

Dated 7 June 2022

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**Memorandum of Understanding relating to terms of  
Sales of New Zealand Government Securities**

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Between

RESERVE BANK OF NEW ZEALAND

And

NEW ZEALAND DEBT MANAGEMENT,  
CAPITAL MARKETS DIRECTORATE,  
THE TREASURY

MEMORANDUM OF UNDERSTANDING made this  
2022

7th day of June

**BETWEEN:**

- (1) **RESERVE BANK OF NEW ZEALAND** ("Reserve Bank"); and
- (2) **NEW ZEALAND DEBT MANAGEMENT, CAPITAL MARKETS DIRECTORATE, THE TREASURY** ("NZDM")

**RECITALS**

- A. On 23 February 2022, the Monetary Policy Committee (**MPC**) of the Reserve Bank agreed to commence, from July 2022, the gradual reduction of the Reserve Bank's bond holdings under the Large Scale Asset Purchase (**LSAP**) programme through both managed sales of New Zealand Government Bonds (**NZGBs**) to NZDM at a rate of NZ\$5,000,000,000 per financial year and bond maturities.
- B. The purpose of this Memorandum of Understanding is to record certain terms and understandings upon which the parties have agreed to progress individual sales.
- C. Nothing in this Memorandum of Understanding is intended to commit the parties to any individual sale of NZGBs (which must be agreed and documented at the time of sale), but it does set out the in-principle agreement of the parties to proceed on the basis set out herein.
- D. Contained in the Annexure to this Memorandum of Understanding is a summary of its key terms which the Reserve Bank intends to publish.

**IT IS HEREBY AGREED** as follows:

**1. SALES**

**1.1 Annual Sale Programme**

- (a) Sales of NZGBs to NZDM will commence in July 2022 at a rate of \$5,000,000,000 per financial year (**Annual Sales Volume**), and is intended to continue until the Reserve Bank's holdings of NZGBs purchased under the LSAP programme are reduced to zero;
- (b) It is intended that sales of \$415,000,000 will occur in each of the months from July – May, and the remaining \$435,000,000 will occur in June each year (each a **Sale**);
- (c) The Reserve Bank intends to sell NZGBs in order of length of maturity, with the longest maturity NZGBs to be sold first, while shorter maturity bonds will mature without reinvestment;

- (d) Only the Reserve Bank may amend the Annual Sales Volume, for the purpose of implementing monetary policy formulated by the MPC.

## **1.2 Process for Monthly Sales**

- (a) Sales will be executed on the 15<sup>th</sup> calendar day of each month (or, if that day is not a business day the business day that follows the 15<sup>th</sup> calendar day of each month) (**Trade Date**).
- (b) The Reserve Bank shall initiate a Sale by delivering a sale notice in the form set out in the Schedule (**Sale Notice**) no later than 11am on the Trade Date, together with any other information that NZDM may reasonably request.
- (c) NZDM will acknowledge receipt of a Sale Notice by email to the Reserve Bank by close of business on the Trade Date.
- (d) Subject to clause 2 (*Pricing Fallback*), upon receipt of a Sale Notice, NZDM will price the Sale using the New Zealand Government Bond Market Closes price as published by New Zealand Financial Markets Association, for the specified maturity on the Trade Date, in yield to 3 decimal places.
- (e) Settlement of a Sale is by delivery versus payment through NZClear on a trade date plus two business days (T+2) basis.

## **1.3 Alteration of Sales**

- (a) If it considers necessary in light of market conditions, the Reserve Bank may alter, halt or cease Sales at any time. However, the parties do not foresee any such changes to be common, and intend that any halt of sales would only occur for a maximum of one calendar month.
- (b) Clause 1.3(a) does not apply to any Sale in respect of which a Sale Notice has already been delivered but has not yet settled.

## **1.4 Business Day**

For the purposes of this Memorandum of Understanding, 'business day' means a business day in Wellington, New Zealand.

## **2. PRICING FALLBACK**

If, on any Trade Date, the New Zealand Financial Markets Association is unable to or does not publish the New Zealand Government Bond Market Closes price, the parties will work together in good faith to agree a suitable fallback price.

**3. ONGOING COLLABORATION**

The Reserve Bank and NZDM will continue to collaborate closely in relation to all matters to which this Memorandum of Understanding refers, and more broadly to ensure the efficient functioning of the New Zealand Government Bond market. This clause does not limit a party's need to maintain confidentiality of policy decisions.

**4. NOTICES**

Any notice sent for the purposes of this Memorandum of Understanding other than on a business day or after 5.00 p.m. on any business day shall be deemed to be delivered at 9.00 a.m. on the immediately succeeding business day.

**Execution:**

**New Zealand Debt Management, The Treasury** by



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**Chris Chapman, Executive Director (acting), Capital Markets**

**Reserve Bank of New Zealand** by



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**Vanessa Rayner, Director of Financial Markets**

## SCHEDULE – SALE NOTICE

From: Reserve Bank of New Zealand

To: New Zealand Debt Management, Capital Markets Directorate, The Treasury  
No. 1 The Terrace  
Wellington

Email: [portfoliomanagement@treasury.govt.nz](mailto:portfoliomanagement@treasury.govt.nz)

Dated: [     ]

### NOTICE OF SALE OF NEW ZEALAND GOVERNMENT SECURITIES

Capitalised terms not defined in this notice have the meaning given to them in the Memorandum of Understanding relating to the terms of sales of New Zealand Government Bonds dated [[2022]].

We request a Sale as follows:

**NZGB(s) to be sold:** [New Zealand Government Nominal Bond / Inflation Indexed Bond] maturing on [x]

**Nominal Value of NZGBs:** [\$415,000,000 / \$435,000,000 / [specify]]

**Other information relating to Sale (if applicable):**

Yours faithfully

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authorised signatory for

**Reserve Bank of New Zealand**

## ANNEXURE – SUMMARY OF INDICATIVE TERMS

### Large Scale Asset Purchase (LSAP) Programme Indicative Key Terms for the sale of New Zealand Government Securities to New Zealand Debt Management

This document outlines the indicative key terms of sales agreed between the Reserve Bank of New Zealand (*Reserve Bank*) and the New Zealand Debt Management (*NZDM*) for New Zealand Government Bonds (*NZGBs*) from the Bank's Large Scale Asset Purchase (*LSAP*) Programme portfolio.

The complete terms of sale for individual transactions will be established at the time of those sales.

Commencement	July 2022.
Date/Frequency	15 <sup>th</sup> calendar day of each month or, if that day is not a business day, the business day following the 15 <sup>th</sup> calendar day of each month.
Offer Yield	NZGB Market Closes as published by New Zealand Financial Markets Association, for the specified maturity, in yield to 3 decimal places.
Expected monthly transaction size	\$415,000,000 nominal (for months from July – May); \$435,000,000 nominal (June).
Annual transaction volume	\$5,000,000,000 nominal
Securities	The Reserve Bank will determine the specific maturities to be offered to NZDM from the RBNZ's LSAP Programme portfolio.
Method of Transaction	The Reserve Bank will send through orders to NZDM by 11am on trade date.  Transactions will be initiated via email, recorded dealing line or approved dealing platform. Confirmation will be sent following agreement.
Settlement	Settlement is by delivery versus payment through NZClear on a trade date plus two business days (T+2) basis

Consideration	Consideration will be calculated using the price and yield formulae stated in Appendices and Application Forms on the Reserve Bank's website ( <a href="https://www.rbnz.govt.nz/-/media/ReserveBank/Files/Markets-and-payments/Domestic-markets/3287159.pdf?revision=2a3253f4-9bb2-4bba-a54b-074927340596">https://www.rbnz.govt.nz/-/media/ReserveBank/Files/Markets-and-payments/Domestic-markets/3287159.pdf?revision=2a3253f4-9bb2-4bba-a54b-074927340596</a> )
Publication	The Reserve Bank will publish details of transactions via the Reserve Bank's statistical releases on the following business day (T+1).  Details can be found here: <a href="https://www.rbnz.govt.nz/statistics/d3">https://www.rbnz.govt.nz/statistics/d3</a>
Cessation of sales	If it considers necessary in light of market conditions, the Reserve Bank may alter, halt or cease sales at any time. The Reserve Bank will inform NZDM any intention to do so, subject to appropriate confidentiality of policy decisions.
Business day	For the purpose of these terms of sale, 'business day' means a business day in Wellington.
On-going monitoring of the NZGB market	NZDM and the Reserve Bank will continue to collaborate closely to ensure the efficient functioning of the NZGB market.

