC	The Australian Securities and Investments Commission, Australia’s corporate, markets and financial services regulator
Direct market access (DMA)	Direct market access trading allows clients of participant firms to enter orders directly into NZX’s trading system, unless the firm’s system controls do not allow the order
Conflicts Committee (CC)	A sub-committee of NZX’s board, whose role is to review and consider the effectiveness of NZX’s conflict management arrangements
FIA	Futures Industry Association
FMC Act	Financial Markets Conduct Act 2013
Head of market supervision (HOMS)	The NZX board delegates all decision-making responsibility for regulatory matters solely to the Head of Market Supervision, who leads the NZX regulation team
Issuer or listed issuer	Any company that is or has been listed on any of NZX’s markets
Licensed markets or NZX’s markets	Financial product markets NZX is licensed to operate under the FMC Act
Listing rules	NZX rules governing issuers on NZX’s licensed markets
Market supervision	The regulatory function of NZX, led by the HOMS. During 2017, it had three functional areas – issuer compliance, participant compliance, and market surveillance
Market operator obligations	Obligations imposed on a licensed market operator as a condition of its licence or under sections 314, 333, 337, 340, 341 and 342 of the FMC Act
Market rules	All of the rules governing NZX’s licensed markets, including listing rules, participant rules and NZMDT rules
NXT	The NXT market, which is a stepping stone market for small and mid-sized businesses

NZMDT	NZ Markets Disciplinary Tribunal, an independent regulatory body that determines potential breaches of NZX's market rules
Participant	A participant in the licensed markets who has been accredited and approved by NZX under the participant rules
Participant rules	NZX rules governing participant firms
Review period	The 2017 calendar year
Regulatory governance committee (RGC)	A sub-committee of NZX's board, whose role is to facilitate the board's monitoring of NZX's regulatory function
Special Division	A division of NZMDT responsible for administering and enforcing the Market rules for NZX's own listing and to its related parties, including the Smartshares funds



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