

Debt Conventions Protocol

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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.
- The manner in which the filter function on nzx.com identifies and displays certain types of instruments.

If you have any questions in relation to the conventions described in this document, please contact:

Felicity Gibson
General Manager, Market Operations
Email: Felicity.Gibson@nzx.com
DDI +64 4 495 2378

Kristin Brandon
Head of Policy and Regulatory Affairs
Email: Kristin.Brandon@nzx.com
DDI: +64 4 495 5054

Background

There are three main types of retail debt instrument quoted on the NZX Debt Market: vanilla bonds, structured/subordinated bonds, and debt/equity hybrid 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 rates¹. These instruments are denoted by tickers that end in a number series, for example: XYZHA.

Debt Instrument Conventions

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.

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

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 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 specific hybrid ticker code, and displaying the instruments on nzx.com under the hybrid filter.

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 participated in the NZFMA’s 2021 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 would 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 a small number of 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:

| | | |
|-------------------------|------------------------------|--|
| ANB170 | Instrument Name | ANB 17/09/2031 2.999% ANZ Bank New Zealand Limited Bonds |
| 5.07% | Issued By | ANZ Bank New Zealand Limited |
| ↑\$0.065 / 1.30% | ISIN | NZANBDT024C7 |
| | Type | Debt/Equity Hybrids |
| | Price Per \$100 | \$97.874 |
| | Maturity Date | 17 Sep 2026 |
| | Previous Payment Date | 17 Mar 2025 |

The Maturity Date displayed above for ANB170 is the next scheduled interest rate reset date, being the next scheduled date on which ANB170 may be redeemed by ANB (subject to any applicable conditions). ANB170 is scheduled to mature on 17/09/2031

Identifying Instruments on nzx.com

Using the filter function on nzx.com

NZX has provided a filter search function on nzx.com to assist users in identifying the nature of instruments that are quoted on the NZX Debt Market.

The search functionality identifies instruments by reference to broad instrument categories (vanilla; structured/subordinated; hybrid) and designations (green; sustainability; sustainable financing) which are described in more detail below.

As instruments have unique features it is important that the search functionality is not relied on for a definitive description of an instrument's characteristics, and investors should undertake their own due diligence with reference to the securities' offering documents.

A further indicative description of a particular instrument is available by clicking on the relevant ticker code, as set out below.

| | | |
|------------------------|------------------------------|---|
| ABB090 | Instrument Name | ABB 4/05/2026 1.646% ASB Bank Limited Notes |
| 3.47% | Issued By | ASB Bank Limited |
| \$0.000 / 0.00% | ISIN | NZABBDG005C5 |
| | Type | Vanilla Corporate Bond |
| | Price Per \$100 | \$98.333 |
| | Maturity Date | 04 May 2026 |
| | Previous Payment Date | 04 May 2025 |

In order to obtain a full description of the terms and conditions of the instrument users should search for the offer through the [Disclose Register](#) that is maintained by the New Zealand Companies Office.

NZX.com search function categories and designations

Categories

As noted above, the search filter functionality uses broad definitions to categorise debt instruments. Categories are a required identifier for debt instruments to be quoted on the NZX Debt Market. The categories that are applied by NZX are set out below.

Retail vanilla corporate bonds

These instruments (commonly referred to as vanilla) are senior debt instruments with fixed or floating rates and a fixed maturity date. Coupon payments cannot be deferred or capitalised by the issuer unless required by law or if payment would likely result in breaching solvency tests.

Retail structured/subordinated bonds

These instruments are debt instruments that have non-vanilla characteristics. These characteristics include (but are not limited to) subordination, interest-rate reset mechanisms, embedded options (put and call options), and maturity date reset mechanisms.

Retail debt/equity hybrids are securities that have both debt and equity characteristics. These instruments include (but are not limited to) preference shares, convertible bonds, exchange-traded notes, and deeply subordinated securities that qualify as regulatory capital (e.g. Tier 1 and 2 Capital Instruments). Hybrid securities may share some characteristics with structured debt (e.g., reset mechanisms).

Designations

Instruments falling within the above categories may also have a separate designation based on their green, sustainable or sustainable financing nature.

Issuers may apply for these designations which are optional identifiers for quoted debt instruments. Independent assurance is typically required in order to confirm adherence to external principles or standards in support of NZX's decision to apply the requested designation. Further information on how bonds are designated by NZX can be found in the [Bond Designations Practice Note](#).

The search filter functionality on [nzx.com](#) also allows users to filter instruments based on the instrument's designation that has been applied by NZX, using the designations set out below.

Sustainability bonds include those where:

- the purpose of the offer is to enable the Issuer to fund a sustainability (but not green) project such as the development of affordable housing; or
- the Issuer meets certain ESG criteria where the cost of borrowing (bond coupon) changes based on its performance against targets that are material to its sustainability strategy

Green bonds include those where the purpose of the offer is to enable the issuer to use proceeds to fund eligible green assets, for example building a sustainable wind farm.

Sustainable Financing bonds are typically direct, unsubordinated, fixed rate interest bearing debt obligations that comply with an Issuer's Sustainable Financing Bond Framework. Proceeds of the offer are used to provide financing to parties who meet ESG criteria specified in the respective frameworks.

Instruments with a designation may fall within the retail vanilla corporate bond, retail structured/subordinated bond, or retail debt/equity hybrid categories described in the section above, depending on the corporate structure of the instrument.

Changes to an instrument's categorisation

At the time an instrument is initially quoted on the NZX Debt Market, NZX will consider the instrument's features and engage with an issuer to apply an appropriate ticker code and categorisation to the instrument.

In the event that an issuer considers that the categorisation or designation of an instrument should be amended due to a change in the features of the instrument the issuer should contact the Issuer Regulation team:

Issuer Regulation

Email: issuer@nzregco.com

Phone: +64 4 495 2825