

NZX Regulation Decision

Class waiver of NZX Participant Rules 14.13.1, 6.4.1 and 15.4.1 – in relation to yield traded quoted Debt Securities

24 September 2020



Class waiver of NZX Participant Rules 14.13.1, 6.4.1 and 15.4.1

Background

1. This waiver applies to the NZX Participant Rules dated 1 January 2020 (**Rules**).
2. For the purposes of this waiver “Participant” means (i) an NZX Trading & Advising Firm under the Rules, and (ii) an NZX Advising Firm under the Rules, where the Rule applies.
3. Capitalised terms that are not defined in this decision have the meanings given to them in the Rules.
4. NZX Limited (**NZX**) operates the NZX Debt Market (**NZDX**).
5. Securities quoted on the NZDX can trade on either a yield or price basis, which is set at the time of listing. All transactions in Securities quoted on the NZDX that are effected by Participants are required to be executed or reported through the Trading System.
6. Securities quoted on the NZDX, cannot currently trade through the Trading System at a zero percent yield or a negative yield whether via an on-market matching of orders in the Trading System or via an Off-Market Trade reported through the Trading System (**Trading System Limit**). As part of scheduled upgrade to the Trading System, NZX is seeking to implement functionality that will enable Securities quoted on the NZDX, and which trade on a yield basis, to trade at a zero percent yield or a negative yield.
7. Securities quoted on the NZDX are subject to Rule 14.10.2 which provides that the minimum yield changes for such securities shall be to three decimal places in increments of 0.005, being half a basis point (**Minimum Yield Increment**). On this basis a Trade in a debt security quoted on the NZDX which is below 0.005% does not meet the Minimum Yield Increment and is not tradable or reportable in the Trading System (**Affected Trade**), in line with this requirement.
8. NZX Regulation (**NZXR**) has assessed the options to mitigate the impacts of the Trading System Limit in the interim period while additional functionality is implemented into the Trading System that will remove the Trading System Limit. Those options have been assessed by reference to the likely limited number of Securities quoted on the NZDX that may be affected by the Trading System Limit, the current work being undertaken by NZX to upgrade the functionality of the Trading System, and the potential consequences of other mitigation options for Participants, Issuers and investors.
9. Rule 14.13 requires Trading Participants to report all Crossings and Off-Market Trades for all Securities Quoted on NZDX through the Trading System, noting specific requirements for timing of the reporting based on when the transaction was effected.
10. Rule 6.4.1 requires Trading Participants to ensure that a Trade (other than a Crossing) to which that Trading Participant is a party in Securities Quoted on the NZDX, that are Approved Product, is settled on the Clearing House.
11. Rule 15.4 requires Client Advising Participants to submit Orders which are at market or at a fixed price limit straight to market via the Trading System (subject to a number of exceptions).



12. This waiver applies to the reporting of Crossings and Off-Market Trades in Securities required by Rule 14.13, to the settlement of those Trades required by Rule 6.4 and, in particular circumstances, to the requirement to submit Orders that are at market or a fixed price limit straight to market via the Trading System as required by Rule 15.4.
13. NZX has engaged with external stakeholders representing issuers, investors, and Trading and Advising Participants on the matters which are the subject of this class waiver.

Decision

14. NZXR grants a waiver of the obligation to report Crossings and Off-Market Trades in the form and manner prescribed by Rule 14.13.1 to the extent that:
 - a. the Participant has entered into an Off-Market Trade in a Security Quoted on the NZDX;
 - b. the Participant is unable to report the Off-Market Trade into the Trading System, due solely to the Trading System Limit and/or being an Affected Trade; and
 - c. the Participant notifies NZX Surveillance of any relevant Off-Market Trades by no later than the end of each week by spreadsheet via email to surveillance@nzx.com.
15. NZXR grants a waiver of the obligation to settle the Trades on the Clearing House prescribed by Rule 6.4.1 to the extent that the Participant has entered into an Off-Market Trade in a Security Quoted on the NZDX that is unable to be reported in the Trading System due solely to the Trading System Limit and/or being an Affected Trade.
16. NZXR grants a waiver of Rule 15.4.1 to the extent that:
 - a. a Participant receives an Order to trade Securities quoted on the NZDX; and
 - b. the Participant is unable to enter the Order into the Trading System, due solely to the Trading System Limit and/or being an Affected Trade.
17. This waiver is effective until revoked by NZXR. NZXR reserves the right to revoke or vary this waiver at any time.
18. The rules to which this decision relates are set out in Appendix One to this decision.

Publication

19. This waiver will be published.

ENDS



Appendix One

Participant Rules:

14.13 CROSSING AND REPORTING FOR NZDX

14.13.1

For all Securities Quoted on the NZDX:

- (a) all Crossings must be reported by a Trading Participant through the Trading System in accordance with the requirements of the Trading System;
- (b) all Off-Market Trades in Securities must be reported as Traded (i.e. excluding any reasonable brokerage or commission). Off-Market Trades in Securities Quoted on the NZDX may be conducted outside the quotes prevailing in the Trading System at the time of the Trade;
- (c) all Off-Market Trades effected after the close of the Normal Trading Session shall be reported by that Trading Participant effecting the Off-Market Trade during the Adjust Session or during the next Pre-Opening Session on the next Trading Day;
- (d) sales of Securities must be reported through the Trading System on the same Trading Day or, if conducted after trading hours, in accordance with the requirements set out in these Rules;
- (e) the Seller is responsible for reporting off market transactions between two Trading Participants through the Trading System. Such Trades should be reported in the Trading System as two-sided Negotiated Deals;
- (f) all Trades shall be reported in the Trading System on a gross basis excluding any reasonable brokerage or fees incurred; and
- (g) any Crossing or Trade reported outside of the timeframes stated in these Rules will be subject to an administrative charge, which shall be determined by NZX from time to time and/or may be referred to NZ Markets Disciplinary Tribunal.

Settlement of Transactions on Clearing House

6.4.1

A Trading Participant must ensure that every Trade (other than a Crossing) to which that Trading Participant is a party in Securities Quoted on the NZSX, NZDX or FSM that are Approved Product is settled on the Clearing House in accordance with the terms for settlement of that Trade determined under [Rule 10.20](#).

6.4.2

Upon execution of a Trade required to be settled on the Clearing House under [Rule 6.4.1](#), the Clearing and Settlement Terms of that Trade will be novated in accordance with the C&S Rules and:



(a) The Clearing and Settlement Terms of the Buyer will become the Clearing and Settlement Obligations of the Buyer's Relevant Clearing Participant; and

(b) The Clearing and Settlement Terms of the seller will become the Clearing and Settlement Obligations of the Seller's Relevant Clearing Participant.

15.4 BRINGING ORDERS TO MARKET

15.4.1

Subject to Rule 15.4.2, Rule 15.4.3 and Rule 15.4.5, a Client Advising Participant must submit any Order, which is at market or at a fixed price limit, straight to market via the Trading System. For the avoidance of doubt pursuant to this Rule 15.4.1 a Client Advising Participant must not, for any market or fixed price limited Order:

(a) accumulate or bundle Orders coming to market;

(b) delay executing client Orders; or

(c) delay Orders to facilitate Crossings.

15.4.2

A Client Advising Participant may, upon obtaining instructions from its client to do so (which may be by means of an e-mail, facsimile, letter from that client, a written transcript by the Adviser for that Client Advising Participant of that client's instructions received by telephone or the inclusion of standing instructions in the client agreement in prominent lettering), execute an Order for a client at that Client Advising Participant's discretion:

If standing instructions are obtained via client agreement, the client agreement must allow that client to override the standing instructions detailed in the client agreement at the time the Order is placed.

For the avoidance of doubt, in the absence of standing instructions obtained through the client agreement, the client instructions obtained pursuant to Rule 15.4.2 must be obtained for each Order and may authorise a Client Advising Participant who has obtained a client's instruction to:

(a) accumulate or bundle Orders coming to market;

(b) delay executing client Orders; or

(c) delay Orders to facilitate Crossings,

15.4.3

Notwithstanding anything in Rule 15.4.1 and Rule 15.4.2 a Client Advising Participant may, in relation to Securities quoted on a market operated by NZX:

(a) accumulate or bundle Orders coming to market;

(b) delay executing client Orders; or



(c) delay Orders to facilitate Crossings,

in order to participate in the sell down of:

(d) a substantial security holder's holding in a listed Issuer; or

(e) more than NZ\$5 million in value of Securities of an Issuer.

15.4.4

Notwithstanding anything in Rule 15.4.1, Rule 15.4.2 and Rule 15.4.3, a Client Advising Participant must not transact and/or report Trades on behalf of its clients in order to avoid the obligations in these Rules, any direction issued from time to time by NZX or contrary to Good Broking Practice.

15.4.5

Notwithstanding anything in Rule 15.4.1, Rule 15.4.2 and Rule 15.4.3 a Client Advising Participant may as a matter of policy in the case of Institutional Clients:

(a) accumulate or bundle Orders coming to market;

(b) delay executing client Orders; and/or

(c) delay Orders to facilitate Crossings,

Provided that this policy has been advised to the Institutional Client in writing and the Client Advising Participant has not received notification from the Institutional Client disagreeing with such policy or specific instructions concerning the treatment of that Institutional Clients Orders.

14.10

MINIMUM ORDER VALUE FOR SECURITIES QUOTED ON THE NZDX

14.10.1

Unless expressly specified elsewhere in these Rules, Orders in Securities Quoted on the NZDX must be not less than the minimum registrable value for that Security Quoted on the NZDX as determined by the Issuer or Listing Rules. For the avoidance of doubt, this [Rule 14.10.1](#) does not preclude:

(a) the addition of small parcels of Securities to an existing portfolio where the resulting holding is greater than or equal to the minimum holding required; or

(b) small sales of part of a holding where the residual holding, after completion of the sale, still exceeds or is equal to the minimum holding required; or

(c) the sale of a total existing holding that is smaller than the required minimum holding.



14.10.2

Unless otherwise determined from time to time by NZX, the minimum yield changes for a Security Quoted on the NZDX shall be to three decimal places in increments of 0.005 (being half a basis point).

