



MARKET NOTICE

Market Notice: 2021_04

Date: June 4, 2021

Subject: Credit Products Conventions and Long Term Government Debt Securities Conventions Amendments

Market participants are advised of the following amendments to AFMA's Credit Products Conventions and Long Term Government Debt Securities Conventions to further clarify the conditions to be satisfied for the use of the AFMA formula applicable to FRNs with zero floor coupons.

FRN with a Zero Floor Coupon

There are a number FRNs issued in the Australian market that contain a zero floor coupon to protect investors of those notes from having to make payments to the issuer in the event of negative interest rates. The following formula for pricing of those floating rate securities with a zero floor coupon is the appropriate formula to use when there are no positive coupons at or beyond the next coupon date. The amendment is underlined:

Section 3.17 Pricing Formulae

Floating Rate Notes

Securities with negative interest rates but with a zero rate floor coupon:

Where the swap rate is less than the negative of the interest margin and there are no positive coupons at or beyond the next coupon date but there is a *zero floor* on the coupons, the following AFMA floating rate note convention formula should be used:

Queries in relation to these amendments should be directed to Mark McCarthy, Director – Markets mmccarthy@afma.com.au
