NZX
NEW ZEALAND'S EXCHANGE
TE PAEHOKO O AOTEAROA

Debt Conventions Protocol

November 2021

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Introduction

NZX Limited (**NZX**) has been monitoring developments in the capital markets eco-system that affect the quotation of debt instruments. These developments include the proposals that were considered by the Reserve Bank of New Zealand (**RBNZ**) in 2020 in relation to negative interest rates and the registered bank capital review, and the New Zealand Financial Markets Association (**NZFMA**) consultation in relation to moving the NZ Credit Market closing rates from a yield to a clean price.

In July 2021, NZX consulted with the market in relation to a suite of proposals that were designed to provide greater clarity to the market and standardise the treatment of certain types of instrument. NZX considered the feedback received through that consultation process in developing the conventions that are set out in this paper.

This document sets out NZX's standard approach to the treatment of certain types of debt instrument, although NZX reserves the right to apply a different convention from those described to a specific instrument. If you have any questions in relation to the conventions described in this document, please contact:

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Background

There are three main types of debt instrument quoted on the NZX Debt Market: vanilla bonds, structured products (with reset features), and hybrid instruments (such as perpetual instruments).

The majority of instruments quoted on the NZX Debt Market are quoted on a yield basis. The features of these instruments allow a yield to be calculated with certainty because the vanilla characteristics of these instruments include a fixed interest rate and maturity date that allow a yield to be accurately determined for the instrument. Currently some structured products are also traded on a yield basis, at the request of an Issuer, even though their maturity date may be reset by the Issuer. The yield for these products is calculated to the next maturity reset date and this is clearly disclosed on nzx.com. Yield traded instruments are denoted by tickers that end in a number series, for example: ABC010.

Debt instruments are quoted on a 'price basis' where the yield for the instrument cannot be accurately determined, for example: because the instrument is perpetual in nature; or, where the instrument has reset features which vary the yield throughout the life of the instrument. Price traded instruments are quoted on a dirty price basis, which means that the quoted price includes accrued interest between coupon payment dates, calculated based on the coupon rates[1]. These instruments are denoted by tickers that end in a number series, for example: XYZHA.

[1] In contrast to a 'clean price' basis, which does not include accrued interest between coupon payment dates.

Debt Instrument Conventions

As a result of the consultation conducted in 2021, NZX considers that it is helpful to document its approach to certain types of debt instruments, to enhance the transparency of its practices for the market. The conventions set out below, reflect NZX's standard approach to the treatment of certain types of debt instruments.

Convention 1: Negative yield or zero coupon instruments

Convention

New negative yield or zero coupon debt instruments will be quoted on a price basis rather than a yield basis.

NZX considers that the quotation of these types of instruments on a price basis is consistent with the manner in which commercial paper is currently traded, where instruments are usually traded at a discount or premium from the face value of the instrument.

Convention 2: AT1 Instruments

Convention

NZX will quote AT1 instruments on a price basis and denote those instruments with a hybrid instrument ticker code (XYZHA).

NZ RegCo has issued a class decision that declares that Bank PPSs (as defined in the decision) which include certain instruments that qualify as Additional Tier 1 (**AT1**) capital for the purposes of the Reserve Bank of New Zealand Document BPR 110, are Debt Securities for the purposes of the NZX Listing Rules. The decision also waives other requirements of the Listing Rules in relation to those instruments.

The RBNZ requires that an instrument must be structured as a legal form equity instrument to qualify as additional tier 1 (AT1) capital for a registered bank. This is reflected in the Reserve Bank of New Zealand document BPR110. NZX and NZ RegCo have designed convention 2 to reflect the unique features of these instruments, which while being legal form equity have certain features more common to debt instruments.

Convention 3: Instruments with 'ABCHA' ticker codes

Convention

NZX will quote instruments that have an 'ABCHA' or 'ABCHC' ticker code on a price basis.

In accordance with its current practices, NZX intends to quote instruments that have a hybrid ticker code ('ABCHA' or 'ABCHC') on a price basis. These instruments are hybrid in nature (for example: perpetual, resettable or convertible instruments), and therefore quotation on a yield basis is not appropriate.

Convention 4: Tier 2 Instruments

Convention

NZX will quote instruments that meet the RBNZ's requirement for Tier 2 capital quoted on a yield basis with a bespoke hybrid ticker code (ABCXT2)

The RBNZ has specified certain features that instruments must possess to qualify for Tier 2 capital status. NZX considers that it will be most appropriate to ensure that the features of Tier 2 instruments can be readily identified by investors, by denoting these instruments with a new hybrid ticker code, and displaying the instruments on nzx.com under the hybrid filter. This view was supported by submitters in our 2021 consultation process.

Convention 5: Non-vanilla debt instruments affected by NZFMA changes

Convention:

NZX will continue to quote the instruments identified by NZFMA as 'non-vanilla instruments' on a yield basis.

NZX has been participating in the NZFMA's consultation process in relation to the NZFMA's decision to provide Credit Market closing rates (**NZNG**), on a clean price rather than a yield basis for certain instruments that are quoted on NZX using a standard ticker code (ABC010) as a vanilla bond, but are regarded by the NZFMA as non-vanilla instruments.

The NZFMA recognised that NZX's decision on the quotation basis for these instruments will be informed by Issuer and NZX Participant feedback. Submitters in NZX's 2021 consultation process supported the retention of non-vanilla instruments being quoted on a yield basis, and NZX has determined to adopt that approach as a convention.

Convention 6: Early call and redeemable instruments

Convention:

NZX will maintain the current treatment of debt instruments that are callable or redeemable by an Issuer, by pricing those instruments to the next interest rate reset date.

NZX currently has ten instruments quoted on the NZX Debt Market that have an interest rate reset date on which they may be called or redeemed by the Issuer. NZX sets the maturity date for these instruments as the next scheduled interest rate reset date, and prices these instruments to that date. This is clearly denoted on nzx.com on the overview page for these instruments, for example:

NZP010

3.30%

0.00% / 0.00%

52 Week Change: -1.90% / -36.54%

Instrument Name	NZP 15/05/21 4.23% - New Zealand Post Group Finance Limited
Issued By	New Zealand Post Group Finance Limited
ISIN	NZNZPD1114L0
Type	Structured Debt
Price Per $100	$101.784
Maturity Date *	15 May 2021
Previous Payment Date	15 Nov 2020

** The Maturity Date displayed above for NZP010 is the next scheduled interest rate reset date, being the next scheduled date on which NZP010 may also be called or redeemed by NZP (subject to any applicable conditions). NZP010 is scheduled to mature on 15/11/2039.*