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ASX SETTLEMENT PROCEDURE GUIDELINES



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www.asxonline.com > Participants > Library > Manuals

Context of this Document

The ASX Settlement Procedure Guidelines must be read in the context of the ASX Settlement Operating Rules.

Any terms explicitly defined in the ASX Settlement Operating Rules and used in the ASX Settlement Procedure Guidelines should be interpreted according to the definition given in ASX Settlement Operating Rules. This includes terms such as participant, registry, holder, issuer, subregister, and financial product. Because of the large number of these terms, they have not been capitalised for emphasis in this document.

In the interests of readability and comprehension, where a procedure applies only in the context of securities in a listed company, the specific term security has been used instead of the more generic term financial product.

Change History

Version	Date	Description of changes
2.2	May 2013	Initial version.
3.1	Jan 2016	ASXOnline document merge.
3.2	Mar 2016	T+2 implementation and change in references from C&S Operations to Post Trade Operations

SECTION 29. EXCHANGE-TRADED AUSTRALIAN GOVERNMENT BONDS

29.1 INTRODUCTION

Australian Government Bonds are debt securities issued by the Commonwealth of Australia (Australian Government). *Exchange-traded* Australian Government Bonds (AGBs) offer a convenient and readily accessible way for investors to invest in Australian Government Bonds.

The holder of an AGB has beneficial ownership of an Australian Government Bond in the form of a CHESS Depository Interest (“CDI”). This means the holder obtains all the economic benefits (including payments) attached to legal ownership of the AGB over which the CDI has been issued.

29.2 EXCHANGE-TRADED AUSTRALIAN GOVERNMENT BONDS

There are two different types of AGBs:

1. **Exchange-traded Treasury Bonds** are medium to long term debt securities that carry an annual rate of interest fixed over the life of the security, payable every six months.
2. **Exchange-traded Treasury Indexed Bonds** are medium to long-term debt securities for which the face value of the security is adjusted for movements in the Consumer Price Index (CPI). Interest is paid quarterly, at a fixed rate, on the adjusted face value. At maturity, investors receive the adjusted face value of the security – the value adjusted for movement in the CPI over the life of the bond (this final value is also known as the ‘nominal value’).

Key characteristics

- **Security type** – CHESS Depository Interest over Australian Government Bonds
- **Underlying security** – Australian Government Bonds
- **Face value** – Treasury Bond=\$100. Treasury Indexed Bond=\$100 plus CPI adjustment
- **Coupon** – Interest paid to the holder. The coupon is expressed as a fixed percentage of the face value of the AGB. For example, a Treasury Bond with a face value of \$100 might pay a coupon of 6% per annum. This is \$6 in interest per year. This amount is made up of two half yearly payments of \$3.
- **Yield to maturity** – the return an investor receives on an AGB. The yield is based on the price paid by an investor for an AGB and the payments (coupons) received and any capital gain/loss if the AGB is held to maturity.

- **Maturity date** – the expiry date of the AGB when the face value is paid to the holder.
- **Market price** – (also known as the gross price) is the total amount that an investor pays for an AGB. The purchase price includes two components:
 1. **Capital price**, which is the price of the AGB as estimated by the market based on a number of variables including interest rate and maturity date; and
 2. **Accrued interest** on the AGB, which is the amount of interest accumulated on the AGB since the last coupon payment. Because interest is paid at regular intervals the AGB price increases daily by the amount of interest accruing. On a 6% annual coupon, interest accrues at 1.64 cents per AGB per day. Immediately following the AGB being quoted ‘ex interest’, the market price should adjust downwards by the amount of that coupon payment.

29.3 CHESS DEPOSITARY INTERESTS (CDIs)

CDIs are a type of depositary receipt. There are three types of CDIs:

- CHESS Units of Foreign Securities (“CUFS”), which are issued by foreign entities domiciled in jurisdictions which do not recognise uncertificated holdings or electronic transfer of legal title; and
- Depositary Interests (“DIs”), which are issued where securities are held in another settlement and depositary system; and
- Government Bond Depositary Interests (“GBDIs”)

DIs have a different legal structure that results in at least two tiers of beneficial ownership. The legal title of the securities is held in the name of a nominee agent, typically a settlement and deposit system such as Austraclear, Clearstream, DTCC or Central Depository (Pte) Ltd.

The Australian depositary nominee gains beneficial ownership from the nominee agent which forms the first tier of beneficial ownership. Subsequently, the CDI holder gains beneficial ownership from the Australian depositary nominee, which creates the second tier of beneficial ownership.

Exchange-traded AGBs are quoted, traded and settled in the form of CDIs.

The term “CHESS Depositary Interest” (or “CDI”) is a collective term that is used to refer to CUFS, DIs and GBDIs.

For the purposes of readability this document refers to Exchange-traded Australian Government Bonds in the form of Government Bond Depositary Interests as *Exchange-traded AGBs* (“AGBs”).

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For general information on CDIs, refer to *Section 19: CHESSE Depository Interests*.

29.4 UNIQUE CHARACTERISTICS OF EXCHANGE-TRADED AGBS

The Australian Government Bonds underlying Exchange-traded AGBs are held in the Austraclear System on account of the Depository Nominee. Austraclear is Australia's settlement and depository system for the wholesale debt market.

29.4.1 Transmutations

Only designated market makers appointed by the ASX, or the Australian Government may apply for Treasury Bonds or Treasury Indexed Bonds lodged in the Austraclear System to be converted to Exchange-traded AGBs and for Exchange-traded AGBs to be converted to Treasury Bonds or Treasury Indexed Bonds in the Austraclear System.

Accordingly, transmutations may only be initiated by a Direct Clearing Participant that is also an ASX approved Exchange-traded AGB market maker or a General Clearing Participant providing third party clearing services to an ASX approved Exchange-traded AGB market maker.

Participants acting in the abovementioned capacity requiring information on the transmutation process should contact the Exchange-traded AGB Registrar.

29.5 CHESSE SUBREGISTER AND ISSUER SPONSORED SUBREGISTER

Exchange-traded AGBs can only be held on the CHESSE Subregister. There is no ability for Exchange-traded AGBs to be held on an Issuer Sponsored Subregister.

The CHESSE system will therefore reject any CHESSE to Issuer Sponsored Transfer or Conversion Request message attempted by a Participant.

29.6 SECURITY ATTRIBUTES

Exchange-traded AGBs are issued on a 1 for 1 basis where each individual unit of CDI represents a holding of one AGB with a face value of \$100.00 for Treasury Bonds and a face value of \$100.00 +/- the inflation factor for Treasury Indexed Bonds.

A CHESSE Exception Indicator value of "C" indicating that the security is a CHESSE Depository Interest (CDI) will be applied to all Exchange-traded AGB series.

29.6.1 ASX Code Convention

To distinguish Exchange-traded AGBs, a separate six-letter ASX coding convention will be applied. The following are the coding convention elements:

1. **First Two Characters:** GS
2. **Third Character:** B for fixed coupon, I for index.
3. **Fourth Character:** Represents the month of maturity.
4. **Fifth and Sixth Characters:** Represent the year of maturity and will be numeric e.g. 2018 will be represented as 18.

29.7 EX-INTEREST, RECORD DATE & PAYMENT DATE CONVENTION

29.7.1 Ex-Interest Basis of Quote & Ex-Period

Exchange-traded AGBs will follow a two business day *Ex-Period* regime and will be quoted on an ex-interest basis one business day before the record date. Participants should note that the *Ex-Period* for any pro rata corporate action, from a CHES perspective, means the period from start of day on the ex-date to end of day on the record date.

The ex-interest period specific to AGBs, from a settlement perspective, is the period after the record date up to the calendar day prior to the next coupon interest payment date. The ex-interest period for AGBs is set at seven (7) clear calendar days (the close of business eight (8) calendar days prior to the coupon interest payment date) and follows the same terms as the underlying Australian Government Bonds.

The ex-interest period is also known as the “coupon books close period”.

29.7.2 Record Date Convention

Eligible AGB holders registered at the record date (the close of business eight (8) calendar days prior to the coupon interest payment date) will be entitled to the next coupon interest payment.

29.7.3 Payment Date Convention

If any coupon interest or maturity payment date is a non-business day, payment will be made the next business day without payment of additional interest.

29.8 COUPON INTEREST PAYMENTS

The frequency of coupon payments, coupon interest rate and coupon interest payment dates for AGBs are those applicable to the specific series of Treasury Bond or Treasury Indexed Bond over which the AGB has been issued.

Coupon interest payments are made to eligible holders on each coupon interest payment date up to and including the maturity date. Coupon interest will cease to accrue on AGBs from the maturity date.

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29.9 MATURITY

Repayment of the face value of Exchange-traded AGBs will occur on the maturity date in accordance with the payment date convention.

29.9.1 Cessation of Trading

Cessation of trading for a maturing AGB will occur at close of trading five business days prior to the final coupon and maturity record date.

29.9.2 Close of CHESSE Subregister

The CHESSE Subregister will be closed at End of Day 1-business day prior Maturity Date.

The following timetable and events will apply to maturing AGBs:

Event	Business Day
Quotation of AGBs ends at close of trading 5-business days before Coupon/Maturity Record Date	0
Record Date (Coupon & Maturity)	5
CHESSE Diary Adjustment processing (Coupon only)	6
CHESSE Subregister closed at End of Day 1-business day prior Maturity Date	
CHESSE Holdings removed by Government Bond Issuer on Coupon/Maturity Date	

29.10 CHESSE CUM BALANCES, BASIS OF MOVEMENT & DIARY ADJUSTMENT PROCESSING

Exchange-traded AGBs are quoted on an ex-interest basis one business day prior to the Record Date under a two business day ex-period regime.

CHESSE will generate cum-entitlement balances in the normal course and will apply diary adjustment processing in respect of coupon interest payments.

29.10.1 CHESSE Cum Balance Processing

CHESSE cum entitlement balances will be generated at start of day on the ex-date and will cease being updated after end of day on the record date.

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29.10.2 CHESSE Basis Of Movement Values

Basis of Movement ('BOM') values for security movements during the ex-period that fall outside the default basis of quote and pertaining CHESSE BOM default are required to be either 'XI' (Ex Interest) or 'CI' (Cum Interest) where appropriate.

29.10.3 CHESSE Diary Adjustment Processing

CHESSE will perform diary adjustments to failed T+2 cum-interest settlement obligations at record date in respect of coupon interest payments only.

Diary adjustments will not be performed in relation to any final redemption value involving maturity proceeds, refer Section 29.11.

For general information on Diary Adjustment processing, refer to *Section 14: Diary Adjustments*

29.11 CLAIMS FOR MATURITY PROCEEDS

ASX ReferencePoint Corporate Action Signals do not currently support maturity or early redemption events for interest rate securities. Therefore CHESSE is unable to perform automatic diary adjustments to failed settlement obligations in relation to any face value or redemption component applicable to AGBs.

Accordingly, affected counterparties will need to make direct financial claims for monies owed or owing to be delivered to the rightful Participant, refer Section 15: *Claims for Entitlement*.

29.11.1 Isolate Counterparty Request (Clearing Participants only)

The following procedure describes the process for a clearing participant to instruct CHESSE to isolate a direct counterparty to a CCP net obligation and to create a direct obligation between the requesting clearing participant and one or more clearing participants with like obligations to ASX Clear for the purposes of making a financial claim.

Section 29.12 describes an additional process for modifying direct obligations or dual entry settlement instructions into payments free of delivery for the purposes of settling a financial claim within CHESSE.

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PROCEDURE

29.11.1.1 The receiving clearing participant submits a request to CHESSE, nominating the specific CCP net obligation and the number of securities required.

29.11.1.2 CHESSE validates the request then:

- targets corresponding obligations to which CCP is the receiving participant for the required number of securities;
- adjusts or cancels targeted obligations accordingly; and
- establishes new settlement obligations between the two parties.

CHESSE notifies participants of the changes.

Message Reference Table

Section	Message Number and Description	Sender	Recipient
29.11.1.1	139 Isolate Counterparty Request	Participant	CHESSE
29.11.1.2	518 Rejected Transaction	CHESSE	Participant
29.11.1.2	128 Adjusted Settlement Instruction	CHESSE	Participant
29.11.1.2	116 Cancelled Settlement Instruction	CHESSE	Participant
29.11.1.2	164 Notified Trade	CHESSE	Participant

29.12 PAYMENTS FREE OF DELIVERY (MISCELLANEOUS PAYMENTS)

Participants may use dual entry settlement notification messages to make miscellaneous payments to other participants via the CHESSE settlement batch for many purposes including claims, refer *Section 24: Payments Free of Delivery*.

This section describes the process for modifying settlement obligations using CHESSE miscellaneous payment functionality after CCP net obligations have been isolated by a clearing participant, or where a security was not the subject of netting, and when dealing with dual entry settlement obligations.

The benefit of modifying an outstanding settlement obligation is that an unbroken history is maintained against the originating transaction.

ASX SETTLEMENT PROCEDURE GUIDELINES

29.12.1 Modifying Settlement Obligations

Participants may wish to consider modifying direct obligations or dual entry settlement instructions into payments free of delivery for the purposes of settling a financial claim within CHESSE.

Accordingly, the following procedure details the process for modifying a settlement obligation in order to create a payment free of delivery.

PROCEDURE

- 29.12.1.1 When both counterparties have agreed on the net consideration to be delivered or received in relation to owed or owing maturity proceeds, an outstanding settlement obligation with a 'scheduled' or 'suspended' settlement instruction status may be modified to a cash payment free of delivery by using a unique set of security codes relevant to miscellaneous payments, refer Section 24.1.1.
- 29.12.1.2 The receiving participant submits a Change Settlement Instruction Request message to CHESSE nominating the target transaction ID and the relevant fields for modification to be matched by the delivering participant. *Note: It is not possible to modify the 'transaction basis' of a settlement obligation.*
- 29.12.1.3 CHESSE validates the target transaction and the 'Change Settlement Instruction Request' message submitted by the receiving participant or notifies the receiving participant of a rejected transaction where applicable.
- 29.12.1.4 CHESSE notifies the receiving participant with a 'Requested Settlement Instruction Change' message and in turn notifies the delivering participant via an 'Unmatched Change Settlement Instruction Request' message.
- 29.12.1.5 The delivering participant submits a matching 'Change Settlement Instruction Request' message.
- 29.12.1.6 CHESSE updates the target settlement obligation then sends an 'Adjusted Settlement Instruction' message to both participants detailing the revised security code, settlement amount and settlement date (if applicable) in addition to the previous unit quantity, updating transaction ID and the adjustment reason.

Message Reference Table

Section	Message Number and Description	Sender	Recipient
29.12.2	121 Change Settlement Instruction Request	Participant	CHESSE
29.12.3	518 Rejected Transaction	CHESSE	Participant

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Section	Message Number and Description	Sender	Recipient
29.12.4	130 Requested Settlement Instruction Change	CHESS	Participant
29.12.4	122 Unmatched Changed Settlement Instruction Request	CHESS	Participant
29.12.6	128 Adjusted Settlement Instruction	CHESS	Participant

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29.12.2 Requirements and suggestions for modifications

The table below details field requirements for modifying a settlement obligation in order to instruct CHESSE to perform a payment free of delivery.

It is suggested that Participants use security code 'PYYCLM' when modifying a settlement obligation for the purposes of settling a financial claim.

Participants are reminded that despite the fact that a transaction basis cannot be modified by a 'Change Settlement Instruction Request' message, a Participant must use a transaction basis of 'F' (Facility for Non Reportable Transactions) when a Dual Entry Settlement Notification message is being used for the creation of a miscellaneous payment.

Field	Values
Security Code	PYYCLM (suggested security code)
Settlement Amount	MUST be greater than zero
Transaction Basis	CANNOT be modified
Settlement Date	A valid settlement date in CHESSE for a settlement in a future cycle
HIN	Optional - only populate to direct payment to a HIN-specific payment facility. Otherwise, the default payment facility will be targeted
Target Transaction ID	MUST be supplied
Receiving PID/Payer PID	Participant paying funds
Delivering PID/Payee PID	Participant receiving funds
Participant Ref	Optional – internal reference information
Supplementary Ref	Optional – will be passed to counterparty
Transaction ID	A valid transaction ID in CHESSE
Unit Quantity	MUST be zero
Part Settlement	MUST be 'Y' or blank
Underlying Ref	Optional – internal reference information

29.13 INVESTOR INFORMATION STATEMENTS & TERMS AND CONDITIONS

Investor Information Statements for Exchange-traded Treasury Bonds and Exchange-traded Treasury Indexed Bonds, including the full terms and conditions of the underlying Treasury Bonds or Treasury Indexed Bonds, are available at the Australian Government Bonds Website www.australiangovernmentbonds.gov.au

The key terms for each specific series of underlying Treasury Bond or Treasury Indexed Bond are detailed in the relevant Term Sheet which are also available at the Australian Government Bonds Website

29.14 CONVERSION BY AUSTRALIAN GOVERNMENT

The Australian Government may at any time, subject to a minimum period of three months' notice, convert holdings of Exchange-traded AGBs to the underlying Treasury Bonds or Treasury Indexed Bonds directly registered in the Commonwealth Stock Registry. If this occurred investors would continue to receive the same Coupon Interest Payments and Face Value amounts they were entitled to with the Exchange-traded AGBs but would not be able to sell their investment in Treasury Bonds on the ASX.

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