Rates Market Convention

Pricing Convention for Floating Rate Notes

The NZFMA pricing formula for FRNs is:

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

Where:

P = price per $100 per face value,

Z = 1 if there is an annuity payment to the purchaser at the next annuity payment date

Z = 0 if there is no payment to the purchaser at the next annuity payment date

b = the floating benchmark rate from last interest reset date to next interest rate date

d = number of days in current interest period

IM = interest margin (as a percentage) paid in addition or deduction from the floating benchmark

TM = trading margin (as a percentage) paid in addition to the floating benchmark

r = the floating benchmark rate to the next interest rate reset date

f = number of days from pricing/settlement to next interest payment date

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

i = (s + TM)/k

k = payment frequency of FRN (eg: 2 = semi-annual, 4 = quarterly)

s = yield from settlement to the maturity of the FRN (with frequency k)

n = number of complete interest periods to maturity as at the next interest payment date

NZFMA Board
13 May 2010

New Zealand Financial Markets Association
Level 8, 1 Willeston Street, P O Box 641, Wellington, New Zealand | T: +64 4 499 9169 | F: +64 4 499 9168 | E: info@nzfma.org | W: www.nzfma.org