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Disclaimer

This practice note has been issued by NZX to promote market certainty and assist Market Participants. They set out NZX's general approach to the subject, but is not to be regarded as a definitive statement of the application of the Rules in every situation. NZX may replace Guidance Notes and Practice Notes at any time and a Market Participant should ensure it has the most recent versions of those documents. This does not constitute legal advice. NZX recommends that Market Participants take advice from qualified persons.

PRACTICE NOTE PN01/04 – DAILY LIQUIDITY REPORTING

Introduction

This Practice Note is provided in order to assist Market Participants Requiring Liquid Capital in completing daily liquid capital reporting. It seeks to provide further assistance for completing the daily reporting schedules.

This should be read in conjunction with the following:

- NZX Participant Rules (Rules) and NZX Futures & Options Rules.
- Guidance Note GN0003/04 Capital Adequacy and associated templates.

which can be found on the main NZX website at <http://www.nzx.com/regulation>; and

- The Participant Reporting Platform user guide.

Participant Obligations

The obligation to perform a full calculation of the prescribed and actual Liquid Capital for a Market Participant Requiring Liquid Capital is set out in Rule 15.9. In addition, Rule 15.9 requires that Daily Liquid Capital calculations be filed with NZX in the format of a FF3 Report. This FF3 report is attached in Excel and has formed the basis of the web pages that have been developed. This is to be filed with NZX no later than 11.00am, or such other time as determined by NZX. NZX Compliance will use its discretion in assessing what other such time is appropriate.

Rule 15.9.4 requires that the daily liquid capital reports be supported by a Principal Position Report. This Rule is prescriptive as to the information that should be provided in this report.

Daily Liquid Capital Report

The FF3 Report has been developed as a summary form to capture the key information in the full liquid capital calculation. It has been designed to capture summary information and therefore fits within standard day to day practices. It is not intended to capture the complete calculation, which NZX expects to still be available at the premises of each Market Participant Requiring Liquid Capital.

It is noted that references to underwriting refers to all similar activities, including firm allocations and sub-underwriting.

Daily returns must be provided to NZX on each Trading Day irrespective of regional Anniversary Day holidays in New Zealand or public holidays in other countries, unless otherwise agreed in advance with NZX.

The key components of this report are further described below:

Calculation of Actual Liquid Capital

- Current Assets [A] – as with the full calculation, this represents the total of current assets as represented in the ledger of the Market Participant Requiring Liquid Capital;
- Risk Reductions [B1] – this should represent total risk based reductions, calculated pursuant to **Rule 15.6**;
- Net Underwriting / Firm Allocations [B2] – the balance in this account represents the value of net underwriting positions. The net position represents a contingent asset, that which would be brought into the books of account should there be an underwriting shortfall. This reflects the principle that the net underwriting position is shown grossed up (i.e. in both assets and liabilities);
- Guarantees [B3] – subject to **Rule 15.2(a)(ii)**, guarantees can be included in a Market Participant Requiring Liquid Capital's Current Assets. For transparency this is shown as a separate line item;
- Other Adjustments to Current Assets [B4] – other adjustments to current assets that, for transparency, are to be shown separately;
- Gross External Liabilities [D1] – as set out in **Rule 15.3**;
- Adjustments to Gross External Liabilities [D2] – for transparency, adjustments to Gross External Liabilities are to be shown separately; and
- Contingent Liabilities (including underwriting) [E] – as above, contingent liabilities including net underwriting are shown separately. Underwriting represents an irrevocable binding agreement to fund any shortfall in an issue, to be satisfied by taking up ownership of the securities being issued. At the point in time when clients agree to take up part of this allocation is when this commitment may be reduced.

Prescribed Liquid Capital & Resulting Surplus or Shortfall

- Capital Requirement [H] – the Prescribed Level of Liquid Capital is set out in **Rule 15.8.1**;
- 5% of Gross External Liabilities [I] – a calculation representing 5% of Gross External Liabilities (excluding net underwriting);

- 5% of net underwriting [J] – a calculation representing 5% of Net Underwriting;
- Position Risk Amount [K] – this relates only to Full Futures and Options Firms. The calculation is defined in Futures & Options **Rule 10.13**. Further information is requested in section [R] of the schedule.
- Client Business Amount [K] – this relates only to Full Futures and Options Firms. The calculation is defined in Futures & Options **Rule 10.12**. Further information is requested in section [S] of the schedule.

Client Assets

Given recent events, changes have been made to the schedule to capture summary information regarding client assets held and the resulting surplus (or deficit). These fields include:

- Client Funds Held [P1] – this is to represent the value of client assets held comprising of cash and securities held on trust for the benefit of clients; and
- Client Obligations [P2] – this represents obligations to clients calculated in accordance with **Section 14** of the **Rules**.

These should represent the daily calculation of client funds, expressed as a total of the NZD position of client funds in all currencies.

Principal Position Report

The information to be provided in the Principal Position Report is set out in **Rule 15.9.4**. As with the daily liquidity reports, this report must be prepared each morning for the previous trading day. The Principal Position Report and Daily Liquid Report should be prepared each morning and submitted to NZX no later than 11.00am (or such other time as determined by NZX from time to time).

The components of the Principal Position Report are as follows:

- All Securities (**Rule 15.9.4(a)**) – the schedule collects the value of securities in summary format. The categories are the same as those used in the risk based reductions section of the monthly (FF2) report;
- Long and Short Positions (**Rule 15.9.4(b)**) – separate fields are provided for Market Participants Requiring Liquid Capital to show the value of long and short positions separately;
- Contract Price (**Rule 15.9.4(c)**) – the original total price paid for the securities under each of the categories; and
- Mark to Market Value (**Rule 15.9.4(d)**) – the total value of the securities at current market value. This should represent the closing price of the securities for the day for which the report is being prepared.

Additional Information:

- The information being captured on the Principal Position Report is at a summary level only. NZX expects that the in-house calculation will contain a greater level of information;
- Dual listed securities should be included in the category that matches their primary listing. For example, Telecom held on the Australian registry should be included in the NZX 1-50 category; and
- Long positions should be shown as a positive value. Short positions should be shown as a negative, entered using a “-“ sign.

General Guidance

The design of web pages in general means that data must be entered in specific formats. The following should be taken into consideration with respect to manipulating and entering data into the web forms:

- All values must be entered in NZD equivalent;
- Negative numbers must be entered with a “-“ preceding the numerical data;
- Commas can be used; and
- Data may be cut and pasted into the schedules.

If you have any questions in relation to your daily liquidity reporting requirements, please contact NZX Participant Compliance by email on compliance@nzx.com.