

## **TERM LENDING FACILITY (TLF) TERMS**

*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 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 (BFGS), with provision of funding under the TLF tied to utilisation of the BFGS.*

These Terms should be read in conjunction with the 2011 Global Master Repurchase Agreement (2011 GMRA) signed with the Bank.

### **1. FACILITY OPERATIONAL WINDOW**

#### 1.1. TRANSACTION PERIOD

The facility will run for a period of 6 months from May to October 2020 (inclusive). The Bank will make the facility available for eligible counterparties to utilise on the 18<sup>th</sup> to 20<sup>th</sup> business day of each month, beginning 26 May 2020. The Bank may, at its discretion, extend the 6-month period in accordance with section 1.4.

#### 1.2. TRANSACTION GOVERNANCE

All transactions will be conducted on a repurchase basis and governed by the 2011 GMRA signed by the Bank with eligible participants.

#### 1.3. FACILITY OPERATIONAL WINDOW

The facility 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

#### 1.4. ALTERATION OF OPERATIONAL TIME FRAMES AND TRANSACTION PERIOD

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

### **2. PARTICIPATION RULES**

#### 2.1. TELEPHONE REQUESTS

Following the opening of the facility operational window, registered counterparties wishing to borrow funds under the facility 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Once a request has been placed and confirmed it may not be cancelled, amended or withdrawn.

Rate	OCR
Eligible Securities	Tier 1 and Tier 2
Minimum request size	NZ\$1,000,000 cash
Request multiples	NZ\$1,000,000 cash
Term	Fixed to 3 years
Security pledged	Acceptable securities must have a maturity date that is at least three business days after the repurchase date of the transaction.

The total amount drawn down cannot exceed the allocation permitted under section 6. The price differential for each Repurchase Transaction (which is an amount akin to interest) will be due at maturity or termination of the Repurchase Transaction.

## 3. 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 Bank.

### 3.1. HAIRCUTS

The value of the securities pledged 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 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.

### 3.3. SUBSTITUTIONS

Substitution of Securities is permitted by agreement under clause 8 of the 2011 GMRA. However the Bank 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 Bank.
- 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.
- Counterparties can only substitute Residential Mortgage Backed Security with another Residential Mortgage Backed Security.
- Notification to the Bank is required by 11:00am on the day of substitution.

### 3.4. MARGIN MAINTENANCE

Under clause 4 of the 2011 GMRA, the Bank and the Seller 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.

When the Bank or Seller exercises this right before 2:00pm on any business day, the margin called (in terms of additional security) is required to be met by 4:45pm on that day. When the Bank or Seller makes a margin call before 5:00pm (but after 2:00pm), 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 clause 10 of the 2011 GMRA.

### 4. ACCEPTION/REJECTION OF REQUESTS

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

### 5. RESULTS

The total volume of funds drawn down via the TLF will be recorded and published on the Bank's D10 tables a month in arrears.

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

### 6. ALLOCATIONS

Each eligible counterparty participating in the BFGS will be allocated a total amount of funding that can be drawn down from the TLF. The total amount that each participant can draw down from the TLF is equivalent to the total amount of BFGS loans outstanding for that participant, and may not exceed the counterparty's total lending allocation under the BFGS.

These amounts will be determined using data available to the Reserve Bank from existing BFGS reporting to the Treasury. Following receipt of the required data, the new value of funding will be available for drawdown on the 18<sup>th</sup> to 20<sup>th</sup> business day of each month, beginning 26 May 2020, over a period of 6 months. The new value of funding will be calculated as at the last day of the month prior to drawdown.

### 7. EARLY TERMINATION

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 Reserve Bank's Market Operations Desk with details of the transaction value that it wishes to terminate and the reason for seeking termination. The Reserve Bank will confirm whether it accepts the counterparty's request or not, and set out any processes for termination if accepted.

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 Reserve 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 Reserve Bank will inform the counterparty, and set out any processes for termination.

In either event, the Reserve 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.

## **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 Reserve Bank's website.

## **9. REGISTRATION OF PARTICIPANTS**

Participation in the facility 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 need not reapply in order to participate in the facility.

Application for registration can be made but needs to occur at least 10 days prior to the intended participation date.

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