

**DEBT SECURITIES (FIN5DBS), SEMESTER 1, 2012 – ADDITIONAL
QUESTION FOR TUTORIAL 2**

On October 14th 1999, Macquarie Bank Limited announced the release of an issue of Macquarie Income Securities (MIS) to raise \$200 million. A Macquarie Income Security is a stapled security comprising a Preference Share and a Subordinate Unsecured Note (known as a Holder's Interest). Following their anticipated issue date of November 19th 1999, the MIS will be tradeable on the Australian Securities Exchange (ASX). The following table provides specific information relating to the MIS issue:

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| Issue type | Stapled security including a preference share and an unsecured note (or holder's interest) |
| Par value | \$100 per MIS |
| Maturity date | No maturity date – perpetual unless redeemed by the issuer |
| Interest rate | 90-day bank bill rate + 1.70% margin which will be reset quarterly on the first business day of each Interest Period. A minimum interest rate of 7.25% per annum is guaranteed until the interest period ending on January 15 th 2003 |
| Interest payment details | Quarterly on January 15 th , April 15 th , July 15 th and October 15 th . Interest will cease to be paid if a Payment Direction Event occurs, namely: i) a Liquidation event occurs in relation to Macquarie; ii) Macquarie acknowledges in writing that it is unable to pay its debts within the meaning of the Corporations Law; iii) At any time Macquarie gives written notice to the Trustee that it requires all Moneys Owed in respect of the Notes to be paid to it as they become due; or iv) APRA determines in writing that Macquarie has a Tier 1 Capital Ratio of less than 5% or a Total Capital Adequacy Ratio of less than 8%. Should any of these occur, investors will become entitled to receive dividends on the stapled Preference Share |
| Preference dividend rate | 180-day bank bill rate + 1.70% margin which will be reset semi-annually on the first business day of each Dividend Period |
| Preference dividend payment details | Preference dividends will not initially be paid, and will only become payable once a Payment Direction Event has occurred. Paid semi-annually on January 15 th and July 15 th |
| Redemption details | Investors will have no rights to require repayment of the par value from the issuer. Neither the unsecured note or the preference share are convertible into Macquarie ordinary shares Macquarie has the right to repurchase the MIS for the \$100 par value at any time after 5 years following the Issue Date, with the prior approval of APRA |
| Security status | MIS will rank ahead of Macquarie ordinary shares and equal with Converting Preference Shares for the payment of interest (or dividends), but will rank behind all deposit liabilities and creditors of Macquarie |

Questions:

- The interest rate details relating to the MIS indicate that a 7.25% per annum minimum interest rate was guaranteed until the January 15th 2003 interest payment date. Explain what this guarantee represented and who it would have benefited (Macquarie or investors).
- The redemption details specify that Macquarie Bank Limited has the right to repurchase the MIS for the \$100 par value any time after the notes have been outstanding for 5 years. Outline what this repurchase clause represents, who it potentially benefits, and the circumstances that are likely to result in the MIS being repurchased.
- Explain whether investors in the MIS are subject to any interest rate risk.
- The MIS are still listed on the ASX and currently trading at a price of approximately \$67 per MIS. Suggest the likely reason(s) why the current price of the MIS is significantly less than its \$100 par value.