



Depository Overview

August 2010



1 Preface

This document provides users of New Zealand Depository Limited (NZD)'s services an overview of the depository and its processes. It focuses on the basic information that a Depository Participant will need to know to commence using NZD services.

This is not a legal document. The NZD Rules and Procedures govern the relationship between NZD and Depository Participants.

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2 Introduction

About New Zealand Depository Limited

New Zealand Depository Limited (NZD) is a wholly owned subsidiary of New Zealand Clearing and Depository Corporation Limited, which is in turn wholly owned by NZX Limited (NZX). NZD operates as a central securities depository.

A nominee company, New Zealand Depository Nominee Limited ("Nominee") is the holder of legal title to admitted product and cash held in the depository. "Nominee" is wholly owned subsidiary of NZD.

The services offered by NZD include:

- Custody of Admitted Product
- Recording of beneficial and security interests in Admitted Product
- Settlement of transactions in Admitted Product and
- Facilitation of stock lending transactions.

An associate company, New Zealand Clearing Limited (NZC) operates a clearing house that uses Depository Accounts to effect settlement. Every Clearing Participants is required to be a Depository Participant.

Regulatory Environment

Together NZC and NZD operate a settlement system that is designated as a settlement system under Part 5C of the Reserve Bank of New Zealand Act 1989.

This legislation provides for a regulatory framework for securities settlement systems and caters for oversight from joint regulators – the Reserve Bank of New Zealand and the New Zealand Securities Commission.

Participation Requirements

A Depository Participant must meet specific criteria, including satisfying NZD that it is of high integrity. Participation is intended for institutional investors,

including brokers, custodians and fund managers. The depository does not cater for retail participation.

Applicants must possess the personnel, facilities, procedures and controls, accounting systems and back office systems to carry on the business it proposes. An applicant must also have a satisfactory regulatory record.

There is only one category of Depository Participant. However a Depository Participant may be assigned additional roles as follows:

Legal Title Transfer Depository Participant

A Legal Title Transfer Depository Participant may effect the transfer of legal title to securities by electronic means.

Borrower

The Borrower role allows a Depository Participant to borrow securities from the lending pool, subject to the provision of eligible collateral.

Lender

The Lender role enables a Depository Participant to place securities in the lending pool and be selected to lend securities.

Application Process

Applicants for participation must complete an application form and provide information relevant to their application.

An applicant must nominate a natural person who will act as Responsible Person. The role of the Responsible Person is to represent the Depository Participant in dealings with NZD and to procure that the Depository Participant complies with the Rules at all times. The Responsible Person should be an executive who is responsible for the control, leadership and influence of the Depository Participant's business.

Information that must be provided with the application includes:

- A company profile, including details of the applicant's corporate and management structure.
- Details of any potentially adverse events, including regulatory investigations and legal proceedings threatened or pending
- Information regarding the applicant's technology, accounting and payment systems

For full details of the application process and information requirements refer to the Guide for Applicants.

3 Technology

The core depository system is the Tata Consulting Services (“TCS”) BaNCS system. This product is used widely by banks, capital markets providers and insurance companies around the world.

The core TCS BaNCS components utilised by NZD include:

- Core Services: including entity and user management, instruments and accounts.
- Corporate actions: entitlement processing and option selection.
- Stock lending and borrowing.
- Settlement: Delivery versus Payment settlement of transactions between Depository Participants.

The platform provides flexible connectivity options and can cater for those customers who desire integration with their own back office systems (via ISO15022 messaging) and also for those who wish to use a browser based user interface.

Services and Processes

Depository services include:

- Accounts
- Settlement
- Corporate actions
- Stock lending
- Legal title transfer
- Reporting

The following sections briefly describe each of these services and related processes.

4 Accounts

Each Depository Participant is set up as a Business Partner in the TCS BaNCS system. Each Depository Participant is then assigned a number of accounts according to their needs.

Accounts record transactions and balances in product and money.

Types of Accounts

Each account is designated as a particular account type. The account type denotes its use. Account types include:

- Own account;
- Omnibus without client;
- Omnibus with client;
- Client; and
- Settlement.

Own Account

All Depository Participants will be assigned an own account. This account is intended for the Depository Participant to hold its own product.

Omnibus Without Client

This account would be used for pooled client balances.

Omnibus With Client

This account type is a summary account to which client accounts are attached. Transactions cannot be made directly into this account.

Client

A client account can record an underlying client, fund or group of clients. Client accounts must attach to an Omnibus With Client account. Transactions and events are recorded at the client account level.

Settlement

Only a Depository Participant who is also a Clearing Participant will be assigned a settlement account. A settlement account is used for the settlement of

transactions that are cleared and settled by NZC. NZC has rights to debit product and money from settlement accounts for the purposes of effecting market settlement.

Types of Balances

An account can have both money balances and product balances and each account has a number of balance types. Each balance type records a specific characteristic as follows:

Product Balances

Product balances include:

- Available – total balance available to the Depository Participant;
- Lendable – product assigned to the lending pool;
- Lent – total quantity currently on loan;
- Borrowed – quantity borrowed on the account;
- Anticipated entitlement – the expected product entitlement from a corporate action based on the end of day account balance; and
- Collateral given – this balance records collateral given to NZC to meet a margin obligation.

Money Balances

Money balance types include:

- Cleared – the total money balance available;
- Anticipated entitlement – the expected money entitlement from a corporate action based on the end of day account balance; and
- Collateral given – this balance records money collateral given to cover a margin obligation.

Account Characteristics

There is no limit on the number of accounts a Depository Participant may have. All accounts are created by NZD.

Each account records a set of static data, including:

- Investor Type – this denotes whether the account holder is domestic or foreign. This determines the tax rate and the tax credits that apply. NZD will use this account classification to manage corporate action entitlements with registries
- Messages – this will determine what ISO1522 message the Depository Participant will receive in respect of the account; and
- Bank Account – an underlying bank account to which money balances will be credited.

5 Depository Transactions

Transactions

Depository Participants may give instructions to NZD to settle off exchange or over the counter (OTC) transactions with other Depository Participants.

Instructions can either be delivery versus payment or delivery free of payment.

Delivery versus Payment (“DvP”) Settlement

DvP is a process that links securities transfers with funds transfers and ensures that delivery of product occurs if, and only if, payment occurs.

Delivery free of Payment (“DfP”) Settlement

DfP is a process to debit only a specified amount of product of a seller and credit the amount to the buyer. No money is transferred.

These transfers are bilateral transactions and are settled on a gross basis. Both DvP and DfP transactions require the buyer’s and the seller’s instructions to match. Instructions can be entered for settlement on the current date or a future (T+n) date.

Once executed, these transactions are valid and final and cannot be reverted or avoided.

Account Transfers

A Depository Participant can also perform cash and product transfer between its own depository accounts. These can be accessed through the TCS BaNCS user interface and do not require matching.

Cash Funding

As noted earlier, depository accounts can hold both cash and product. Cash is settled by debiting the account against which a settlement instruction has been entered, therefore

a Depository Participant must ensure that sufficient funds are available in the designated account for settlement to complete.

Cash funding can occur at any time during the day by providing cleared funds to the Depository. Surplus cash will be returned in line with the Depository Participant’s standing instructions.

For New Zealand dollar funds, a Depository must have a relationship with a New Zealand registered bank who holds an ESAS account. New Zealand dollar cash transfers to the Depository must be made through the ESAS system.

For other currencies, cleared funds must be transferred to the Depository’s designated clearing bank.

6 Corporate Actions

Nominee holds legal title to Admitted Product in the depository, but the Depository Participant retains beneficial ownership. Depository Participants are therefore entitled to all rights and entitlements, such as product and cash benefits arising from relevant corporate action events.

Corporate Action Processing

Once a corporate action is created and confirmed, a report on the event set up is provided. This is available through the user interface or through ISO 15022 messaging. Each day from confirmation date through to record date the TCS BaNCS system anticipates the entitlement for each account, based on the end of day balance.

A Depository Participant's actual entitlement to cash or product benefits is determined by the holding of the Depository Participant at record date. Final benefits will be credited to the relevant account at the beginning of payment date.

Mandatory / Voluntary Corporate Actions

Corporate action events can be classified as being mandatory or voluntary.

Mandatory Corporate Actions

All holders will receive the mandatory corporate action benefits, for example cash dividends and bonus issues according to the amount of securities they hold.

Voluntary Corporate Actions

For voluntary corporate actions, for example rights subscription a holder may choose to participate in the event.

The BaNCS system supports the exercise of voluntary events through the user interface and through ISO 15022 messaging.

Benefit Distribution

Cash and product benefits are distributed to the Depository Participant's specified account on payment date, (where NZD itself has received the benefit).

Reporting

Reporting is available to Depository Participants throughout the corporate action cycle, including corporate action set up, the calculation of anticipated entitlements of a Depository Participant to a particular corporate action and benefit disbursement.

Reports are available through the TCS BaNCS user interface or through ISO15022 messaging.

7 Stock Lending and Borrowing

The Depository provides an anonymous stock lending and borrowing ("SLB") facility. SLB transactions are novated to NZC.

Loan Creation

Depository Participants who wish to lend securities are assigned a lender role, and can set up standing instructions to place specific securities into the lending pool on a daily basis.

A Depository Participant recognised as a borrower can view securities available for borrowing from the lending pool. Once a borrowing request is made, the TCS BaNCS system checks for available product and confirms that the borrower has sufficient collateral, then creates the loan and transfers the securities to the borrower.

A minimum of 105% of the value of securities borrowed by a Depository Participant must be provided in collateral. Collateral is held and managed by the clearing house. Lenders do not acquire an interest in collateral held by the clearing house.

Where multiple lenders are required to meet a borrowing request, the request is assigned randomly. NZD will determine the sequence for delivery or payment to each of the lenders by reference to the order in which they were selected to be lenders.

Loan Repayment and Recall

The borrower can repay a loan at any time. The repayment is effective upon the completion of the repayment instruction. Where there is partial repayment, product is allocated to lenders according to the order by which the lenders were selected.

A lender can recall a loan at any time. The TCS BaNCS system will assess whether there is any other product in the lending pool, and if so, the loan will be assigned to another lender. Where the lender cannot be substituted in full, the borrower will receive a recall request.

Corporate Actions

In the event of a corporate action, outstanding loans will be assessed for recall. The TCS BaNCS system will create an automatic adjustment for some corporate action events, including cash dividend and bonus issue. For all other corporate action events, the loan will be recalled before record date.

8 Legal Title Transfer

The BANCS System connects directly to registries (Computershare and LINK Market Services) to facilitate electronic transfer of securities between participants and their underlying clients.

Subject to meeting specific requirements for registry access, a Depository Participant may effect electronic transfer of legal title securities on register.

Legal Title Transfer Functionality

Access to legal title transfer provides a Depository Participant with access to the following functions. All transfers are free of payment:

Retail Client Security Transfers

This consists of:

- Client Inward Transfer – a client inward transfer moves securities from a client’s registry account to a Depository Participant’s transfer account.
- Client Outward Transfer – a client outward transfer moves securities from a Depository Participant’s registry transfer account to a client’s registry account.

A Depository Participant with access to the client inward transfer function must satisfy NZD that it has adequate processes in place to protect client assets.

Participant Transfers

This includes transfers between legal title transfer Depository Participants and transfers to and from the Depository Participants own registry accounts.

Common Shareholder Numbers and Balance Enquiries

A Common Shareholder Number (CSN) is a registry account identifier common to all registries and consolidates a client’s entire shareholding under a single reference number.

Reservations

The reservation facility enables a Depository Participant to reserve or put a block on securities at the registry. This provides certainty of access to securities at the assigned settlement date before taking legal title to the securities.

Shunts

The system also facilitates electronic shunts at registries that support this functionality. A shunt is a movement between branch registers, for example where an issuer has a register in more than one jurisdiction.

Lodge / Uplift

The lodge / uplift functionality enables the movement of securities from a Depository Participant’s transfer account to an account in the Depository (lodge) or from an account in the Depository to a Depository Participant’s registry transfer account (uplift).

CSD Interoperability

With the introduction of NZD into the market, New Zealand now has two CSDs, the depository operated by NZD and the CSD operated by the RBNZ.

The electronic lodge / uplift functionality also allows a Depository Participant to transfer securities between the two CSDs.

9 Reporting

NZD provides Participants with reports relating to account balances, corporate actions and settlement transactions.

Reports are generated as part of the end of day process and are available through the ISO15022 message interface or through the user interface. Depository Participants are also able to export specific screen based queries.

