



New Zealand Clearing Limited

Clearing and Settlement Procedures

4 December 2017



Contents

Section A: Interpretation and Construction	7
Section 1: Introduction and General Provisions	8
Amendment Procedure	8
1.1 Amendment of Rules	8
Section 2: Clearing Participants	10
Application Procedure	10
2.1 Application Procedure	10
2.2 Application Information	12
2.3 Application Form	12
Technical Requirements Procedure	12
2.4 Technical requirements	12
2.5 Systems Testing	12
Compliance Plan Procedure	13
2.6 Compliance Plan	13
Business Continuity Plan Procedure	14
2.7 Business Continuity Plan	14
Training Plan Procedure	15
2.8 Training Plan	16
Records Procedure	16
2.9 Books, Records and Explanations	16
2.10 Accounting and Other Records	17
2.11 Other Records	19
2.12 General Requirements	19
2.13 Timing	19
2.14 Language	19
2.15 Place of Keeping Records	19
2.16 Retention of Records	20



Reporting Procedure	20
2.17 Annual Reporting	20
2.18 Half-yearly Reporting	21
2.19 Monthly Reporting	21
2.20 Daily Reporting	22
2.21 Content of Financial Statements	22
2.22 Accuracy/Certificates	22
2.23 Late Delivery	23
Audit Procedure	23
2.24 Audit	23
2.25 Content of Audit Report	25
Insurance Procedure	25
2.26 Insurance	26
Inspection Procedure	26
2.27 Participant Risk Analysis	26
2.28 Procedure for On-site Inspection	27
2.29 Procedure for Capital and Prudential Inspections	28
2.30 Expenses	28
2.31 Additional Inspection	28
Responsible Person Procedures	28
2.32 Responsible Person Qualifications	29
2.33 Periodic Certifications	29
2.34 On Demand Certification	29
2.35 Authorised Signatories	29
2.36 Training	30
C&S Agreement Procedure	35
2.37 C&S Agreement	35
Section 3: Clearing	36



Transaction Procedure	36
3.1 Notification	36
3.2 Acceptance, Position Limits and Initial Margin Limits	37
Option Exercise Procedure	37
3.3 Notice of Exercise	38
3.4 Automatic Exercise	38
Give up – Take up Procedure	38
3.5 Notice of Application – Give up – take up Transactions	39
3.6 Notice of Acceptance	39
Match-Out Procedure	39
3.7 Notice of Application – Set-off of Settlement Transactions	39
3.8 Notification	40
Settlement Transaction Cancellation Procedure	40
3.9 Application	40
3.10 Notice of Cancellation	40
Margin Procedure	41
3.11 Margin Calculation	41
3.12 Notification	43
Collateral Procedure	43
3.13 Notification of Margin Call	45
3.14 Collateral Delivery	45
3.15 Bank Account Principles	47
3.16 Form of Third Party Collateral	47
3.17 Collateral Type	47
3.18 Eligible Securities	47
3.19 Valuation and Haircuts	48
3.20 Minimum Money Collateral	48
3.21 Withdrawal, return and property transfers	49



Section 4: Settlement Procedure	55
4.1 Settlement Day	55
4.2 Settlement Closing/Settlement Time	55
4.3 Settlement Fail Allocation	56
Section 5: Reporting	57
5.1 Reports	57
Section 6: CHO Powers	59
Approved Product Procedure	59
6.1 Application for Approved Products	59
6.2 Approved Products	59
Waiver and Ruling Procedure	61
6.3 Application	61
6.4 Timing	62
6.5 Procedure	62
6.6 Fees	63
6.7 Publication	63
Fee Schedule Procedure	64
6.8 Set Admission and Activity Fees	64
6.9 Waiver and Ruling Fee	64
6.10 Late Filing Fee	64
Currency Conversion Procedure	64
6.11 Currency Conversions	65
Section 7: Default	66
Buy-in Procedure	66
7.1 Buy-in	66
Overdue Interest Rate Procedure	67
7.2 Overdue Interest Rate	67
Section 8: Miscellaneous Notice Procedure	68



8.1	Notice	68
8.2	Notice to Head of Operations	69
	Procedures for Appendix	69



Section A: Interpretation and Construction

A.1 Interpretation

A.1.1 **Definitions incorporated by reference:** Capitalised terms defined in the Clearing and Settlement Rules have the same meaning when used in these Procedures, unless expressly stated or the context requires otherwise.

A.1.2 **Interpretation:** In these Procedures, the following terms bear the following meanings:

Business Partner Identification Number	means a unique identification code assigned to a Clearing Participant or a Lending Clearing Participant in the Settlement System;
CHO's Spot Rate of Exchange	means the spot rate of exchange for the purchase of the relevant currency with New Zealand dollars displayed on Bloomberg FXTF NZD at or about 9:00am on a particular day. If that page is replaced or the service ceases to be available, CHO may specify another page or service displaying the appropriate rates. If no rates are available on a particular day, Procedure 6.11.2 shall apply;
Official Cash Rate	means, on any date, the prevailing official cash rate as at that date set by the Reserve Bank of New Zealand (or any successor thereof); and
Specific Cover Collateral	means Eligible Securities lodged as Collateral to cover Call Options written over those specific Eligible Securities. The amount of Specific Cover Collateral must equal the number of underlying securities deliverable on exercise of the call option. For example 100 SPK shares lodged to cover one SPK written call option.
Total Margin Payable Report	means the report given to a Clearing Participant or a Lending Clearing Participant under Procedure 3.12.1 to show the Margin obligations of that Clearing Participant or Lending Clearing Participant.

A.2 Construction

A.2.1 Without limiting any provision in a Rule relating to the application of that Rule to one or more Procedures, the following Rules shall also apply to these Procedures, with such necessary modifications to assist such application, including references to "a Rule" or "these Rules" being replaced with references to "a Procedure" or "these Procedures" mutatis mutandis: Rules 1.7, 6.1, 6.4, 6.5, 6.6, 6.7, 6.9, 6.10, 6.11, 6.12, 7.10, 8.1, 8.2, 8.3, 8.4, 8.5, 8.6 and 8.7.



Section 1: Introduction and General Provisions

Amendment Procedure

Procedures for Rule 1.3.1

1.3.1 *Subject to Rule 1.3.2, CHO may, from time to time, amend these Rules in accordance with the Procedures. NZX may request that CHO amend the Rules by providing CHO with written notice of proposed amendments. CHO must amend the Rules as proposed by NZX from time to time in accordance with the Procedures except if such amendment would, in CHO's reasonable opinion, materially increase the risk to the Settlement System in respect of the clearing and settlement of Settlement Transactions. Amendments to these Rules come into effect and are binding on CHO, Clearing Participants and Lending Clearing Participants on the date specified by CHO by Notice provided that:*

- (a) *the date specified is no less than 20 Business Days after CHO has sent Notice of the amendment to Clearing Participants and Lending Clearing Participants; and*
- (b) *the proposed amendment is not disallowed under the RBNZ Act.*

1.1 Amendment of Rules

1.1.1 CHO may from time to time at its discretion (and shall if requested to do so by NZX) propose amendments to the Rules, by Notice to Clearing Participants and Lending Clearing Participants. The Notice will set out (as applicable):

- (a) the Rule or Rules to be amended;
- (b) the nature of the issues that have arisen which necessitate the amendment;
- (c) the result CHO desires to achieve from the amendment;
- (d) to the extent practicable, the amendment proposed;
- (e) to the extent it differs from the timetable set out in Procedure 1.1.2, the timetable for the amendment; and
- (f) any other information CHO believes is relevant.

1.1.2 The process for an amendment of the Rules will, except to the extent CHO determines otherwise, follow the indicative timeframe set out below following issue of the Notice of the amendment:

CHO to receive submissions on proposed amendment.	15 Business Days following Notice
CHO to consider submissions and give Notice to Clearing Participants of its decisions on issues raised.	15 Business Days after closing date for submissions



CHO to receive submissions on CHO response.	10 Business Days after further notice issued
CHO to consider submissions and provide final amendments (if any).	10 Business Days after closing date for further submissions
<p>1.1.3 CHO may give Notice of an amendment to such other interested parties as it considers fit. CHO shall give a copy of any such Notice to NZX.</p>	
<p>1.1.4 CHO must consult Clearing Participants and Lending Clearing Participants when proposing amendments to Procedures that would result in the imposition of, in the reasonable opinion of CHO, materially more onerous obligations on Clearing Participants and Lending Clearing Participants generally, or on any class of Clearing Participant.</p>	
<p>1.1.5 Subject to Procedure 1.1.4, CHO may depart from the process set out in this Procedure.</p>	



Section 2: Clearing Participants

Application Procedure

Procedures for Rules 2.5.1 and 2.2.1(o) and (s)

2.5.1 *Applications for participation in the Clearing House must be made in the manner prescribed by Procedure. An application constitutes an offer by the applicant to be bound by the Rules and acceptance of the application by CHO constitutes a binding contract between CHO and the applicant to be bound by the Rules.*

2.2.1 *An applicant to be a Clearing Participant will not be allowed to participate in the Clearing House and will not be provided access to the Clearing House System unless the applicant:*

- (o) has provided contact details of the applicant, the Responsible Person and its Directors; and*
- (s) has provided any additional information prescribed by Procedure, including a completed and signed application form.*

2.1 Application Procedure

2.1.1 A Person applying for participation in the Clearing House as a Clearing Participant must complete, sign and deliver to CHO an application in the form prescribed by Procedure 2.3 together with:

- (a) the certificate of incorporation (or equivalent document confirming establishment of the entity) and names and addresses of Directors and shareholders of the applicant company and a copy of the constitution (or equivalent document);
- (b) the applicant's audited accounts for the preceding 5 years or such shorter period since the applicant's incorporation;
- (c) evidence of the applicant's current financial position, sufficient to demonstrate that the applicant meets the capital adequacy requirements relevant to the category of Clearing Participant it is applying for;
- (d) details of any legal or arbitration proceedings active, threatened or pending against the applicant or any member of its group which may have a significant adverse effect on the reputation of the applicant;
- (e) details of any adverse or potentially adverse matters in respect of the applicant which have been brought to the attention of any Alternative Regulator to which the Clearing Participant or its Relevant Persons are subject and/or any other relevant regulatory authorities during the last 6 years (where possible providing copies of any relevant correspondence in relation to such matters);
- (f) the applicant's business plan relating to its business as a Clearing Participant;



- (g) the applicant's compliance plan, business continuity plan and training plan relating to its business as a Clearing Participant;
- (h) details of the applicant's technology relevant to its clearing and settlement business and its conformance with CHO's system and timetable for completion of systems testing;
- (i) details of the applicant's payment and accounting systems;
- (j) copies of certificates of insurance for professional indemnity and directors and officers cover and other cover determined by the Clearing Participant to be appropriate for the purposes of Procedure 2.26;
- (k) name of the applicant's Responsible Person, including evidence of compliance with the requirements of Procedures 2.34 and 2.35;
- (l) where the applicant is applying to be a General Clearing Participant or a Default Clearing Participant, a copy of the applicant's standard form of C&S Agreement, and (if requested by CHO), a legal opinion from lawyers acceptable to CHO, and for the benefit of CHO, that the C&S Agreement complies with the requirements of Rules 2.14.2 and 2.14.3;
- (m) a description of the applicant's management structures including names of Personnel holding management positions;
- (n) a description of the applicant's corporate structure;
- (o) any information required by CHO in order to register a financing statement against the Clearing Participant on the PPSR;
- (p) details of the property or assets to be provided as Collateral (such details to be included in the application form);
- (q) a copy of the proposed Buy In Procurement Agreement including all required terms; and
- (r) any other information which the applicant thinks may be relevant to CHO in considering the application.

2.1.2 An applicant may, if permitted by CHO, submit in substitution of any of the information required by Procedure 2:

- (a) evidence of membership of, or participation in, any other market, clearing house or settlement system, together with confirmation of compliance with the rules or other requirements of that market, clearing house or settlement system;
- (b) evidence of holding a status, licence, permission or entitlement relevant to the assessment of suitability for participation in the Clearing House, together with confirmation of compliance with the regulatory requirements of that status, licence, permission or entitlement.

2.1.3 CHO may require additional information in relation to an application or any of the information or supporting documentation filed in support of the application.

2.1.4 An applicant must submit information (in typed format), in as much detail as the applicant feels appropriate to support their application and must comply with Rule 8.6.5.

2.1.5 CHO will keep confidential all information provided to it by the applicant in relation to its application in accordance with and subject to the provisions of Rule 8.7.1.

2.2 Application Information

2.2.1 In addition to the information specified by Rule 2.2.1, an applicant for participation in the Clearing House as a Clearing Participant shall also provide:

(a) [Nothing currently required]

2.3 Application Form

2.3.1 An application for participation in the Clearing House as a Clearing Participant or a Lending Clearing Participant must be in the form, and include the confirmations, determined by CHO from time to time. An applicant should request the form from CHO.

Technical Requirements Procedure

Procedures for Rule 2.2.1(g) and 2.7.1(d)

2.2.1 *An applicant to be a Clearing Participant will not be allowed to participate in the Clearing House and will not be provided access to the Clearing House System unless the applicant:*

(g) *satisfies CHO as to the applicant's technical capacity to be connected to the Clearing House System, including satisfaction of such systems testing as may be prescribed by the Procedures;*

2.7.1 *Each Clearing Participant and Lending Clearing Participant must at all times:*

(d) *comply with operational, procedural and technical requirements of the Clearing House System and networks, as specified by CHO by Procedure;*

2.4 Technical requirements

2.4.1 The technical requirements for connectivity to the Clearing House System are contained in the following documents available from CHO on request:

(a) Network connectivity overview;

(b) CHO/CDO Message definition;

(c) TCP/IP Interface specification.

2.5 Systems Testing

2.5.1 CHO will require a Clearing Participant to undertake the following testing:



- (a) **Conformance of BOS software:** Conformance must be successfully completed for all the Clearing Participant's Back Office System (BOS) software. The extent of the testing required is contained in the Clearing Participant Technical Conformance document available from CHO. All tests will be based on specifications and procedures defined in this document.
- (b) **Connectivity:** The connectivity test is network based and involves the testing of successful connectivity between the Clearing Participant and the Clearing House System. Note that this does not require CHO to physically attend the premises of the Clearing Participant.
- (c) **Validation:** Validation tests are system/business message based and must be successfully completed by each Clearing Participant. These tests are run against the Clearing House System front end web application and the Clearing Participant's BOS - if applicable.

2.5.2 CHO will notify Clearing Participants of any amendment or addition to these conformance tests.

Compliance Plan Procedure

Procedures for Rule 2.7.2(a)

2.7.2 *Without limiting Rule 2.7.1, a Clearing Participant must at all times:*

- (a) *for the purpose of ensuring compliance with Rule 2.7.1, have in place a compliance plan that will ensure continuous compliance with all requirements imposed by or pursuant to these Rules and all requirements prescribed by Procedure;*

2.6 Compliance Plan

2.6.1 A Clearing Participant must, at all times, maintain adequate, suitably designed and effective accounting systems and internal procedures and controls to procure compliance with the applicable requirements of the Securities Legislation relevant to their business as a Clearing Participant and the Rules. This includes a periodic review of the obligations under the Securities Legislation and the Rules, the identification of the key risks facing the Clearing Participant and the establishment of systems, procedures and controls to monitor and manage those risks.

2.6.2 A Clearing Participant's compliance plan should address the following matters relating to its participation in the Clearing House:

- (a) a statement of the objectives of the compliance plan;
- (b) a programme of procedures and controls, including regular periodic (daily, weekly, monthly, quarterly and annual) tasks, processes, monitoring and sampling and testing of operational activities;
- (c) the management structure, including operations and processes, for implementation of that Clearing Participant's compliance plan;
- (d) allocation of compliance responsibilities among the Clearing Participant's Personnel relevant to tasks performed reflecting, where appropriate, the



compliance and procedures manuals referred to in Procedure 2.6.2(e) including responsibility for the design, implementation, functioning and review of the compliance plan;

- (e) written compliance and procedure manuals, setting out the Clearing Participant's procedures, and controls over those procedures, in all areas of its clearing and settlement operations;
- (f) recording and reporting to the Clearing Participant's Responsible Person, breaches and suspected breaches of applicable material requirements of the Securities Legislation relevant to the Clearing Participant and the Rules, and providing structures and procedures for investigation, external reporting, mitigation, discipline and remedy of those breaches;
- (g) processes for avoiding or managing conflicts of interest arising for Personnel involved in both compliance activities and operational activities;
- (h) maintenance of records of compliance activities; and
- (i) processes to review the adequacy of the Clearing Participant's compliance plan and the effectiveness of its implementation and implement the outcome of the review.

Business Continuity Plan Procedure

Procedures for Rule 2.7.2(b)

2.7.2 Without limiting Rule 2.7.1, a Clearing Participant must at all times:

- (b) maintain satisfactory systems for the execution, recording, reporting, clearing and settlement of Transactions and Settlement Transactions as are necessary to enable it to perform its obligations as a Clearing Participant under these Rules, and for that purpose have in place a business continuity plan that meets all requirements prescribed by Procedure;*

2.7 Business Continuity Plan

2.7.1 A Clearing Participant must, at all times, maintain adequate disaster recovery and business continuity arrangements aimed to ensure timely recovery and continuation of its usual operations that are relevant to its role as a Clearing Participant following short, medium and long term disruption of its business.

2.7.2 As a minimum a Clearing Participant's business continuity plan should address the following matters:

- (a) the management framework for implementation of that Clearing Participant's business continuity plan and emergency procedures including allocation of responsibility for the design, implementation, functioning and review of the plan, which must be subject to the oversight of the Responsible Person;
- (b) the services or functions to be maintained by the business continuity plan and emergency procedures, which shall include:



- (i) data communications lines;
 - (ii) routers;
 - (iii) gateways;
 - (iv) open interface sessions;
 - (v) clearing and settlement software applications and associated hardware;
 - (vi) databases and archives / storage;
 - (vii) payment facility access;
 - (viii) site contingency;
 - (ix) Personnel, processes, procedures and financial resources;
 - (x) communication with clients; and
 - (xi) communication with regulators (including CHO).
- (c) the resource requirements, including people, systems and other assets and arrangements for how these resources will be obtained;
 - (d) the recovery priorities for that Clearing Participant's operational processes affected by the disruption;
 - (e) communication arrangements in relation to the disruption and how this will be communicated to internal and external parties;
 - (f) system processes for determining the integrity of the information affected by the disruption;
 - (g) processes to test the adequacy and effectiveness of that Clearing Participant's business continuity plan and emergency procedures; and
 - (h) processes for regular periodic review of the business continuity plan and emergency procedures and implementation of that review.

Training Plan Procedure

Procedures for Rule 2.7.2(c)

2.7.2 *Without limiting Rule 2.7.1, a Clearing Participant must at all times:*

- (c) *maintain sufficient Personnel with adequate knowledge, experience, training and competence to ensure the Clearing Participant's compliance with the Rules, and performance of its obligations as a Clearing Participant under these Rules, and for these purposes have in place a training plan that meets all requirements prescribed by Procedure;*



2.8 Training Plan

- 2.8.1 Each Clearing Participant must prepare and implement a training plan formulated for the purposes of ensuring that all Personnel engaged in the Clearing Participant's clearing and settlement business obtain and maintain adequate knowledge in relevant Rules and laws, and obtain and maintain competency in using the system for the clearing and settlement tasks they are involved in.
- 2.8.2 Each training plan shall provide for:
- (a) appointment of a training officer, with responsibility for supervision and implementation of the training plan;
 - (b) assessment at appropriate intervals of the training and development, supervision and competency of Personnel;
 - (c) development of training description for each position or function;
 - (d) a programme of continuing development to ensure Personnel are kept up-to-date with changes in law, rules, practices and technology;
 - (e) review of the effectiveness of the training at appropriate intervals; and
 - (f) periodic review of the training plan.
- 2.8.3 Training must include specific technical skill training and general training in relevant law, regulation, rules, practice and ethics.
- 2.8.4 The training plan may include such other features as the Clearing Participant believes are necessary.
- 2.8.5 Each Clearing Participant shall provide to CHO on request the following:
- (a) a copy of its current training plan;
 - (b) evidence of periodic review, including information in respect of any amendment or variation to the training plan.

Records Procedure

Procedures for Rule 2.7.2(f)

- 2.7.2 *Without limiting Rule 2.7.1, a Clearing Participant must at all times:*
- (f) *maintain any records that may be prescribed by Procedure for the period prescribed by Procedure;*

2.9 Books, Records and Explanations

- 2.9.1 Each Clearing Participant must maintain accounting and other records containing complete and accurate records and explanations of the affairs and transactions of its business. The books, records and explanations must:



- (a) be kept separate and distinct so as to distinguish the books, explanations and records for its clearing and settlement business from the books, explanations and other records of any other business in which the Clearing Participant may be involved;
- (b) be sufficient to comply with the requirements of the Securities Legislation governing the maintenance of financial records;
- (c) be sufficient to enable the Clearing Participant to be subject to financial reporting and audit requirements set out in Procedures 2.17 to 2.25;
- (d) include accounting records in the form and with the content prescribed by Procedures 2.10 to 2.14; and
- (e) be sufficient to enable the Clearing Participant to identify, quantify, control and manage that Clearing Participant's risk exposures; and
- (f) be retained for a period of 7 years following the end of the financial year to which they relate in accordance with Procedure 2.16.

2.10 Accounting and Other Records

2.10.1 Each Clearing Participant must maintain accounting records in respect of its business activities and in respect of the assets, liabilities and transactions in its possession or control or for which it is accountable.

2.10.2 The records to be maintained in accordance with Procedure 2.10.1 must be sufficient to capture and record (in a memorandum account where appropriate), on a timely basis and in an orderly fashion, each transaction and commitment that that Clearing Participant enters into, and in each case, with sufficient information to explain its nature and the asset(s) and/or liability(ies), actual and contingent, which arise or may arise from it.

2.10.3 The records to be maintained in accordance with Procedure 2.10.1 must be maintained in a manner such that they disclose, or are capable of disclosing promptly the financial and business information that will enable that Clearing Participant's Directors or management to:

- (a) make timely and informed decisions;
- (b) monitor the performance of all aspects of that Clearing Participant's business;
- (c) monitor the quality of that Clearing Participant's assets; and
- (d) safeguard that Clearing Participant's assets, including assets belonging to Customers for which that Clearing Participant is responsible.

2.10.4 The accounting and other records of each Clearing Participant to be maintained in accordance with Procedure 2.9 and 2.10 must contain details of exposure limits authorised by management which are appropriate to the type, nature and volume of business undertaken by that Clearing Participant. Management must ensure that the information contained in the records is capable of being summarised in a way that enables actual exposures to be readily and regularly measured against these



limits.

2.10.5 The accounting records must show the assets, liabilities, events and transactions in the Clearing Participant's control or for which it is accountable. Accounting records must be kept so as to ensure that the Clearing Participant:

- (a) correctly records and explains the events and transactions occurring in the course of its business activities;
- (b) can at any time determine its financial position with reasonable accuracy; and
- (c) can prepare financial statements that comply with the Companies Act 1993 and the Financial Reporting Legislation (or to the extent permitted by Procedure 2.21.2, equivalent standards under the laws of that Clearing Participant's home jurisdiction), as applicable, that can be readily and properly audited.

2.10.6 Each Clearing Participant must:

- (a) maintain clear and up-to-date documentation of all accounting systems and internal controls, including a record of all material changes made to those systems and controls and the dates on which those changes were implemented; and
- (b) provide such explanations of the systems and controls maintained under Rule 2.7.2 to CHO as may be requested.

2.10.7 Each Clearing Participant shall notify CHO promptly of any changes to the systems and controls that might reasonably affect CHO's assessment of the adequacy of such systems and controls.

2.10.8 Without limiting anything in this Procedure 2.10, the accounting records of a Clearing Participant must, as a minimum, contain:

- (a) entries from day to day of all sums of money received and expended and the matters in respect of which they are received and expended;
- (b) a record of all income and expenses explaining their nature;
- (c) a record of all assets and liabilities, including any commitments or contingent liabilities;
- (d) entries from day to day of all Settlement Transactions of that Clearing Participant's own account and separately by that Clearing Participant acting as agent for another party;
- (e) entries from day to day of the receipt and delivery of all Money or Approved Products in the possession or control of that Clearing Participant, whether owned by that Clearing Participant or by another Person;
- (f) a complete, up-to-date record of all Money or Approved Products in the possession or the control of that Clearing Participant, showing the beneficial owner, the purpose for which they are held, and whether they are subject to any security interest.



2.11 Other Records

2.11.1 Each Clearing Participant must ensure that records and reports:

- (a) are maintained in sufficient detail and with sufficient cross-references to establish an adequate audit trail. The audit trail must include all records, working papers and schedules supporting the production of annual financial statements and all financial reporting statements;
- (b) are arranged, filed and indexed in such a manner as to permit ready access to any particular record. Where that Clearing Participant maintains its records in any manner other than on paper in an easily legible form, then it shall also provide facilities for the prompt access to these records and for the prompt production of copies of these records on paper in such easily legible form; and
- (c) are adequate to demonstrate compliance with the Securities Legislation relevant to their business as a Clearing Participant and the Rules.

2.12 General Requirements

2.12.1 The requirements of this Procedure are not exhaustive and it is the obligation of each Clearing Participant to ensure that the records and reports maintained are sufficient having regard to the nature of the Clearing Participant's business. The detailed requirements of this obligation will vary according to, amongst other things:

- (a) the manner in which the business of each Clearing Participant is structured, organised and managed;
- (b) the size of the business of each Clearing Participant; and
- (c) the nature, volume and complexity of the transactions and commitments of each Clearing Participant.

2.13 Timing

2.13.1 The financial records must be made as soon as practicable after the events to which they relate.

2.14 Language

2.14.1 All records and reports which a Clearing Participant is required to maintain under this Procedure must be kept in writing and in the English language, or in a manner which will enable them to be readily accessible by CHO and readily converted into writing in the English language at the cost of the Clearing Participant. CHO may direct a Clearing Participant to convert records into writing and/or translate records into English and as required by Rule 8.6.5. That direction must be complied with by the time specified by CHO when giving the direction.

2.15 Place of Keeping Records

2.15.1 The location at which the records and reports required by this Procedure are kept must be notified to CHO.



- 2.15.2 If the records which a Clearing Participant is required to maintain under this Procedure are kept outside New Zealand:
- (a) the Clearing Participant must send, or cause to be sent, to New Zealand, records which will enable true and fair financial statements to be prepared; and
 - (b) CHO may direct a Clearing Participant to produce any of its records in New Zealand.
- 2.15.3 A Clearing Participant must comply with any direction given by CHO under Procedure 2.15.2(b) by the time specified by CHO when giving the direction and at the cost and expense of the Clearing Participant.

2.16 Retention of Records

- 2.16.1 The records, reports and explanation required to be maintained by this Procedure must be retained for a period of 7 years following the financial year to which they relate.

Reporting Procedure

Procedures for Rule 2.7.2(g), 2.17.2 and 2.17.3

- 2.7.2 *Without limiting Rule 2.7.1, a Clearing Participant must at all times:*
- (g) provide financial statements and other information as prescribed by Procedure;*
- 2.17.2 *A Clearing Participant must provide to CHO a monthly report of its daily Capital Adequacy Calculations during that month at the time and in the manner prescribed by Procedure.*
- 2.17.3 *CHO may by Notice require a Clearing Participant to provide to CHO a report of its daily Capital Adequacy Calculations on a more regular basis as and when CHO considers necessary or desirable.*

2.17 Annual Reporting

- 2.17.1 Within 90 days after the end of a Clearing Participant's financial year, a Clearing Participant must deliver to CHO:
- (a) financial statements of the Clearing Participant for the financial year that comply with Procedure 2.21;
 - (b) an auditor's report on the financial statements that complies with Procedure 2.25;
 - (c) a copy of any return or notice (including any annual return, financial statements or a notice of a change in its share capital, its Directors or its constitutional documents) filed with the Registrar of Companies of New Zealand (or in respect of a Clearing Participant which is incorporated in a jurisdiction outside of New Zealand, such Alternative Regulator or Person holding an analogous office to the Registrar of Companies in its home jurisdiction) during that financial year;

- (d) a certificate of currency for any insurances to be maintained in accordance with Procedure 2.26;
- (e) a graphical presentation of the Clearing Participant's group structure at balance date. At a minimum this should disclose the Clearing Participant's ultimate shareholders, holding company, or parent (howsoever described) and all Subsidiaries of the ultimate parent;
- (f) a current organisation chart of the Clearing Participant;
- (g) a reconciliation that indicates the differences between the audited financial statements at year-end with the monthly return provided to CHO for the last month of the financial year pursuant to Procedure 2.19.1;
- (h) if a reconciliation is provided under paragraph (g), a restatement of the monthly report of the daily Capital Adequacy Calculations provided to CHO for the last month of the financial year pursuant to Procedure 2.19;
- (i) a copy of all bank audit confirmations requested and received by the Clearing Participant's auditor relating to financial statements; and
- (j) a certificate in the form of Appendix B signed by the Clearing Participant's Responsible Person or delegate.

2.18 Half-yearly Reporting

2.18.1 Within 60 days after the end of a Clearing Participant's financial half-year, a Clearing Participant must deliver to CHO:

- (a) financial statements of the Clearing Participant for the first half-year that comply with Procedure 2.21.1 (but which need not be audited);
- (b) a reconciliation that indicates the differences between the financial statements for the half-year with the monthly return provided to CHO for the last month of the financial half year pursuant to Procedure 2.19.1; and
- (c) if a reconciliation is provided under paragraph (b), a restatement of the monthly report of the daily Capital Adequacy Calculations provided to CHO for the last month of the financial half-year pursuant to Procedure 2.19.

2.19 Monthly Reporting

2.19.1 Within 10 Business Days of the end of each calendar month, each Clearing Participant must deliver to CHO in the manner and the form as prescribed by CHO from time to time:

- (a) a copy of a trial balance as at the last day of the preceding month. Such trial balance must provide details as to the name or nature of each balance, must be provided in each separate currency and consolidated to NZ\$ equivalents determined using CHO's Spot Rate of Exchange prevailing on the date of such trial balance (and such spot rate must be specified to CHO) or such other rate of exchange as agreed with CHO;

- (b) financial statements of the Clearing Participant for the previous month (which may be those prepared for internal management purposes);
- (c) a copy of the Clearing Participant's Capital Adequacy Calculations for the last day of the previous month in the form and including the information and supporting documents specified by CHO from time to time for that purpose;
- (d) a summary of the Clearing Participant's Capital Adequacy Calculations for each Business Day of the previous month showing the amounts calculated and recorded as required by Rule 2.17.1; and
- (e) a certificate in the form of Appendix A signed by the Clearing Participant's Responsible Person or delegate and the Clearing Participant's chief financial officer.

2.20 Daily Reporting

2.20.1 A Clearing Participant who is required under Rule 2.17.3 to provide CHO a report of its daily Capital Adequacy calculations on a more regular basis must deliver to CHO a copy of that Clearing Participant's Capital Adequacy Calculations in the format and including the information and supporting documents specified by CHO (including certificates) and for the Business Days as specified by CHO in the notice given under Rule 2.17.3.

2.21 Content of Financial Statements

2.21.1 Financial statements delivered to CHO must be prepared in accordance with the requirements of the Companies Act 1993, the Financial Reporting Legislation (or to the extent permitted by Procedure 2.21.2, equivalent standards under the laws of that Clearing Participant's home jurisdiction), as applicable.

2.21.2 Where a Clearing Participant is incorporated outside of New Zealand or conducts all or part of its business outside New Zealand, CHO may at its discretion accept financial statements prepared in accordance with the laws and financial reporting standards of the Clearing Participant's home jurisdiction where CHO is satisfied that the laws and financial reporting standards of that jurisdiction are substantially equivalent to Generally Accepted Accounting Practice. CHO may seek, at the expense of the Clearing Participant concerned, an opinion from a suitably qualified professional to establish the equivalency of financial reporting standards in differing jurisdictions.

2.22 Accuracy/Certificates

2.22.1 Each Clearing Participant must ensure that the information contained in each return or report is extracted accurately from the records of the Clearing Participant. CHO may require a Responsible Person of the Clearing Participant to certify as to the accuracy and completeness of each return or report.

2.22.2 Where a delegate of a Responsible Person signs a certificate on behalf of a Responsible Person for the purposes of this Procedure or Procedure 2.17.1 or 2.19.1, the Clearing Participant must deliver to CHO a copy of that certificate countersigned by the Responsible Person as soon as reasonably practicable after the certificate was first provided.

2.23 Late Delivery

2.23.1 Each Clearing Participant failing to supply the reports or returns required by Procedures 2.17 to 2.22 by the specified date, shall pay the fee for late filing as specified by Procedure 6.10.

Audit Procedure

Procedures for Rules 2.7.2(h) and 6.5.1(i)

2.7.2 *Without limiting Rule 2.7.1, a Clearing Participant must at all times:*

(h) appoint and maintain the appointment of an auditor in accordance with the requirements prescribed by Procedure;

6.5.1 *CHO may (either on its own initiative or in accordance with a request made to it by the NZ Markets Disciplinary Tribunal, the operator of an NZX Market, or any Person with whom CHO has a Reciprocal Arrangement) for the purposes of ascertaining whether a Clearing Participant or Lending Clearing Participant is complying or has complied with these Rules or any rules or requirements of an NZX Market or any Person with whom CHO has a Reciprocal Arrangement, or ascertaining whether to exercise any rights or powers under these Rules:*

(i) require the Clearing Participant or Lending Clearing Participant to supply, within the time specified by CHO, an audit certificate from the Clearing Participant's or Lending Clearing Participant's auditor or such other practicing chartered accountant specified by CHO. The audit certificate must have the content prescribed by CHO by Procedure;

2.24 Audit

2.24.1 Subject to Procedure 24.2.2, each Clearing Participant must:

- (a) appoint a Person permitted to act as an auditor in respect of an FMC Audit for the purposes of the Auditor Regulation Act 2011, subject to CHO having no objection, until the auditor is removed from office or retires;
- (b) appoint an auditor to fill a vacancy on the earlier of 10 Business Days of the vacancy occurring and such other time as prescribed by Securities Legislation (or such other laws applicable to that Clearing Participant); and
- (c) procure the resignation of its auditor and appoint a replacement auditor if in the opinion of CHO it is necessary or desirable for the security or integrity of the Clearing House.
- (d) Where a Clearing Participant is incorporated in a jurisdiction outside of New Zealand or conducts all or part of its business outside New Zealand, CHO may at its discretion accept the appointment as auditor of a Person who is qualified to act as an auditor of the financial statements in accordance with the laws and financial reporting standards of the Clearing Participant's home jurisdiction, where CHO is satisfied that that Person is suitably qualified.

2.24.2 Each Clearing Participant must:

- (a) ensure that its auditor conducts, on an annual basis (or more frequently if required by Rule 6.5.1(i)):
 - (i) an audit of the Clearing Participant's financial statements;
 - (ii) an audit of any other matter specified by CHO (after consultation with the auditor); and
 - (iii) a review of the amounts for the last day stated in the monthly return of the Daily Capital Adequacy Calculations provided to CHO for the last month of the financial year;
- (b) ensure that its auditor prepares a report on that audit in a form containing the matters specified by this Procedure and otherwise acceptable to CHO; and
- (c) deliver that report to CHO when:
 - (i) it delivers its financial statements under Procedure 2.17.1; or
 - (ii) when otherwise required under Rule 6.5.1 (i).

2.24.3 A Clearing Participant must give its auditor access to its premises and Directors, Personnel, agents and any other Person acting on behalf of the Clearing Participant and all records, documents, explanations and other information required by the auditor in respect of any audit conducted under the Rules.

2.24.4 A Clearing Participant must:

- (a) not impose any limitation on the extent of any audit required under the Rules;
- (b) permit and direct the auditor to notify CHO immediately if any limitation is imposed on the auditor, or if the auditor is hindered or delayed in the performance of the auditor's duties; and
- (c) include in the terms of appointment of the auditor provisions substantially similar to Procedure 2.24.5(a) and (b) and deliver to CHO a copy of the terms of appointment of the auditor.

2.24.5 If a Potential Credit Event is continuing or CHO reasonably believes that a Potential Credit Event has occurred, and CHO proposes to discuss the financial position of the Clearing Participant (and any Related Company of that Clearing Participant) with that Clearing Participant's auditors, CHO may notify the Clearing Participant of its proposal stating the questions or issues it wishes to raise with the auditors. In this event, the Clearing Participant must ensure that its auditors are authorised (at the expense of the Clearing Participant):

- (a) to discuss the financial position of the Clearing Participant (and any Related Company of that Clearing Participant) upon request by CHO; and
- (b) to disclose to CHO any information relating to the financial position of the Clearing Participant (or and any Related Company of that Clearing Participant) which CHO may reasonably request.



2.24.6 CHO may direct a Clearing Participant to have a review conducted of the Clearing Participant's internal control procedures or other matters by a Person who is, in CHO's reasonable opinion a suitably qualified professional Person to conduct such a review, and to deliver a report (in a form acceptable to CHO and upon which CHO can rely) in respect of that review if it reasonably considers that there has been a material change in circumstances or where it reasonably considers a review is necessary or desirable.

2.25 Content of Audit Report

2.25.1 A report provided for the purposes of Procedure 2.17.1(b) must contain:

- (a) a copy of the audit report addressed to the shareholders of the Clearing Participant incorporating the content prescribed by applicable audit and assurance standards within the meaning of the Auditor Regulation Act 2011 (or to the extent permitted by Procedure 2.21.2, as prescribed by analogous laws of the Clearing Participant's home jurisdiction); and
- (b) a statement as to whether in the opinion of the auditor the amounts for the last day stated in the monthly return of the Daily Capital Adequacy Calculations provided to CHO for the last month of the financial year pursuant to Procedure 2.19, or the amounts in the restatement of that return provided under Procedure 2.17.1(h):
 - (i) where they have been taken from the audited financial statements, have been correctly taken; and
 - (ii) have been calculated in accordance with the requirements of the Appendix, and if they have not, the respects in which they have not been correctly taken or calculated.

2.25.2 An audit report provided for the purposes of Procedure 2.17.1(b) must, if required by CHO (in consultation with the auditor prior to commencement of the audit), also contain statements in relation to:

- (a) such other matters as CHO shall determine at its complete discretion; and
- (b) the content and preparation of any certificate of the Responsible Person relating to the conduct of the Clearing Participant's business during the relevant accounting period to be delivered to CHO in accordance with the Rules.

Insurance Procedure

Procedures for Rule 2.7.2(i)

2.7.2 *Without limiting Rule 2.7.1, a Clearing Participant must at all times:*

- (i) *take out and maintain insurance of a kind and for an amount that that Clearing Participant reasonably determines to be appropriate having regard to its business as a Clearing Participant and the operations carried out by that Clearing Participant and the risks associated with that Clearing Participant's business as a Clearing Participant, including those risks associated with the*

Directors and Personnel of that Clearing Participant and as prescribed by Procedure;

2.26 Insurance

2.26.1 As a minimum, a Clearing Participant must take out the following insurances:

- (a) Professional indemnity insurance; and
- (b) Directors' and officers' liability insurances,
with reputable, independent insurance companies or underwriters.

2.26.2 Each Clearing Participant, in so far as it is able, must provide CHO with written evidence of:

- (a) the insurance company providing the insurance cover;
- (b) the type of cover provided by that Clearing Participant's insurance company;
- (c) the amount of cover which that Clearing Participant has pursuant to Rule 2.7.2(i) and any limitations on that cover;
- (d) the date on which the insurance cover became effective;
- (e) the date the insurance cover will expire; and
- (f) any material changes that are made to the amount of insurance cover for that Clearing Participant. Notification of such material changes must be sent to CHO together with the Clearing Participant's monthly return.

2.26.3 If required by CHO, a Clearing Participant must provide to CHO a copy of each insurance policy it holds.

2.26.4 A Clearing Participant must notify CHO as soon as reasonably practicable after becoming aware of any event or circumstance that has or is likely to result in any cover (in whole or part) under an insurance policy disclosed to CHO for the purposes of the Rules ceasing to be available.

Inspection Procedure

Procedures for Rule 2.7.2(l)

2.7.2 *Without limiting Rule 2.7.1, a Clearing Participant must at all times:*

- (l) *co-operate with CHO in exercise of the powers set out in Rule 6.5 on such periodic or other systematic basis as may be prescribed by Procedure.*

2.27 Participant Risk Analysis

2.27.1 CHO will determine from time to time how it will inspect Clearing Participants and, to the extent it determines is required, Lending Clearing Participants during a 24 month period using a risk based analysis of each Clearing Participant and if CHO



determines it is required, Lending Clearing Participants.

2.27.2 In determining the risk profile of each Clearing Participant or Lending Clearing Participant, CHO may have regard to:

- (a) the period of time since the Clearing Participant's or Lending Clearing Participant's last inspection;
- (b) the nature, size and scale of the Clearing Participant's clearing and settlement business or the nature, size and scale of the Lending Clearing Participant's securities lending activities;
- (c) any complaints or other matters that have arisen since the last inspection of the Clearing Participant or Lending Clearing Participants;
- (d) the Clearing Participant's or Lending Clearing Participant's management controls and infrastructure;
- (e) any disciplinary action taken or proposed since the last inspection; and
- (f) any other factors CHO determines as relevant.

2.27.3 Once risk profiles have been established, Clearing Participants and/or Lending Clearing Participants may be ranked in order of risk and a schedule developed having regard to the resources available to CHO.

2.27.4 For inspections that will take place at a Clearing Participant's or Lending Clearing Participant's offices, CHO will give that Clearing Participant or Lending Clearing Participant (as the case may be) at least 10 Business Days' Notice of the scheduled inspection, unless it determines that a "spot inspection" with less than 10 Business Days' Notice is required. For inspections that will be carried out at CHO's offices ("**Capital and Prudential Inspections**"), CHO will give Clearing Participants 5 Business Days' Notice of such inspections.

2.28 Procedure for On-site Inspection

2.28.1 Unless CHO exercises its discretion to initiate a "spot inspection", at least 10 Business Days prior to a scheduled inspection, CHO will provide to the Clearing Participant or Lending Clearing Participant (as the case may be) a list specifying:

- (a) the initial documents or files that CHO will inspect during the inspection. CHO may specify further documents for inspection during the inspection;
- (b) a list of the Clearing Participant's or Lending Clearing Participant's Personnel CHO wishes to interview and an indicative timetable for those interviews;
- (c) any other information, matter or thing CHO requires to be available for inspection during the inspection relating to the Clearing Participant's or Lending Clearing Participant's compliance with the Rules.

2.28.2 A scheduled inspection will take place in the Clearing Participant's or Lending Clearing Participant's offices. The Clearing Participant or Lending Clearing Participant will make available to CHO such accommodation and facilities as are



reasonably necessary to complete the inspection.

2.28.3 CHO will provide the Clearing Participant or Lending Clearing Participant with a draft report of the results of the inspection and provide the Clearing Participant or Lending Clearing Participant with an opportunity to comment before finalising its inspection report and providing the same to the Clearing Participant or Lending Clearing Participant.

2.29 Procedure for Capital and Prudential Inspections

2.29.1 At least 5 Business Days prior to a scheduled Capital and Prudential Inspection, CHO will provide to a Clearing Participant a list specifying the information to be provided for the Capital and Prudential Inspection.

2.29.2 CHO will provide the Clearing Participant with a draft report of the results of the Capital and Prudential Inspection and provide that Clearing Participant with an opportunity to comment before finalising its inspection report and providing the same to that Clearing Participant.

2.30 Expenses

2.30.1 Clearing Participants and Lending Clearing Participants will reimburse CHO following production of an invoice by CHO for the cost of undertaking inspections, including reasonable internal and staff costs and expenses (including, if applicable for on-site inspections, accommodation, travel and sundry expenses reasonably incurred and documented with receipts to the extent practicable).

2.31 Additional Inspection

2.31.1 Nothing in this Procedure limits CHO's ability to exercise its powers under Rule 6.5 at any time without Notice where CHO believes necessary.

Responsible Person Procedures

Procedures for Rules 2.13.2 (b), 2.13.4(e), (f) and (h)

2.13.2 *Each Responsible Person must:*

(b) *have, and continue to have, skills, knowledge, expertise and experience and have completed qualifications or training, of a type specified by Procedure;*

2.13.4 *A Responsible Person must:*

(e) *submit to CHO such reports or certifications in relation to the Clearing Participant's business as a Clearing Participant or its Securities lending activities and/or its compliance with these Rules as prescribed by Procedure or Lending Clearing Participant's Securities lending activities and/or its compliance with these Rules as prescribed by Procedure;*

(f) *submit to CHO, as prescribed by Procedure, details of any natural Persons who are authorised to sign documents in connection with the Clearing Participant's business as a Clearing Participant and its Securities lending activities or Lending Clearing Participant's Securities lending activities and*

these Rules on behalf of the Clearing Participant or Lending Clearing Participant and/or the Responsible Person, and promptly notify CHO in writing of any changes to those details;

- (h) *complete any training or continuing education requirements prescribed by the Procedures.*

2.32 Responsible Person Qualifications

2.32.1 Prior to being nominated as a Responsible Person for a Clearing Participant a nominee must have completed both:

- (a) NZX Diploma course 405; and
- (b) NZX Diploma course 508,

or such equivalent qualifications or accreditations as CHO may determine in its discretion.

2.32.2 Prior to being nominated as a Responsible Person for a Lending Clearing Participant a nominee must have completed both:

- (a) [Nothing presently required]

2.33 Periodic Certifications

2.33.1 Each Responsible Person of a Clearing Participant must deliver to CHO on or before the 10th day of each calendar month, a monthly compliance report in the form set out in Appendix A of this Procedure signed by the Responsible Person.

2.33.2 Each Responsible Person of a Clearing Participant must deliver to CHO on or before the 10th day of each financial year, an annual compliance report in the form set out in Appendix B of this Procedure signed by the Responsible Person.

2.33.3 Each Responsible Person of a Lending Clearing Participant must deliver to CHO:

- (a) [Nothing presently required]

2.34 On Demand Certification

2.34.1 Each Responsible Person must deliver to CHO, on or before the date specified by CHO, certification as to the Clearing Participant's or Lending Clearing Participant's compliance with applicable Securities Legislation or Rules, in the form required by CHO and signed by the Responsible Person.

2.35 Authorised Signatories

2.35.1 A Responsible Person must submit to CHO details of any natural Persons authorised by the Responsible Person to sign documentation on behalf of the Responsible Person or the Clearing Participant or Lending Clearing Participant for the purposes of the Rules. The details must include:

- (a) the name, title and function of each Person;



- (b) the extent of the authorised signatory's authority;
- (c) specimen signatures of any new authorised signatories;
- (d) the date the authorised signatory was appointed.

2.35.2 A Clearing Participant or Lending Clearing Participant must notify CHO in writing if any authorised signatory ceases to be authorised by the Responsible Person for the purposes of the Rules or if any new natural Persons are given that authority.

2.36 Training

2.36.1 **Initial Education:** Prior to being nominated as a Responsible Person, a nominee must have completed the following training:

- (a) CHO orientation training;
- (b) [nothing additional]

2.36.2 **Continuing Education – Clearing Participants:** The continuing education requirements for Responsible Persons of Clearing Participants are the successful completion of at least 15 hours (or 15 hours equivalent) continuing education every calendar year.

2.36.3 Suitable continuing education means education or professional with development directly related to the role of a Responsible Person including relating to compliance with obligations, policies, procedures and ethics with specific relevance to the Clearing Participant's and Responsible Person's obligations under the Securities Legislation and Rules. This may include internal training and any courses offered by one of the professional bodies set out below:

- (a) Australasian Compliance Institute;
- (b) New Zealand Institute of Chartered Accountants;
- (c) New Zealand Law Society;
- (d) Commodities Futures Trading Commission of the United States of America;
- (e) Securities and Exchange Commission of the United States of America;
- (f) the Financial Services Authority of the United Kingdom; or
- (g) any Person of equivalent or similar standing to those named in paragraphs (a) to (f) in any jurisdiction or any other Person as CHO may approve.

2.36.4 When a Clearing Participant appoints a natural Person to the role of Responsible Person during a calendar year, the Clearing Participant must be able to demonstrate to CHO that the Responsible Person has undertaken compliance education since the date of appointment as a Responsible Person by that Clearing Participant which satisfies the continuing education requirement pro-rata to the number of full months that the Responsible Person held that role during that year.

2.36.5 **Continuing Education – Lending Clearing Participants:** The continuing education requirements for Responsible Persons of Lending Clearing Participants are specified

in the Depository Operating Procedures.



Appendix A - Monthly Compliance Certificate

Clearing Participant:

Month Ended:

Part One

Having made due and careful enquiry, to the best of my knowledge, I hereby certify and represent that, except to the extent disclosed in writing to CHO:

1. The representations and warranties set out in Rule 2.11.1 and Rule 2.11.2 are true and accurate in all material respects.
2. The Clearing Participant continues to satisfy the requirements of Rule 2.2.
3. The Clearing Participant has made all notifications to CHO required by Rule 2.9.
4. No Potential Credit Event is continuing as at the date of this certificate.*

Name:

Responsible Person:

Dated:

Part Two

1. To the best of my knowledge, except to the extent disclosed in writing to CHO, the Clearing Participant has met the requirements of Rule 2.15 at all times (including at all times during each day) during the period.
2. The figures in the trial balance have been taken from a trial balance summary and are in agreement with the general ledger.
3. The figures in the Capital Adequacy Calculations for the last Business Day of the previous month and the summary calculations for each Business Day of the month, are in agreement with the general ledger and have been calculated according to the requirements of the Rules.

Name:

Responsible Person:

Date:

Name:

Chief Financial Officer:

Date:

**If this statement cannot be made, the certificate should identify any Potential Credit Event*



that is continuing and the steps, if any, being taken to remedy it.

Appendix B - Annual Compliance Certificate

Clearing Participant:

Year Ended:

Having made due and careful enquiry, to the best of my knowledge, I hereby certify and represent that during the period:

1. The Clearing Participant has developed and implemented its compliance plan as required by Rule 2.7.2(a) and the compliance plan is operating effectively and is adequate having regard to the nature and extent of the Clearing Participant's clearing and settlement activities to ensure compliance with applicable Securities Legislation relevant to the business as a Clearing Participant and the Rules.
2. All matters of material non-compliance with the Securities Legislation relevant to the business as a Clearing Participant and the Rules that have been identified by the compliance plan have been notified to CHO.
3. The Clearing Participant has developed and implemented a training plan as required by the Rules and the training plan is operating effectively and is adequate having regard to the nature and extent of the Clearing Participant's clearing activities.
4. The Clearing Participant has developed and maintains a business continuity plan as required by the Rules and the plan is operating effectively and is adequate having regard to the nature and extent of the Clearing Participant's clearing activities.
5. The Clearing Participant has met the requirements of Rule 2.15 at all times (including at all times during each day) during the period.
6. The Clearing Participant has maintained the records required by the Rules.
7. Except to the extent disclosed in writing to CHO, the representations and warranties set out in Rules 2.11.1 and 2.11.2 are true and accurate in all material respects.
8. The Clearing Participant continues to satisfy the requirements of Rule 2.2.
9. I have completed the following continuing education courses:

Course	Provider	Duration
10. I have retained copies of the relevant documentation on which this representation is based and this is available for inspection by CHO.
11. The Clearing Participant has made all notifications to CHO required by Rule 2.9.
12. No Potential Credit Event is continuing as at the date of this certificate.*



Name: (Responsible Person)

Dated:

** If this statement cannot be made, the certificate should identify any Potential Credit Event that is continuing and the steps, if any, being taken to remedy it.*



C&S Agreement Procedure

Procedures for Rule 2.14.2

2.14.2 A C&S Agreement must provide for the matters prescribed by Procedure. A C&S Agreement may include such other terms and conditions that are not inconsistent with the Rules or the matters prescribed by Procedure. If any such inconsistency exists, the Rules and the matters prescribed by Procedure will prevail.

2.37 C&S Agreement

2.37.1 Each C&S Agreement must address the following:

- (a) procedures in relation to receipt and delivery of Approved Product and Money;
- (b) procedures for payment of collateral in respect of initial margin or other margins;
- (c) the extension of client credit (if applicable);
- (d) the provision of security for the obligations of the Customer;
- (e) risk management provisions including dealing, position and settlement limits and controls and filters;
- (f) communications, settlement confirmation and reporting between the Customer and the Clearing Participant;
- (g) fees, disbursements and any other amounts payable.
- (h) government duty and any other applicable taxes;
- (i) if applicable, opening, approving and monitoring of Accounts for Derivatives Transactions;
- (j) if applicable, the Customer's instructions in respect of the exercise of Option Transactions;
- (k) where applicable, the terms upon which the Clearing Participant will accept instructions from the Customer on behalf of a mutual client, governing the exercise of an Option Transaction;
- (l) procedures for dealing with any errors in relation to the Customer's Transactions to be cleared by the Clearing Participant; and
- (m) procedures for dealing with default by the Customer.

2.37.2 CHO may give reasonable directions to a Clearing Participant requiring it to make (or refrain from making) amendments to the terms of any C&S Agreement, and the Clearing Participant must comply with those directions within the time period specified by CHO.



Section 3: Clearing Transaction Procedure

Procedures for Rules 3.1.2(b), 3.1.7, 3.2.1 and 3.2.3

3.1.2 **Discretionary Transactions:** Subject to Rule 3.2, a Discretionary Transaction may be submitted for clearing and settlement on the Clearing House in accordance with these Rules by:

(b) the Clearing Participants providing clearing and settlement services to both parties to the Transaction assenting (in accordance with the relevant Procedure) to clearing and settlement of the Discretionary Transaction on the Clearing House;

3.1.7 CHO will notify each Clearing Participant in accordance with Procedure of each Settlement Transaction recorded against a Settlement Account or Account of that Clearing Participant.

3.2.1 CHO may prescribe by Procedure or by Notice limits on Transactions which will be accepted for clearing and settlement on the Clearing House.

3.2.3 **Initial Margin Limits:** CHO may prescribe by Procedure or by Notice a limit on the amount of exposure a Clearing Participant or Lending Clearing Participant may have by limiting the total aggregate amount of Initial Margin liability that the Clearing Participant or Lending Clearing Participant is permitted to have, including, in the case of a Clearing Participant, in respect of one or more NZX Markets. A limit may be imposed in respect of a Clearing Participant, Lending Clearing Participant or Clearing Participants or a class of Clearing Participants or Lending Clearing Participants generally.

3.1 Notification

3.1.1 Application for submission under Rule 3.1.2(b) of a Discretionary Transaction for clearing and settlement on the Clearing House may be made by a Clearing Participant on behalf of a Customer that is party to a Transaction. That Clearing Participant must give CHO Notice before 5:30pm on the Business Day before the first Settlement Day on which settlement is required in respect of the Transaction. That message must identify:

- (a) details of the Transaction involved including;
- (i) the date and time of the Transaction;
 - (ii) the Approved Product ID/ISIN and quantity;
 - (iii) the price and amount payable on settlement; and
 - (iv) if the system default settlement cycle is not to apply, the settlement



date or dates.

- (b) the identities of the parties to the Transaction;
 - (c) the Clearing Participant providing clearing and settlement services for the other party to the Transaction; and
 - (d) the amounts of Money payable and/or Approved Product deliverable under the Transaction; and
 - (e) the date of Settlement of the Transaction.
- 3.1.2 CHO must provide details of the application made under Procedure 3.1.1 to the Clearing Participant providing clearing and settlement services for the other party to the Transaction.
- 3.1.3 CHO will give a Clearing Participant notice of the recording of a Transaction against a Settlement Account or Account by Market Side Securities Trade Confirmation [MT518] immediately upon the recording of that Transaction. Information about Transactions recorded in a Settlement Account or Account will be available through the Clearing House System user interface.

3.2 Acceptance, Position Limits and Initial Margin Limits

- 3.2.1 **Acceptance:** If a Clearing Participant or Clearing Participants providing clearing and settlement services to both parties to the Transaction assent to the Discretionary Transaction being subject to clearing and settlement on the Clearing House, and if CHO accepts the Discretionary Transaction for clearing and settlement on the Clearing House, then CHO shall give a Notice of acceptance either through the Clearing House System or by Market-side Securities Trade Confirmation [MT518] to each Clearing Participant concerned.
- 3.2.2 **Position Limits:** The following position limits apply to Transactions which will be accepted for clearing and settlement on the Clearing House:
- (a) [None specified].
- 3.2.3 **Initial Margin Limits:** The following limits on the amount of total aggregate amount of Initial Margin liability a Clearing Participant or Lending Clearing Participant may have are:
- (a) [None specified].

Option Exercise Procedure

Procedures for Rule 3.5.1

- 3.5.1 *The exercise by a Clearing Participant of its rights under a Settlement Transaction that arises from an Option must be notified to CHO in the manner prescribed by Procedure. If a Clearing Participant submits a notice of exercise under this Rule, the Clearing Participant may only amend or withdraw that exercise notice prior to the time, and in the manner, prescribed in the Procedure. A Procedure may provide that in the absence of instructions from the Clearing Participant to the contrary, CHO*

may, on behalf of the Clearing Participant, exercise any rights of the Clearing Participant under the Settlement Transaction that arises from an Option prior to expiry of the Option. The method for final exercise of a Settlement Transaction that arises from an Option shall be specified by Procedure.

3.3 Notice of Exercise

3.3.1 The exercise of an Option shall be notified to CHO or a Clearing Participant through the Clearing House System user interface on or before the expiry date. The Notice must:

- (a) identify the open position by reference to the position reference number in the Clearing House System;
- (b) specify the number of lots to be exercised; and
- (c) specify either:
 - (i) that the Option is to be exercised; or
 - (ii) if the account indicator has been set to auto exercise, specify that the Option is not to be exercised.

3.3.2 A Notice of exercise may only be amended or revoked by providing notice to CHO in writing or through the Clearing House System user interface before 5.30pm on the day the notice of exercise is submitted.

3.3.3 Notice of exercise must be given during the period, or on the date, specified and otherwise as provided by the terms of the Option.

3.4 Automatic Exercise

3.4.1 When an Option instrument is created in the Clearing House System and the relevant Clearing Participant's position is long and "In the Money", an instruction will be created in the Clearing House System specifying that the Settlement Transaction in respect of that Option instrument will be exercised on its expiry date. This instruction will remain valid in respect of the relevant Option instrument unless the Clearing Participant requests through the Clearing House System user interface to override an automatic exercise instruction before the time on the relevant expiry date that is specified by the terms of the Option.

Give up – Take up Procedure

Procedures for Rules 3.6.1 and 3.6.2

3.6.1 *A Clearing Participant may apply to CHO for the rights and obligations of that Clearing Participant under a Settlement Transaction arising from a Derivatives Contract to be novated in full to another Clearing Participant by notification to CHO in the form and in the manner prescribed by Procedure.*

3.6.2 *CHO may, after receipt of confirmation of acceptance from the proposed Transferee given in accordance Procedure, in its absolute discretion, and without giving any reason, either accept or decline an application for novation of a Settlement*

Transaction under Rule 3.6.1, and may accept the application subject to any terms and conditions as CHO in its absolute discretion determines. Acceptance or otherwise of the application for novation will be notified to the Transferor and Transferee in the manner prescribed by Procedure.

3.5 Notice of Application – Give up – take up Transactions

3.5.1 Application for novation of a Settlement Transaction arising from a Derivatives Contract in accordance with Rule 3.6 shall be made by the Transferor giving an instruction through the Clearing House System. That instruction must clearly identify:

- (a) the Settlement Transactions involved by appropriate trade reference number identifier;
- (b) the Transferee by its Business Partner Identification Number; and
- (c) the proposed date of novation (which must be a Business Day).

3.5.2 The Transferee must, within three Business Days, confirm acceptance of the novation by giving an instruction through the Clearing House System.

3.6 Notice of Acceptance

3.6.1 Following receipt of an application for novation from a Transferor and confirmation of acceptance of the novation by the Transferee, Notice of acceptance or decline of a novation application will be notified by CHO to the Transferor and Transferee through the Clearing House System. CHO will include in any Notice of acceptance any terms and conditions of acceptance by CHO of the application under Rule 3.6 for novation.

Match-Out Procedure

Procedures for Rules 3.7.1 and 3.7.4

3.7.1 *A Clearing Participant who is buyer to one or more Settlement Transactions that result from Derivatives Contracts and a Clearing Participant that is a seller (who may also be the same Clearing Participant as the buyer) to one or more other Settlement Transactions that result from Derivatives Contracts the terms of which, when aggregated, are identical in all respects other than price and contract date, may apply to CHO in the form and in the manner prescribed by Procedure and for its rights and obligations under those Settlement Transactions to be set-off.*

3.7.4 *Acceptance or otherwise of an application for set-off will be notified to the Clearing Participant in the manner prescribed by Procedure.*

3.7 Notice of Application – Set-off of Settlement Transactions

3.7.1 Application for set-off of Settlement Transactions in accordance with Rule 3.7 shall be made by the Clearing Participant giving an instruction through the Clearing House System. That message must clearly identify the Settlement Transactions involved by reference number and the proposed date of set-off.



3.8 Notification

3.8.1 Following receipt of an application under Rule 3.7 for set-off, Notice of acceptance or rejection of an application will be notified by CHO through the Clearing House System. The Notice shall specify:

- (a) the conditions (if any) attached to the acceptance; and
- (b) the details of adjustments (if any) made to the Settlement Transactions.

Settlement Transaction Cancellation Procedure

Procedures for Rules 3.10.2(a) and (b)

3.10.2 *The cancellation of a Discretionary Transaction:*

- (a) *by the operator of an NZX Market in accordance with rules or other arrangement of that NZX Market; or*
- (b) *by agreement between both parties in accordance with the relevant Procedure, will result in the cancellation of the relevant Settlement Transactions of the Clearing Participants recorded with CHO as buyer and seller in respect of the cancelled Transaction (including by CHO creating and processing such additional Settlement Transactions as may be necessary).*

3.9 Application

3.9.1 Application for cancellation of a Settlement Transaction arising from a Discretionary Transaction in accordance with Rule 3.10.2(b) may be made by the parties to the original Discretionary Transaction. That notification must be given, at the latest, before 5:00pm on the Business Day before the first Settlement Day on which settlement is required in respect of the Transaction and must clearly identify:

- (a) the Settlement Transactions involved by the Business Partner Identification Number;
- (b) the other party to the original Discretionary Transaction by their Business Partner Identification Number; and
- (c) The other party to the original Discretionary Transaction must, on that Business Day, confirm agreement to cancellation of the Settlement Transactions.

3.10 Notice of Cancellation

3.10.1 Following receipt of an application for cancellation and confirmation of agreement to the cancellation, Notice of the cancellation will be notified by CHO through the Clearing House System or by Market-side Trade Confirmation – Cancel [MT518].



Margin Procedure

Procedures for Rules 3.8.1, 3.11.6 and 3.11.7

3.8.1 *At the close of each Business Day CHO will calculate Variation Margin in respect of each Settlement Transaction arising from Futures Contracts in accordance with the Procedures.*

3.11.6 *The methods for calculating each Margin component will be determined using a risk based algorithm and/or such other method as may be provided by Procedure.*

3.11.7 *CHO must notify Clearing Participants and Lending Clearing Participants of their Margin positions and obligations as provided by Procedure.*

3.11 Margin Calculation

3.11.1 **Initial Margin:** An amount of Initial Margin required shall be determined using a Value at Risk (“**VaR**”) model, taking into account:

- (a) the liquidity of the Approved Product;
- (b) price volatility of the Approved Product; and
- (c) the portfolio effect related to Approved Product.

3.11.2 **Securities:** Initial Margin requirements are calculated using an exponential moving weighted average VaR (“**EMWA VaR**”), in which recent price movements are assumed to have more influence on future returns than more remote data. The EMWA VaR is calculated using additional parameters which include:

- (a) Price history – VaR is calculated for 20, 90 and 250 days. The maximum of these three calculated VaRs will be used for Initial Margin;
- (b) Confidence level: a 99% confidence factor is used;
- (c) Decay factor: 0.94 is used as the decay factor for the EMWA VaR. This weights more recent data more than older/remote data.
- (d) Liquidation period: the time taken to close out the position based on the liquidity of the underlying security.

3.11.3 Initial Margin rates and the relevant risk parameters are monitored on a daily basis and will be formally reviewed by CHO on a monthly basis. CHO reserves the right to amend any Initial Margin rates during the month if the underlying volatility of the relevant Security has changed.

3.11.4 **Derivatives Contracts:** SPAN® will be used to calculate Initial Margin requirements for Derivatives Contracts. For each Derivatives Contract, an Initial Margin rate is calculated using an EMWA VaR at 99% confidence level. SPAN® calculates Initial Margin requirements by assessing the risk of each Clearing Participant’s portfolio by computing the worst possible loss that might be suffered by the portfolio based on a series of scenarios. Initial Margin rates for Derivatives Contracts and the relevant risk parameters are monitored on a daily basis and will be

formally reviewed by CHO on a monthly basis. CHO reserves the right to amend any Initial Margin rates during the month if it considers it necessary.

3.11.5 **Stock loans:** Initial Margin is 105% of the current value of the Securities subject of the loan and 100% of the current value of any outstanding Substitute Payment. CHO reserves the right to increase this percentage if it determines it is required due to the credit risk of the Lending Clearing Participant or Clearing Participant.

3.11.6 **Variation Margin:** The amount of Variation Margin required shall be determined by CHO in its discretion, taking into account:

- (a) movement of daily settlement price against contract price; and/or
- (b) movement of daily settlement price; and/or
- (c) the nature and terms of the Settlement Transaction.

3.11.7 **Securities:** Variation Margin is calculated as the consequent profit or loss arising from the valuation of the Clearing Participant's Net Open Positions. It will include the change in value of unsettled positions since the last valuation. Variation Margin is calculated for each Settlement Day. On any one Settlement Day, negative Variation Margin for one Security will be set-off against positive Variation Margin for another Security. Variation Margin will not be netted across more than one Settlement Day.

3.11.8 Variation Margin for each Security position on a Settlement Day is calculated as:

$$\begin{aligned} & (\text{Close Price} - \text{WABP}) * \text{Total Buy Quantity} \\ & + (\text{WASP} - \text{Close Price}) * \text{Total Sell Quantity} \end{aligned}$$

Where:

Close Price = the last traded price of a Security on that Business Day or such other price as CHO determines, acting in a commercially reasonable manner, as representing the value of that Security at the end of that Business Day

Total Buy Quantity = the net quantity of Approved Product that a Clearing Participant is entitled to receive from CHO

Total Sell Quantity = the net quantity of Approved Product that a Clearing Participant is to deliver to CHO

WABP = weighted average price of all Settlement Transactions which relate to Total Buy Quantity

WASP = weighted average sell price of all Settlement Transactions which relate to Total Sell Quantity

3.11.9 Where no Close Price is available on that Settlement Day, the Close Price from the immediately preceding Business Day shall be used. If there is no Close Price for that Business Day, CHO will use the Closing Price on the Business Day immediately preceding the Business Day (ie the trade date for the Security).

3.11.10 **Futures Contracts:** Variation Margin for a Futures Contract is calculated using the difference between the current Business Day's settlement price (as determined by

CHO in its discretion) and the previous Business Day's settlement price (as determined by CHO in its discretion) or the trade price (as applicable) for each Futures Contract, multiplied by the open position for that Futures Contract. This can be expressed as:

Variation Margin for Futures Contract = [(Current Business Day's settlement price – Previous Business Day's settlement price) * contract multiplier * number of relevant net open contracts] + [Current Business Day's settlement price * number of relevant net open contracts * contract multiplier - Current Business Day's net trade value on relevant contracts]

The total Variation Margin for each Futures Contract (profit or loss) is summed to a total Variation Margin for Futures Contracts for each Clearing Participant.

3.11.11 Options: Variation Margin for Options will be calculated for Clearing Participants with a net short position. Variation Margin for Options is calculated as:

Variation Margin for Options Contract = Close price (premium) current Business Day for the Option * Clearing Participant's net short position in that Option * contract multiplier

If there is no close price for the current Settlement Day, CHO will calculate the close price using an option valuation model as advised from time to time.

3.11.12 Additional Margin: The amount of Additional Margin required shall be determined taking into account:

- (a) expected or anticipated price movements;
- (b) deliveries of the underlying instrument for the Derivative Contract; and
- (c) credit risk of the Clearing Participant.

3.12 Notification

3.12.1 CHO must give Notice to each Clearing Participant and Lending Clearing Participant of their Margin obligations by sending them a Total Margin Payable Report at the end of each Business Day. A Total Margin Payable Report will show the Margin calculations for a Clearing Participant or a Lending Clearing Participant and the Collateral that must be delivered to CHO the next Business Day.

3.12.2 CHO must give Notice to a Clearing Participant or Lending Clearing Participant of any intra-day Margin call.

Collateral Procedure

Procedures for Rules 3.12.2, 3.12.3, 3.12.4, 3.12.10, 3.13.1, 3.13.2, 3.13.3, 3.14.1, 3.15.2 and 3.16.4.

3.12.2 *A Clearing Participant or Lending Clearing Participant may deliver Eligible Collateral to CHO at any time, and must deliver Eligible Collateral to, or at the direction of CHO, when required to do so by CHO. The methods of notifying CHO of the delivery by the Clearing Participant or Lending Clearing Participant of Eligible*

Collateral, or notifying Clearing Participants or Lending Clearing Participants of a requirement to deliver Eligible Collateral, will be provided for by Procedure.

3.12.3 Subject to Rule 3.12.4, Eligible Collateral shall be delivered by a Clearing Participant or Lending Clearing Participant in the following manner:

(a) Money Collateral must be transferred by the Clearing Participant's or Lending Clearing Participant's Settlement Bank to CHO's Money Collateral Account in the manner described by Procedure. Money Collateral in NZ\$ must be transferred to CHO's Money Collateral Account by a Clearing Participant or Lending Clearing Participant instructing its Settlement Bank to pay Money to CDO's ESAS Account. Money Collateral in currencies other than NZ\$ must be transferred by a Clearing Participant or Lending Clearing Participant instructing its Settlement Bank to pay Money to CDO's account in the Clearing Bank in cleared funds. Money Collateral may only be provided in currencies for which CHO holds a Money Collateral Account;

(b) Eligible Securities must be delivered to CHO by transfer to CHO's Product Collateral Account in the manner described by Procedure;

3.12.4 CHO may specify other methods of providing Collateral by Procedure.

3.12.10 CHO must invest, or direct the investment of, Money Collateral transferred to it in an account with a Bank selected, and on terms to be determined, at CHO's discretion. CHO will prescribe the principles for investment of Money Collateral by Procedure.

3.13.1 CHO may in its sole discretion specify by Procedure the Money, Eligible Securities, Third Party Collateral and other property or assets that will be accepted by CHO as Eligible Collateral.

3.13.2 CHO will have sole discretion to determine the valuation of Eligible Collateral, including the Haircut to be applied to each type of Eligible Collateral and will publish such details by Procedure.

3.13.3 CHO will have sole discretion, by Procedure or otherwise to:

(a) determine the quantity or proportion of each type of individual Eligible Securities, Money, Third Party Collateral or other property or assets which any or all Clearing Participants or Lending Clearing Participants may or must deliver and/or maintain as Collateral;

(b) impose a minimum requirement by proportion and/or value for Money Collateral; or

(c) refuse to accept or reject any Third Party Collateral provided by a Clearing Participant or Lending Clearing Participant.

3.14.1 CHO must record Collateral delivered by a Clearing Participant or Lending Clearing Participant against a Settlement Account or Account of that Clearing Participant or Lending Clearing Participant in accordance with Procedure and any directions given

by that Clearing Participant or Lending Clearing Participant.

3.15.4 *The procedure for withdrawal of Collateral (other than Transferred Collateral), return of Third Party Collateral and transfers of property or assets under Rule 3.15.2(b) will be prescribed by Procedure.*

3.13 Notification of Margin Call

3.13.1 CHO will notify each Clearing Participant or Lending Clearing Participant of the amount of Eligible Collateral that that Clearing Participant or Lending Clearing Participant must deliver on a Business Day by sending a Total Margin Payable Report generated at the close of business on the Business Day prior to that Business Day. That report will include confirmation of the amount of Eligible Collateral currently held and calculation of the additional Eligible Collateral or payment required.

3.13.2 A Clearing Participant or a Lending Clearing Participant must deliver to CHO the required amount of Eligible Collateral before 9.30 am on the Business Day on which the Collateral is required to be delivered.

3.13.3 At or prior to the time of delivery of Eligible Collateral that is not Third Party Collateral, the Clearing Participant or Lending Clearing Participant must deliver, in form and substance satisfactory to CHO, evidence that the Eligible Collateral is free and clear of any Security Interest, lien, encumbrance or other restriction. This evidence must include (but is not limited to) the results of a search of the PPSR for financing statements registered against the Clearing Participant or Lending Clearing Participant dated no earlier than the relevant Settlement Day.

3.13.4 At or prior to the time of delivery of Eligible Collateral that is not Transferred Collateral or Third Party Collateral, the Clearing Participant or Lending Clearing Participant will confirm in writing to CHO that the relevant Eligible Collateral is included in the collateral description contained in the Clearing Participant's or Lending Clearing Participant's application form.

3.14 Collateral Delivery

3.14.1 A Clearing Participant or Lending Clearing Participant must notify CHO of the delivery of Eligible Collateral and Money Collateral or additional Eligible Collateral and Money Collateral in the manner set out in this Procedure. Any such transfers to CHO of Eligible Collateral and Money must be lodged in the relevant Account within the Depository in the manner specified in the Lodgement and Uplift Procedures of the Depository Operating Procedures.

3.14.2 **Money:** Where Collateral is provided is Money, a Clearing Participant or Lending Clearing Participant must give CHO Notice of the delivery of Money Collateral by submitting an instruction through the Clearing House System user interface by way of an instruction or by way of a Collateral Proposal Message [MT504]. Any such instruction or message should specify:

- (a) the Business Partner Identification Number of the Clearing Participant or Lending Clearing Participant;
- (b) details of the Account against which the Collateral is to be recorded; and



- (c) the currency and amount of Money being transferred.
- 3.14.3 Upon receipt of such transfer, CHO will record the transfer of Money Collateral as received in CHO's Money Collateral Account and in the Clearing Participant's or Lending Clearing Participant's Account as Collateral given. CHO will confirm acceptance of Money Collateral through the Clearing House System or by way of a Collateral Status and Processing Advice [MT507].
- 3.14.4 **Eligible Securities:** Where Collateral is provided in the form of Eligible Securities, a Clearing Participant or Lending Clearing Participant must give CHO Notice of the delivery of Eligible Securities by submitting an instruction through the Clearing House System user interface by way of an instruction or by way of a Collateral Proposal Message [MT504]. Any such instruction or message should specify:
- (a) the Business Partner Identification Number of the Clearing Participant or Lending Clearing Participant;
 - (b) details of the Account against which the Eligible Security are to be recorded;
 - (c) the ISIN of the Eligible Security; and
 - (d) the quantity of the Eligible Security being transferred.
- 3.14.5 Upon receipt of such transfer, CHO will record the transfer of Eligible Securities as received in CHO's Product Collateral Account and in the Clearing Participant's or Lending Clearing Participant's Account as Collateral given. CHO will confirm acceptance of Eligible Securities through the Clearing House System or by way of a Collateral Status and Processing Advice [MT507].
- 3.14.6 **Third Party Collateral:** Where Collateral is provided in the form of Third Party Collateral, a Clearing Participant or Lending Clearing Participant must give CHO Notice of the delivery of Third Party Collateral either manually in the form of notice as specified by CHO from time to time or by way of a Collateral Proposal Message [MT504]. Any such Notice or message should specify:
- (a) the Business Partner Identification Number of the Clearing Participant or Lending Clearing Participant;
 - (b) details of the Account against which the Third Party Collateral is to be recorded;
 - (c) the name of the issuing Bank or other party issuing the Third Party Collateral; and
 - (d) the amount of the Third Party Collateral.
- 3.14.7 Upon receipt of such message or instruction and the Third Party Collateral by CHO (and CHO is satisfied that the Third Party Collateral meets any requirements specified by the Rules and Procedures), CHO will record any such transfer of Third Party Collateral as Third Party Collateral received in CHO's Product Collateral Account and in the Clearing Participant's or Lending Clearing Participant's Account as Collateral given. CHO will confirm acceptance of Third Party Collateral through the Clearing House System or by way of a Collateral Status and Processing Advice



[MT507].

3.15 Bank Account Principles

3.15.1 CHO shall take the following principles into account when investing Money Collateral:

- (a) the security and financial stability of the investment. CHO will have regard to the rating of the Bank, its financial position and regulatory environment;
- (b) the level of return received. CHO will have regard to the level of return relative to returns available on investments of a similar risk profile; and
- (c) the notice period required to obtain repayment of the investment.

3.16 Form of Third Party Collateral

3.16.1 Third Party Collateral must be in the form of a performance bond in the form prescribed by Appendix A to this Procedure.

3.17 Collateral Type

3.17.1 Only Money in NZ\$, AU\$ or US\$ or Eligible Securities of the types referred to in Procedures 3.18.1 or 3.18.3 or Third Party Collateral of the type referred to in Procedure 3.16 may be provided as Eligible Collateral.

3.18 Eligible Securities

3.18.1 Subject to Procedure 3.18.2 the following are Eligible Securities:

- (a) Approved Products issued by Issuers in the NZX 50 Index (provided that CHO is satisfied, in each case, with such matters as CHO considers relevant to its ability to obtain, perfect and maintain an effective, first ranking Security Interest in that Approved Product);
- (b) Approved Products issued by the New Zealand Government; and
- (c) Approved Products issued by Issuers in the ASX 200 Index (provided that CHO is satisfied, in each case, with such matters as CHO considers relevant to its ability to obtain, perfect and maintain an effective, first ranking Security Interest in that Approved Product).

3.18.2 CHO may determine any Securities and/or Cash Equivalent Investments that would otherwise be Eligible Securities to not be Eligible Securities if:

- (a) CHO considers that, upon delivery of those Securities or Cash Equivalent Investments as Collateral, CHO would have an unreasonably high exposure in respect of those Securities and/or Cash Equivalent Investments or the Issuer thereof; or
- (b) in relation to Securities, trading in those Securities is for any reason suspended from any NZX Market or other securities exchange on which the



Securities were listed at the time of delivery to CHO.

- 3.18.3 CHO may approve other Approved Products as Eligible Securities. In considering any such approval, CHO may take into account any factors it considers relevant to its ability to obtain, perfect and maintain an effective, first ranking Security Interest in such Approved Product. CHO will also ensure that it takes steps to ensure that Clearing Participants and Lending Clearing Participants who wish to provide CHO with Approved Products approved under this Procedure provide it with such documents and do such things as may be required so that CHO is provided with a Security Interest in such Collateral, where Collateral is to be provided subject to a Security Interest.

3.19 Valuation and Haircuts

- 3.19.1 For the purposes of Rule 3.14.2, CHO assigns a value for Eligible Collateral purposes to all Eligible Collateral held or provided. The way this value is determined depends on the type of Eligible Collateral as follows:

- (a) Money in NZ\$ shall be valued at face value;
- (b) Money in foreign currency (except for Money in a foreign currency provided as Eligible Collateral in respect of a Net Open Position in the same foreign currency) will be valued at:
 - (i) \$US, 95% of face value;
 - (ii) EUR, 95% of face value;
 - (iii) AU\$, 95% of face value;
 - (iv) £UK, 95% of face value; and
 - (v) all other currencies, 90% of face value.
- (c) Approved Products issued by Issuers in the NZX 50 index are valued at 70% of daily closing bid price (except as specified in Procedure 3.19.2 below);
- (d) Approved Products issued by Issuers in the ASX 200 Index are valued at 70% of daily closing bid price; and
- (e) New Zealand Government securities are valued at 95% of daily closing bid price.

- 3.19.2 For the purposes of Rule 3.13.2, Approved Products lodged as Specific Cover Collateral against exchange traded options traded on NZX Markets are valued at 100% of daily closing bid price.

3.20 Minimum Money Collateral

- 3.20.1 The minimum amount of Money that a Clearing Participant must provide as Collateral in respect of each Settlement Account or Accounts at any time is 30% of the total value of Collateral required to be delivered by that Clearing Participant at that time in respect of that Settlement Account or Accounts except as provided by Procedure 3.20.2. There is no minimum amount of Money that a Lending Clearing Participant must provide as Collateral.



3.20.2 There is no minimum amount of Money that a Clearing Participant must provide as part of the total value of Collateral in respect of each Settlement Account or Accounts where Approved Products are lodged as Specific Cover Collateral against exchange traded options traded on NZX Markets.

3.21 Withdrawal, return and property transfers

3.21.1 The procedure for withdrawal of Collateral other than Third Party Collateral and Transferred Collateral is as follows:

- (a) The Clearing Participant or Lending Clearing Participant will notify CHO of the identity and quantity of the asset and quantity to be withdrawn;
- (b) CHO will calculate the valuation of the assets identified and confirm whether there would be Eligible Collateral of sufficient value remaining after the requested withdrawal to meet for the Clearing Participant's or Lending Clearing Participant's current Eligible Collateral requirement;
- (c) If there would be Eligible Collateral of sufficient value remaining after the requested withdrawal to meet the Clearing Participant's or Lending Clearing Participant's current Eligible Collateral requirement, CHO will transfer the surplus Eligible Collateral to be withdrawn out of a Product Collateral Account or Money Collateral Account to the Clearing Participant's or Lending Clearing Participant's nominated account and release any Security Interests that CHO may have in that Eligible Collateral.

3.21.2 The procedure for return of Third Party Collateral is as follows:

- (a) The Clearing Participant or Lending Clearing Participant will notify CHO of the identity of the Third Party Collateral to be returned;
- (b) CHO will calculate the valuation of the Third Party Collateral identified and confirm whether there would be Eligible Collateral of sufficient value remaining after the requested return to meet for the Clearing Participant's or Lending Clearing Participant's current Eligible Collateral requirement;
- (c) If there would be Eligible Collateral of sufficient value remaining after the requested return to meet the Clearing Participant's or Lending Clearing Participant's current Eligible Collateral requirement, CHO will return the nominated Third Party Collateral to the issuer of that Third Party Collateral.

3.21.3 The procedure for transfers in respect of Transferred Collateral is as follows:

- (a) The Clearing Participant or Lending Clearing Participant will notify CHO of the identity of the Transferred Collateral that it requests a transfer in respect of;
- (b) CHO will calculate the valuation of the property or assets it would be required to transfer in respect of the Transferred Collateral identified and confirm whether, following the application of Rule 3.15.3, there would be Eligible Collateral of sufficient value remaining after the requested transfer to meet for the Clearing Participant's or Lending Clearing Participant's current Eligible Collateral requirement;



- (c) If there would be Eligible Collateral of sufficient value remaining after the requested transfer to meet the Clearing Participant's or Lending Clearing Participant's current Eligible Collateral requirement, CHO will transfer property of the same type, nominal value, description and quantity as the identified Transferred Collateral to the Clearing Participant's nominated account.

3.21.4 CHO will endeavour to process Collateral withdrawals and returns, in respect of Collateral (as applicable) on the day the request is received, provided that it is received by CHO by 4.00 pm. The Clearing House System will process requests received each day during end of day processing.



Appendix A

Form of Performance Bond

PERFORMANCE BOND

Beneficiary: New Zealand Clearing Limited

Level 2, NZX Centre
11 Cable Street
Wellington

Issuer: [name]

[address]

Issue Date: [Date]

BACKGROUND

- A [] (Participant) [wishes to become/is] a [Clearing Participant/Lending Clearing Participant] under the Clearing and Settlement Rules (Rules) of New Zealand Clearing Limited (Clearing House).
- B The Rules require a [Clearing Participant/Lending Clearing Participant] to provide Collateral to the Clearing House to cover Margin obligations relating to Settlement Transactions to which the [Clearing Participant/Lending Clearing Participant] is a party.
- C [] (Issuer) has agreed to issue this Performance Bond at the request of the Participant in favour of the Clearing House to enable the Participant to meet its obligation to provide Collateral to the Clearing House.

BY THIS DEED:

- 1 The Issuer irrevocably undertakes to pay on demand to the Clearing House any sum or sums not exceeding in total an amount of \$[*amount and currency*] (*Maximum Amount*) if the Issuer receives from the Clearing House a written demand for payment which includes:
- 1.1 a statement of the amount demanded (which amount shall not exceed the Maximum Amount less any amounts previously paid and any amounts demanded and yet to be paid, by the Issuer under this Performance Bond);



and

1.2 payment instructions,

purported to be signed by a duly authorised signatory of the Clearing House (*Demand*).

2 As between the Clearing House and the Issuer, a Demand will be conclusive and the Issuer is not required to make enquiry of, nor take account of any statement from, any other party. The Issuer shall be under no obligation to investigate the authenticity or verify the validity of any Demand it receives. The Issuer will perform its obligations under this Performance Bond notwithstanding any contrary instruction given to the Issuer by the Participant.

3 The Issuer may at any time pay to the Clearing House, in accordance with payment instructions given to the Issuer by the Clearing House, an amount that is equal to:

3.1 the Maximum Amount less any amounts previously paid by the Issuer under this Performance Bond; or

3.2 such lesser amount as may be specified by the Clearing House as being in full satisfaction of the undertaking contained in this Performance Bond,

and before making any payment under this clause 3, the Issuer must obtain payment instructions from the Clearing House.

4 All payments to be made under this Performance Bond shall be made:

4.1 free and clear of, and without deduction for, any present or future taxes, levies, duties, charges, fees, deductions, set offs, or withholdings of any nature, except to the extent required by law;

4.2 in cleared funds to the account and in the manner nominated by the Clearing House and advised to the Issuer in the Demand or in payment instructions obtained by the Issuer from the Clearing House under clause 3; and

4.3 if a Demand is made under clause 1, immediately upon receipt of a Demand.

5 This Performance Bond terminates at the earlier of:

5.1 the time at which a notification has been received by the Issuer from the Clearing House that this Performance Bond is no longer required by the Clearing House; and

5.2 the time at which the Issuer has paid to the Clearing House in accordance with the terms of this Performance Bond the whole of the Maximum Amount, or such lesser amount as may be specified by the Clearing House as being in full satisfaction of the undertaking contained in this Performance Bond,

but in each case without prejudice to any rights, powers and remedies of the Clearing House under this Performance Bond that arose prior to its expiry.



6 For the purposes of this Performance Bond, all demands, notices and other communications provided for or permitted under this Performance Bond shall be sent by facsimile, or by hand or courier delivery as follows:

6.1 In the case of demands, notices and other communications to the Issuer:

[Issuer's Name]
Attention: []
Facsimile: []
Street Address: []

(or, if different, the latest representative, address and/or facsimile number notified by the Issuer to the Clearing House for the purposes of this Performance Bond).

6.2 In the case of demands, notices and other communications to the Clearing House:

New Zealand Clearing Limited
Attention: []
Facsimile: []
Street Address: Level 2, NZX Centre
11 Cable Street
Wellington

(or, if different, the latest representative, address and/or facsimile number notified by the Clearing House to the Issuer for the purposes of this Performance Bond).

7 A communication under this Performance Bond:

7.1 in the case of delivery by hand or courier, is taken to be received at the time of delivery; and

7.2 if made by facsimile, it is deemed to be received when the sender's facsimile machine indicates a successful transmission to the facsimile number.

8 The Clearing House may not transfer or assign the benefit of this Performance Bond.

9 Each capitalised term used but not defined in this Performance Bond shall have the meaning given to it in the Rules.

10 This Performance Bond shall be governed by, and construed in accordance with, New Zealand law. The Issuer irrevocably submits to the exclusive jurisdiction of the courts of New Zealand and irrevocably waives:

10.1 any objection arising at any time to the undertaking of proceedings in New Zealand;



10.2 any claim that such proceedings have been brought in an inconvenient forum;
and

10.3 the right to object to such proceedings on the grounds that the courts of New Zealand do not have jurisdiction over it.

EXECUTED AND DELIVERED as a deed

[Issuer] by its attorneys **[Name]** and
[Name]

in the presence of:

Name:

Occupation:

Address:



Section 4: Settlement Procedure

Procedures for Rules 1.6.1, 4.1.1 and 4.2.4(a)

- 1.6.1 **Settlement Closing** means in respect of a Net Open Position or a Settlement Transaction (other a Settlement Transaction arising from a Lending Transaction) and in respect of a Settlement Time, the time specified by Procedures;
- 4.1.1 **Time for Settlement:** The time for settlement of obligations arising under Net Open Positions will be specified in the Procedures. Such Procedures will prescribe for each class or category of Net Open Position a time or times during each Settlement Day at which settlement of Net Open Positions is required. Settlement of obligations in respect of Lending Transactions, Shortfall Amounts or Withheld Approved Product may occur at any time during a Settlement Day.
- 4.2.4 If at a Settlement Closing there is insufficient Approved Product to settle all Net Open Positions of all Clearing Participants at that Settlement Time, then:
- (a) CHO must allocate the available Approved Product (if any) to the Net Open Positions of Clearing Participants in respect of that Settlement Time. Where a Clearing Participant has more than one Net Open Position in respect of a particular class of Approved Product, CHO must allocate available Approved Product to the Net Open Position with the earliest original Settlement Date and there will be no netting of or set-off between Shortfall Net Open Positions at that Settlement Time. Where two or more Clearing Participants' entitlements to receive delivery of Approved Product first arose on the same Settlement Date, identification of the Clearing Participants who will receive Approved Products will be by a ballot conducted in the manner prescribed by the Procedures;

4.1 Settlement Day

- 4.1.1 CHO may, in its absolute discretion, decide that a Business Day will not be a Settlement Day.

4.2 Settlement Closing/Settlement Time

- 4.2.1 Settlement Closing for Net Open Positions is the time that is five minutes prior to a Settlement Time.
- 4.2.2 The Settlement Times for Net Open Positions on a Settlement Day for the purposes of Rule 4.1.1 will be as set out in the table below:

Time	Type of Net Open Position
10:00am	Net Open Positions for Derivatives Contracts
10:30am	Shortfall Net Open Positions for Securities Transactions

	11:00am	Net Open Positions for Securities Transactions (other than Shortfall Net Open Positions)
	3:00pm	Shortfall Net Open Positions calculated in respect of Approved Product that Clearing Participants failed to deliver at Settlement Closing for Settlement Time at 11.00 am
	3.30 pm	Shortfall Net Open Positions calculated in respect of Approved Product that Clearing Participants failed to deliver at Settlement Closing for Settlement Time at 10.30 am

4.3 Settlement Fail Allocation

- 4.3.1 If there is insufficient Approved Product to settle all Net Open Positions of all Clearing Participants at a Settlement Time and CHO allocates available Approved Product to Clearing Participants in accordance with Rule 4.2.4(a), those Clearing Participants shall be identified by the following Procedure:
- (a) each Clearing Participant with an entitlement to receive Approved Product in respect of which there is a shortfall at the specified Settlement Time, will be allocated a random number by the Clearing House System;
 - (b) all the affected Clearing Participants will be sorted by their allocated numbers in ascending order, and allocated a position in sequence accordingly;
 - (c) the available quantity of the Approved Product will be allocated to the affected Clearing Participants in the order of that sequence;
 - (d) if a Clearing Participant's entitlement is less than the remaining total available quantity, then that Clearing Participant will receive the full entitlement. The total available quantity will be reduced by that amount, and applied to the next Clearing Participant in the sequence;
 - (e) if a Clearing Participant's entitlement is greater than or equal to the remaining total available quantity, then that Clearing Participant will receive the remaining total available quantity. The remaining Clearing Participants in the sequence will not receive any of their entitlement to the Approved Product.



Section 5: Reporting

Procedures for Rule 5.2.1

5.2.1 *CHO will make reports available to Clearing Participants and Lending Clearing Participants in accordance with Procedures.*

5.1 Reports

5.1.1 The following reports for each Clearing Participant (and if relevant, each Lending Clearing Participant) will be available in the Clearing House System:

- (a) a report which shows in respect of each Settlement Account:
 - (i) for each Approved Product and for each Settlement Time on each Settlement Day, the net quantity of Approved Product, to be delivered or received by the Clearing Participant or Lending Clearing Participant; and
 - (ii) for each Approved Product and for each Settlement Time on each Settlement Day, the underlying Transactions and the gross quantity of Approved Products to be delivered or received for each Settlement Transaction;
- (b) a report which shows in respect of each Settlement Account:
 - (i) for each Settlement Time on each Settlement Day, the net amount to be paid or received in each currency by the Clearing Participant through its Settlement Bank; and
 - (ii) for each Settlement Time on each Settlement Day, the underlying Transactions and the gross amount to be paid or received for each Settlement Transaction;
- (c) a report which provides details of Approved Product and payment obligations for each Person for whom the Clearing Participant provides clearing and settlement services;
- (d) a report which allows Clearing Participants to review their Net Open Positions with CHO for each Settlement Time on each Settlement Day;
- (e) a report which allows Clearing Participants and Lending Clearing Participants to review their current Settlement Transactions arising in respect of Lending Transactions;
- (f) a report which shows in respect of each Settlement Account, for each Business Day, a list of all Settlement Transactions created on that Business Day, and the current status of each Settlement Transaction;
- (g) a Total Margin Payable Report;
- (h) a report which is available as a 'close of business' version, which will be the 'official' version of the calculation of the Margin obligations of the Clearing



Participant or Lending Clearing Participant calculated under Rule 3.11;

- (i) a report which provides details of Settlement Transactions to which the Clearing Participant is a party and which are novated in accordance with Rule 3.6; and
- (j) a report for each Business Day recording, in respect of the Clearing Participant and each Settlement Account:
 - (i) the total Collateral delivered;
 - (ii) the Money Collateral delivered;
 - (iii) the Eligible Collateral delivered;
 - (iv) Third Party Collateral delivered as Eligible Collateral; and
 - (v) the total Collateral withdrawn, returned or in respect of which a transfer was made under Rule 3.14.2.



Section 6: CHO Powers

Approved Product Procedure

Procedures for Rules 6.2.1 and 6.2.3

6.2.1 *Any Person may apply to NZX, in the form prescribed by Procedure, to have a class of Commodity or Derivatives Contract approved as an Approved Product.*

6.2.3 *Upon receipt of an application or on its own initiative, NZX may at its absolute discretion approve a class of Commodity or Derivatives Contract as an Approved Product which CHO must then prescribe in Procedure. CHO may attach to an approval granted by NZX any conditions of approval CHO considers necessary for the integrity, reliability and efficiency of the Clearing House.*

6.1 Application for Approved Products

6.1.1 An application for approval of a class of Commodity or Derivatives Contract must be made in writing in such form as NZX may request, and shall include:

- (a) name and description of the product, including a copy of the document that prescribes the terms of the product and any offer document issued in relation to the product;
- (b) description of the Market (if any) on which it is traded, including a copy of the rules of any Market on which it is traded;
- (c) details of the register maintained for the product (if any) and arrangements for transfer of holdings on that register to the Depository;
- (d) Historical trading data – if any; and
- (e) Details of the agreement and other arrangements for the transmission of information to the Settlement System.

6.2 Approved Products

6.2.1 The following classes of Commodity or Derivative Contract have been approved by NZX as Approved Products with effect from the date specified:

Product	Market	Commencement Date	Conditions
NZSX Listed Securities	NZSX		
NZAX Listed Securities	NZAX		
NZDX Listed Securities	NZDX		



NZX Derivatives Market Contract No. 1 Global Whole Milk Powder (WMP) Futures	NZX Derivatives Market		
NZX Derivatives Market Contract No. 2 Global Anhydrous Milk Fat (AMF) Futures	NZX Derivatives Market	18/02/2011	
NZX Derivatives Market Contract No. 3 Global Skim Milk Powder (SMP) Futures	NZX Derivatives Market	18/02/2011	
NZX Derivatives Market Contract No. 4 Options on Dairy Futures	NZX Derivatives Market	30/11/2011	
Fonterra Shareholders' Market Listed Securities	Fonterra Shareholders' Market	30/11/2012	
NZX Derivatives Market Contract No. 5 S&P/ NZX 20 Index Futures	NZX Derivatives Market	16/06/2014	
NXT Market Listed Securities	NXT Market	01/11/2014	
NZX Derivatives Market Contract No. 6 Butter (BTR) Futures	NZX Derivatives Market	12/12/2014	
NZX Derivatives Market Contract No.7 Options on Equity Securities	NZX Derivatives Market	24/3/2015	
NZX Derivatives Market Contract No. 8 Milk Price (MKP) Futures	NZX Derivatives Market	06/05/2016	
NZX Derivatives Market Contract No. 9 Options on Milk Price Futures	NZX Derivatives Market	06/05/2016	
NZX Derivatives Market Contract No. 10 Options on Global Skim Milk Powder (SMP)	NZX Derivatives Market	04/12/2017	



Waiver and Ruling Procedure

Procedures for Rules 6.7.1 and 6.7.2

6.7.1. *CHO has sole discretion to waive all or any part of these Rules or the Procedures in respect of a Clearing Participant, a Lending Clearing Participant or any class or classes thereof and CHO may make rulings as to the interpretation of these Rules or the Procedures. CHO may make rulings and grant waivers from these Rules or the Procedure, on such terms and conditions as CHO, in its complete discretion, thinks fit. CHO may by Procedure specify the procedures and practices it will adopt in relation to consideration of applications for rulings or waivers.*

6.7.2 *Any waiver or ruling granted by CHO may be revoked at any time by CHO by Notice to the Clearing Participant or Lending Clearing Participant concerned. Any such revocation shall have effect from the date stated in the Notice (which may be before the date of the Notice if CHO considers that the waiver or ruling was granted on the basis of information which was incorrect, incomplete or misleading in any material respect or if the conditions specified in the waiver or ruling have not been satisfied or complied with in full).*

6.3 Application

6.3.1 Applications for waivers and/or rulings from a Rule or Procedure should be in writing and addressed to CHO, attention of the Head of Operations. Applications may be made by e-mail to clearing@nzx.com.

6.3.2 Applications for a waiver or ruling should contain all information required to clearly establish and document the need for the waiver or ruling sought. As a minimum this should address:

- (a) **Applicant:** the full name of the Clearing Participant or Lending Clearing Participant seeking the waiver or ruling;
- (b) **Background:** the full background to the matter and the transactions or circumstances in respect of which the waiver or ruling is sought. This should include the generic background to the situation or events in question followed by the material details, e.g., details of transactions, etc;
- (c) **Details:** the specific Rule or Procedure in respect of which the waiver or the ruling is sought and any conditions of the waiver or ruling which the applicant considers appropriate;
- (d) **Reasons:** for each provision of the Rule or Procedure in respect of which the waiver or ruling is sought, why the waiver or ruling is sought and give full reasons which may justify the waiver or ruling;
- (e) **Policy:** the policy considerations applicable to the application. This should include identification of the application of the Rules or Procedures without the waiver or ruling, the hardship or mischief that will result if the application is not approved, the policy objective behind the Rule concerned, the basis upon which that policy objective continues to be addressed by, or is not affected by, the waiver or ruling sought and the manner in which the interests of CHO,

clients of the Clearing Participant or Lending Clearing Participant seeking the waiver or ruling and other Clearing Participants or Lending Clearing Participants are protected or preserved by the proposed waiver or ruling;

- (f) **Precedents:** any existing waiver or ruling decisions which are similar to the waiver or ruling sought and which may provide a precedent for the application. The application should state how the precedents are similar to, and different from, the waiver or ruling sought;
- (g) **Impact:** how the proposed waiver or ruling may affect CHO, clients of the Clearing Participant or Lending Clearing Participant seeking the waiver or ruling and other Clearing Participants or Lending Clearing Participants, including any costs and benefits to them and that Clearing Participant or Lending Clearing Participant;
- (h) **Timeframe:** whether the application is urgent and the date by when a determination is needed and the reason/s why the application should be considered on an urgent basis;
- (i) **Publication:** whether the applicant requires a decision or any information in relation to the application to be kept confidential and the period for which that confidentiality is required. This must set out the policy reason why the decision should not be published, or alternatively why publication should be delayed for a period of time; and
- (j) **Other:** any other information known to the applicant and material or relevant to the application.

6.3.3 Applications for a waiver or ruling should be accompanied by any relevant documents to support the application.

6.4 Timing

6.4.1 All applications for waivers and rulings should be submitted to CHO at least 10 Business Days prior to the Clearing Participant or Lending Clearing Participant requiring a determination. If a determination is required in less than 10 Business Days a Clearing Participant or Lending Clearing Participant may apply to have the application dealt with on an urgent basis.

6.4.2 If an application is urgent a timeframe should be provided within which determination is needed accompanied by the reasons for the request for urgent consideration.

6.4.3 CHO does not guarantee that a decision will be provided within any particular time. While CHO will always endeavour to meet an applicant's timeframe, the ability to meet urgent timetables will be subject to CHO resource availability. The timing of a decision in relation to an application may also be influenced by the quality of the application and the thoroughness with which it has been prepared.

6.5 Procedure

6.5.1 On receipt of the application, it will be considered by CHO regulatory Personnel. A CHO lead compliance officer will be identified to the applicant for the purposes of communications.



- 6.5.2 After an initial appraisal, the applicant may be asked to provide further information.
- 6.5.3 When all information requested by CHO has been provided by the applicant and considered by CHO, the lead compliance officer will prepare a decision in relation to the application. A draft decision may be provided to the applicant for discussion if CHO believes necessary.
- 6.5.4 In its decision CHO will, subject to Procedure 6.7.1, publish the identity of the Clearing Participant or Lending Clearing Participant, the facts of that application, the determination made by CHO in response to that application and the grounds for determining the application.

6.6 Fees

- 6.6.1 The Clearing Participant or Lending Clearing Participant making the application must pay the fees specified in that respect by Procedure 6.9. Fees will be payable regardless of whether the application is accepted or declined.
- 6.6.2 Waiver and ruling fees will be invoiced to the Clearing Participant or Lending Clearing Participant concerned at the conclusion of CHO work, or on a monthly basis where necessary.

6.7 Publication

- 6.7.1 CHO will publish all decisions in relation to requests for waivers or rulings (and revocations of waivers or rulings) from the Rules, unless:
- (a) the Clearing Participant or Lending Clearing Participant seeking the waiver or ruling establishes, to the satisfaction of CHO, grounds for maintaining confidentiality of CHO's decision with respect to a waiver or ruling application; or
 - (b) CHO determines in its sole discretion not to publish its decision with respect to a ruling or waiver application.
- 6.7.2 A determination under Procedure 6.7.1 may comprise:
- (a) a determination in relation to some or all of the information contained in a decision; and/or
 - (b) a determination to withhold publication permanently or for a period of time.
- 6.7.3 CHO will generally consider that rulings or waivers sought in anticipation of a transaction will be grounds for confidentiality until such transaction is announced publicly. If the transaction does not proceed, the waiver or ruling sought will not lose its confidentiality.
- 6.7.4 Applicants will be provided with decisions at least one half Business Day prior to their public release. The decision provided is a final decision and will not be for comment by the Clearing Participant. The decision is provided to facilitate the Clearing Participant or Lending Clearing Participant dealing with the publication of the waiver by CHO.



- 6.7.5 All decisions will be published by CHO by Notice to all Clearing Participants or Lending Clearing Participants and any NZX Market for which the Clearing Participant provides clearing and settlement services. Waivers and rulings will also be published by CHO from time to time at [web address];

Fee Schedule Procedure

Procedure for Rule 6.9.2.

- 6.9.2 CHO will publish in accordance with Procedure the fees, levies and other charges imposed by CHO under Rule 6.9.1.

6.8 Set Admission and Activity Fees

- 6.8.1 Admission and activity fees shall be found in CHO fee schedule which can be located at www.nzx.com.

- 6.8.2 Activity fees will be calculated on a monthly basis by reference to the activity in each calendar month and will be invoiced to the Clearing Participant by the 5th day of the following month.

6.9 Waiver and Ruling Fee

- 6.9.1 Each applicant for a waiver or ruling made in accordance with Rule 6.7 must pay a fee calculated on the time devoted by Personnel to the application calculated at the rates set out in the CHO fee schedule:
- 6.9.2 The applicant will also reimburse to CHO the costs charged by any professional advisors who may be engaged by CHO in the process of determination of the application.
- 6.9.3 Invoices will be payable within 10 Business Days of issue.

6.10 Late Filing Fee

- 6.10.1 Each Clearing Participant that fails to supply any returns or records by the specified date required by Procedures 2.17 to 2.22 must pay a fee of \$250 and an ongoing fee of \$250 for each additional day on which the Clearing Participant fails to supply the report or return.
- 6.10.2 Each Clearing Participant whose Responsible Person fails to supply any returns or records by the specified date required by Procedures 2.32 or 2.34 must pay a fee of \$250 and an ongoing fee of \$250 for each additional day on which the Responsible Person fails to supply the report or return.
- 6.10.3 Invoices will be payable within 10 Business Days of issue.

Currency Conversion Procedure

Procedure for Rule 6.10.1

- 6.10.1 **Currency Calculations:** For the purposes of any currency conversion calculations under these Rules, CHO will convert amounts denominated in one currency to any



other currency in the manner prescribed by the Procedures.

6.11 Currency Conversions

- 6.11.1 For the purposes of any currency conversion calculations under the Rules, CHO shall convert amounts denominated in one currency to any other currency at the spot rate of exchange displayed on Bloomberg [FXTF NZD] (or its successor or equivalent page) at or about 9:00am on the date CHO is required to make that calculation bid rate for the bid cross rate between the two currencies. Where no cross rate is available CHO shall make the conversion into US\$ and then to the required currency.
- 6.11.2 If no rates are available on Bloomberg page [FXTF NZD] or that page is not available, then the rate conversion rate shall be determined by CHO to be the average (rounded upwards to two decimal places) of the rates quoted to CHO by three Banks selected by CHO at or about such time on such date. If fewer than three Banks provide such a quote, then the rate shall be the rate determined by CHO at its discretion to be the nearest practicable equivalent.



Section 7: Default

Buy-in Procedure

Procedures for Rule 7.5.1

7.5.1 Where for the purposes of Rules 4.3.1(b), 4.3.3(a) or 7.4.1(i) CHO elects to buy in Approved Product, that buy in will be conducted pursuant to a Buy In Procurement Agreement in accordance with the Procedures.

7.1 Buy-in

7.1.1 If CHO elects to buy in an Approved Product that is a Security traded on an NZX Market, it may institute a formal buy-in procedure on the relevant NZX Market to be conducted as follows:

- (a) At or before 9:30am on a day that the NZX Market is open for trading, CHO will notify the Affected Clearing Participant, and publicly announce on the NZX Market the quantity of each Approved Product for which it proposes to conduct a buy-in.
- (b) Where the number of Approved Products to be bought-in exceeds the minimum permitted holding for that Approved Product, the Affected Clearing Participant may at any time prior to 10:00am on that day deliver by transfer to CHO's account in the Depository that minimum holding (or a multiple of that minimum holding) to CHO reduce the number of Approved Products to be bought-in.
- (c) At or about 10:30am on that day, or such other time as CHO may from time to time notify on that day, CHO will procure the Trading Participant under the relevant Buy-In Procurement Agreement to enter on the Affected Clearing Participant's behalf into the trading system of that NZX Market a bid for the Approved Product at a price:
 - (i) in the case of price quoted product, a price that is not more than 2% above the current last transacted price for the Approved Product or the current bid price for the Approved Product, whichever is the highest; or
 - (ii) in the case of yield quoted product, a yield that is not more than 0.02% below the current last transacted yield for the Approved Product or the current bid yield for the Approved Product, whichever is the lowest.
- (d) The buy-in shall be completed by matching offers in the trading system in accordance with the rules of the relevant NZX Market. Offers may be in whole or in part of any particular Approved Product, provided that where part only is being offered, such offer shall be in marketable parcels.
- (e) If sufficient Approved Product is not obtained by CHO within 30 minutes, CHO will reset the bid price, by re-setting it to:
 - (i) in the case of price quoted product, a price that is an additional 2% above the then current last transacted price for the Approved Product



or the then current bid price for the Approved Product, whichever is the highest; or

- (ii) in the case of yield quoted product, a yield that is an additional 0.02% below the then current last transacted yield for the Approved Product or the then current bid yield for the Approved Product, whichever is the lowest.
- (f) CHO may repeat the re-pricing at 30 minute intervals during that day and each successive day that the relevant NZX Market is open for trading until all the required quantity of the Approved Product has been acquired.
- (g) Trades executed subject to this buy-in procedure shall be settled on the following Settlement Day.

Overdue Interest Rate Procedure

Procedures for Rule 7.10.2

7.10.2 Overdue Interest: *Any amount to be paid by a Clearing Participant or Lending Clearing Participant and not paid by its due date for payment will be treated as an unpaid amount and will bear interest at the rate prescribed by CHO by Procedure. Interest will accrue and compound on a daily basis and must be paid as a separate debt to CHO.*

7.2 Overdue Interest Rate

7.2.1 The rate of interest payable on any amount not paid by a Clearing Participant or a Lending Clearing Participant is the rate equal to the aggregate of 5% per annum and the Official Cash Rate.



Section 8: Miscellaneous

Notice Procedure

Procedures for Rules 8.5.4 and 8.5.6

8.5.4 *For the purposes of any Rule or Procedure that requires or permits a document or notice to be given to a Person, whether the expression “serve”, “give”, or “send” or any other expression is used, the document may be given, and will be deemed to have been received, in the manner set out in the relevant Procedure. Nothing in this Rule or the Procedures prevents documents being sent, given to or served on a Person in any other manner permitted by law. Any document or notice shall be deemed to have been received by the recipient of the document or notice if the recipient has effectively received the document or notice, notwithstanding any non-compliance with this Rule or the Procedures.*

8.5.6 *Without limiting any other provision of this Rule 8.5, any notice to be given by a Clearing Participant or Lending Clearing Participant to CHO under Rule 2.9 must be given to the Head of Operations of CHO, in the manner prescribed by the Procedures.*

8.1 Notice

8.1.1 CHO may give Notice to any Person by any of the following methods:

- (a) (if to a natural Person) delivering it to the Person personally;
- (b) leaving it at or by sending it by courier or post to the address of the recipient last notified to CHO;
- (c) sending it by facsimile to the recipient's facsimile number last notified to CHO;
- (d) where the Notice is a circular or bulletin addressed to a class of Persons, delivering or communicating the circular or bulletin by any means permitted under this Procedure;
- (e) specific email by any method which identifies a natural Person or relevant Person's title as addressee; or
- (f) broadcast email by any method which identifies the addressee and which, having regard to all the relevant circumstances at the time, was as reliable as appropriate for the purposes for which the information was communicated.

8.1.2 A Clearing Participant or Lending Clearing Participant or Responsible Person may give Notice to CHO by any of the following methods:

- (a) delivering it to the Head of Operations personally;
- (b) leaving it at or by sending it by courier or post to Level 2, NZX Centre, 11 Cable Street, Wellington, New Zealand marked to the attention of Head of



Operations, New Zealand Clearing Limited;

- (c) sending it by facsimile to 64-4-473-3181 marked to the attention of Head of Operations, New Zealand Clearing Limited; or
- (d) specific email addressed to Head of Operations, New Zealand Clearing Limited at clearing@nzx.com.

8.1.3 Where Notice is given in accordance with this Procedure:

- (a) if sent by post it is deemed to be received on the second Business Day after the document is put in the post in a stamped envelope or other covering;
- (b) if sent by courier or personal delivery is taken to be received at the time of delivery;
- (c) if sent by facsimile it is deemed to be received when the sender's facsimile machine indicates a successful transmission to the facsimile number; and
- (d) if sent by email it is deemed to be received 2 hours after the time the email enters the recipient's information system, unless a Notice of non-delivery or redirection has been received by the sender within that time.

8.2 Notice to Head of Operations

8.2.1 Any Notice to be given by a Clearing Participant to CHO under Rule 2.9 must be given to the Head of Operations at clearing@nzx.com.

Procedures for Appendix

1.1.1 **Recognised Market Index** means an index specified in the Procedures.

A Recognised Market Index means any of the following indices:

Country	Index
Australia	S&P/ASX200
Austria	ATX
Belgium	BEL 20
Canada	TSE 35
France	CAC 40
Germany	DAX
Hong Kong	Hang Seng
Italy	MIB 30
Japan	Nikkei 225
Netherlands	EOE 25
Spain	IBEX 35
Sweden	OMX



Switzerland	SMI
UK	FTSE 100; FTSE mid-250
US	S&P 500

1.1.2 **Recognised Market** means a market specified in the Procedures.

A Recognised Market means any of the following markets and includes any successors thereof:

- Australian Securities Exchange*
- Toronto Stock Exchange*
- Deutsche Borse*
- Hong Kong Exchange*
- Tokyo Stock Exchange*
- Singapore Exchange*
- SIX Swiss Exchange*
- NASDAQ OMX*
- London Stock Exchange*
- NYSE Euronext*

Procedure for Clause 10.2 of the Appendix

Structured Finance Products

The following Securities or classes of Securities are specified as Structured Finance Products for the purposes of calculating Net Tangible Current Assets and Total Risk Requirement in accordance with Appendix 1 to the Rules.

[No Securities presently specified]

10.2 CHO may determine the Position Risk Requirement for a particular Financial Instrument or transaction or class of Financial Instrument or Transaction or a particular Issuer or class of Issuer by Procedure

Product	Percentage
Any product with a component of leverage	50% or 100% as determined by CHO

