



Negotiable / Transferable Instruments Conventions

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1. Description

The short dated securities market is conducted by participants who buy and sell discounted instruments with a maturity of less than 365 days.

Instruments in this market raise funds when they are first issued. The purchaser of the new securities is the lender and the issuer is the borrower. Securities can be traded until they mature when their redemption extinguishes the debt.

2. Products

2.1. Bills of Exchange

A bill of exchange is defined in the Bills of Exchange Act 1909 as an unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand or at a fixed or determinable future time, a sum certain in money or to the order of a specific person, or to bearer.

At a more practical level a bill of exchange is generally described as a negotiable instrument maturing within six months (at which time it will be redeemed for its face value). It is sold at a discount to face value which the market believes to be the obligation (debt) of a first class credit.

2.2. Bills of Exchange (bank accepted/endorsed bill)

These are bills of exchange on which the name of a bank appears as either acceptor or endorser. Where the bank is the acceptor the bill ranks as a bank accepted bill. Where the bank has endorsed the bill on the back, either through buying the bill in the market or for a fee to raise the bill's status, it ranks as a bank endorsed bill.

2.3. Negotiable Certificates of Deposit (NCD)

This is a certificate issued by a bank evidencing an interest bearing deposit with it. Terms range from a few days to several years, however only those having a term of less than one year are considered short term securities.

2.4. Promissory Notes

A promissory note (also known as commercial paper or one name paper) is defined in the Bills of Exchange Act as an unconditional promise in writing made by one person to another, signed by the maker, engaging to pay on demand or at a fixed or determinable future time a sum certain in money for or to the order of a specified person or to bearer.

At a practical level promissory notes are usually issued for terms of 185 days or less, must be signed by the party making the promise, must be for a specific sum of money, must specify the time for

repayment, must be in bearer form, are transferable by delivery without endorsement, are issued and traded at a discount and are redeemable at maturity.

2.5. Treasury Notes

Treasury notes, which are in effect promissory notes issued by the Australian Office of Financial Management (AOFM) on behalf of the Commonwealth government, are primarily used as a short term funding instrument to smooth seasonal fluctuations in Commonwealth government cash flows. Treasury notes are generally issued for terms of 9 months or less.

Treasury notes are issued by competitive tender. Tenders for the issue of Treasury notes are normally conducted on a Thursday. The process for the conduct of Treasury note tenders is as follows:

- Official notice of Treasury note tender at 4:00pm on the business day prior to tender.
- Opening time for bidding is 10:15am on the day of tender.
- Closing time for bidding is 10:30am on the day of tender and results are announced shortly thereafter.
- Treasury notes are allotted to successful bidders on the day of tender (see above) for settlement the next business day.

Treasury notes are:

- Inscribed, meaning that ownership of the stock is recognised by way of a registry maintained by the RBA. In practice, almost all settlement is conducted in the Austraclear System.
- Issued through AOFM on a tender basis. Bids (yield to maturity to 2 decimal places) must be submitted through the AOFM tender system which is accessed via the Yieldbroker DEBTS system. Bids may only be submitted by parties that are registered with the AOFM. Minimum bid parcel is AUD\$1,000,000 face value and thereafter in multiples of AUD\$1,000,000. Subsequent to the issue of Treasury notes at tender, Treasury notes may be transferred to other persons in parcels that are a multiple of AUD\$5,000 face value.
- Discounted instruments, where the discount is based on yield and term to maturity. That is, payment at maturity is fixed with the price varying depending on the market interest rate and remaining term to maturity.

Treasury notes are mainly used by banks and financial institutions for liquidity management purposes. Under the RTGS/RITS systems Treasury notes may be sold to the RBA and bought back (repo'ed) intraday to help manage banks' intraday liquidity mismatches.

3. Dealing

The dealing conventions set out below apply to all trading in discounted short dated securities unless all parties to a transaction mutually agree otherwise.

3.1. Methods of Dealing

Via telephone or brokers.

3.2. Electronic Dealing

Currently not applicable.

3.3. Business Days

3.3.1. Good Business Day

A good business day is defined as any day on which banks in the state of New South Wales (NSW) are generally open for business, or a day other than one on which banks in NSW are obliged or permitted to close, excluding Saturday and Sunday.

Essentially, NSW business days are weekdays (Monday to Friday) other than NSW public holidays as gazetted under the NSW State Government's Banks and Bank Holidays Act 1912.

That said Australian OTC markets generally tend to operate in a reduced capacity on gazetted NSW public holidays that are not similarly gazetted in Victoria.

3.3.2. Non Business Day

A non business day is defined as any day on which banks in the State of NSW are generally obliged or permitted to close, including Saturday and Sunday.

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

3.4. Standard Transaction Size (market parcel)

For maturities out to 6 months

Unless mutually agreed otherwise the minimum market parcel is AUD\$20million of acceptable short term debt instruments composed of parcels of not less than AUD\$1million and in multiples of AUD\$1million, with the maximum number of lines of stock per transaction defined below.

Market Parcel Size	Lines of Stock
\$ 20 million	2
\$ 30 million	3
\$ 40 million	4
\$ 50 million	5
\$ 100 million	10
\$ 150 million+	15

Last reviewed 12 February 2008.

Lines of stock is defined as short term debt instruments with the same drawer, the same maturity date and in the case of bank accepted/endorsed bills, the same acceptor/endorser.

For maturities greater than 6 months but less than 12 months

Unless mutually agreed otherwise the minimum market parcel is AUD\$10million of acceptable short term debt instruments, comprising of one line of stock per AUD\$10million.

3.5. Two Way Pricing

This is a situation where a market participant quotes both a buy and a sell price for a particular financial instrument. Two way pricing is not generally accepted market practice in the NTI market. Two way prices are given on a bilateral basis only as agreed between specific counterparties.

3.6. Quotation and Dealing

No specific conventions.

3.7. Other Instrument Conventions

3.7.1. Prime Bank Names

Prime Bank Names ¹
ANZ Banking Group Limited
Commonwealth Bank of Australia
National Australia Bank Limited
Westpac Banking Corporation

¹ Last revised 24 February 2012

Eligibility criteria for Prime Banks

The list of Prime Banks is determined through a survey of market participants conducted by AFMA. In order to be eligible for consideration in the Prime Bank survey a bank must:

- Be an APRA Authorised Deposit Taking Institution (ADI) and classified by APRA as an: Australian owned bank; a foreign subsidiary bank; or a branch of a foreign bank, that is authorised to carry on banking business pursuant to the Banking Act 1959 (as amended) or comparable legislation in its country of origin;

- Satisfy a credit rating benchmark, as determined on the recommendation of the NTI Committee and ratified by the Market Governance Committee, and which requires a Prime Bank to be rated by Standard & Poor's as having a short term rating of A1+ and a long term rating of at least AA- for senior unsecured debt obligations; and
- Have securities eligible for use in RBA's open market operations and standing liquidity facilities.

Process for determining a Prime Bank

The following process will be used to determine whether a bank is added to the approved list of Prime Bank names:

- AFMA will invite all banks meeting the *Eligibility criteria for Prime Banks* above to nominate for consideration in the Prime Bank survey.
- Eligible banks which wish to be considered for inclusion must advise the Secretariat in writing that they wish to participate in the Prime Bank survey of significant BAB/NCD investors. All banks wishing to be on the list of approved Prime Banks must submit their names at each survey point, including existing Prime Banks.
- AFMA will conduct a survey of those institutions deemed by the NTI Committee to be significant BAB/NCD investors. A weighted voting system, determined by the NTI Committee, applies to individual survey respondents. The NTI Committee has determined, for a survey to be deemed valid, an 80% response rate of eligible survey respondents must be obtained.
- The list of survey respondents will be made available to prospective Prime Banks in advance of the survey.
- The list of approved Prime Banks represents those banks whose BAB/NCD are:
 - accepted in the market as a homogeneous group of liquid securities; and
 - recognised as having the highest quality with regard to liquidity, credit, consistency of yield, and trade at the lowest benchmark yield as determined by the market.
- It is expected that each approved Prime Bank displays an ongoing commitment to the short-term money market. Specifically that:
 - they must provide consistent price support for all Prime Bank paper in the domestic short-term securities market; and
 - they endeavour to maintain a minimum issuance level of \$5bn.
- Survey respondents will be asked whether they believe each nominated bank should be admitted to the list of approved Prime Banks with regard to the above criteria.
- In order to be admitted to the list of approved Prime Banks a bank must achieve a hurdle rate of the valid survey responses as defined below.

- The hurdle to become a new Prime Bank is 80% of the weighted survey vote.
 - The hurdle for existing Prime Banks is 70% of the weighted survey vote.
 - If this process results in less than 6 Prime Banks being selected, then the 80% hurdle for new Prime Banks would be progressively lowered until 6 Prime Banks are elected, provided a minimum hurdle rate of 70% is maintained.
 - If a uniform hurdle rate of 70% results in less than 6 Prime Banks the matter would be referred to the Market Governance Committee (MGC) for a recommended course of action to then be considered by the Board of Directors.
- AFMA will conduct the survey under strict criteria to ensure fairness and a guarantee of confidentiality, ensuring no individual bank survey results are revealed to any person. Thus, candidates in the survey will not be advised of their actual survey score.
 - AFMA will conduct the survey on an annual basis.
 - The NTI Committee will monitor market conditions on an ongoing basis and may recommend that a survey date be brought forward in order to ensure market liquidity is not impaired. A scheduled survey date may be brought forward provided that there is 80% approval by both MGC and the Board of Directors. If a survey date is brought forward, subsequent surveys will be conducted annually from that point.

Exclusion from the list of Prime Bank names

Institutions will be excluded from the list of Prime Bank names if:

- They no longer meet the *Eligibility criteria for Prime Banks* described above
- A letter is received from a Prime Bank to the NTI Committee requesting that they be removed from the list of Prime Bank names.

Prime Bank contingency plan

MGC recognises the significant role played by the four major domestic banks (ANZ, CBA, NAB, and WBC) in the Australian BAB/NCD markets. MGC has considered it prudent to establish the following contingency plan for market continuity in the unlikely event that one or more of those four banks receives a credit rating downgrade to below the minimum credit rating stated in the *Eligibility criteria for Prime Banks*.

If one or more of the four major domestic banks (“majors”) were to lose Prime Bank status through a rating downgrade:

- An MGC meeting will be held as soon as practicable after the announcement to determine any longer term response.
- For any BBSW rate-sets that occur before that meeting is held and a resolution reached:
 - If there are still 3 “majors” who qualify as a Prime Bank then the existing *Eligibility criteria for Prime Banks* and procedures are to be maintained (i.e. the downgraded “major” is to be removed from the Prime Bank list but no other action is required).
 - If there are less than 3 “majors” who would qualify as a Prime Bank under the existing *Eligibility criteria for Prime Banks*, then the credit ratings condition will be amended, such that the ratings threshold for the majors and other existing Prime Banks will be lowered to ensure that at least 3 “majors” remain Prime.

3.7.2. Denominations

Unless mutually agreed otherwise the standard denominations for each line with an identical drawer, acceptor and maturity date on each bill or in the case of negotiable certificates of deposit and promissory notes, an identical issuer and maturity date, are:

- 10 securities of \$ 100,000 per million
- 2 securities of \$ 500,000 per million
- 1 security of \$ 1,000,000
- 1 security of \$ 5,000,000

3.7.3. Fungibility of Treasury Notes

The buyer of a market parcel of bank accepted bills or certificates of deposit cannot reject treasury notes as a substitute in a transaction where a minimum of \$ 10 million is delivered with a single maturity date.

3.7.4. Electronic Paper - E/Bills, E/CDs, E/PNs

The buyer has the right to accept or decline trades where e-paper is offered but if so declined the deal stands with physical paper being substituted.

3.8. Basis

All rates are quoted on an actual/365 day fixed basis. The standard convention denominator doesn't adjust for leap years unless otherwise stated.

3.9. Maturity Conventions

Maturities are traded in half month periods. Instruments maturing on business days from the 1st to the 15th of a month inclusive are designated early month, those from the 16th to the last working day are late month.

3.10. Settlement Rate or Index

Not applicable.

3.11. Premium Payment Date(s)

Not applicable.

3.12. Expiry Conventions

Not applicable.

3.13. Broker Conventions

For physical prime bank paper traded via a broker screen dealing systems *Section 3.15* applies.

The buyer has the right to accept or decline trades where e-paper is offered, but if so declined the deal stands with physical paper being substituted.

3.14. Confidentiality

No specific conventions apply. Refer to the [Code of Conduct & Code of Ethics](#).

3.15. Credit

Market participants should accept prime bank credit subject to their available credit limits. There is an onus on the seller to provide the buyer with details of the transaction in a timely manner. There is also an onus on the buyer to notify the seller of any rejection of the transaction due to lack of available credit limits in a timely manner (generally within 10 minutes of being advised of the details of the transaction).

3.16. Exercise of Options

Not applicable.

3.17. Data Source

End of day prices can be found on *AFMAdata* page Short Dated End of Day Rates.

3.18. Pricing Formulae

Simple interest (or simple discounting) is the basis of the pricing of short dated securities. The formula for pricing discount securities is as follows:

$$P = \frac{FV}{1 + (r \times t)}$$

FV = face value of the security
r = per annum yield to maturity
t = time to maturity in years (days/365)

4. Confirmations

Refer to the [Australian Dollar Debt Instrument Confirmation & Settlement Standards](#).

4.1. Timing

The details of short dated securities deals (maturity date, drawer & acceptor as applicable) dealt for same day settlement should be provided to the buying counterparty as soon as possible, but in any event by 11:30am, on the day of settlement.

The details of short dated securities deals (maturity date, drawer & acceptor as applicable) dealt for next day settlement should be provided to the buying counterparty as soon as possible on a best endeavours basis, but in any event, by no later than 9:00am on the day of settlement.

4.2. Obligations of Dealers

Dealers should ensure that deal tickets or inputs to front office dealing systems are completed in a timely fashion to allow for compliance with *Section 4.1*.

4.3. Documentation

Not applicable.

5. Settlements

Refer to the [Australian Dollar Debt Instrument Confirmation & Settlement Standards](#).

5.1. Physical Settlements

Unless mutually agreed otherwise transactions negotiated before 12:00pm are for settlement on the same day and transactions negotiated after 12:00pm are for settlement on the following business day.

In general AFMA 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.

5.2. Cash Settlements

Not applicable.

5.3. Premium Payments

Not applicable.

5.4. Exercise of Options

Not applicable.

5.5. Settlement Failures

No specific convention.