



## MARKET NOTICE

**Market Notice: 2020\_05**

**Date: 8 July 2020**

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

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Market participants are advised of the following amendments to AFMA's Credit Products Conventions and Long Term Government Debt Securities Conventions.

### **1. Zero Interest Rate**

The conventions for floating rate notes (FRN) in both the Credit Products Conventions and the Long Term Government Debt Securities Conventions require a non-material amendment to pricing formulae to deal with zero interest rates.

#### **Section 3.17 Pricing Formulae**

#### **Floating Rate Notes**

$$A_n^i = \frac{1 - (1 + i)^{-n}}{i}$$

$$i = \frac{s + TM}{k}$$

If  $i = 0$ , then  $A_n^i = n$

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### **2. 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 conventions for FRNs in both the Credit Products Conventions and the Long Term Government Debt Securities Conventions will be amended to include the following formula for pricing of those floating rate securities with a zero floor coupon.

## 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 but there is a *zero floor* on the coupons, the following AFMA floating rate note convention formula should be used:

$$P = \frac{Z(b + IM)^+ \times \frac{d}{365} + (1 + i)^{-n}}{1 + (r + TM) \times \frac{f}{365}} \times 100$$

Where:

$$Z(b + IM)^+ = \max \{Z(b + IM), 0\}$$

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Queries in relation to these amendments should be directed to Mark McCarthy, Director – Markets  
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