

NZFMA

NEW ZEALAND
FINANCIAL MARKETS
ASSOCIATION



TE RŌPŪ MĀKETE PŪTEA O AOTEAROA

DEBT SECURITIES CONVENTION



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1. Description

The long-dated securities market in New Zealand involves issuing and trading in government securities (GS), other public authority securities (including New Zealand dollar securities issued by some supranational organisations), and corporate bonds.

The long-dated securities market plays a key role in the financial system:

- It provides a fund raising medium for governments and for companies
- It provides investments for banks, life offices and pension funds, other financial intermediaries and companies
- The Reserve Bank of New Zealand (RBNZ) also has a portfolio of GS and trades in these as part of its monetary and liquidity management
- The yields on GS serve as a benchmark for other interest rates in the financial community

2. Products

A fixed interest security is a financial instrument that creates the obligation for the issuer to pay:

- a fixed sum called the face value at a specified date, known as the maturity date; and
- a series of equal periodic interest payments called coupon payments.

The basic features of a fixed interest security include:

- Denomination or face value
- Maturity date
- Coupon rate
- Frequency of coupon payments
- Identification of the issuer.

Long-dated securities have terms to maturity ranging from 6 months to 25 years.
Some more text.



3. Dealing

3.1 Methods of Dealing

The main methods of dealing in the New Zealand long dated securities market are direct via telephone, via brokers or via electronic platforms.

3.2 Electronic Dealing

The increasing sophistication of financial markets has created a space for brokers, dealers and clients to access markets via electronic platforms.

3.3 Business Day

3.4 Good Business Day

A good business day is defined as any day on which banks in New Zealand are generally open for business.

Essentially, New Zealand business days are weekdays (Monday to Friday) other than New Zealand public holidays as gazetted.

That said New Zealand OTC markets generally tend to operate in a reduced capacity on gazetted Wellington and Auckland anniversary day holidays.

3.5 Non-Business Day

A non-business day is defined as any day on which banks in New Zealand are generally obliged or permitted to close, including Saturday and Sunday.

In general, NZFMA recommends that transactions should not be negotiated for settlement or price fixing (rollover) on a non-business day.

Other conventions can be utilised, if agreed upon at the time of dealing by the bilateral parties to the transaction.

3.6 Standard Transaction Size (market parcel)

In the interbank market, standard market parcel sizes are as follows:-

Government Bonds

Term to maturity	Market parcel (\$m)
Spot to 5 Years	20
>5 Years to 10 Years	15
>10 Years to 15 Years	10
> 15 Years	5 mio



Inflation-linked Bonds

Term to maturity	Market Parcel (\$m)
Spot to 5 Years	5
>5 Years to 10 Years	3
>10 Years to 15 Years	2
> 15 Years	2

In EFP transactions, Sydney Futures Exchange (SFE) rules state that there is no minimum number of contracts required.

3.7 Two Way Pricing

Normally, in the professional market bid/offer (two-way) markets are given only on the basis of reciprocity. That is, a participant in the professional market can only demand a two-way market from a price maker if it is willing to undertake in return to give a two-way market in that stock as and when demanded.

3.8 Other Instrument Conventions

Not applicable.

3.9 Basis

Not applicable.

3.10 Maturity Conventions

Not applicable.

3.11 Settlement Rate or Index

Not applicable.

3.12 Premium Payment Dates

Not applicable.

3.13 Expiry Conventions

Not applicable.

3.14 Broker Conventions

Not applicable.

3.15 Confidentiality

Names of counterparties will not be passed by brokers prior to dealing, unless both parties agree to the passing of their names.



When dealers are trading directly neither party should disclose the name of the counterparty to the transaction dealt or to other market participants.

In support of the ideals of price discovery and market transparency brokers may pass the size of deals dealt and the rate at which they were dealt (post trade) to other broker screen participants only. Brokers will not pass names of counterparties to a deal to other market participants.

3.16 Credit

The ability to deal is subject to credit constraints. Dealers should advise the counterparty if they are unable to deal because of credit limits.

Note that there are many variations in fixed interest trading which result in a combination of standard procedures being applied, such as securing borrowed stock with either cash or substitute stock.

Refer to the [Code of Conduct and Principles for NZFMA Members](#).

3.17 Exercise of Options

Not applicable.

3.18 Data Source

Pricing information for debt securities can be found on NZdata reference rate page for end of day long term securities.

3.19 Pricing Formulae

Long term securities are traded on a yield basis rounded to three decimal places.

For semi-annual securities that are near maturing (specifically those entitling a purchaser to only the final coupon payment and repayment of principal) the bank bill formula is applied to principal outstanding plus the final coupon.

Disputes over the application of any pricing formula are to be referred to the issuer for arbitration.

1) Basic formula:

$$P = v^{f/a} [g(1 + a_n) + 100v^n]$$

2) Ex-interest securities:

$$P = v^{f/a} [ga_n + 100v^n]$$

3) Near maturity bonds maturing between the record date for the second last coupon and the record date for the final coupon:



$$P = \frac{100 + g}{1 + \left(\frac{f}{365}\right) i}$$

If the maturity date falls on a weekend or other non-business day the proceeds date (ie. the next business day) is used in the calculation of f .

P = the price per \$100 face value

$$v = \frac{1}{1 + i}$$

where $100i$ = the half yearly yield (per cent) to maturity in formulae (1) and (2), or the annual yield (per cent) to maturity in formula (3)

f = the number of days from the date of settlement to the next interest-payment date in formulae (1) and (2) or to the maturity date in formula (3)

d = the number of days in the half year ending on the next interest-payment date

g = the half yearly rate of coupon payment per \$100 face value

n = the term in half years from the next interest-payment date to maturity

$$a_n = v + v^2 + \dots + v^n = \frac{1 - v^n}{i}$$

- 4) Near maturity bonds maturing between the record date for the final coupon and the maturity of the bond:

$$\text{SETTLEMENT PRICE PER \$N PRINCIPAL} = \frac{N(1+r)}{1 + \left(i \times \frac{n}{365}\right)}$$

Where	N	=	the principal of the bond (\$)
	r	=	the annual coupon interest rate divided by two hundred, i.e. the semi-annual coupon interest rate (%)
	i	=	the yield divided by one hundred
	n	=	the number of full days from the settlement date until the maturity date

4. Confirmations

Refer to [New Zealand Dollar Debt Instrument Confirmation & Settlement Standards](#)



4.1 Timing

All trades entered into must be confirmed either electronically or in writing by both parties on the day that the transaction was executed.

4.2 Obligation of Dealers

Every endeavour should be made for dealers to complete dealing tickets or enter trades into the front office dealing systems in a timely manner to assist back office to generate and deliver confirmations to the transacting party.

4.3 Documentation

Not applicable.

5. Settlements

Refer to [New Zealand Dollar Debt Instrument Confirmation & Settlement Standards](#)

5.1 Physical Settlements

In general, NZFMA recommends that transactions should not be negotiated for settlement or price fixing (rollover) on a non-business day (see *Section 3.3.2*). Other conventions can be utilised if agreed upon at the time of dealing.

Settlement dates on New Zealand fixed interest securities are open to negotiation however, the following times are standard:

Type of Security	Settlement
government bonds that are near maturing (as defined in <i>Section 3.18</i>).	Same day if dealt before noon, otherwise next business day.
government bonds which are not near maturing.	Trade date plus two business days.
Supernational, corporate bonds and inflation bonds.	Trade date plus two business days.

The settlement date is open for negotiation between the parties. Should a non standard settlement apply this fact must be disclosed before negotiating the price.

5.2 Cash Settlements

Not applicable.

5.3 Premium Payments

Not applicable.

5.4 Exercise of Options

Not applicable.



5.5 Settlement Failures

Non-Deliverability

The following procedures should be followed in relation to short selling stock:

- If failed settlement occurs the deal will settle on the following business day with no rate adjustment, i.e. at the original agreed settlement price. If settlement continues to fail the settlement price does not alter unless the two parties agree. This is in fact a penalty to the defaulting party as one day's interest is accrued to the buyer.
- If a deal has not settled within one hour of the scheduled settlement time (i.e. close of Austraclear) and the seller believes settlement is unlikely, they should contact the buyer to inform them of this. This will at least provide a warning for the company receiving stock.
- Dealers should be aware if a particular line of stock is in short supply. If the repo rate on a particular line falls, this is an indication of illiquidity and dealers should ensure that they have stock available for future settlements. Dealers should not sell stock if they believe that they cannot deliver that stock at settlement.

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