

**FINANCIAL MARKETS DEPARTMENT**

**DOMESTIC MARKETS SECTION**  
**OPERATING RULES AND GUIDELINES**

**Date Issued 21 August 2020**

**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.**

### 2.2 Operations

- Liquidity operations
  - Foreign Exchange (FX) Swaps and Basis Swaps
  - Open Market Operations (OMOs)
    - i. Inter-Day repurchase transactions

<b>Domestic Markets Section Operating Rules and Guidelines</b>	<b>Date Issued: 21 August 2020</b>	<b>Section 2 Page 2</b>
--	--	-----------------------------

- ii. Issuance of RB Bills
- Standing Facilities
  - Overnight Reverse Repo Facility (ORRF)
    - i. Manual ORRF
    - ii. Automated ORRF
  - Bond Lending Facilities
    - i. Bond Lending Facility (BLF)
- Other Domestic Operations
  - i. Repurchase and/or Swap of New Zealand Government Securities
  - ii. Large Scale Asset Purchase Programme

### 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 OMOs<sup>1</sup>, use the ORRF<sup>1</sup> and the BLF<sup>1</sup>. 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](http://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;
  - The RBNZ will only transact basis swaps with counterparties with whom it has signed an ISDA Master Agreement.

---

<sup>1</sup> 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.

- 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, Term Auction Facility, Term Lending Facility and Bond Lending Facility)**

These *Operating Rules and Guidelines* should be read in conjunction with the 2011 Global Master Repurchase Agreement (2011 GMRA) signed with the RBNZ. 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 bonds<sup>2</sup>.**
- **Other non-New Zealand Government Securities as approved by the RBNZ<sup>2</sup>.**

A full list of acceptable Securities can be found on the RBNZ website. 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.

#### **(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.

---

<sup>2</sup> Only NZ Government Bonds will be sold in Repo Transactions.

<b>Domestic Markets Section Operating Rules and Guidelines</b>	<b>Date Issued: 21 August 2020</b>	<b>Section 2 Page 4</b>
--	--	-----------------------------

**(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.

- 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 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.

<b>Domestic Markets Section Operating Rules and Guidelines</b>	<b>Date Issued: 21 August 2020</b>	<b>Section 2 Page 5</b>
--	--	-----------------------------

**(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).**

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.

<b>Domestic Markets Section Operating Rules and Guidelines</b>	<b>Date Issued: 21 August 2020</b>	<b>Section 2 Page 6</b>
--	--	-----------------------------

## 2.7 Procedures and Conditions for Bidding in the OMO, Term Auction Facility, Term Lending Facility or RB Bill tender

### (i) General

**Following the announcement of the OMO, Term Auction Facility, Term Lending Facility 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 Market Operations team, and agreed, before the Bloomberg or Refinitiv clock changes to the close time.** (This time is advised when the details of the OMO, Term Auction Facility, Term Lending Facility 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. 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 Market Operations team 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) 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.**

### (iii) Bid Format

**Each bid must state the yield (% per annum on the appropriate basis<sup>3</sup>) 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.**

<sup>3</sup> 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.

<b>Domestic Markets Section Operating Rules and Guidelines</b>	<b>Date Issued: 21 August 2020</b>	<b>Section 2 Page 7</b>
--	--	-----------------------------

**(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.

**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: Currently, only New Zealand Government bonds, Treasury bills and RB bills are acceptable in the Auto ORRF.**

**(b) Income Payments**

**Refer 2.5 (b) ii**

**(c) Substitution of Securities**

<b>Domestic Markets Section Operating Rules and Guidelines</b>	<b>Date Issued: 21 August 2020</b>	<b>Section 2 Page 8</b>
--	--	-----------------------------



- **Substitution of Securities is not permitted through the ORRF.**

### 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 Market Operations team 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.**

Domestic Markets Section Operating Rules and Guidelines	Date Issued: 21 August 2020	Section 2 Page 9
--	--------------------------------	---------------------

**(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**

<b>Hours</b>	<b>Who Can Deal</b>
09:30 to 08:30	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 Automated ORRF 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.**

**(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.**

**(viii) Auto buy back**

**ESAS will automatically buy back Auto ORRF transactions at 9.00am on the maturity date of the transaction as long as Settlement account holders have cash in their account. Where Securities sold to the RBNZ through Auto ORRF are not repurchased by 9.15am on the maturity date of the transaction, 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.**

**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 Facility**

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

The RBNZ offers a Bond Lending Facility as outlined below. Bonds offered in this facility 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.**

<b>Domestic Markets Section Operating Rules and Guidelines</b>	<b>Date Issued: 21 August 2020</b>	<b>Section 2 Page 11</b>
--	--	------------------------------

## 2.9.1 Bond lending facility (BLF)

### (a) Hours of Operation

The window will be open between 3:00 and 4:00pm<sup>4</sup>. All registered counterparties who have executed a 2011 GMRA with the RBNZ are eligible to utilise the BLF.

#### (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 Market Operations team 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);**
- **Security provided to RBNZ (Government security or cash);**
- **Settlement date (same day).**

#### (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 25 basis points<sup>5</sup>. 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

<sup>4</sup> Except for Christmas Eve and New Year's Eve.

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

<b>Domestic Markets Section Operating Rules and Guidelines</b>	<b>Date Issued: 21 August 2020</b>	<b>Section 2 Page 12</b>
--	--	------------------------------

**The maximum term for the BLF is overnight.** Transactions will only be initiated on a same day basis.

**(v) Availability of Bonds**

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.

**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.

**3.0.2 Large Scale Asset Purchase Programme**

In March 2020, the Large Scale Asset Purchase (LSAP) programme was introduced. Under the LSAP programme the RBNZ is purchasing New Zealand Government bonds and Local Government Agency debt in the secondary market. Every Friday at 2pm, the Bank will announce its intended auction schedule for the week ahead via Refinitiv

<b>Domestic Markets Section Operating Rules and Guidelines</b>	<b>Date Issued: 21 August 2020</b>	<b>Section 2 Page 13</b>
--	--	------------------------------

(RBNZ04), Bloomberg (GPGX 1549 3 2) and on the Domestic Markets section of the RBNZ website.

For these transactions the minimum parcel size is \$1,000,000, and in whole multiples of \$1,000,000. The offer price must be quoted in yield to 3 decimal places. All offers must be submitted using the Yieldbroker DEBTS Auction System. The Bank may, at its discretion, take telephone offers before the auction closure. Participation in the auction (via either electronic or telephone platforms) is limited to counterparties authorised by the Bank.

Detailed LSAP terms and a list of approved legal entities can be found on the Domestic Markets section of the RBNZ website.

<b>Domestic Markets Section Operating Rules and Guidelines</b>	<b>Date Issued: 21 August 2020</b>	<b>Section 2 Page 14</b>
--	--	------------------------------