

# Forward Exchange Contracts

## *Product Disclosure Statement*

**Issued by Bank of New Zealand**

**Prepared as at 10 June 2021**

*This document is a replacement product disclosure statement. It replaces the Bank of New Zealand Product Disclosure Statement for Forward Exchange Contracts dated 16 April 2020.*

*This document provides important information about forward exchange contracts to help you decide whether you want to enter into any of these derivatives. There is other useful information about this offer at [disclose-register.companiesoffice.govt.nz](https://disclose-register.companiesoffice.govt.nz).*

*Bank of New Zealand has prepared this document in accordance with the Financial Markets Conduct Act 2013.*

# 1. Key information summary

## 1.1. What is this?

This is a product disclosure statement for forward exchange contracts (FECs) with a Term greater than 12 months provided by Bank of New Zealand (BNZ). FECs are derivatives, which are contracts between you and BNZ that may require you and BNZ to make a payment of a currency to one another. The amounts that must be paid or received (or both) will depend on the level of the underlying exchange rate. The contract specifies the terms on which those payments must be made.

## 1.2. Warning

### **Risk that you may owe money under the derivative**

If the level of the underlying exchange rate changes, you may suffer losses. In particular, unlike most other kinds of financial products, you may end up owing significant amounts of money. You should carefully read [section 2.4](#) (What payments are due on the Settlement date?) of this PDS on how payments are calculated.

### **Risks arising from issuer's creditworthiness**

When you enter into derivatives with BNZ, you are exposed to a risk that BNZ cannot make payments in the relevant currency as required. You should carefully read [section 3](#) of the PDS (Risks of these derivatives) and consider BNZ's creditworthiness.

## 1.3. About BNZ

BNZ is a registered bank under the Reserve Bank of New Zealand Act 1989. Since its establishment in 1861, BNZ has been carrying on the business of providing a comprehensive range of banking and financial services in New Zealand.

## 1.4. Which derivatives are covered by this PDS?

This PDS covers FECs with a Term greater than 12 months.

An FEC is an agreement between you and BNZ to exchange an agreed amount of one currency for an amount of another currency at an agreed exchange rate on a date in the future (the Settlement Date).

An FEC is designed to allow you to manage a currency risk to which you are exposed. FECs provide you with cash flow certainty if you will be making or receiving payments in different currencies. However, entering into an FEC also means that you may not receive the benefit of exchange rate movements in your favour.

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## 2. Key features of the derivatives

You will find definitions of some of the key terms used in this PDS in [section 10](#) (Glossary).

### 2.1. What is a Forward Exchange Contract (FEC)?

An FEC is an agreement between you and us to exchange an agreed amount of one currency for another currency at an agreed exchange rate on an agreed future date.

This PDS only relates to an FEC with a Term greater than 12 months. The Term of an FEC is the period between the Trade Date and the Settlement Date. We will agree the Term of any FEC with you before you and we enter into the FEC.

### 2.2. What are the key terms of an FEC?

Before entering into an FEC, you need to nominate the:

- |                        |   |
|------------------------|---|
| <b>Currency Pair</b>   | the two currencies that you want to exchange on the Settlement Date. FECs are available for a wide range of currency pairs, but we must find your choice of Currency Pair acceptable.   |
| <b>Contract Amount</b> | the specific amount of one of the currencies in the Currency Pair that you want to buy or sell.   |
| <b>Settlement Date</b> | the date you want the exchange of currencies to take place (which, for FECs covered by this PDS, will be for a Term greater than 12 months). You can elect to have an optional delivery period, typically up to 3 months, in which case the Settlement Date can be any business day during that optional delivery period. |

Once we have agreed all these terms with you, we'll give you a Forward Rate quote for the FEC. This Forward Rate will determine the amount of the other currency in the Currency Pair. If you accept our quote, we will enter into an FEC with you.

### 2.3. What is a Forward Rate?

A Forward Rate is the rate at which the Currency Pair will be exchanged on the Settlement Date.

We determine the Forward Rate (including our margin) taking into account the following:

- **The Spot Rate:** Spot Rates are rates derived from the exchange rates for Spot Foreign Exchange (FX) Transactions in the inter-bank market, which fluctuate according to the interaction of market supply and demand factors. A Spot FX Transaction has a Settlement Date that is two business days or less after the Trade Date. We may also include a margin on the inter-bank market exchange rates. The Forward Rate is largely determined from an adjustment to the current inter-bank market Spot Rate by a margin referred to as Forward Points.
- **Forward Points:** Forward Points are derived from the difference between the interest rates that can be earned in the countries of the currencies being exchanged for the Term of the FEC. The greater the differential in the interest rates for the two currencies, the larger the Forward Points are likely to be. On the other hand, the lesser the differential, the smaller the Forward Points are likely to be. The Forward Points can lead to the Forward Rate being at a discount or premium to the Spot Rate. This will depend on whether the currency you're buying or selling has a higher or lower interest rate in relation to the other currency being exchanged. The Forward Points generally result in the currency with the higher interest rate having Forward Rates that are at a discount to the Spot Rate.
- **The Contract Amount:** It is harder for us to offset smaller transactions in the inter-bank market. In general, a lower Contract Amount is likely to make the Forward Rate less favourable to you.

- **Your creditworthiness:** In general, the more creditworthy you are, the more favourable the Forward Rate is likely to be to you.
- **The Currency Pair:** An FEC for the exchange of an illiquid currency is likely to make the Forward Rate less favourable to you. This is because it is harder to offset illiquid currencies in the inter-bank market. An illiquid currency is a currency that trades at low volumes and lacks market depth.
- **Our costs** (including our margin) will make the Forward Rate less favourable to you.

The Forward Rate we quote you is not our prediction of where an exchange rate will be at that future date. Our quoted Forward Rate also does not guarantee what future exchange rates will be. Exchange rates can change rapidly.

The Forward Rate may be different to indicative forward rates that are available from sources such as Reuters or Bloomberg. Such rates are generally for wholesale transactions, made in significant volumes.

BNZ's trading activities, for itself and for the accounts of other wholesale and retail customers in the financial markets, may affect the Spot Rate and interest rates used to determine the Forward Rate.

The following example illustrates, in principle, how Forward Points affect the calculation of the Forward Rate.

#### Example – How to Calculate Forward Points

You decide to enter into an FEC with BNZ to exchange NZ\$100,000 for USD in 12 months' time, where, at the Trade Date the following circumstances apply.

The current NZD/USD Spot Rate is 0.6600 (that means 0.6600 USD per 1 NZD)

**The NZD 12-month interest rate is 1.65%**

So if BNZ were to borrow NZ\$100,000 for 12 months, on maturity BNZ would make a total payment of the principal plus interest of NZ\$101,650.

**The USD 12-month interest rate is 2.30%**

So if BNZ were to invest US\$66,000 for 12 months, on maturity BNZ would receive a total payment of the principal plus interest of US\$67,518.

The 12-month Forward Rate (excluding any margin) is  $US\$67,518 \div NZ\$101,650 = 0.6642$ .

The difference between this Forward Rate and the current Spot Rate is +0.0042 ( $0.6642 - 0.6600 = 0.0042$ ).

This means the 12-month Forward Points for your FEC are +42.

In this example, +42 represents the premium that will be applied to the current Spot Rate to determine the Forward Rate that will apply to your FEC. This is described as a premium because the NZD 12-month interest rate is lower than the USD 12-month interest rate.

## 2.4. What payments are due on the Settlement Date?

On the Settlement Date, one of us will pay the Contract Amount to the other. The other will pay the amount of the other currency in the Currency Pair – calculated by multiplying or dividing the Contract Amount by the Forward Rate.

Whether a currency is multiplied or divided by the Forward Rate depends on how the Forward Rate is quoted and the currency of the Contract Amount. There are market conventions as to how exchange rates are quoted. If you're unsure which calculation should apply, please ask your BNZ Markets Specialist.

### Example – What payments are due on the Settlement Date

If the Terms of your FEC are:

- Currency Pair: NZD/USD
- Type: You sell USD and buy NZD
- Forward Rate: 0.6642 (that means 0.6642 USD per 1 NZD)

If the Contract Amount is NZ\$100,000, the USD amount is calculated:

Contract Amount x Forward Rate

$$= \text{NZ\$}100,000 \times 0.6642$$

$$= \text{US\$}66,420$$

If the Contract Amount is US\$100,000, the NZD amount is calculated:

Contract Amount ÷ Forward Rate

$$= \text{US\$}100,000 \div 0.6642$$

$$= \text{NZ\$}150,557.06$$

On the Settlement Date you must make the required payments using funds that are immediately available. We will calculate these payments using the Forward Rate (where applicable), regardless of the Spot Rate at the time.

After we've received the funds that you owe us under the FEC, we'll deposit the amount we owe you in the account previously agreed with you.

If you fail to deliver currency or make payments when due under an FEC, we may exercise our rights under the Client Agreement, including rights of early termination. Further detail on these matters is set out in [sections 2.12](#) (Why might an FEC we have with you be terminated?) and [2.13](#) (What are the processes if an FEC is terminated early?).

### What is net settlement?

Net settlement may occur if you've entered into more than one FEC with us, and payments in the same currency are due from BNZ to you and from you to BNZ on the same Settlement Date. According to the terms of your Client Agreement, all of those payments may be set off against each other. The party with the greater obligation pays the other party the difference between the amounts we owe to you and you owe to us. The party with the smaller obligation doesn't make any payment. This is referred to as settling on a net basis.

## 2.5. Can you amend the terms of your FEC?

At any time up to the Settlement Date, you may ask us to either:

- extend the Settlement Date for the full or partial amount of the Contract Amount of your FEC (called an extension) or
- shorten the Settlement Date for the full or partial amount of the Contract Amount of your FEC (called a pre-delivery).

We are not required to agree to your request to amend an FEC. Any decision to do so is at our discretion and subject to our internal approval processes. We will only allow such amendments for genuine commercial reasons, not for speculative purposes. Even if you have a genuine commercial reason to make an amendment, we may not always agree.

If we accept your request to amend an FEC, you must pay any costs of varying that FEC. Such costs may include break costs, as described in [section 2.13](#) (What are the processes if an FEC is terminated early?) or a change in the Forward Rate, as described in [section 4](#) (Fees). You must also agree to the terms and conditions of any replacement or amended FEC. When you and we have agreed to the revised terms for your FEC, you will receive a Confirmation, including the amended terms.

You're not allowed to sell or transfer an FEC unless we agree. Even if we agree, a third party may not be willing to assume your obligations under that FEC on the same terms.

## 2.6. What are the benefits of an FEC?

FECs are helpful for customers who are:

- importers or exporters where invoice payments or receipts are quoted in foreign currencies
- borrowers with loans where principal and/or interest is denominated or quoted in foreign currencies
- investors in overseas assets that are denominated in foreign currencies
- repatriating overseas profits
- paying or receiving other foreign currency amounts.

An FEC offers the following 3 key benefits:

- Protection** An FEC can help protect you against unfavourable exchange rate movements during the Term of your FEC. This is because an FEC can give you assurance about the rate at which you'll exchange the Contract Amount on the Settlement Date. This can help you manage your foreign currency exposures.
- Certainty** Your Forward Rate also gives you certainty about cash flows. This may help you to settle contractual arrangements that use foreign currencies.
- Customisation** You can customise an FEC to your specific needs, see [section 2.2](#) (What are the key terms of an FEC?).

The actual benefits of an FEC will depend on your particular circumstances, including your accounting treatment, your tax and financial status, and your views of risk management. These factors will influence the reason why you're entering into an FEC and may expose you to different benefits and risks.

You should get independent expert advice before deciding whether an FEC is suitable for you.

## 2.7. How might an FEC be used?

You may want to exchange two currencies (for example, a USD amount into an NZD amount) and then change those currencies back on a later date. If you wish to do this, you may enter into two transactions at the same time which, together, are sometimes called an FX Swap. The two transactions may comprise either:

- two FECs or
- a Spot FX Transaction and an FEC.

Although the transactions together may be referred to as an FX Swap, the two transactions are still separate, individual transactions. Each transaction may be amended and terminated on its own.

## 2.8. How do FECs operate?

We've provided some examples below of how an FEC may operate. They are included for illustrative purposes only and they only reflect the circumstances described. The examples may not reflect current exchange rates and are not indicative of the specific circumstances or obligations that may arise when you enter into an FEC. The outcome and overall effect of any FEC you enter into with us will depend on, among other things, the terms of that FEC, your financial circumstances, and other arrangements.

### Example 1 – NZ Exporter using an FEC

You are a New Zealand exporter and will be receiving a payment of US\$100,000 for exported goods in 12 months' time, which you want to convert into NZD.

You decide to enter into an FEC to fix the NZD/USD exchange rate that will apply to the payment of US\$100,000 and, therefore, the amount of NZD you will receive when you convert the USD into NZD.

You accept the following pricing that BNZ offers you for the FEC:

Currency Pair:	NZD/USD
Type:	You sell USD and buy NZD
Settlement Date:	12 months after the Trade Date
Spot Rate:	0.6600
Forward Points:	+42 (that is, +0.0042)
Forward Rate:	0.6642

On the Settlement Date under the FEC:

- you pay BNZ US\$100,000 and
- BNZ pays you an amount of NZD calculated by applying the Forward Rate to the USD amount ( $\text{US\$100,000} \div 0.6642 = \text{NZ\$150,557.06}$ ).

You may be better off or worse off for having entered into the FEC, depending on the Spot Rate on the Settlement Date.

For example, if on the Settlement Date:

- the Spot Rate was 0.6550 (that is, more favourable to you than the Forward Rate), you would have received **more** NZD for your US\$100,000 if you had exchanged your USD for NZD at the Spot Rate on the Settlement Date:
  - $\text{US\$100,000} \div 0.6550 = \text{NZ\$152,671.76}$
  - You are worse off for having entered into the FEC.
- the Spot Rate was 0.6800 (that is, less favourable to you than the Forward Rate), you would have received **less** NZD for your US\$100,000 if you had exchanged your USD for NZD at the Spot Rate on the Settlement Date:
  - $\text{US\$100,000} \div 0.6800 = \text{NZ\$147,058.82}$
  - You are better off for having entered into the FEC.

### Example 2 - NZ Importer using an FEC

You are a New Zealand manufacturer and are importing raw materials costing US\$100,000 from an overseas supplier, which you must pay for in 12 months' time.

You decide to enter into an FEC to fix the amount of NZD you will need to buy the USD to pay for the raw materials.

You accept the following pricing that BNZ offers you for the FEC:

Currency Pair:	NZD/USD
Type:	You sell NZD and buy USD
Settlement Date:	12 months after the Trade Date
Spot Rate:	0.6600
Forward Points:	+40 (that is, +0.0040)
Forward Rate:	0.6640

On the Settlement Date under the FEC:

- a) BNZ pays you US\$100,000 and
- b) you pay BNZ an amount of NZD calculated by applying the Forward Rate to the USD amount  
(US\$100,000 ÷ 0.6640 = NZ\$150,602.41)

You may be better off or worse off for having entered into the FEC, depending on the Spot Rate on the Settlement Date.

For example, if on the Settlement Date:

- a) the Spot Rate was 0.6800 (that is, more favourable to you than the Forward Rate), you would have needed **less** NZD to buy the US\$100,000 if you had exchanged your NZD for USD at the Spot Rate on the Settlement Date:
  - US\$100,000 ÷ 0.6800 = NZ\$147,058.82
  - You are worse off for having entered into the FEC.
- b) the Spot Rate was 0.6500 (that is, less favourable to you than the Forward Rate), you would have needed **more** NZD to buy the US\$100,000 if you had exchanged your NZD for USD at the Spot Rate on the Settlement Date:
  - US\$100,000 ÷ 0.6500 = NZ\$153,846.15
  - You are better off for having entered into the FEC.

### Example 3 – Another way to use an FEC

You are a New Zealand exporter and will be receiving a payment of US\$100,000 for exported goods in 2 business days' time, which you want to convert into NZD. However, in 12 months' time you need to make a payment of US\$100,000 for raw materials you have purchased. You decide to enter into a Spot FX Transaction and an FEC (as an FX Swap) to fix the amount of your NZD cash flows under the two transactions.

You accept the following pricing that BNZ offers you for the FX Swap:

Currency Pair: NZD/USD

#### First Settlement Date – Spot FX Transaction

Type: You sell USD and buy NZD  
 Settlement Date: 2 business days after the Trade Date  
 Spot Rate: 0.6600

#### Second Settlement Date – FEC

Type: You buy USD and sell NZD  
 Settlement Date: 12 months after the Trade Date  
 Spot Rate: 0.6600  
 Forward Points: +42 (that is, +0.0042)  
 Forward Rate: 0.6642

#### Under the FX Swap:

- a) in 2 business days' time, under the Spot FX Transaction you pay BNZ US\$100,000 and BNZ pays you an amount of NZD calculated by applying the Spot Rate to the USD amount:  $(US\$100,000 \div 0.6600) = NZ\$151,515.15$  and
- b) in 12 months' time, under the FEC you pay BNZ an amount of NZD calculated by applying the 12-month Forward Rate to the USD amount  $(US\$100,000 \div 0.6642 = NZ\$150,557.06)$ , and BNZ pays you US\$100,000.

#### Benefits of entering into the FX Swap:

- You can use the NZD (e.g. for cash-flow purposes) during the 12 month Term and
- You have certainty as to your final exchange rate.

If you do not use an FX Swap, you can simply hold your USD in a Foreign Currency Account and make your USD payment in 12 months' time. This option ensures you have no FX risk, however, you are unable to use your USD in New Zealand (e.g. for cash-flow purposes).

You may be better off or worse off for having entered into an FX Swap, depending on the Spot Rate on the second Settlement Date. For example, if on the second Settlement Date:

- a) the Spot Rate was 0.6800 (that is, more favourable to you than the Forward Rate), you would have needed less NZD to purchase the US\$100,000 if you had exchanged your NZD for USD at the Spot Rate on the second Settlement Date:
  - $US\$100,000 \div 0.6800 = NZ\$147,058.82$
  - You are worse off for having entered into the FX Swap.
- b) the Spot Rate was 0.6500 (that is, less favourable to you than the Forward Rate), you would have needed more NZD to purchase the US\$100,000 if you had exchanged your NZD for USD at the Spot Rate on the second Settlement Date:
  - $US\$100,000 \div 0.6500 = NZ\$153,846.15$
  - You are better off for having entered into the FX Swap.

## 2.9. What is the process for entering into an FEC with us?

Before you enter into an FEC with us, we will:

- ensure that we have all the information we need from you to comply with our regulatory onboarding requirements, for example under the Anti-Money Laundering & Countering Financing of Terrorism Act 2009
- assess your financial position to determine if it satisfies our credit requirements and
- assess your understanding of FECs.

### **We need to assess your knowledge, experience, and level of understanding about FECs**

We need to assess your knowledge, experience and level of understanding about FECs, including any risks in entering into an FEC. If we don't already have enough information to assess that, we'll ask you to provide it. We may also ask for information about every director, employee or agent who is acting for you.

If we have any concerns about your understanding of FECs, we won't be able to enter into an FEC with you.

If you don't provide the information we request, we may not be able to adequately assess your knowledge, experience and level of understanding about FECs. In this situation, we may not agree to enter into an FEC with you. We will advise you of the outcome of this assessment promptly after we have completed it. If your application is successful, we'll ask you to sign a Client Agreement.

### **You will need to sign a Client Agreement**

You should read the terms and conditions of the Client Agreement carefully before entering into it. You should get independent legal advice if you don't understand any aspect of it.

### **You will need to sign an application form if you wish to use FX Dealing**

You can enter into an FEC with us online through FX Dealing, which is part of our internet banking for business service (IB4B). As well as the Client Agreement, you'll need to sign an application form and accept the terms and conditions for FX Dealing.

We reserve the right to make changes to, or replace, FX Dealing as set out in the terms and conditions for this service. However, any changes to FX Dealing won't affect any FECs that you've already entered into with us.

[bnz.co.nz/fxonline](https://bnz.co.nz/fxonline) has more information about FX Dealing including a link to our current terms and conditions.

The Client Agreement governs your derivatives relationship with us. If you choose to use FX Dealing, the Client Agreement, the application form and the FX Dealing terms and conditions govern your derivatives relationship with us.

### **Once the FEC is agreed to, you and we are bound by the agreed terms**

The terms of a specific FEC are usually agreed verbally over the telephone, by email or through FX Dealing. Once the FEC is agreed to, you and we are bound by the agreed terms.

With FX Dealing, you'll be able to enter into an FEC at the agreed Forward Rate by completing and authorising the relevant transaction on FX Dealing screens. As soon as we accept your instruction placed through FX Dealing, you and we are legally bound by the FEC.

Conversations with our Markets Specialists are recorded. This is standard market practice. We do this to make sure we keep a record of the details of all markets transactions. Recorded conversations are reviewed in any dispute and for staff monitoring purposes. We keep emails and FX Dealing records for the same purpose.

## 2.10. What is a Confirmation, and why should you check it?

Shortly after entering into an FEC, we'll send you a Confirmation that sets out the commercial terms of the FEC. It's important that you check the Confirmation to make sure it accurately records the terms agreed by you and us. If any terms are incorrect, you'll need to immediately raise the error with your Markets Specialist or BNZ Partner. However, the FEC will be binding whether or not you receive such Confirmation.

## 2.11. How can Client Agreements be amended?

We can amend your Client Agreement without your consent for certain reasons, including to align with general market practice or where such change will not, in our opinion acting reasonably, have a material effect on you. Any such amendment could result in a change to the terms of your FEC. We agree to give you written notice of any such amendment but a failure to notify you will not affect the validity of the amendment. The terms applying to your FEC may also be amended if you and we agree, see your Client Agreement and [section 2.5](#) (Can you amend the terms of your FEC?).

## 2.12. Why might an FEC we have with you be terminated?

If a default under the Client Agreement occurs, the party that is not defaulting has a right to terminate any or all FECs and any other derivative transactions between you and us. The events of default set out in the Client Agreement in relation to you (allowing us to terminate) include:

- a) you fail to make a payment or you or a guarantor does not perform any other obligation under the Client Agreement;
- b) you or a guarantor become insolvent;
- c) you or a guarantor fail to make a payment or comply with obligations under another agreement with us;
- d) a representation made by you or a guarantor to BNZ in connection with the Client Agreement or under any other agreement with us is untrue or misleading in any material respect;
- e) you fail to make a payment or comply with obligations in respect of money owed to another person;
- f) performance of the Client Agreement or a related guarantee becomes illegal;
- g) you or a guarantor dies (if you or a guarantor are individuals);
- h) any security over you or a guarantor or your or a guarantor's assets becomes enforceable;
- i) in our opinion, a material adverse event occurs in relation to you or a guarantor;
- j) we receive a direction from a relevant regulator or clearing bank to terminate, or for any reason we are unable to acquire or deliver the foreign currency;
- k) if you are acting as a trustee of a trust and certain events occur, including events in relation to the termination of the trust, or you losing the right of indemnity from the trust assets, or your right of indemnity being limited;
- l) if you are acting as a partner of a partnership and certain events occur, including you breaching the partnership agreement, the partnership being terminated or you ceasing to be a partner of the partnership;
- m) if you are acting as a general partner of a limited partnership and certain events occur, including the occurrence of a terminating event in respect of the limited partnership, any other steps being taken to terminate the limited partnership or you ceasing to be, or failing to perform your obligations as, a general partner; and
- n) any other event occurs that we agree is, or is specified in your Confirmation as, an event of default.

The events of default set out in the Client Agreement in relation to us (allowing you to terminate) include:

- a) we fail to make a payment to you or we do not perform or comply with any other obligation under the Client Agreement;
- b) a representation made by us to you in connection with the Client Agreement or under any other agreement with us is untrue or misleading in any material respect;

- c) we become insolvent, or any step is taken to make us insolvent; or
- d) any other event occurs that you and we agree is, or is specified in your confirmation as, an event of default.

We may also terminate the Client Agreement and any or all FECs if a tax event or a market disruption event occurs that is related to, or affects, us.

A tax event can occur if we will (or there is a substantial likelihood that we will) need to pay more or will receive less under the FEC on the Settlement Date because of a law change or action by a taxing authority. If this happens, we may terminate the affected FECs.

A market disruption event can occur if we can't make or receive payments under an FEC for reasons beyond our control that could include disruption in markets, communication methods, or a change in law.

You should refer to your Client Agreement for full details of all default and termination events.

### **Optional Early Termination**

In addition to the termination rights described above, you and we may agree when an FEC is entered into that optional early termination will apply to that FEC. If this is agreed, the relevant party has the right, but not the obligation, to terminate that FEC on the date, or dates, agreed. You have no other rights to terminate an FEC early, however you may ask us to terminate an FEC at any time up to the Settlement Date, as described in the next section below.

## **2.13. What are the processes if an FEC is terminated early?**

If an FEC is terminated early, we may need to pay an amount to you or you may need to pay an amount to us. This amount is referred to as a termination amount or a break cost. How we calculate the termination amount or break cost depends on whether the FEC is being terminated because either:

- you've asked us to terminate the FEC for valid commercial reasons (for example, cancellation of an export order) and we agree (voluntary termination) or
- an event of default, as described in [section 2.12](#) (Why might an FEC we have with you be terminated?) or other termination event specified in your Client Agreement has occurred and you or we, separately or together, have decided to terminate the FEC (involuntary termination).

Below we summarise the amounts payable on termination. However, you should refer to your Client Agreement for full details of the consequences of early termination.

### **We will give you a termination quote if you ask BNZ to terminate an FEC early and we agree to do so**

You may ask us to terminate an FEC at any time up to the Settlement Date. If we agree to the voluntary termination, we'll give you a termination quote. Early termination may result in a gain or a cost to you, and that cost may be significant. If you accept the termination quote and pay any cost, we will terminate your FEC.

### **The Settlement Date is usually on the termination date if voluntary termination is agreed**

If we agree to voluntarily terminate your FEC, our usual process is to bring forward the Settlement Date of the FEC (that is pre-deliver the FEC) to the agreed termination date. At the same time, we'll enter into an offsetting transaction with you at the current exchange rate. The netting of these two transactions will result in a gain or a cost to you.

### **What is the process if the FEC is terminated involuntarily**

If the FEC is terminated involuntarily, your Client Agreement will set out how the value of the terminated transaction will be determined and whether you or we must pay an amount for the terminated FEC. Usually, we'll determine this amount as at the termination date and it will be expressed in a single currency, usually NZD. We may consider factors such as the terms of an offsetting transaction, or our assessment of the mark-to-market value of the terminated FEC.

If an FEC is terminated early involuntarily, we may have the right to terminate any other derivative transactions you've also entered into with us.

### **When the FEC is terminated, the termination amounts may be aggregated**

When the FEC is terminated, the termination amounts may be aggregated. This may result in a net amount that you need to pay to us or we need to pay to you. This is known as close-out or termination netting. The amounts payable on termination, whether or not netted, may be significant.

## **2.14. Additional requirements for Renminbi FECs**

We may agree to enter into FECs that include Renminbi in the Currency Pair (Renminbi FECs) using CNH exchange rates. We do not offer a CNY exchange rate for FECs as there is no forward market for that exchange rate, however, all payments are sent as CNY, as this is the only payment code for Renminbi.

There is a regulatory requirement that any Renminbi payment into or from a bank account in Mainland China must be for an eligible trade transaction (within the meaning of the Renminbi foreign exchange rules) with a suitably regulated Chinese enterprise. Under the Client Agreement, you must be able to evidence this by providing us (within one business day) any supporting documentation relating to any Renminbi FEC and/or related payment, if requested.

All Renminbi payments, including those made outside Mainland China (often referred to as a CNH payment), are facilitated by our Clearing Bank (regulated by the People's Republic of China). While it's expected that CNH payments may be made without the restrictions described above, it's up to our Clearing Bank to decide if the payment is processed. In some circumstances, it's possible that our Clearing Bank may return the payment. You will be liable to pay any costs associated with a payment that has been returned, and accept any potential losses (or gains) associated with exchange rate movements.

## 3. Risks of these derivatives

### 3.1. Product risks

Before you enter into an FEC with us, you should consider these risks.

#### **You will not benefit from favourable market movements**

Once you've entered into an FEC, you are locked in for the Term of the FEC. This means that you won't receive any benefit from favourable market movements in exchange rates during the Term of your FEC. For example, exchange rates may move in a way that means you would have been better off if you hadn't entered into an FEC.

While an FEC gives you certainty of the Forward Rate that will apply to your exchange of currencies, it's impossible to predict whether the Forward Rate will be beneficial, from a purely economic perspective.

In addition, exchange rates are highly volatile and can fluctuate rapidly to reflect unforeseen events or changes in conditions. It's impossible to predict how exchange rates may move in the future. Historic trends don't indicate future trends.

#### **An FEC can be expensive to amend or terminate**

In general, you cannot amend or terminate an FEC without our agreement unless a default has occurred in relation to us. There is no cooling-off period. If you want to amend or terminate an FEC, you may face a cost known as a break cost or termination amount, as described in [section 2.13](#) (What are the processes if an FEC is terminated early?).

For example, you may wish to terminate an FEC if you're:

- an importer and you cancel the sale of goods contract that requires you to make a payment in a foreign currency, or
- an exporter and your customer cancels an order so you won't be receiving a payment in foreign currency as expected.

You may also need to pay break costs if we exercise our right to terminate the FEC or your Client Agreement with us in any of the other circumstances set out in that agreement. One example is if you fail to meet your obligation to make required payments to us. For details of your rights on termination and how we calculate break costs, see [section 2.13](#) (What are the processes if an FEC is terminated early?).

#### **The FEC terms may not match the terms of your underlying transaction**

An FEC is independent of any underlying transactions you may have. For the FEC to provide benefits, the terms of the FEC (such as the amount of currency to be exchanged and the Settlement Date) should match the terms of your underlying transaction. Benefits are discussed in [section 2.6](#) (What are the benefits of an FEC?).

If, for example, you require an amount of currency for your underlying transaction earlier or later than the Settlement Date of your FEC, a mismatch will occur. This risk could also arise from unexpected changes to the underlying transaction. For example, if you're expecting to receive US\$100,000 from an invoice, but that receipt is delayed, you will still need to meet your obligation to pay US\$100,000 on the Settlement Date. In this instance, the exchange rate protection and cash flow certainty that you seek may not be fully effective. This mismatch will also happen if the amount you require is outside the optional delivery period (if applicable) for your FEC, as described in [section 2.2](#) (What are the key terms of an FEC?).

#### **You may face consequences if you fail to make a payment when due**

If you fail to make a payment when due under an FEC, or otherwise fail to comply with the Client Agreement, you may be in default. If this happens, we may exercise our rights to terminate the FEC (and possibly any other derivatives you've entered into with us) under the Client Agreement. If an FEC is terminated early, you may have to pay an amount to us. That amount may be significant. You should refer to the Client Agreement for full details of our rights.

Failing to make a payment when due under an FEC or otherwise failing to meet the terms of the Client Agreement may have additional consequences under other documents, including your underlying transaction. For example, it may cause an event of default under your underlying loan agreement or have consequences under any security agreements or guarantees that you've granted to a third party. You should review your underlying financial transactions and any security agreements or guarantees that you've entered into to identify and understand these consequences. You should get independent legal advice to help with this.

### Your credit limit will be reduced

Entering into an FEC with us will reduce your available credit limit with us. The impact of that FEC on your available credit limit may vary over the Term of the FEC. The level of impact will depend on the market value of your FEC, as determined by us from time to time. Any such variation may also affect your ability to access other BNZ products or services from time to time over the Term of the FEC. In addition, other credit providers may also take an existing FEC into account when considering whether to extend credit to you.

## 3.2. Issuer risks

You're exposed to the risk that we become insolvent and are unable to meet our obligations under the FEC. Information that can help you to assess our creditworthiness is set out below.

### You can read our disclosure statements

As a registered bank under the Reserve Bank of New Zealand Act 1989, BNZ is required to prepare disclosure statements. You'll find these statements at [bnz.co.nz/about-us/governance/financials](https://bnz.co.nz/about-us/governance/financials).

### You can check our credit ratings

A credit rating is an independent opinion of the capability and willingness of an entity to meet its financial obligations (in other words, its creditworthiness). It is not a guarantee that the issuer will be able to meet its obligations under derivatives. No credit agency has rated the FECs described in this PDS. However, BNZ has the following credit ratings as at the date of this PDS:

Rating agency	Obligations that the rating applies to	Current credit rating	Qualification
S&P Global Ratings Australia Pty Ltd	Long-term senior unsecured NZD obligations	AA-	Outlook Stable
Fitch Australia Pty Ltd	Long-term senior unsecured NZD obligations	A+	Outlook Stable
Moody's Investors Service Pty Ltd	Long-term senior unsecured NZD obligations	A1	Outlook Stable
Moody's Investors Service Pty Ltd	Long-term Counterparty Risk Rating (CRR) (uncollateralised portion of non-debt counterparty financial liabilities). Typically this would include FECs.	Aa3	No Outlook provided

The table below describes in summary the major rating categories. It also shows our placement (shaded blue) within those categories for long-term senior unsecured NZD obligations and our counterparty risk rating from Moody's.

S&P ratings	Fitch ratings	Moody's Investors Service ratings	Description of grade	Default probability **
AAA	AAA	Aaa	Ability to repay principal and interest is extremely strong. This is the highest investment category.	1 in 600
AA	AA	Aa	Very strong ability to repay principal and interest.	1 in 300
A	A	A	Strong ability to repay principal and interest, although somewhat susceptible to adverse changes in financial conditions.	1 in 150
BBB	BBB	Baa	Adequate ability to repay principal and interest. More vulnerable to adverse changes.	1 in 30
BB	BB	Ba	Significant uncertainties exist that could affect the timely repayment of principal and interest.	1 in 10
B	B	B	Greater vulnerability and therefore greater likelihood of default.	1 in 5
CCC	CCC	Caa	High likelihood of default. Timely repayment of principal and interest is dependent on favourable financial conditions.	1 in 2
CC to C	CC to C	Ca to C*	Highest risk of default.	
D	RD & D	-	In default.	

\*If a rating of 'C' is given by Moody's Investors Service, the issuer is typically in default.

\*\*The approximate median likelihood that an investor will not receive repayment on a five-year investment on time and in full. This likelihood is based on historical default rates published by each agency as at 2008 (source: 'Explaining Credit Ratings', Reserve Bank of New Zealand, November 2008; available at <https://www.rbnz.govt.nz/-/media/ReserveBank/Files/regulation-and-supervision/banks/3498179.pdf?la=en&revision=67d0f881-1dc3-4b29-b1d5-e23b214c237c>)

S&P and Fitch add a plus (+) or minus (-) sign to their rating to show relative standing within the rating categories. Moody's Investors Service apply 1, 2 and 3, where 1 is the highest and 3 is the lowest.

### 3.3. Risks when entering or settling the derivatives

#### All Forward Rates quoted via email are indicative

If you request an FEC by email, the Forward Rate quoted to you by our return email is indicative only. This is because communication by email is not instantaneous and exchange rates may move at any time. For example, technology issues may delay the receipt of emails between us and exchange rates may change during that time. If a delay happens, you may not be able to enter into an FEC when you wanted to or receive the quoted Forward Rate.

#### Terms of an FEC may be disputed

Sometimes the terms of an agreed FEC may be disputed. We record your conversations with our Markets Specialists and keep emails and records of transactions entered into through FX Dealing. You can request copies of these records by contacting your BNZ Partner or Markets Specialist.

If a dispute occurs between you and us about the terms of an agreed FEC, we can review the recorded conversations, retained emails and online transaction records to confirm the details of the transaction.

#### Third parties may fail to fulfil their obligations, resulting in delays

We may use third parties to make payments in certain currencies. A failure of these third parties to fulfil their obligations may delay settlement of your FEC. See [Section 2.14](#) (Additional requirements for Renminbi FECs) of this PDS for further information on payments on Renminbi FECs by our Clearing Bank.

#### Payments may not be possible if a banking system failure occurs

A New Zealand bank, foreign bank, or banking system may fail. If this happens, we may not be able to make a payment required under your FEC.

#### Regulatory and market risk for Renminbi FECs

Conversion of Renminbi and payment of Renminbi into or from a bank account in Mainland China is subject to regulations relating to foreign exchange control of the People's Republic of China. These regulations and other applicable laws may change from time to time. If you do not hold all required governmental and other consents, both when entering into a relevant Renminbi FEC involving and immediately before any payment into or from a Mainland China bank account, you will be in default and the Renminbi FEC may be terminated.

In addition, we may be unable to acquire or deliver Renminbi for any Renminbi FEC, due to restricted availability outside the People's Republic of China or for other reasons. In such cases the Renminbi FEC may be terminated, settlement may be postponed or other fallback settlement arrangements may apply as described in your Client Agreement.

## 4. Fees

The payments due under an FEC are as described in [section 2.4](#) (What payments are due on the Settlement Date?).

You don't need to pay us any fees to enter into an FEC. You effectively pay for the FEC when you make the required payments on the Settlement Date.

We cover our costs and make our profit on FECs by including a margin in the calculation of the Forward Rate. The Forward Rate is determined each time we enter into an FEC with you. See [section 2.3](#) (What is a Forward Rate?) for a description of factors that determine the Forward Rate.

As part of our business, BNZ regularly trades for its own account and the accounts of other wholesale and retail customers in the financial markets. This includes the management of our exchange rate and interest rate risks. These activities may affect the inter-bank market exchange rates to which the margin is applied.

#### You may pay more for the FEC if we need to recalculate the Forward Rate

If you ask us to amend the terms of your FEC, we are likely to recalculate the Forward Rate applied to determine the amounts you pay under any amended FEC. The recalculated Forward Rate may increase the cost

of the FEC to you. The same factors will impact the recalculation of the Forward Rate that influenced our calculation of the original Forward Rate when we agreed to enter into an FEC as described in [section 2.3](#) (What is a Forward Rate?).

We will only agree to amend the FEC if you've accepted the newly recalculated Forward Rate. If you accept the new terms we will send you a new Confirmation including the amended terms.

#### **You may need to pay us a break cost if the FEC is terminated early**

If an FEC is terminated early, voluntarily or not, you may be required to pay us a break cost, as described in [sections 2.13](#) (What are the processes if an FEC is terminated early?) and [3.1](#) (Product risks). This amount can be significant.

## **5. How BNZ treats funds and property received from you**

Typically, no payments are made upfront (that is, on the Trade Date) for an FEC. Payments are made on the Settlement Date as described in [sections 2.1](#) (What is a Forward Exchange Contract (FEC)?) and [2.4](#) (What payments are due on the Settlement Date?). On the Settlement Date we will debit the payments you are required to make to us from an account of yours held with us. All payments are treated as being received by us when cleared funds are received in our account and become our property on payment.

We don't generally require any collateral for an FEC offered under this PDS. However, if you've given us security to secure other financial indebtedness you have with us, that may also secure your obligations to us under your FEC.

## **6. About BNZ**

BNZ is a registered bank under the Reserve Bank of New Zealand Act 1989. Since its establishment in 1861, we've been carrying on the business of providing a comprehensive range of banking and financial services in New Zealand.

Our wide range of banking and financial services include, for example, deposit taking, credit and debit cards, corporate, domestic and multi-currency lending, dealing in interest rate and foreign exchange products and other derivatives, trade finance, and distributing insurance and superannuation products.

Our parent bank is National Australia Bank Limited (NAB). NAB does not guarantee our obligations for derivatives, including FECs. NAB is not a registered bank in New Zealand and is not authorised to offer the products referred to in this PDS in New Zealand.

#### **Contact us about an FEC**

The first person to call about an FEC is your BNZ Partner. Or you can call one of our Markets Specialists on 0800 658 882.

#### **Find us**

Level 4  
80 Queen Street  
Auckland 1010  
(our registered office and business address)

#### **Write to us**

Private Bag 39806  
Wellington Mail Centre  
Lower Hutt 5045

**Use our website:** [bnz.co.nz/institutional-banking/financial-markets](https://bnz.co.nz/institutional-banking/financial-markets)

## 7. How to complain

If you have a problem or complaint about an FEC, we'll investigate and try to put it right, quickly and fairly.

### **First contact your Markets Specialist or BNZ Partner**

We aim to resolve your concern at your first contact with us. Your Markets Specialist or BNZ Partner will listen to you, and investigate your concern. They should be able to resolve most problems. If they can't help immediately, they'll follow up and keep you informed.

If the problem remains, you can email us at [Head of BNZ Markets@bnz.co.nz](mailto:Head_of_BNZ_Markets@bnz.co.nz)

If the head of BNZ Markets hasn't addressed your concern or resolved the problem, you can contact our specialist Complaint Resolution team at:

### **BNZ Customer Resolution**

PO Box 995  
Shortland Street  
Auckland 1140  
or call 0800 788 999

### **If you're still unhappy, contact the Office of the Banking Ombudsman or the Financial Markets Authority**

If you're still not satisfied with the way we've handled your problem, you can contact the Office of the Banking Ombudsman. They're our approved dispute resolution provider and may be able to handle your complaint or problem. You won't need to pay them to investigate or resolve your complaint or problem. Complaints may also be made to the Financial Markets Authority.

#### **The Office of the Banking Ombudsman**

Freepost 218002  
PO Box 25327  
Featherston Street  
Wellington 6146  
Email: [help@bankomb.org.nz](mailto:help@bankomb.org.nz)  
or call 0800 805 950

#### **Financial Markets Authority**

PO Box 106 672  
Auckland 1143  
Website: [fma.govt.nz](http://fma.govt.nz)  
Email: [questions@fma.govt.nz](mailto:questions@fma.govt.nz)  
or call 04 472 9830

#### **We follow the Code of Banking Practice**

We follow the Code of Banking Practice which sets out the standards for handling customer concerns and complaints. You can access the Code from our website [bnz.co.nz/assets/about-us/governance/pdfs/Code-of-Banking-Practice](http://bnz.co.nz/assets/about-us/governance/pdfs/Code-of-Banking-Practice).

## 8. Where you can find more information

You can find more information about BNZ and the FECs offered under this PDS free of charge from the offer register at the Companies Office [disclose-register.companiesoffice.govt.nz](https://disclose-register.companiesoffice.govt.nz). A copy of the information on this register is also available on request from the Registrar of Financial Service Providers.

Our annual disclosure statements and other documents about us are also available free from the Companies Office public register [companies-register.companiesoffice.govt.nz](https://companies-register.companiesoffice.govt.nz).

You'll also find more information about us on the website of any licensed market or other securities exchange on which our financial products may be quoted from time to time.

Our most recent disclosure statement is available from any of our branches or from [bnz.co.nz/about-us/governance/financials](https://bnz.co.nz/about-us/governance/financials).

## 9. How to enter into client agreement

Before we enter into a Client Agreement with you, we'll consider your financial position and understanding of FECs as described in [section 2.9](#) (What is the process for entering into an FEC with us?).

If your application is successful, we'll arrange to enter into a Client Agreement with you. You should ensure you understand all of your Client Agreement before entering into it. You can start this process by contacting your Markets Specialist or BNZ Partner.

### **Only New Zealand investors can apply**

Only investors in New Zealand are invited to apply for the offer of FECs set out in this PDS. If you're outside New Zealand, this PDS cannot be distributed to you and no part of this PDS is offered to you.

## 10. Glossary

We've set out the meanings of some words used in this PDS to help your understanding. Some words used in this PDS may have a different definition to a definition found in a contract or Confirmation between you and us for an FEC. If this happens, the definition in that contract or Confirmation will apply to the legal rights and obligations between you and us.

<b>BNZ</b>	we, us and our means Bank of New Zealand.
<b>Break cost</b>	is the amount you may have to pay us if any derivative you enter into with us is terminated early.
<b>Client Agreement</b>	is the BNZ Master Agreement for Foreign Exchange and Derivative Transactions.
<b>Clearing Bank</b>	is a bank that facilitates payments of foreign currencies under FECs.
<b>CNH</b>	is often used to refer to Renminbi payments outside Mainland China. Any Renminbi FEC we offer uses CNH exchange rates.
<b>CNY</b>	is often used to refer to Renminbi payments into or from a Mainland China bank account. CNY is also the International Standards Organisation currency code for Renminbi and as such is applied to all payments in Renminbi.
<b>Confirmation</b>	is a document that sets out the terms of any FEC that you enter into with us, as agreed between you and us, over the phone, by email or using FX Dealing.
<b>Contract Amount</b>	is the amount of one of the currencies in the Currency Pair that you want to buy or sell.
<b>Currency Pair</b>	is the two currencies that are exchanged on the Settlement Date under an FEC or Spot FX Transaction.
<b>Event of default</b>	is the occurrence of an event in the Client Agreement that gives us or you the right to terminate any or all outstanding transactions. One common event of default is failing to make required payments when due. This PDS also sets out other events of defaults noted in the Client Agreement.
<b>Exchange rate</b>	is both the Forward Rate and the Spot Rate.
<b>FEC</b>	is a Forward Exchange Contract. An FEC is an agreement to exchange an agreed amount of one currency for another currency at an agreed exchange rate on an agreed future date.
<b>Forward Points</b>	are derived from the difference between the interest rates that can be earned in the countries of the currencies being exchanged for the Term of the FEC.
<b>Forward Rate</b>	is the rate at which the Currency Pair will be exchanged on the Settlement Date.
<b>FX</b>	means foreign exchange.
<b>FX Dealing</b>	is the BNZ service that allows you to enter into FECs with us online, as described in the FX Dealing terms and conditions, including any amendments to, or replacements of, this service that may occur from time to time.
<b>FX Swap</b>	is sometimes used to refer to two transactions entered into at the same time, comprising either two FECs or a Spot FX Transaction and an FEC.
<b>Inter-bank market</b>	means the market for trading currencies between banks and other large financial institutions.

<b>Inter-bank market exchange rate</b>	is the wholesale exchange rates at which banks are able to buy and sell currencies with each other.
<b>Mainland China or People's Republic of China</b>	excludes the Special Administrative Regions of Hong Kong and Macau and Taiwan.
<b>NZD or NZ\$</b>	is New Zealand dollars.
<b>PDS</b>	is this product disclosure statement.
<b>Renminbi</b>	is the legal currency of Mainland China.
<b>Renminbi FEC</b>	is an FEC that includes Renminbi in the Currency Pair.
<b>Settlement Date</b>	is the date that you and BNZ will exchange an agreed amount of one currency for an amount of another currency at an agreed exchange rate under an FEC.
<b>Spot Rate</b>	is an exchange rate that is used if the Settlement Date for the transaction is two business days or less after the Trade Date (a Spot FX Transaction). The Settlement Date for a Spot FX Transaction is also referred to as the spot date. A Spot Rate is based on the inter-bank market exchange rates and may also include a margin.
<b>Spot FX Transaction</b>	is an agreement to exchange two currencies at the Spot Rate for those currencies, with a Settlement Date that is two business days or less after the Trade Date.
<b>Term</b>	is the period between the Trade Date and the Settlement Date.
<b>Trade Date</b>	is the date you agree the terms of an FEC or Spot FX Transaction you enter into with us.
<b>USD or US\$</b>	is United States dollars.