

FINANCIAL MARKETS DEPARTMENT

DOMESTIC MARKETS SECTION
OPERATING RULES AND GUIDELINES

Date Issued 30 October 2015

SECTION 2

DOMESTIC MARKET OPERATIONS

2 Domestic Market Operations

2.1 Terms and conditions governing Domestic Market Operations conducted by the Reserve Bank.

- The information in this document or in any other Reserve Bank document or website does not contain and is not an invitation or offer to buy or sell Securities.
- Any invitation to tender for RB bills made by the Reserve Bank is a not a regulated offer under the Financial Markets Conduct Act 2013 as an exclusion applies to an offer of financial products where the issuer is the Reserve Bank (clause 22(1)(c) of Schedule 1). As a consequence, an offer of Securities does not require disclosure under Part 3 of the Financial Markets Conduct Act 2013.
- The Reserve Bank will not be liable for any loss to any person arising directly or consequentially arising out of:
 - a. The breach by any person of any of the terms and conditions of a tender.
 - b. Any inaccuracy in the details of tenders as announced in the system or otherwise.
 - c. The terms of any bid.
 - d. The Reserve Bank acting on any bid received or purportedly received from a counterparty.
 - e. The inability of the Reserve Bank to act on any bid received.
 - f. Any fraud or forgery on the part of any person bidding or purporting to bid.
 - g. Any variation to timetables.
 - h. Any other issues associated with the operation of the electronic bidding process.
- All capitalised terms have the meaning given in the GMRA 2011. In the event of any inconsistency between these guidelines and the GMRA, the GMRA prevails. In the event of any inconsistency between these guidelines and the information provided by the Bank at www.rbnz.govt.nz/finmarkets/liquiditymanagement/3316334.html, the website prevails

2.2 Operations

- Liquidity operations
 - Foreign Exchange (FX) Swaps and Basis Swaps

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- Open Market Operations (OMOs)
 - i. Inter-Day repurchase transactions
 - ii. Issuance of RB Bills
- Standing Facilities
 - Overnight Reverse Repo Facility (ORRF)
 - i. Manual ORRF
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 - Bond Lending Facilities
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 - ii. Repo Facility
- Other Domestic Operations
 - i. Repurchase and/or Swap of New Zealand Government Securities

2.3 Registration of bidders

Application for registration as a bidder should be made at least 10 business days before an institution wishes to participate in the RBNZ's domestic market operations (see section 4.1). Registration enables bidders to participate in the OMOs¹, use the ORRF¹ and the BLF¹. Once registered, a counterparty need not re-apply for registration in respect of subsequent operations, unless the registration has been cancelled by the RBNZ. The RBNZ reserves the right to reject any application for registration or to cancel any such registration at any time. Application forms for registration are attached in the appendices (see section 4.1), are available from the Manager, Risk Unit (see section 1.3), or can also be found at www.rbnz.govt.nz.

In the case of individual dealing authorities (see section 4.1 (d)), changes subsequent to the initial notification will become effective once the original notice of changes, duly authorised, has been received by the RBNZ.

Liquidity Operations

2.4 Foreign Exchange (FX) Swaps and Basis Swaps

- (a) The RBNZ will use FX swaps and basis swaps for liquidity operations.
 - FX swaps and basis swaps will be dealt direct with counterparties or via a broker;

¹ Participation in Repurchase Transactions offered in OMOs, and available through the ORRF and the BLF requires the execution of a 2011 GMRA with the RBNZ. The execution of this documentation may take longer than the 10 business days required for registration.

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- The RBNZ will only transact basis swaps with counterparties with whom it has signed an ISDA Master Agreement.
- FX swaps will be transacted for value date “tomorrow”, “spot” or can be “forward starting”. Basis swaps will be transacted for value date “spot” or can be “forward starting”.
- The term of FX swaps transacted for liquidity operations will predominately be in the one-day to six-month period, but the RBNZ may also transact longer dated FX swaps. Basis swaps transacted for liquidity operations will predominately be for 1 to 3 year maturities however the RBNZ can transact longer dated basis swaps.
- Transactions will only be settled using standard settlement instructions previously provided to the RBNZ or via CLS if eligible.

2.5 Inter-day repurchase transactions (OMO and Bond Lending Facilities)

These *Operating Rules and Guidelines* should be read in conjunction with the 2011 Global Master Repurchase Agreement (2011 GMRA) signed with the RBNZ and details on the RBNZ’s website at www.rbnz.govt.nz/finmarkets/liquiditymanagement/3316334.html. The Reserve Bank may act as Buyer or Seller under a Repurchase Transaction.

(a) Acceptable Securities

(i) Definition

The following are defined as acceptable Securities for RBNZ inter-day repurchase transactions:

- **New Zealand Government Treasury bills**
- **New Zealand Government bonds**
- **New Zealand Government inflation-indexed bonds².**
- **Other non-New Zealand Government Securities as approved by the RBNZ².**

A full list of acceptable Securities can be found on the RBNZ website (refer 2.5). If at any point in time an acceptable Security fails to meet RBNZ requirements, it will lose its eligibility status for future Transactions. Counterparties with outstanding Repurchase Transactions using these Securities may be asked to substitute these Securities (refer 2.5 c).

Application documentation for acceptance of non-New Zealand Government debt Securities can also be found on the RBNZ website.

² Only NZ Government Bonds will be sold in Repo Transactions.

(ii) Maturity Date of Securities

Securities must have a maturity date that is at least three Business Days after the Repurchase Date of the Repurchase Transaction.

(b) Valuation of Securities

For each Repurchase Transaction, the Securities will be valued at Market Value, except for Residential Mortgage Backed Securities which will be valued at par or as otherwise determined by the RBNZ.

(i) Haircuts

The Value of the Securities will be calculated using the Haircuts notified on the Bank's website (refer 2.5).

(ii) Income Payments

Should the Buyer receive, or become entitled to, any income payment from these Securities during the term of the Repurchase Transaction, such funds will be transferred to the Seller as specified in clause 5 of the 2011 GMRA, on the date the income payment is received.

(c) Substitution of Securities

Substitution of Securities is permitted by agreement under clause 8 of the 2011 GMRA. However the RBNZ does not envisage initiating substitution under normal circumstances, when it is the Seller.

If substitution is to be agreed, the following conditions will apply:

- **The fee for substitution is \$100.00 per request, payable to the Buyer.**
- Substitutions must be made using a similar type of security sold under an existing Repurchase Transaction, or NZ Government Securities, RB Bills, or Acceptable Kauri issues. **However, counterparties can only substitute Residential Mortgage Backed Security with another Residential Mortgage Backed Security.**
- Refer to section 3.1 (a) (ii) and (iii) for settlement instructions.
- Notification to the Buyer is required by 11:00 on the day of substitution.

(d) Margin Maintenance

Under clause 4 of the 2011 GMRA, the Buyer and Seller has the right to make a margin call when the Net Exposure in respect of the other party is greater than

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NZD 1 million. The value of the margin call is such that the Net Exposure is eliminated.

When the Buyer/Seller exercises this right before 14:00 on any business day, the margin called (in terms of additional security) is required to be met by 16:45 on that day. When the Buyer/Seller makes a margin call before 17:00 (but after 14:00), the margin called is required to be met by 12:00 noon on the next business day. Failure to comply with these times will be an event of default under paragraph 10 of the GMRA.

2.6 Issuance of RB Bills (OMO or tender)

The Reserve Bank may issue RB Bills in exchange for cash via the OMO or tender. The RBNZ will offer RB bills with maturities out to a maximum of approximately 1 year.

(a) Terms and conditions relating to RB Bills.

All money payable on RB bills constitutes a debt due to the holder of the RB bill by the Reserve Bank and is unsecured. The New Zealand Government has no liability in respect of those bills.

The Reserve Bank will pay the face value of the bill to the holder on the day the bill matures.

No physical security or certificates of title shall be issued.

New Zealand Central Securities Depository Limited (NZCSD) shall be the sole legal owner and sole registered holder of each RB bill. NZCSD shall hold each bill on trust for the Members of the NZClear system with beneficial ownership of the bill. No legal transfers of RB bills shall be permitted. Accordingly, RB bills may not be uplifted from the NZClear system and registered into the names of parties other than NZCSD.

RB bills may be traded and settlements of trades may only occur between members of NZClear using the NZClear system in accordance with the Rules of the system.

(b) Approved Issuer Levy (AIL) payments on RB bills

The Reserve Bank will pay AIL due on RB bills provided the Reserve Bank has been advised of non-residents' beneficial holdings of the bills at books close date in accordance with the NZClear Rules (including Operating Guidelines). The Reserve Bank will not be responsible for any AIL or NRWT due on RB bills if details of non-residents' beneficial holdings are not provided before the relevant maturity date or otherwise in accordance with the NZClear Rules (including Operating Guidelines).

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The NZClear system has members who are not resident in New Zealand for tax purposes. Until now these members have not been permitted to hold any Securities in the system other than Securities issued by the New Zealand Government. As of 07 November 2008, in addition to holding Securities issued by the New Zealand Government, these members are permitted to hold RB bills.

2.7 Procedures and Conditions for Bidding in the OMO or RB Bill tender

(i) General

Following the announcement of the OMO or RB Bill tender on the electronic media (see section 1.2) those registered bidders wishing to place bids/offers must place them by phoning (64 4) 472 0074 / 472 0075, or by dedicated line where applicable.

Bids/offers must be placed by currently authorised dealers. They must be read back by a staff member of the DMS, and agreed, before the reuters clock changes to the close time. (This time is advised when the details of the OMO or RB bill tender are announced.)

Offers for repo will be on the basis of the amount of bonds that counterparties want to borrow from the RBNZ. **Counterparties will be required to specify the bond they wish to receive, if their offer is successful.** Offers for reverse repo will be on the basis of the amount of cash that counterparties want to borrow from the RBNZ. **Counterparties must specify the type of security they intend to offer, if their bid is successful (e.g. New Zealand Government Bond or Residential Mortgage Backed Security etc).** **Bids which will be secured using Residential Mortgage Backed Securities must be made separately to those which will be secured using other types of eligible Securities (e.g counterparties will not be able to secure a successful bid using a mix of Residential Mortgage Backed Securities and other eligible Securities).** Offers for RB Bills will be on the basis of the face value of RB Bills that counterparties want to purchase from the RBNZ.

Once bids/offers have been placed, read back by a DMS staff member and agreed by both parties, those bids/offers cannot be altered or retracted. In the case of dispute, the bid that was read back and agreed will stand as final.

(ii) Limits and Ratings

- **Aggregate cash exposures will be capped at \$750 million for counterparties with a short term rating of less than A1 (S&P), or P-1 (Moody's), or for counterparties that cannot provide a guarantee from a senior entity of that rating in their group.**

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- **A limit on the absolute amount of any one line of security for NZ Government Securities that will be accepted from any one counterparty will be set at \$750 million nominal value.**

(iii) Minimum and Standard Parcel Sizes

Each bid must be of a minimum amount of \$1,000,000 (principal) and in multiples of \$1,000,000 (principal) thereafter. Any bids not in multiples of \$1,000,000 will be rejected.

(iv) Bid Format

Each bid must state the yield (% per annum on the appropriate basis³) sought by the bidder. The yield is to be expressed to the second decimal place (e.g. 7.55%). Decimal places beyond two will be disregarded.

(a) Acceptance/Rejection of Bids

The RBNZ reserves the right to reject any bids, or part thereof, for any reason.

(b) Results and Allocation

The results will be announced as soon as possible after the close time of the OMO(see section 1.2).

Where there is more than one bidder at the cut-off yield, bidders will be allotted principal amounts as far as practicable, on a pro-rata basis in relation to the amount available at that yield, except that no successful bidder shall be allotted a principal amount that is less than \$1 million. All allocations will be in whole multiples of \$1 million thereafter.

For repo, bids will be allocated with reference to the availability of bonds. Availability of each bond will be advised, via electronic media, prior to the OMO. Consequently, the lowest bids may not necessarily always be the successful bids. A matrix format will be used to convey the results of repo in the OMO.

Details for successful bids in the OMO, including security if required, should be confirmed with the RBNZ within 45 minutes of the results being released.

(c) Postponements

The RBNZ reserves the right to extend the bidding cut-off time or postpone the OMO at any time.

³ The appropriate basis can be yield to maturity, semi-annual, quarterly, or some other basis depending on the security being issued, but in accordance with market practice in the trading of that security.

Standing Facilities

2.8 Overnight Reverse Repo Facility (ORRF)

(This section should be read in conjunction with section 2.3)

(a) Acceptable Securities

Refer 2.5 (a)

Note: Due to current system constraints, only New Zealand Government bonds, Treasury bills and RB bills are acceptable in the Auto ORRF. The RBNZ will advise counterparties when other Securities will be acceptable for Auto ORRF

(b) Income Payments

Refer 2.5 (b) iii

(c) Substitution of Securities

- **Substitution of Securities is not permitted through the Automated ORRF.**
- **The fee for substitution is \$100.00 per request, payable to the Buyer.**

2.8.1 Manual ORRF

(a) Hours of Operation

Hours	Who Can Deal
09:00 to 12:00 14:00 to 16:00	All registered counterparties who have executed a 2011 GMRA with the RBNZ.
09:00 to 12:00 14:00 to 16:00* 07:30 to 08:00*	Settlement account holders who have executed a 2011 GMRA with the RBNZ.

* The RBNZ may accept requests to use the Overnight Reverse Repo Facility after 16:00, or 08:00 the following morning, for Settlement account holders who have executed a 2011 GMRA at its discretion. If settlement is not completed by 08:30 (end of the ESAS business day the deal was transacted), the trade will be cancelled.

(i) General

Registered bidders wishing to use the ORRF must telephone (04) 472 0074 / 472 0075, or use a dedicated line, where applicable.

Requests must be made by currently authorised dealers. They must be read back by a DMS staff member, and agreed. Once the request has been placed and read back by a DMS staff member, that request cannot be altered or retracted. In the case of dispute, the request that was read back and agreed will stand as final.

(ii) Minimum and Standard Parcel Sizes

Each request must be of a minimum amount of \$1,000,000 (principal) and in whole multiples of \$1,000,000 (principal) thereafter.

(iii) Maturity Date of Security

Acceptable Securities must have a maturity date that is at least three business days after the trade date of the transactions

(iv) Lending Rate

All repo cash will be lent at the Overnight Reverse Repo Rate (ORRR). The current ORRR can be found on Reuters page RBNZ02.

(v) Results

The total volume of cash lent via the Overnight Reverse Repo Facility, on any one day, will be announced the following business day on the page noted in (iv) above, at approximately 09:30.

(vi) Valuation of Securities

Refer 2.5 (b)

(vii) Term

The ORRF is for overnight transactions only.

2.8.2 Automated ORRF**(a) Hours of Operation**

Hours	Who Can Deal
09:00 – 08:20	Settlement account holders who have executed a 2011 GMRA, including Annex III, with the RBNZ

(i) General

This section of the *Operating Rules and Guidelines* relate only to counterparties of the RBNZ who have executed Annex III of the 2011 GMRA.

Inter-day Repurchase Transactions may be entered into electronically through ESAS.

(ii) Minimum and Standard Parcel Sizes

Each request should adhere to minimum and multiples as per the security series set up in NZClear.

(iii) Maturity Date of Security

Acceptable Securities must have a maturity date that is at least three business days after the trade date of the transactions.

(iv) Lending Rate

All repo cash will be lent at the Overnight Reverse Repo Rate (ORRR). The current ORRR can be found on Reuters page RBNZ02.

(v) Results

The total volume of cash lent via the Overnight Reverse Repo Facility, on any one day, will be announced the following business day on the pages noted in (iv) above, at approximately 09:30.

(vi) Valuation of Securities

All purchased Securities will be valued at market value.

The purchase price of the Securities will be the value of the Securities divided by the cover factor (102%).

(vii) Counterparty Initiation of Repurchase Transaction through the automated ORRF

The counterparty will be deemed to have agreed to an Inter-day borrowing each time an ORRF transaction is triggered. ESAS account holders can buyback Securities sold in ORRF throughout the same ESAS day however this will still incur a charge equivalent to the Overnight Reverse Repo Rate (ORRR).

Settlement account holders will be advised of the amount of interest they must pay for any Repurchases bought back within the same ESAS day. This interest

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must be paid via ESAS as soon as possible within the following ESAS day in which the repurchase was transacted.

(viii) Auto buy back

ESAS will automatically buy back Auto ORRF transactions at 8.20am each day as long as Settlement account holders have cash in their account. Where Securities sold to the RBNZ through Auto ORRF are not repurchased by end of the ESAS day on which the transaction was entered into, the transaction will be extended (rolled over) to the following ESAS day at the ORRR. The Repurchase price for extended Repurchase transactions incorporates the ORRR interest component.

Transactions ‘rolled over’ in this manner will not be eligible for subsequent automatic rollovers. Should such Securities not be repurchased by the end of the ESAS day on which the transaction was rolled over, then the RBNZ, at its discretion, may accept the resulting deemed offer to manually extend the transaction. **Extended transactions will still incur the ORRR.**

Should the RBNZ receive, or become entitled to, any income payment for Securities held as a result of an extension of the transaction, such funds will be transferred to the Seller on the date the income payment is received.

(ix) Term

The automated ORRF is for overnight transactions only.

2.9 Bond Lending Facilities

(This section should be read in conjunction with sections 2.3 and 2.5)

The RBNZ offers two Bond Lending Facilities as outlined below. Bonds offered in these facilities each day are subject to availability. **The RBNZ will lend up to a maximum of \$500 million of bonds against cash for same day transactions across both facilities (the maximum amount of bonds available via the Repo facility is \$250 million).**

2.9.1 Bond lending facility (BLF)

(a) Hours of Operation

The window will be open between 2:00 and 2:30pm⁴. (Counterparties will be able to approach the RBNZ up to 4:00pm but transaction settlements will proceed on a best endeavours basis.) All registered counterparties who have executed a 2011 GMRA with the RBNZ are eligible to utilise the BLF.

⁴ Except for Christmas Eve and New Year’s Eve.

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(i) General

Registered counterparties wishing to use the BLF must telephone (04) 472 0074 / 472 0075, or use a dedicated line, where applicable.

Requests must be made by currently authorised dealers. They must be read back by a DMS staff member, and agreed. The deal will not be considered final until the full details of the transaction has been confirmed with the authorised dealer. In the case of dispute, the request that was read back and agreed will stand as final.

The request must include:

- **Bond required (maturity date and volume);**
- **Term (overnight to 1 week);**
- **Security provided to RBNZ (Government security or cash);**
- **Settlement date (same day or tom).**

(ii) Minimum and Standard Parcel Sizes

Each request for bonds must be of a minimum amount of \$1,000,000 (principal) and in multiples of \$1,000,000 (principal) thereafter.

(iii) Lending Rate

Bonds will be transacted on a security versus security or security versus cash basis at the counterparty's request (subject to the \$500 million daily security versus cash limit noted previously).

Bonds lent through the BLF will be lent at the Official Cash Rate (OCR) less 150 basis points⁵. The current OCR can be found on Reuters page RBNZ02.

For a security versus security transaction, New Zealand Government Securities (Treasury bills and Government bonds) provided as security will be repurchased at the OCR.

(iv) Term

Registered counterparties can request a term of overnight to 1 week. Transactions can be initiated on a same day or tom basis. The RBNZ reserves the right to alter the requested term in consultation with the counterparty.

(v) Availability of Bonds

⁵ The RBNZ reserves the right to adjust this margin at any time. However, it is expected that changes to the margin will be infrequent.

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Bonds from maturing transactions will be available for the BLF, if the RBNZ receives the bonds into its NZClear account before 2:00pm on maturity date.

(b) Results and Allocation

(i) Allocation

The facility will operate under a first come first served basis. However, if there is more than one request for a particular bond at the same time, and the combined requests total more than what the RBNZ can lend, the RBNZ will prorate the bond to each counterparty.

(ii) Results

These will be announced each day at approximately 4:00pm via electronic media.

Details released will be volume, bond maturity date, facility start and end dates.

2.9.2 Repo Facility

(a) Hours of Operation

The Repo Facility offers to lend bonds via a tender process. **Bonds will be transacted on a security versus cash basis for same day settlement.** Tenders will be held at 9.30am every Monday, Wednesday and Friday (**except when an OMO Repo Operation is offered - refer section 2.5. The RBNZ Repo Facility tender will be cancelled in this instance**).

All registered counterparties who have executed a 2011 GMRA with the RBNZ are eligible to bid in the RBNZ Repo Facility

(i) General

Details of the RBNZ Repo Facility will be announced via electronic media at 9.30am (refer section 1.2). Following announcement registered counterparties wishing to place bids in the RBNZ Repo Facility must telephone (04) 472 0074 / 472 0075, or use a dedicated line, where applicable.

Requests must be made by currently authorised dealers. They must be read back by a DMS staff member, and agreed, before the Reuters clock changes to the close time. (This time is advised when the details of the tender are announced)

Bids for repo via the facility will be on the basis of the amount of bonds counterparties want to borrow.

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Once bids have been placed, read back by a DMS staff member and agreed by both parties, those bids cannot be altered or retracted. In the case of dispute, the bid that was read back and agreed will stand as final.

(ii) Limits

The RBNZ will lend up to \$250 million of bonds in the RBNZ Repo Facility⁶.

(iii) Minimum and Standard Parcel Sizes

Each request for bonds must be of a minimum amount of \$1,000,000 (principal) and in multiples of \$1,000,000 (principal) thereafter.

(iv) Lending Rate

A maximum rate will be set for Bonds lent through the RBNZ Repo facility at the Official Cash Rate (OCR) less 70 basis points⁷. The current OCR can be found on Reuters page RBNZ02.

(v) Bid Format

Each bid must state the yield (% per annum on the appropriate basis⁸) sought by the bidder. The yield is to be expressed to the second decimal place (e.g. 7.55%). Decimal places beyond two will be disregarded.

(b) Acceptance/Rejection of Bids

The RBNZ reserves the right to reject any bids, or part thereof, for any reason.

(c) Results and Allocation

The results will be announced as soon as possible after the close time of the RBNZ Repo Facility (refer section 1.2).

Where there is more than one bidder at the cut-off yield, bidders will be allotted principal amounts as far as practicable, on a pro-rata basis in relation to the amount available at that yield, except that no successful bidder shall be allotted a principal amount that is less than \$1 million. All allocations will be in whole multiples of \$1 million thereafter.

⁶ Subject to the availability of bonds.

⁷ The RBNZ reserves the right to adjust this margin at any time. However, it is expected that changes to the margin will be infrequent.

⁸ The appropriate basis can be yield to maturity, semi-annual, quarterly, or some other basis depending on the security being issued, but in accordance with market practice in the trading of that security.

Availability of each bond will be advised, via electronic media, prior to the RBNZ Repo Facility. Consequently, the lowest bids may not necessarily always be the successful bids. A matrix format (refer section 2.5b) will be used to convey the results of repo in the RBNZ Repo Facility.

(d) Postponements

The RBNZ reserves the right to extend the bidding cut-off time or postpone the RBNZ Repo Facility tender at any time.

3.0 Other domestic operations

3.0.1 Repurchase and/or Swap of New Zealand Government Securities

From time to time the RBNZ may offer to either repurchase and/or swap New Zealand Government Securities. The RBNZ will announce its intention to repurchase and/or swap the relevant Securities via the electronic media noted in section 1.2. Any such announcement will include the conditions applying to the operation. Purchases may be for the RBNZ's own account or on behalf of the Crown. Bonds purchased on behalf of the Crown will be cancelled.

For these transactions the minimum parcel size is \$1,000,000 (principal) and any volume above this amount will be accepted. However, if the RBNZ offers to purchase and/or swap the Securities in the OMO, then offers must be for a minimum amount of \$1,000,000 (principal) and in whole multiples of \$1,000,000 (principal) thereafter.