



## MEMORANDUM

**To** : All Managing Principals  
**From** : NZX Regulation  
**Date** : 21 November 2007  
**Subject** : Debt Market Conventions

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**Attached** to this document is a set of Debt Market Conventions. This document is based on a paper that was originally prepared by Computershare Investor Services Limited and has been reviewed and agreed by members of the NZX Debt Advisory Board, which consists of participants from NZX firms, Registries and NZX. NZX acknowledges the contribution of these groups.

These conventions have been developed to assist in the orderly conduct of the NZDX market and to provide guidance to NZX Market Participants, current and potential issuers, company advisors and NZX Sponsors.

The conventions address the various conditions relevant to debt securities that are on the NZDX. However, the conventions are based on terms and conditions that would also generally apply to the unlisted debt security market issued to habitual, institutional and other investors.

The conventions are not mandatory. Accordingly this note does not constitute a Guidance Note setting out mandatory requirements for the NZDX Listing Rules. However, this note has been released to ensure simplicity and consistency across the industry and therefore should be followed where possible. NZX, based on industry feedback, may review and amend these conventions at any point. Any revision will be published on NZX's website; however, industry participants should ensure that they have the most recent version of this convention.

For the avoidance of doubt, this note does not constitute legal advice. NZX recommends that participants take advice from qualified persons.

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## A. INTEREST CALCULATIONS

- **Fixed Rate**

If the interest payment is for a full period then the interest to be paid should be calculated as principal X interest rate (“Coupon”) divided by the number of interest payments in a year, i.e., quarterly divide by 4, and six monthly divide by 2.

If the period is not a full period then calculate as number of days divided by 365.

- **Floating Rate**

If the terms and conditions of the securities require the interest rate to be reset every interest period, then the amount of interest to be paid is to be calculated as the number of days in the period divided by 365 (actual/365 fixed).

The actual payment and the interest rate reset must be made on the specified date. Whenever the payment is due on a non business day the actual payment date would be determined by the Business Day convention (refer below). The terms of the securities should be defined so that whenever possible payment is made on the nominated interest date so that the actual payment date is only modified for the period when the date falls on a non business date. For example, payment dates 15 February, 15 May, 15 August and 15 November, 15 February 2009 is a Sunday therefore payment would be made on 16 February (93 days). 15 February 2010 is a Monday so payment would be made on this date (92 days).

- **Floating Rate (Rate Set other than every Interest Date)**

The terms and conditions should state that the interest rate is reset every period or on the next business day if not a business day.

Interest is then calculated as for Fixed Rate for each individual period.

## B. SETTING MATURITY DATE & INTEREST DATES

- **Maturity Date**

The maturity date should be set to be a business day and an anniversary of the interest payment dates to avoid settlement pricing problems. It is recommended that the date be set to the 15<sup>th</sup> of the month to match the dates for Government Bonds and makes the pricing process less prone to error. This avoids ex interest periods when end of month valuations are done.

- **Interest Dates**

If a short or long period is required then this should always be the first period and then after the first interest payment is made every period thereafter until maturity is the same. This ensures secondary market settlements can be calculated without adjustment. If possible the allotment date should be an anniversary of the interest dates. This allows the securities to settle under normal market conventions as soon as possible. However, if an offer is extended this may not always be possible.

- **Initial Interest**

The issuer should consider whether or not to pay interest from the date of lodgement until the date of allotment. Payment for this period can encourage investors to complete the application process early rather than waiting until the last possible date. There are two alternatives that should be used to pay this interest.

- (a) Interest to Original Subscriber (ITOS) paid on the first interest date. Using this option the first period is either short or long. Where debt securities are ITOS interest is paid to the original subscriber irrespective of who owns the securities as at the Record Date for the first interest payment calculated from the date of lodgement or allotment. Under this option any trades settled before the first interest date are settled on an ex interest basis. Where the first interest period is a long period payments should be calculated on the basis of the number of days in the period divided by 365.
- (b) ITOS paid on allotment date (or as soon as practical thereafter). This option is only applicable where the allotment date is an anniversary of the interest dates. This method ensures that normal settlement applies from allotment date.

For any initial period that is broken, ITOS should apply for the first period.

## C. BUSINESS DAY

The term “Business Day” means a day other than Saturday or Sunday on which Registered Banks are open for general banking business and NZX is open for trading.

## D. RECORD DATE

For the purposes of debt issues the Record Date should be defined to mean close of business on the 10<sup>th</sup> calendar day before the relevant Interest Payment Date or Maturity Date or, if this is not a Business Day the preceding Business Day.

## E. BUSINESS DAY CONVENTION

This convention defines the formula for adjusting any date where no rule currently applies. The convention to be followed is the “**Following Business Day Convention**” where the date is always postponed to the first following day that is a Business Day.

## F. DENOMINATIONS (MINIMUMS AND MULTIPLES)

The denomination of each note/bond should always be \$1.00. Restrictions can be set on the minimum holding, but only where provided for in the founding documents (i.e. Trust Deed, Prospectus etc). Restrictions on transferable parcels can only be made where a waiver has been granted from Listing Rule 11.1.1 (which prohibits any restriction being placed on the transfer of securities). This would also need to be disclosed in the offer documents. Otherwise the minimum

transferable quantity will be set at 1. Any restrictions on the size of the holding would be controlled by the setting of a minimum holding (if applicable).

## G. CALL DATES

On occasions issuers may wish to have the option to repay all or a portion of the securities as at a specified time in the future. These dates should be set in the same manner as for the scheduled maturity date, i.e., should be the anniversary of an interest date. The securities will then trade based on the time to the call date and then if not repaid will trade (after call date) based on the scheduled maturity date.

## H. RESET EVENTS

Interest rate adjustment that would be made as a result of a specific event should be outlined in the terms and conditions. An example would be a credit rating review which may mean the interest rate is either increased or decreased. These events should be specified to occur on an interest payment date. This ensures that the interest calculations and as a consequence secondary market settlements can be calculated in accordance with market practice. If the event does not occur on an interest date then the formula to applied to pay interest for the “split” period should be specified, i.e., number of days as the applicable rates over number of days in period or a weighted average calculation and pay as a period payment.

### ***Repayment due to terms and conditions being exercised***

While these are difficult to predict, if possible they should be specified to occur on an interest date. If due to the timing of the event they occur outside an interest date, the rules as to entitlement (record date) should be specified, along with how any payment for accrued interest and early termination is to be calculated. If a market rate is used as the basis, then it is important to ensure that there is sufficient time from the rate set to the actual repayment date.

### ***Partial repayment***

Partial repayment should be specified to occur on an interest date.