



NOMURA

IOSCO Principles: Compliance Statement

Nomura International plc

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1 Introduction

- 1.1 The “Principles for Financial Benchmarks” published by the International Organisation of Securities Commissions (“**IOSCO**”) on 17 July 2013 (the “**IOSCO Principles**”) represent an overarching framework of principles for benchmarks used in financial markets. IOSCO has recommended that administrators publicly disclose the extent of their compliance with the IOSCO Principles. This statement (the “**Compliance Statement**”) sets out the extent of Nomura International plc’s (“**NIP**”) compliance with the IOSCO Principles.
- 1.2 NIP is authorised by the Prudential Regulation Authority (“**PRA**”) and regulated by the PRA and the Financial Conduct Authority.
- 1.3 Unless otherwise stated, capitalised terms are as defined in the IOSCO Principles.

2 Scope

- 2.1 This Compliance Statement relates to NIP’s role as Administrator. NIP undertakes a number of functions – the term Administrator, for the purposes of this Compliance Statement, refers to the part of NIP that has control over the production of indices (including the stages and processes involved in the development, determination, dissemination, operation and governance of indices).
- 2.2 NIP is the Administrator of a number of financial indices that it considers qualify as “Benchmarks” for the purposes of the IOSCO Principles (collectively the “**NIP Indices**” and each a “**NIP Index**”). NIP Indices include proprietary indices and indices/strategies and dynamic baskets linked to funds. Most of the NIP Indices are used for transactions between NIP or its affiliates and its clients, however, a small number are licensed for use by third parties. As well as being an Administrator, NIP also contains businesses which use and have a financial interest in the performance of the NIP Indices. NIP has implemented policies and procedures on a firm wide basis that seek to take appropriate steps to identify conflicts of interest and to maintain and operate systems and controls designed to prevent or manage conflicts of interest that this may create. This Compliance Statement also encompasses the activities of specific teams in Asia (excluding Japan) and India, which support NIP’s role as Administrator.
- 2.3 NIP produces certain indices (including research indices) which are intended to be used for information/illustrative purposes only and where NIP is not aware of there being any financial products or contracts linked to them or them being used to measure the performance of a financial instrument. On the basis that these indices fall outside the definition of “Benchmark” used in the IOSCO Principles, they are not covered by this Compliance Statement.
- 2.4 As at the date of this Compliance Statement, NIP does not administer any indices based on third party Submissions. NIP does not regard the use of its firm-wide input data, tools or proprietary analytical framework which are used widely across NIP businesses as a Submission for purposes of the IOSCO Principles, but only data submitted specifically for the use in a NIP Index.

3 NIP process for assessing compliance with the IOSCO Principles

- 3.1** As part of its preparation for making this Compliance Statement, NIP compared the requirements of the IOSCO Principles against its existing index governance policy and control framework (the “**Control Framework**”), as well as NIP’s other relevant policies and procedures. Where gaps were identified and to the extent reasonably possible and appropriate, changes were made to meet the requirements of the IOSCO Principles. NIP’s preparation for making this Compliance Statement has taken place over an extended period, with support from the legal and compliance functions that support NIP’s index business, as well as from external legal counsel.
- 3.2** Each new NIP Index created from the date of this Compliance Statement will adhere to, and be governed by, the Control Framework, and NIP’s other relevant policies and procedures.

4 Statement of compliance

- 4.1** As at the date of this Compliance Statement NIP considers that it has complied with the IOSCO Principles in respect of the NIP Indices.
- 4.2** In order to ensure compliance with the IOSCO Principles, NIP has sought to implement the requirements of the IOSCO Principles in a manner that is proportionate to the size of, and risks posed by, each NIP Index and the NIP index determination process. Section 5 below specifies the IOSCO Principles and NIP Indices in respect of which NIP is claiming proportionate compliance.

5 Use of proportionality and extent of compliance with IOSCO Principles

- 5.1** NIP’s approach to proportionality has taken into consideration several factors including (but not limited to): (i) the risk of actual or potential conflicts of interest; (ii) the number and nature of users of NIP Indices; (iii) proposed use of NIP Indices; and (iv) the level of discretion that NIP will have/whether determination is largely rules based. NIP will periodically review its Control Framework and consider if any additional enhancements may be required.
- 5.2** There are several areas where NIP’s current approach to Administration technically deviates from the IOSCO Principles. However, NIP has taken a proportionate approach to compliance in such cases. NIP’s approach and why NIP believes it still meets the objectives and functions of the IOSCO Principles are set out below.

5.2.1 Principle 3 (Conflicts of Interest for Administrators)

Principle 3(c) requires the segregation of reporting lines within the Administrator, where appropriate, to clearly define responsibilities and prevent unnecessary or undisclosed conflicts of interest or the perception of such conflicts. Whilst NIP’s Control Framework has been enhanced to seek segregation of reporting lines within NIP, certain businesses within NIP where there may be a risk of actual or potential conflicts of interest arising (e.g. the structuring and trading teams) are permitted to ultimately report to the same person, provided that: (i) day-to-day reporting lines are kept separate, (ii) relevant parties’ responsibilities are clearly defined and understood and (iii) the parties are confident that the reporting structure does not give rise to potential conflicts of interest. NIP also seeks to achieve the integrity of each NIP Index through the involvement of segregated functions in the Administration process. Therefore, NIP considers that such measures are sufficient to meet the objectives of Principle 3(c).

Principle 3(d) requires adequate supervision and sign-off by authorised or qualified employees prior to releasing Benchmark determinations. NIP has established processes in place to help ensure the integrity of Benchmark determinations (in particular, in relation to calculation and validation), but determinations are released through standardised and/or automated processes. NIP is currently taking steps to migrate as many NIP Indices as reasonably possible to calculation tools that are created and operated independently from the Index structuring team. NIP Indices which are still calculated and operated by the Index structuring team are subject to verification by an independent team on the day of the release of the Index. As such, senior NIP employees do not sign-off on each Benchmark determination prior to release.

5.2.2 Principle 5 (Internal Oversight)

Principle 5 requires that where conflicts of interest may arise due to (amongst other things) activities conducted by an Administrator or any of its affiliates, the Administrator should establish an independent oversight function which includes a balanced representation of a range of Stakeholders where known, Subscribers and Submitters, chosen to counterbalance the relevant conflict of interest.

NIP's internal oversight function (the "**Index Committee**") includes representation from various NIP internal control functions independent from the structuring team involved with NIP Indices and sales/trading teams involved in the sale and day-to-day management of NIP's index-linked products. However, the Index Committee does not include representatives of Stakeholders who are not part of the Nomura group – in part due to the confidentiality and sensitivity of the information that the Index Committee is regularly required to consider. NIP considers that independent control function representation in the Index Committee, the requirements of its Control Framework and other policies are sufficient to proportionately achieve the objectives of Principle 5.

5.2.3 Principle 9 (Transparency of Benchmark Determinations)

Principle 9 requires the publication of certain information with each Benchmark determination. This includes: (i) a concise explanation, sufficient to facilitate a Stakeholder or Market Authority's ability to understand how a determination was developed; and (ii) a concise explanation of the extent to which and the basis upon which Expert Judgement, if any, was used in establishing a Benchmark determination. NIP does not publish this information, nevertheless NIP regards the Benchmark determinations it makes sufficiently transparent to meet the needs of stakeholders. NIP determines the level of transparency required and how information should be communicated, depending on the nature and extent of the use of the NIP Index. In practice, a large number of the NIP Indices are derived from data sourced from a Regulated Market or Exchange which are subject to mandatory post trade transparency requirements. Furthermore, index determination is generally rules based and subject to the Control Framework. Importantly, where discretion can be used it must be done so within the Control Framework. These factors ensure the transparency of Benchmark determinations made by NIP.

5.2.4 Principle 16 (Complaints Procedures)

NIP has published a written complaints policy (the "**Complaints Policy**") in compliance with Principle 16 in October 2017. All outstanding/unresolved complaints made prior to the Complaint Policy's effective date will be resolved in accordance with the Complaints Policy.

5.2.5 Principle 18 (Audit Trail)

Principle 18 requires that written records should be retained by the Administrator for five years on a variety of data and matters (subject to applicable national legal or regulatory requirements). NIP has implemented appropriate systems and controls to ensure that from the date of its Compliance Statement in 2017 it complies with the written record keeping requirements specified in Principle 18. However, NIP does not have all written records required by Principle 18 for the five-year period prior to the date of the 2017 Compliance Statement.

5.2.6 NIP's existing indices

NIP has existing indices that are no longer actively marketed. NIP's risk-based approach in respect of such existing indices, on account of the size and likely magnitude of risk, is to prioritise compliance with key aspects of the Control Framework, including governance provisions (oversight of third parties and conflicts of interest, internal oversight by the Index Committee), quality of methodology of indices (index calculation and sign-off, changes to methodology procedures, transition provisions and procedures for submission based indices), index design (market abuse considerations and use of expert judgment) and accountability arrangements (complaints procedure and audit requirements). In light of this, NIP believes it is meeting the objectives and functions of the IOSCO Principles in respect of its existing indices on a proportionate basis.

6 European Benchmark Regulation

NIP is currently considering the requirements of the (Regulation (EU) 2016/1011) ("EBR"). NIP will review and, where necessary, enhance its existing Control Framework, policies, procedures and processes to comply with applicable EBR requirements.

7 Further information

Further information is available on: <https://www.nomuranow.com/portal/site/nnextranet/en/global-markets/structured-derivatives/quant-investment-strategies.shtml>

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