NZX 20

Final Settlement Price Policy

# Introduction

* 1. This document (“**Policy**”) details the policy of NZX Limited in exercising its discretion in relation to the calculation of the Provisional Final Settlement Price and Final Settlement Price for the S&P/NZX 20 Index Futures contract (NZX Derivatives Market Contract No. 5) (“**S&P/NZX 20 Index Futures**”), including in the situation where an Emergency Event occurs[[1]](#footnote-1).
  2. Under the Contract Terms and Administrative Procedures (“**Contract Terms**”), S&P/ NZX 20 Index Futures cash settle to the S&P/NZX 20 Capital Index value calculated by S&P using the close prices on the Last Trading Day in accordance with the S&P/NZX New Zealand Indices Methodology (“**S&P Methodology**”) as detailed in the Individual Contract Specification.
  3. The Contract Terms outline a number of situations that are Emergency Events where NZX may exercise its discretion to determine a Provisional Final Settlement Price and the Final Settlement Price, that is other than the close price of the S&P/NZX 20 Capital Index on the Last Trading Day calculated by S&P. These situations include where:

1. NZX becomes aware that the Index will not be calculated by S&P, or provided by S&P to NZX, on the Last Trading Day,
2. NZX becomes aware that there is a significant error in the Index value provided by S&P to NZX that would cause the Provisional Final Settlement Price or Final Settlement Price to significantly misrepresent the value of the Index at the Close of the Last Trading Day, and
3. NZX becomes aware that there is a significant error in the prices established in the NZSX Close (as that term is defined in NZX Participant Rule 11.6) that would cause the Provisional Final Settlement Price or Final Settlement Price to significantly misrepresent the value of the Index at the Close of the Last Trading Day.
   1. In addition under Contract Term 8.2, NZX has general discretion to amend the method for calculating the Provisional Final Settlement Price and/or the Final Settlement Price for any reason determined by NZX.
   2. This Policy is intended to provide guidance on how NZX may exercise its discretion to amend the method for determining the Provisional Final Settlement Price and Final Settlement Price. NZX retains its absolute discretion to determine how the Settlement Price is to be calculated and is not required to follow this Policy in all circumstances.
   3. This Policy does not replace, and is to be read subject to, the NZX Derivatives Market Rules (“**Rules**”), the NZX Derivatives Market Procedures (“**Procedures**”), and the relevant Contract Terms. If there is any inconsistency between this Policy and any of the Rules, Procedures, or Contract Terms, then the Rules, Procedures and Contract Terms prevail.
   4. In this Policy capitalised terms used but not defined in this Policy have the meanings given to them in the Rules, Procedures or relevant Contract Terms.

# Emergency Events

* 1. This Policy outlines the considerations that NZX will apply when exercising its general discretion to use an alternative method to determine the Final Settlement Price and Provisional Final Settlement Price, as well as in the situation where an Emergency Event arises.
  2. The Emergency Events contained in the Contract Terms include where there is a significant error in the Index value provided by S&P to NZX that would cause the Provisional Final Settlement Price or Final Settlement Price to significantly misrepresent the value of the Index. NZX considers that a significant error in these circumstances would arise where NZX becomes aware of an error that would cause a 1% or more movement in the Index value.
  3. The Emergency Events outlined in the Contract Terms also include the situation where NZX becomes aware that there is a significant error in the prices established in the NZSX Close (as that term is defined in NZX Participant Rule 11.6) that would cause the Provisional Final Settlement Price or Final Settlement Price to significantly misrepresent the value of the Index at the Close of the Last Trading Day. NZX considers that a significant error would arise where NZX becomes aware of an error trade in the NZSX Close that would cause a 1% or more movement in the Index value, or a 10% or more movement in the price of an Index constituent.

# Alternative Methodologies

* 1. While NZX retains a broad discretion to adopt an alternative method for determining the Final Settlement Price for any reason determined by NZX, NZX intends to generally adopt the following approach in establishing an alternative Provisional Final Settlement Price or Final Settlement Price.
  2. NZX notes that in a scenario where S&P informs NZX that it intends to revise its calculation of the Index close price on the Last Trading Day, that NZX will use that revised file as the Provisional Final Settlement Price, so long as it is received prior to 5pm on the Trading Day after the Last Trading Day.
  3. NZX will consider any objections to the Provisional Final Settlement Price that are received within the 30-minute period after the publication of the Provisional Final Settlement Price, to determine whether that price should be used as the Final Settlement Price.

**Pre-Close Index Value**

* 1. NZX intends to use the last Index value file provided to NZX by S&P within the minute of 4.50pm on the Last Trading Day as the Provisional Final Settlement Price, where:

1. S&P does not provide NZX with an Index value using close prices on the Last Trading Day, or,
2. NZX is aware that there is a significant error in the Index value provided by S&P as the Index value using close prices on the Last Trading Day, or
3. NZX is aware that there is a significant error in in the NZSX Close.

**Last Trading Day Index Value at the Open**

* 1. NZX intends to use the Index value file provided to NZX by S&P as at the Open on the Last Trading Day as the Provisional Final Settlement Price, where:

1. S&P does not provide NZX with an Index value at 4.50pm on the Last Trading Day, or
2. NZX is aware that there is a significant error in the Index value provided by S&P as the Index value at 4.50pm on the Last Trading Day.

**Prior Trading Day Index Value at the Open**

* 1. NZX intends to use the Index value file provided to NZX by S&P using the close prices on the Trading Day immediately prior to the Last Trading Day in accordance with the S&P/NZX New Zealand Indices Methodology, where:

1. S&P does not provide NZX with an Index value at the Open on the Last Trading Day, or
2. NZX is aware that there is a significant error in the Index value provided by S&P as the Index value at the Open on the Last Trading Day.

# NZX Retains Discretion to Determine the Settlement Price

This policy provides a guide as to how NZX intends to determine the Provisional Final Settlement Price and Final Settlement Price in certain circumstances. Nothing in this Policy overrides NZX powers under the Rules (in particular Rule 8.11) or NZX’s ability to amend the Settlement Price in accordance with Contract Term 8.2 of the S&P/NZX 20 Index Futures.

1. Contract Terms and Administrative Procedure, Term 12. [↑](#footnote-ref-1)