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AFMA Code of Conduct

AFMA promotes efficiency, integrity and professionalism in Australia's financial markets. The AFMA Code of Conduct (the Code) clearly articulates the ethical principles for minimum acceptable standards of behaviour and supports responsible decision making by firms and individuals engaged in financial markets activities.

All AFMA Financial Markets Members and Partner Members¹ are expected to observe the Code and operate with integrity, professionalism and competence. The Code is designed to support behaviors that put the interests of clients, the firm and the wider community ahead of personal or individual interests, and promotes confident participation by users in Australia's OTC markets.

The Code is presented in two parts – the [Ethical Principles](#) and the [Guidelines](#).

Market participants are reminded that they are generally expected to observe and adhere to the market standards and conventions as set out below when engaging in any form of market dealing.

1. Description

The Negotiable/Transferable Instruments Conventions (the NTI Conventions) represent industry promoted standards in Australia's short term securities market, and establish the trading protocols to be followed by market participants when transacting in this market.

Products² traded are senior unsecured discount securities³ having a residual maturity of 365 days or less⁴. While this market includes certain government securities, it is primarily underpinned by the issuance of senior unsecured bank securities and the secondary trading that subsequently occurs in these securities. Products are all discount securities, meaning that they do not bear interest. Instead, the discounted value implies the current yield to maturity relative to the holder receiving full face value at maturity.

2. Products

2.1. Negotiable Certificates of Deposit (NCDs)

Generally issued in large denominations, Negotiable Certificates of Deposit (NCDs) are issued by banks and available to be traded in the secondary market. Each NCD is issued for a specific term, generally 6 months or less, however maturity may extend to 1 year.

2.2. Bills of Exchange

A bill of exchange as defined in the Bills of Exchange Act 1909 is *an unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is*

¹ As defined in the AFMA Constitution

² Refer to Section 2.

³ A zero coupon security which does not bear interest. The discounted value implies the current yield to maturity relative to the holder receiving full face value at maturity

⁴ Discount securities are also issued for terms greater than 365 days.

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 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.

2.2.1. Bank Accepted and Bank Endorsed Bills of Exchange (Bank Bills)

A Bill of Exchange on which the name of a bank appears as either acceptor or endorser. Where a bank is the acceptor the bill is referred to 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 is referred to as a bank endorsed bill.

2.3. 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.

2.4. Treasury Notes

Treasury Notes are a short-term discount security issued by the Australian Office of Financial Management (AOFM) on behalf of the Commonwealth of Australia, redeemable at face value on maturity. This security provides the purchaser with a single payment on maturity for terms generally less than six months. All Treasury Notes are exempt from non-resident interest withholding tax (IWT).

Refer to the [AOFM website](#) for further information including the pricing formula and maturity profile of Notes on issue.

3. Dealing

Except as otherwise mutually agreed, the conventions set out below apply to all trading in discounted short term securities.

3.1. Methods of Dealing

Bilaterally via telephone, electronic dealing or intermediated via brokers.

3.2. Electronic Dealing

Any electronic dealing platform authorised for use by the counterparties to a transaction.

3.3. Business Days

3.3.1. Good Business Day

A good business day is defined as a day other than ‘bank close days’ as defined in Section 14B of the *Retail Trading Act 2008* (NSW) that apply to the whole of the State of New South Wales.

3.3.2. Non Business Day

Any day on which banks in the State of New South Wales are obliged or permitted to close, including Saturday and Sunday.

3.4. Standard Transaction Size (market parcel)

For maturities out to 6 months

The standard market parcel and maximum number of lines of stock which may be delivered are as follows:

Market Parcel Size	Interbank	Bilateral and Brokered Dealings with institutional Investors
Standard Parcel	\$20 million	\$10 million
Maximum Lines of Stock Delivered ^[1]	Interbank	Bilateral and Brokered Dealings with institutional Investors
\$ millions	(\$m parcel dealt x 10%, rounded down)	
\$10	Not applicable, except as referenced in 3.7.1.	As mutually agreed
\$20	2	
\$30	3	
\$40	4	
\$50	5	
\$100	10	
\$ 150+	15	

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 and less than 12 months

The minimum interbank 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

Dealers may quote a two way market however are not obliged to, except as required under the BBSW Administrator's *Prime Bank Conventions* .

3.6. Quotation and Dealing

Standard tick size is 1 basis point

Interest rate yield is quoted to 2 decimal places, or as otherwise agreed by the counterparties to the transaction.

3.7. Other Instrument Conventions

3.7.1. 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

3.7.2. Delivery of Treasury Notes

The buyer of an interbank market parcel of NCDs or Bank Bills must accept treasury notes as a substitute in a transaction provided a minimum of \$ 10 million is delivered with the same maturity date.

3.7.3. 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 transaction 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

As a means of promoting secondary market liquidity, Products issued by or accepted by an ASX Prime Bank⁵ and which are defined as Prime Bank Eligible Securities⁶ are grouped and traded in monthly tenor⁷ daily rolling maturity buckets (to be referred to as the rolling maturity pool). Each pool is determined, firstly by the Straight Run Maturity Date, and secondly by the range of consecutive Good Business Days to be included in the pool.

⁵ ASX Prime Banks are defined in the ASX Prime Bank Conventions

⁶ Prime Bank Eligible Securities and defined in the ASX BBSW Conventions.

⁷ Tenors are defined in the ASX BBSW Conventions

3.9.1. Straight Run Maturity Date

The Straight Run Maturity Date is determined through the application of the 'modified following'⁸ method:

- A. In the first instance the Straight Run Maturity Date will be the same calendar day in the corresponding maturity month, provided this calendar day is a Good Business Day as defined in Section 3.3.1.
- B. If the calendar day is not a Good Business Day or is a Non Business Day as defined in Section 3.3.2, then the Straight Run Maturity Date will be the following Good Business Day except when the following Good Business Day falls in the next calendar month, then
- C. If the following Good Business day falls in the next calendar month, the Straight Run Maturity Date will be the preceding Good Business Day.

Examples for a 1 month tenor on specified settlement days, August 2017)

	T+0 Settlement /Roll date	Calendar day in maturity month	Straight Run Maturity Date
A.	Tuesday 15 August ->	Friday 15 September ✓ ->	Friday 15 September 2017
B.	Thursday 17 August ->	Sunday 17 September ✗ ->	Monday 18 September 2017
C.	Thursday 31 August ->	Monday 2 October ✗ ->	Friday 29 September 2017

3.9.2. Rolling Maturity Pool

The Rolling Maturity Pool for any monthly tenor will include all Prime Bank Eligible Securities having a maturity date falling on any of:

- 5 Good Business Days immediately preceding the Straight Run Maturity Date;
- Straight Run Maturity Date; and
- 5 Good Business Days immediately following the Straight Run Maturity Date.

Under this convention the Rolling Maturity Pool spans 11 consecutive Good Business Days.

3.10. Settlement Rate or Index

Not applicable.

3.11. Premium Payment Date(s)

Not applicable.

3.12. Expiry Conventions

Not applicable.

⁸ "Modified following" is a globally accepted business day convention whereby payment days that fall on a holiday or a Saturday or a Sunday roll forward to the next business day. If that day falls in the next calendar month, the payment day rolls backward to the preceding business day.

3.13. Broker Conventions

The conventions apply equally to brokered and bilaterally negotiated transactions.

3.14. Confidentiality

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

3.15. Credit

Market participants should accept Prime Bank Eligible Securities subject to their available credit limits. The seller will provide the buyer with details of the transaction in a timely manner. It is incumbent 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

Prime Banks will endeavour to make markets on Approved Venue screens in accordance with the pricing obligations described in the ASX Prime Bank Conventions.

The BBSW Administrator will endeavour to publish End of Day Rates.

3.18. Pricing Formulae

Simple interest (or simple discounting) is the basis of the pricing of short term 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 Product dealt (maturity date, drawer & acceptor as applicable) for same day settlement should be agreed between the parties within 20 minutes of trade execution, or as otherwise prescribed in the ASX BBSW Trade and Trade Reporting Guidelines.

The details of short term 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 8:50am 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 Good Business Day.

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.
