

**Operating Rules and Guidelines
 LGFA Securities Tenders**

Date issued: 10 May 2016

These Operating Rules and Guidelines dated 10 May 2016 relate to offers of New Zealand dollar denominated debt securities ("**LGFA Securities**") by New Zealand Local Government Funding Agency Limited ("**LGFA**"). This document replaces the previous Operating Rules and Guidelines dated 15 December 2015.

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1. SERIES NOTICE

Any person or entity bidding or offering to buy LGFA Securities in a tender, syndicated issue or otherwise represents as a term of the offer that he, she or it has received a copy of the series notice relating to the offer of the applicable LGFA Securities which specifies, among other things, the key features of the LGFA Securities (each a "**Series Notice**").

2. SECURITIES ISSUED

LGFA Securities may (among other forms) be issued as bonds with a term of one year or more ("**LGFA Bonds**") or bills with a term of less than 365 days ("**LGFA Bills**").

3. SELLING RESTRICTIONS IN OTHER JURISDICTIONS

Any person or entity bidding or offering to buy LGFA Securities in a tender, syndicated issue or otherwise, represents as a term of the offer that he, she, or it is not in a jurisdiction that does not permit the making of an offer or invitation of the kind contained in the relevant Series Notice and is not acting for the account or benefit of a person within such a jurisdiction. In addition, as a term of the offer, any person or entity bidding or offering to buy LGFA Securities, in a tender, syndicated issue or otherwise, agrees that he, she or it will not offer, sell or deliver any LGFA Securities or distribute any documents (including any Series Notice) to any person except in accordance with all of the legal requirements of the relevant jurisdiction.

4. REGISTRATION OF INSTITUTIONS

Institutions that wish to participate in LGFA Securities tenders must first be registered to do so by LGFA. Institutions that are approved to participate in LGFA Securities tenders will be notified of this approval by letter from LGFA and each such institution is accordingly registered as a party who may participate in LGFA Securities tenders ("**Tender Counterparties**"). Only Tender Counterparties may take part in LGFA Securities tenders.

By placing a bid in a LGFA Securities tender, a Tender Counterparty is deemed to agree to be bound by these Operating Rules and Guidelines.

Once registered, a Tender Counterparty remains registered to take part in LGFA Securities tenders unless:

- (a) the Tender Counterparty's registration is cancelled by LGFA; or
- (b) the Tender Counterparty submits a request (in writing) to LGFA for the cancellation of its registration. LGFA reserves the right to cancel any registration at any time.

5. OTHER PARTIES

Yieldbroker Pty Limited provides the system (“**Yieldbroker Auction System**”) to be used for tendering of all LGFA Securities.

All securities purchased from LGFA via tender are settled through NZClear.

The Registrar is Computershare Investor Services Limited.

6. ANNOUNCEMENTS

6.1 Tender Composition

All tenders of LGFA Securities shall be made in terms of and pursuant to the Series Notice(s) and these Operating Rules and Guidelines.

LGFA, where possible, will announce the composition of each upcoming tender on LGFA’s pages for LGFA Securities via a combination of electronic media and the LGFA website (lgfa.co.nz).

Tender details will include:

- the LGFA Securities being issued;
- the amount of the LGFA Securities to be issued;
- the maturity dates of the LGFA Securities;
- the coupon interest rates (if applicable);
- the date and closing time of the tender;
- the settlement date for the tender; and
- the time results are intended to be announced.

6.2 Tender Announcement and Result Times (NZ Time)

LGFA reserve the right to alter the tender announcement and result times for specific tenders.

6.2.1 LGFA Bonds

Tender announcements	2.00pm two business days prior to the tender
Tender bids open	1:30 pm
Tender bids close	2.00 pm
Tender results announced	Yieldbroker: From 2.05pm Website: From 2.05pm

6.2.2 LGFA Bills

Tender announcements	2.00pm one business day prior to the tender
Tender bids open	10.30am
Tender bids close	11.00am
Tender results announced	Yieldbroker: From 11.05am Website and Bloomberg: From 11.05am

6.3 Alteration of an Announced Tender

LGFA reserves the right to alter the composition, extend the cut-off time, or to postpone or cancel a tender at any time.

Where possible, notice may be given by way of an announcement on LGFA's pages for LGFA Securities via a combination of electronic media, the LGFA website or by telephone.

If a tender is postponed or cancelled, any bids lodged will be disregarded.

7. TENDERING PROCEDURES

7.1 Size of Bids

For LGFA Bonds each bid must be a minimum amount of \$10,000 (principal) and in multiples of \$1,000 (principal) thereafter.

For LGFA Bills each bid must be of a minimum amount of \$1,000,000 (principal) and in multiples of \$500,000 (principal) thereafter.

Any bids not received in the relevant multiple will not be accepted by the Yieldbroker Auction System.

7.2 Format of Bids

For all LGFA Securities each bid must state the yield as a percentage per annum and may be expressed in three decimals with the third decimal only to be in half point increments, e.g. 4.765%.

7.3 Electronic Tendering

Bids must be submitted using the Yieldbroker Auction System unless a telephone bid is accepted by LGFA.

Bids must be final in the Yieldbroker Auction System prior to the tender close time as stated by LGFA in the tender composition announcement for that tender.

For avoidance of doubt, each Tender Counterparty should use the NZClear mnemonic(s) advised by the Tender Counterparty to the LGFA as part of Tender Counterparty registration or by subsequent written notice. Bids using alternative mnemonics will not be accepted by the Yieldbroker Auction System.

It is the responsibility of each Tender Counterparty to ensure that bids are submitted correctly, using the correct mnemonic and prior to tender closure.

Bids cannot be amended or withdrawn after the time announced for the closure of the tender has elapsed according to the clock in the Yieldbroker Auction System.

7.4 Placing Bids via Telephone

LGFA may, at its discretion, take telephone bids before tender closure.

A person authorised by the Tender Counterparty should place the institution's bids by calling the following LGFA contacts:

Mark Butcher +64 21 2236573
Andrew Michl +64 21 662434
LGFA Office +64 4 9746530

Tender Counterparties tendering via telephone will be required to provide:

- the dealer's name, confirmation that the dealer understands the Operating Rules and Guidelines, has received the relevant Series Notice(s) and is an authorised dealer;
- their institution's NZClear mnemonic; and
- the yield and the amount being bid for each security.

Once placed, a telephone bid cannot be amended or withdrawn, regardless of whether an identical (NZClear mnemonic, security, yield and amount) bid has been committed through the Yieldbroker Auction System. Phone bids must be submitted on an absolute basis and not a relative basis.

In all circumstances, the LGFA reserves the right to rely on both telephone and electronic bids that have been submitted and accepted in good faith and are current as at tender close.

7.5 Disallowing of Bids

LGFA reserves the right to disallow any bid, or part thereof, for any reason.

7.6 Security Issuance Allocation

Allocations for each maturity of LGFA Bonds and LGFA Bills offered via tender will be made in ascending order of yields bid.

Successful Tender Counterparties will be allocated principal amounts that are whole multiples of \$1,000 (LGFA Bonds) or \$500,000 (LGFA Bills) with the minimum allocation being \$10,000 (LGFA Bonds) or \$500,000 (LGFA Bills).

At the highest yield accepted, LGFA Securities will, if necessary, be allocated on a pro-rata basis in relation to the principal amount available at that yield.

LGFA reserves the right to issue less than the maximum amount of LGFA Securities for each tender.

7.7 Oversubscription

LGFA reserves the right to accept oversubscriptions in any maturity offered for sale, of up to 50 per cent of the amount offered for tender in that maturity. This is subject to the provision that the total amount of bids accepted for all maturities does not exceed the total amount offered for tender.

When both LGFA Bonds and LGFA Bills are offered for issuance in the same tender, there is no provision to allow the oversubscription between the two classes.

7.8 Allocation Queries

Tender Counterparties should use the contacts listed in Section 7.4 for questions relating to allocations.

7.9 Issue/Settlement Price for Issuance of LGFA Securities

The issue/settlement price per N dollars of principal for LGFA Bonds shall be calculated on the basis of the following formula:

$$\text{Issue/settlement price per \$N principal} = \frac{\left[\frac{1}{(1+i)^n} + r \left[c + \frac{1 - \frac{1}{(1+i)^n}}{i} \right] \right]}{(1+i)^{\frac{a}{b}}} N$$

Where N = the principal of the LGFA Bond (\$)

r = the annual Interest Rate¹ divided by two hundred, i.e. the semi-annual Interest Rate (%)

i = the yield divided by two hundred, i.e. the semi-annual yield (%)

c = where the Settlement Date² is after the Record Date³ and up to, but not including, the next Interest Payment Date⁴ "c" has the value of 0, otherwise "c" has the value of 1

n = the number of full half years between the next Interest Payment Date and the Maturity Date⁵

a = the number of days from the Settlement Date to the next Interest Payment Date

b = the number of days in the half year ending on the next Interest Payment Date

The issue/settlement price will be rounded to the nearest cent (0.01 and 0.49 of a cent being rounded down and 0.50 and 0.99 of a cent being rounded up).

Settlements during the period from the Record Date up to, but not including, the Interest Payment Date of any LGFA Bonds offered for tender will be on an ex-coupon interest basis. All other settlements will be on a cum-coupon interest basis.

7.10 Issue/Settlement Price for Issuance of LGFA Bills

The issue/settlement price per N dollars of principal shall be calculated on the basis of the following formula:

¹ Interest Rate means the interest rate applicable to the LGFA Bond, as set out in the relevant Series Notice.

² The Settlement Date means the value date for issue as notified in the relevant Series Notice.

³ Record Date has the meaning given in the Trust Documents (as defined in the relevant Series Notice).

⁴ Interest Payment Date means each date on which interest is payable on the LGFA Bond, as set out in the relevant Series Notice.

⁵ Maturity Date means the maturity date applicable to the LGFA Bond, as set out in the relevant Series Notice.

$$\text{Issue/settlement price} = \frac{N}{1 + \left(i \times \frac{n}{365} \right)}$$

Where N = the principal of the LGFA Bill (\$)

i = the yield divided by one hundred

n = the number of full days from the Settlement Date⁶ until the Maturity Date⁷

The issue/settlement price will be rounded to the nearest cent (0.01 to 0.49 of a cent being rounded down and 0.50 to 0.99 of a cent being rounded up).

7.11 LGFA Securities Issuance Settlement

Confirmations are sent to successful Tender Counterparties via email. Physical settlement is by delivery versus payment via NZClear. LGFA reserves the right to cancel any LGFA Securities that are not fully paid for by the Settlement Date.

Settlement for LGFA Bonds is tender date + 3 business days by 16:45 New Zealand time.

Settlement for LGFA Bills is same day settlement by 16:45 New Zealand time.

LGFA reserve the right to alter the settlement convention for LGFA Bonds and/or LGFA Bills for a specific tender.

Questions relating to settlement should be made to:

Jane Phelan

Operations Manager

Phone +64 4 974 6530 or +64 21 190 9390

Email LGFAtreasuryoperations@lgfa.co.nz

8. INFORMATION SHARING

Data relating to LGFA Securities tenders may be shared with the New Zealand Debt Management Office and the Reserve Bank of New Zealand.

⁶ The Settlement Date means the value date for issue as notified in the relevant Series Notice.

⁷ Maturity Date means the maturity date applicable to the LGFA Bill, as set out in the relevant Series Notice.

9. DISCLAIMER

LGFA will not be liable for any loss to any person from any source arising directly or consequentially (including, but not limited to, loss of profits), or damages to persons or property arising out of:

- the breach by any person of any of the terms and conditions of the tender, including the relevant Series Notice; or
- the failure by a Tender Counterparty to commit bids (or offers) in the Yieldbroker Auction System accurately, prior to tender closure and otherwise in accordance with these Operating Rules and Guidelines, the relevant Series Notice and the tender composition announcement; or
- any inaccuracy in the details of tenders as announced in the Yieldbroker Auction System or otherwise; or
- the terms of any bid; or
- LGFA acting on any bid received or purportedly received from a Tender Counterparty; or
- the inability of LGFA to act on any bid received; or
- any fraud or forgery on the part of any person bidding or purporting to bid securities; or
- any breach of the security of the connection between the Yieldbroker Auction System and the computers operated by LGFA and NZClear; or
- the suspension of the Yieldbroker Auction System whether wholly or partly; or
- any failure of the NZClear settlement system; or
- any variation of the operational timetable; or
- any other issues associated with the operation of the electronic bidding process.

10. REPLACEMENTS

LGFA may in its sole discretion replace these Operating Rules and Guidelines from time to time. Where these Operating Rules and Guidelines are replaced LGFA will make the replacement Operating Rules and Guidelines available on the LGFA website (lgfa.co.nz) and will give Tender Counterparties 5 business days prior notice (via the LGFA website, lgfa.co.nz, or email) of the effective date of the replacement Operating Rules and Guidelines.