Rates Market Convention

Pricing Convention for Floating Rate Notes

The NZFMA pricing formula for FRNs is:

\[ P = \frac{Z (b + IM) \times \frac{d}{365} + \left( \frac{IM - TM}{k} \right) A_n^{\frac{1}{i}} + 1}{1 + (r + TM) \times \frac{f}{365}} \times 100 \]

Where:

- \( P \) = price per $100 per face value,
- \( Z = 1 \) if there is an annuity payment to the purchaser at the next annuity payment date
- \( Z = 0 \) if there is no payment to the purchaser at the next annuity payment date
- \( b \) = the floating benchmark rate from last interest reset date to next interest rate date
- \( d \) = number of days in current interest period
- \( IM \) = interest margin (as a percentage) paid in addition or deduction from the floating benchmark
- \( TM \) = trading margin (as a percentage) paid in addition to the floating benchmark
- \( r \) = the floating benchmark rate to the next interest rate reset date
- \( f \) = number of days from pricing/settlement to next interest payment date
- \( A_n^{\frac{1}{i}} = 1 - (1 + i)^n \)
- \( i = (s + TM)/k \)
- \( k \) = payment frequency of FRN (eg: 2 = semi-annual, 4 = quarterly)
- \( s \) = yield from settlement to the maturity of the FRN (with frequency \( k \))
- \( n \) = number of complete interest periods to maturity as at the next interest payment date

NZFMA Board
13 May 2010