

## TERM LENDING FACILITY TERMS

*Updated Version: August 2020*

The Reserve Bank of New Zealand (the Bank) has responsibility for promoting the maintenance of a sound and efficient financial system, and has established the Term Lending Facility (the TLF) in accordance with its purposes set out in section 1A of the Reserve Bank of New Zealand Act 1989. The TLF is intended to support the effective functioning of the New Zealand Government's Business Finance Guarantee Scheme (the BFGS), with provision of funding under the TLF tied to utilisation of the BFGS.

Under the TLF, the Bank will offer five-year funding to eligible institutions fixed at the prevailing OCR. The funding will be structured as a series of five renewable 1-year repurchase transactions, with counterparties having the option to renew each transaction up to a maximum period of 5 years. The repurchase transactions are to be governed by the 2011 Global Master Repurchase Agreement (2011 GMRA) signed between the Bank and the institution.

The Bank may make additions, modifications, or amendments to these TLF terms at any time by updating the relevant page on the Bank's website.

### 1. FACILITY OPERATIONAL WINDOW

#### 1.1. TRANSACTION PERIOD

The TLF will operate until 31 January 2021, subject to any extension by the Bank. The Bank will make the TLF available to participants on the 18<sup>th</sup> to 20<sup>th</sup> business day of each month.

#### 1.2. TRANSACTION GOVERNANCE

All transactions will be conducted on a repurchase basis, governed by the 2011 GMRA signed between the Bank and the relevant counterparty.

#### 1.3. FACILITY OPERATIONAL WINDOW

The TLF will be available on the days prescribed in section 1.1, and will operate under the following framework:

Facility operational window                      10:00 am – 12:00 pm and 1:00pm – 3:00 pm

Settlement date                                      Next business day (t+1)

#### 1.4. ALTERATION OF OPERATIONAL TIME FRAMES

The Bank reserves the right to alter the date, time, and settlement of the facility operational window at any time.

## 2. PARTICIPATION RULES

### 2.1. TELEPHONE REQUESTS

Following the opening of the facility operational window, counterparties wishing to enter a repurchase transaction may telephone (04) 472 0074 / (04) 472 0075 or a dedicated line where applicable.

Requests must be made by currently authorised dealers.

All requests must be read back and confirmed for validation. Failure to affirm offers will result in the request being rendered void and disregarded.

In the case of dispute, the request that was read back and agreed will stand as final.

### 2.2. REQUEST ETIQUETTE

Once a request has been placed and confirmed it may not be cancelled, amended or withdrawn.

Pricing Rate	Fixed at the prevailing OCR at the time of the initial repurchase transaction.
Eligible Securities	<p>Tier 1 securities (New Zealand Government Securities, acceptable Kauri issues), and Residential Mortgage Backed Securities (I -RMBS).</p> <p>The Bank may amend the list of eligible securities from time to time, including those securities which qualify as Tier 1.</p> <p>The Bank will publish any updated list on its website (<a href="https://www.rbnz.govt.nz/markets-and-payments/domestic-markets/repo-eligible-securities-and-haircuts">https://www.rbnz.govt.nz/markets-and-payments/domestic-markets/repo-eligible-securities-and-haircuts</a>).</p>
Minimum request size	NZ\$1,000,000 cash
Request multiples	NZ\$1,000,000 cash
Term	1 year.
Renewal	A counterparty has the option to renew a repurchase transaction annually, at the fixed pricing rate, up to a total period of 5 years. See section 2.3 below.
Security maturity date	Securities must have a maturity date that is at least three business days after the repurchase date (i.e. 1 year plus 3 business days).

The total funding accessed by a participant may not exceed the allocation permitted under section 6. The price differential for each 1-year repurchase transaction (which is an amount akin to interest) will be due at maturity or termination of that repurchase transaction, prior to any renewal.

### 2.3. TRANSACTION RENEWAL

The Bank will renew a repurchase transaction on the same terms (applying the prevailing OCR at the time that the initial transaction was entered into) up to a maximum total of five years, provided that:

- (a) The security remains an eligible security. If the security has ceased to be listed as an eligible security, then the participant must provide alternative eligible security.
- (b) The security maturity date requirement must continue to be met. If the security will mature during the term of the new repurchase transaction, then the participant must provide alternative eligible security.

If a counterparty wishes to renew a repurchase transaction, it must notify the Bank no later than 3 days prior to the relevant repurchase date.

### 3. VALUATION OF SECURITIES

All securities will be valued at market value, except for I-RMBS which will be valued at par or as otherwise determined by the Bank.

#### 3.1. HAIRCUTS

The value of the securities sold to the Bank will be calculated using the Haircuts defined on the Bank's website (<https://www.rbnz.govt.nz/markets-and-payments/domestic-markets/repo-eligible-securities-and-haircuts>).

#### 3.2. INCOME PAYMENTS

Should the Bank receive, or become entitled to, any income payment from the securities during the term of the repurchase transaction, the value of the coupon will be transferred to the counterparty as specified in paragraph 5 of the 2011 GMRA, on the date the income payment is received.

#### 3.3. SUBSTITUTIONS

The parties may agree to substitute securities under paragraph 8 of the 2011 GMRA. The Bank does not envisage initiating substitution under normal circumstances, when it is the Seller.

If a counterparty requests the substitution, the following conditions will apply:

- The fee for substitution is \$100.00 per request, payable to the Bank.
- Substitutions must be made using a similar type of security sold under an existing repurchase transaction, NZ Government Securities, or Acceptable Kauri issues.
- Counterparties can only substitute I-RMBS with another I-RMBS.
- Notification to the Bank is required by 11:00am on the day of substitution.

#### 3.4. MARGIN MAINTENANCE

Under paragraph 4 of the 2011 GMRA, the Bank and the counterparty have 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.

If a party makes a margin call before 2:00pm on any business day, the margin called (in terms of additional security or cash) must be delivered by 4:45pm on the same day. If a party makes a margin call between 2:00pm to 5:00pm, the margin called must be delivered by 12:00pm noon on the next business day.

Failure to comply with these timeframes is deemed to be an event of default under paragraph 10 of the 2011 GMRA.

#### 4. ACCEPTANCE/REJECTION OF REQUESTS

The Bank reserves the right to reject any request, or part thereof, for any reason.

#### 5. PUBLICATION OF TLF USAGE

The Bank will publish data relating to TLF usage on its D12 statistical table on a daily basis and on its statistical table a month in arrears.

The Bank may also publish other information collected during the course of the TLF, including the volume of funds not used, in summary form.

#### 6. FUNDING ALLOCATIONS

Each BFGS participant is allocated a total amount of funding that can be accessed via the TLF. The total amount that each participant may access is equivalent to the total amount of BFGS loans outstanding for that participant, and may not exceed the participant's total lending allocation under the BFGS.

The above amounts will be determined by the Bank, using data available from existing BFGS reporting to the Treasury. Following receipt of the required reporting data, the Bank will make the new value of funding available to the participant on the 18<sup>th</sup> to 20<sup>th</sup> business day of each month, until 31 January 2021 (or such date that the Bank may extend the TLF to). The new value of funding will be calculated as at the last day of the month prior to the facility operational window opening.

#### 7. TERMINATING A TLF REPO

##### 7.1. TERMINATION REQUEST

A counterparty may submit a request to terminate any repurchase transaction (in whole or in part) before its maturity date. To do so, the counterparty should contact the Bank's Market Operations desk with details of the transaction value that it wishes to terminate and the reason for seeking termination. The Bank will confirm whether it accepts the counterparty's request or not, and set out the processes for termination if accepted (subject to section 7.3 below).

##### 7.2. TERMINATION WHERE BFGS LOAN AMOUNT BELOW TLF FUNDING

In the event that a counterparty's total outstanding BFGS loan amount falls below the amount that the counterparty has outstanding under the TLF, the Bank may require the early termination of any repurchase transaction (in whole or in part), to the effect that the amount outstanding under the TLF will equal (or be less than) the outstanding BFGS loan amount. To do so, the Bank will inform the counterparty, and set out any processes for termination (subject to section 7.3 below).

### 7.3. TERMINATION PROCESSES

In event of termination under this section 7, the Bank shall confirm the market value of the equivalent securities and any equivalent margin securities to be transferred, the amount of any cash margin (including the amount of interest accrued) to be transferred, and the repurchase prices and cash equivalent amounts to be paid by each party as at the agreed early termination date.

The Bank shall not charge any 'break costs' in relation to the termination process (i.e. admin fees, or any amounts associated with the loss/expense incurred or which are likely to be incurred by the Bank in entering into replacement or hedging transactions).

### 8. SETTLEMENTS

Confirmations will be sent to successful counterparties. Physical settlement is by delivery versus payment through NZClear.

#### 8.1. CONSIDERATION

Consideration will be calculated using the price and yield formulae stated in [Appendices and Application Forms](#) on the Bank's website.

### 9. COUNTERPARTY ELIGIBILITY

#### 9.1. REGISTRATION

Participation in the TLF is limited to authorised counterparties who are participants in the BFGS. Participants will be required to provide the Bank and/or the Treasury with interest rate data in relation to that participant's BFGS loan activity, in the format and frequency and as otherwise advised by the Bank.

Counterparties already eligible to participate in the Bank's Open Market Operations do not need to make a separate application to participate in the facility.

Otherwise, an institution may apply to be registered as a counterparty, provided that the application must be submitted at least 10 days prior to the intended participation date.

Application details can be found on the [Reserve Bank website](#).

#### 9.2. ONGOING ELIGIBILITY

Counterparties must meet the Bank's standard counterparty requirements (as advised or published by the Bank from time to time) on an ongoing basis in order to participate in the TLF.