



Reserve Bank  
of New Zealand  
**Te Pūtea Matua**

# **Liquidity Standard**

# **Guidance Note**

**GN XX.1**

## Guidance Note version history

|                  |                                                                 |                                                                           |
|------------------|-----------------------------------------------------------------|---------------------------------------------------------------------------|
| October 2025     | Consultation draft for exposure draft of the Liquidity Standard | Relates to Liquidity Standard exposure draft version dated [October 2025] |
| [Day Month] 20XX | First issue date                                                | Relates to Liquidity Standard version dated [2028]                        |

### Disclaimer

We produce a variety of publications and research about monetary policy, financial stability and related economic and financial issues. Most are available without charge as part of our public information service.

We have made every effort to ensure that information published in this paper is accurate and up to date. However, we take no responsibility and accept no liability arising from:

- errors or omissions
- the way in which any information is interpreted
- reliance upon any material.

We are not responsible for the contents or reliability of any linked websites and do not necessarily endorse the views expressed within them.

[Privacy Policy - Reserve Bank of New Zealand - Te Pūtea Matua \(rbnz.govt.nz\)](#)

## Contents

|                                                                                                       |           |
|-------------------------------------------------------------------------------------------------------|-----------|
| Part A: About this Standard                                                                           | 6         |
| <b>Overview</b> .....                                                                                 | <b>6</b>  |
| <b>Context and purpose of the Liquidity Standard</b> .....                                            | <b>6</b>  |
| Part B: Guidance on the Liquidity Standard                                                            | 7         |
| <b>Part 1: General provisions</b> .....                                                               | <b>7</b>  |
| Interpretation (Clause 3)                                                                             | 7         |
| Application of liquidity requirements (Clause 4)                                                      | 7         |
| Reliance on assumptions in calculations (Clause 5)                                                    | 8         |
| <b>Part 2: Liquidity management</b> .....                                                             | <b>8</b>  |
| Maintenance of sufficient liquidity (Clause 6)                                                        | 9         |
| Cash flow and Liquidity Position (Clause 7)                                                           | 11        |
| Contingency funding plan (Clause 8)                                                                   | 13        |
| Funding strategy (Clause 9)                                                                           | 14        |
| <b>Part 3: Mismatch ratio and core funding ratio</b> .....                                            | <b>15</b> |
| Mismatch Ratio and Requirement to maintain a mismatch ratio (Clauses 10 and 11)                       | 15        |
| Variation by condition (Clause 13)                                                                    | 16        |
| Liquid Assets (Clause 14)                                                                             | 16        |
| Net Cash Outflows (Clause 15)                                                                         | 18        |
| Cash Outflows (Clause 16)                                                                             | 18        |
| Cash inflows (Clause 17)                                                                              | 19        |
| Core funding ratio and Requirement to maintain a core funding ratio (Clauses 18 and 19)               | 20        |
| Variation by condition (Clause 21)                                                                    | 21        |
| Calculation of core funding (Clause 22)                                                               | 21        |
| <b>Part 4: Simplified Mismatch Ratio</b> .....                                                        | <b>21</b> |
| Simplified mismatch ratio and Requirement to maintain a simplified mismatch ratio (Clauses 23 and 24) | 21        |
| Variation by condition (Clause 26)                                                                    | 22        |
| Calculation of liquid assets (Clause 27)                                                              | 22        |
| Calculation of net cash outflows (Clause 28)                                                          | 22        |
| Calculation of cash outflows (Clause 29)                                                              | 22        |
| Cash inflows (Clause 30)                                                                              | 23        |

## Use and status of the Guidance

The purpose of this Guidance is to assist licensed deposit takers (or **deposit takers**) to interpret and comply with the Liquidity Standard (the **Standard**). This recognises the Standard is a technical instrument that is not always straightforward to interpret and there may be no case law or other external reference points to assist. Guidance will assist individual deposit takers with their own compliance and a more consistent approach across the industry.

The Guidance assists by:

- Outlining our motivations and intentions for the Standard. Technical content is better understood with awareness of the policy intent at the time it was drafted.
- Outlining our preferred interpretation in relation to some clauses, where we have been made aware of differing interpretations by deposit takers.
- Providing examples of matters deposit takers are expected or encouraged to consider when complying with requirements in the Standard.

To assist in using the Guidance:

- Terms that are defined in the Standard or the Deposit Takers Act 2023 (the **DTA**) are italicised in this Guidance and have the same meaning.
- The Guidance is designed to be read alongside the Standard. Sections of this Guidance have the same headings as sections of the Standard. Clause numbers are those from the Standard.
- The Guidance will not necessarily cover every clause in the standard. Given its status as an interpretation aid, where we feel a clause (when read in conjunction with the explanatory note attached to the Standard) is sufficiently self-explanatory, no additional Guidance is being provided.
- In event of any conflict between the text of the Standard and this Guidance, the Standard prevails. The Standard is secondary legislation made under the DTA, while the Guidance does not have formal status. The Guidance represents our view and is therefore an authoritative indicator of that view. However, ultimately, the correct interpretation of the Standard is determined by a Court.
- The Reserve Bank will periodically review and update the Guidance. We may change our guidance or our interpretation of the Standard if we consider this appropriate. We do not do this lightly and will endeavour to notify deposit takers in advance if we are considering amending the content of the Guidance.
- This Guidance is not legal advice. We encourage deposit takers seek their own professional advice, as it is their responsibility to determine their obligations and ensure that they comply with the requirements of the Standard.
- The Guidance relates to the version of the Standard as at [day month year].
- We welcome feedback on the Guidance at any time.

## Glossary

| Term                                          | Meaning                                                                                                                                                                                                                                                                                       |
|-----------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Basel Committee on Banking Supervision (BCBS) | A committee of international banking regulators that establish standards and best practice for banks.                                                                                                                                                                                         |
| Committed Liquidity Facility (CLF)            | A liquidity facility offered by the Reserve Bank, for a fee, to Group 1 and Group 2 deposit takers that commits us to provide liquidity (cash) in exchange for CLF-eligible assets (for example, iRMBS, bank securities, corporate securities) upon request.                                  |
| Core Funding Ratio (CFR)                      | The ratio of a deposit taker's core (stable) funding (for example, funding with a residual maturity greater than one-year, DCS-protected deposits) to its loans. Analogous to the BCBS's Net Stable Funding Ratio.                                                                            |
| DCS-protected deposit                         | A deposit that is protected under New Zealand's Depositor Compensation Scheme (DCS).                                                                                                                                                                                                          |
| Haircut (or margin)                           | A percentage reduction applied to the market value of securities to provide a buffer against adverse market movements in the price of those securities.                                                                                                                                       |
| iRMBS                                         | Internal (self-securitised) residential mortgage-backed securities (RMBS), which is also a CLF-eligible asset.                                                                                                                                                                                |
| Level 1                                       | A deposit taker and its subsidiaries incorporated in New Zealand (if any), excluding any overseas deposit-taking subsidiaries.                                                                                                                                                                |
| Level 2                                       | A deposit taker, its subsidiaries incorporated in New Zealand (if any), and any of its overseas deposit-taking subsidiaries.                                                                                                                                                                  |
| Liquidity Coverage Ratio (LCR)                | The international (BCBS) liquidity metric used to measure a bank's ability to meet its obligations over a 30-day stress period. Analogous to the Reserve Bank's Mismatch Ratio.                                                                                                               |
| Mismatch Ratio (MMR)                          | Ratio of a deposit taker's liquid assets (including amounts eligible for the Reserve Bank's Committed Liquidity Facility) to its net cash outflows, measured over a 30-day period. Analogous to the BCBS's Liquidity Coverage Ratio. Generally applies to Group 1 and Group 2 deposit takers. |
| Net Stable Funding Ratio (NSFR)               | The international (BCBS) liquidity/funding metric used to measure the ratio of a bank's stable funding to its assets. Analogous to the Reserve Bank's Core Funding Ratio.                                                                                                                     |
| New Zealand Government Securities             | Securities issued by the New Zealand Government, which includes nominal bonds, inflation-indexed bonds, Treasury Bills, and green bonds.                                                                                                                                                      |
| Proportionality Framework                     | The framework used by the Reserve Bank to apply prudential requirements across deposit takers in a proportionate manner. Groups deposit takers in three groups (Group 1, Group 2, and Group 3).                                                                                               |
| Simplified Mismatch Ratio                     | Ratio of a deposit taker's liquid assets to its net cash outflows, measured over a 30-day period. Simplified version of the Mismatch Ratio that generally applies to Group 3 deposit takers.                                                                                                  |

| Term                           | Meaning                                                                                                          |
|--------------------------------|------------------------------------------------------------------------------------------------------------------|
| Undrawn committed lines (UCLs) | Liquidity that a deposit taker must provide, or will receive, upon request of the holder or provider of the UCL. |

## Part A: About this Standard

### Overview

1. The Deposit Takers (Liquidity) Standard 2027 (the **Liquidity Standard**) contains both qualitative and quantitative requirements for liquidity risk that apply to deposit takers. Liquidity risk is the risk that a firm is unable to meet its financial obligations as they fall due.
2. General qualitative risk management requirements, such as the requirement for deposit takers to have a Board-approved liquidity risk management framework and conduct liquidity stress testing, are contained in the Deposit Taker's (Risk Management) Standard 2027. Qualitative requirements that are more specific to the management of liquidity risk, such as those around cashflow projections, a funding strategy, and a contingency funding plan, are contained in Part 2 of the Liquidity Standard.
3. The three quantitative liquidity requirements are set out in Part 3 and Part 4 of the Liquidity Standard, and include the Mismatch Ratio (**MMR**), Core Funding Ratio (**CFR**), and the Simplified Mismatch Ratio (**sMMR**). The MMR, which helps ensure deposit takers are resilient to a 30-day liquidity stress, applies to Group 1 and Group 2 deposit takers. The CFR, which helps ensure deposit takers have sufficient levels of core (stable) funding, also applies to Group 1 and Group 2 deposit takers. Group 3 deposit takers are subject to the sMMR.
4. The application of liquidity requirements across Group 1, Group 2, and Group 3 deposit takers may vary from that described above, as the Reserve Bank may also provide for a requirement or other matter to be specified by a condition of license to account for the circumstances of particular deposit takers.

### Context and purpose of the Liquidity Standard

5. Deposit takers worldwide are subject to liquidity requirements. For deposit takers in Basel Committee on Banking Supervision (**BCBS**) member jurisdictions, these requirements take the form of qualitative requirements developed by the BCBS and two quantitative requirements. These two quantitative requirements are the Liquidity Coverage Ratio (**LCR**) and the Net Stable Funding Ratio (**NSFR**).
6. The Reserve Bank's MMR is analogous to the BCBS's LCR in that both requirements help to provide resilience against a short-term liquidity stress. The Reserve Bank's CFR is analogous to the BCBS's NSFR in that both requirements help ensure that deposit takers have sufficient levels of stable funding. The BCBS finalised the LCR in 2013 and the NSFR in 2015.
7. The Reserve Bank introduced its liquidity policy in 2010. After conducting a comprehensive review of this policy from 2022 to 2025 (the Liquidity Policy Review), the Reserve Bank decided to retain and modify its MMR and CFR rather than adopt the BCBS's LCR and NSFR.<sup>1</sup> We also decided to clarify and streamline the qualitative requirements in the policy and introduce a simplified quantitative requirement for Group 3 deposit takers. The Liquidity Standard reflects decisions taken as part of the Liquidity Policy Review.

---

<sup>1</sup> It was also decided, as part of the Liquidity Policy Review, to remove the one-week Mismatch Ratio. The one-month Mismatch Ratio was retained but changed to a 30-Day Mismatch Ratio to help ensure consistency in the duration of the requirement.

## Part B: Guidance on the Liquidity Standard

### Part 1: General provisions

#### Interpretation (Clause 3)

8. Consistent with section 20 of the Legislation Act 2019, words or expressions used in the Liquidity Standard have the same meaning as in the Deposit Takers Act 2023 (DTA) or referring legislation. For example, the definition of 'debt security' can be found in the Financial Markets Conduct Act 2013 (section 8(1)).

#### Application of liquidity requirements (Clause 4)

9. In general, the MMR and CFR will apply to Group 1 and Group 2 deposit takers and the sMMR will apply to Group 3 deposit takers.<sup>2</sup> Exceptions to this application are possible but expected to be rare.
10. Part 2 of the Liquidity Standard applies to all Group 1, Group 2, and Group 3 deposit takers. Part 2 also applies to overseas licensed deposit takers (**branches**), other than the requirements in clause 9 (**Funding Strategy**).
11. In general, branches are permitted to leverage the processes, documents and other arrangements of their group, so long as there is sufficient consideration of liquidity risk in New Zealand. In some situations, it may not be necessary to have separate measures in place for the branch. However, the deposit taker is expected to consider any liquidity or funding risks that might be specific to New Zealand, and whether the measures in place to manage these risks meet the applicable requirements in the Liquidity Standard. The Liquidity Standard also requires the New Zealand chief executive officer (**CEO**) to approve the deposit taker's contingency funding plan.
12. The MMR, CFR, and sMMR are applied to deposit takers on a consolidated (Level 2) basis. This means that the requirements should be calculated after including any New Zealand and overseas subsidiaries of the deposit taker (unless a subsidiary is excluded in that deposit taker's conditions of licence). Where a deposit taker has overseas subsidiaries, it is also required to comply with a New Zealand (Level 1) MMR and CFR, which excludes any overseas deposit-taking subsidiaries.

#### Continuous Compliance

13. The Liquidity Standard does not specify the point in time at which the quantitative requirements apply or must be calculated (for example, at the end of each business day). The requirements therefore apply on a continuous basis. However, deposit takers are not expected to produce real-time calculations and generally will not need to calculate their ratio(s) at multiple times throughout the day or on non-business days.
14. As a matter of prudential best practice, deposit takers are encouraged to hold a buffer of liquid assets and core funding that provides a high level of confidence that the deposit taker is always complying with the applicable quantitative requirements, accounting for potential

---

<sup>2</sup> The categorisation of deposit takers into Group 1, Group 2, and Group 3 occurs as part of the application of the Reserve Bank's Proportionality Framework.



short-term volatilities in net cash outflows and core funding. This includes intra-day volatilities to the extent these are relevant to the deposit taker's business.

15. A presumed-large buffer of liquid assets and core funding in themselves should not be viewed as sufficient evidence that a deposit taker is complying with minimum requirements, without verifying this is the case. Deposit takers are expected to verify, to a high level of confidence, that they are continuously complying with the quantitative requirements.
16. A deposit taker may assume that certain aspects of a calculation undertaken within a given calendar month do not need to be fully recalculated, provided it meets the requirements of clause 5 of the Liquidity Standard and any other prudential requirements, including the Deposit Takers (Reporting) Standard 2027. For example, deposit takers that calculate their ratios daily may choose not to calculate amounts of DCS-protected deposits every day. Instead, deposit takers may use estimates (for example, the proportion of deposits that are DCS-protected), calculated at the frequency required by the Deposit Takers (Reporting) Standard 2027.

### **Currency of Requirements**

17. The quantitative requirements in the Liquidity Standard are expressed in New Zealand dollars (NZD). For the MMR and sMMR, only liquid assets denominated in NZD may qualify as liquid assets.<sup>3</sup> For other components of the MMR and sMMR (cash inflows and cash outflows) that are denominated in another currency, deposit takers are expected to apply currency conversions consistent with New Zealand generally accepted accounting practice (GAAP).

### **Reliance on assumptions in calculations (Clause 5)**

18. Clause 5 of the Liquidity Standard permits deposit takers to use assumptions in complying with quantitative requirements. The use of such assumptions may be necessary to make calculations in a timely and prudent manner.<sup>4</sup>
19. The Standard requires the reliance on the assumption to be reviewed every 3 years, requires a register of assumptions to be kept, and sets out the requirements for that register. The Reserve Bank expects deposit takers to ensure that the assumptions are prudent, that they are removed if/when it is practically feasible, and that the register is available for review.
20. The intent of these requirements is to avoid excessive reliance on these assumptions, or situations where the use of such assumptions undermines the robustness of the calculated ratios.
21. While the Reserve Bank does not intend to approve assumptions used by deposit takers, nor review these assumptions on a pre-determined basis, the Reserve Bank may review the appropriateness of deposit takers' assumptions from time to time. The Reserve Bank may request a deposit taker's records of its assumptions for this purpose.

## **Part 2: Liquidity management**

22. General risk management requirements for material risks, such as capital and liquidity, are contained in the Deposit Takers (Risk Management) Standard 2027 (the **Risk Management**

---

<sup>3</sup> In circumstances where the deposit taker has an overseas deposit-taking subsidiary, for Level 2 liquidity requirements, the Reserve Bank may permit the inclusion of non-NZD liquid assets that are acceptable as liquid assets to the host authority. In such cases, deposit takers would convert foreign currency liquid assets into NZD liquid assets.

<sup>4</sup> Deposit takers may apply judgment in determining what is 'prudent'. In doing so, deposit takers are expected to consider the extent to which the assumption could result in inaccuracy of the calculation, particularly an understatement of its liquidity risk.

**Standard).** Requirements that are particularly relevant to the management of liquidity risk include requirements around:

- 22.1 a structural system for risk management that includes, as a minimum, a risk management strategy, a risk appetite statement, and a risk management culture;
  - 22.2 appropriate internal control frameworks
  - 22.3 experience and competence of staff
  - 22.4 policies and processes for risk management and for monitoring and reporting risk exposures, risk issues, and non-compliance; and,
  - 22.5 programmes for stress testing.
23. Part 2 of the Liquidity Standard sets out qualitative liquidity requirements for liquidity management that supplement those in the Risk Management Standard. It does this by prescribing additional requirements that are specific to the prudent management of liquidity risk. Deposit takers are expected to ensure that its policies, strategies and plans are consistent with, and appropriately referenced or incorporated within, the deposit taker's broader risk management framework.
24. The contingency funding plan and funding strategy, as applicable, must be approved and reviewed at least every three years. For a locally incorporated deposit taker, approval and review must be by its governing body (hereafter '**Board**'). Whereas, for a branch, approval and review of the contingency funding plan must be by its New Zealand CEO.
25. A deposit taker is expected to make more immediate changes to its contingency funding plan and funding strategy, where needed, if there is a material change to its liquidity risk.
26. As a matter of prudential good practice, deposit takers are encouraged to ensure that senior management reports at least annually to the Board or New Zealand CEO (as the case may be) on:
- 26.1 the main sources of the deposit taker's liquidity risk;
  - 26.2 the effectiveness of its risk management framework for managing liquidity risk;
  - 26.3 any developments that could have, or will have, a material impact on the deposit taker's liquidity risk; and,
  - 26.4 any recommendations for changes to the deposit taker's risk management strategy that would help the deposit taker better manage any significant developments (potential or actual) in the liquidity risk faced by the deposit taker.

### **Maintenance of sufficient liquidity (Clause 6)**

27. Clause 6 of the Liquidity Standard requires deposit takers to maintain liquidity sufficient to perform its obligations when it is required to do so (principally this means being able to meet its debts and other financial obligations as they fall due) and have procedures that it requires its employees and agents to follow that are designed to ensure that the deposit taker complies with this clause.
28. The intent of this requirement is to ensure that, in addition to complying with the quantitative requirements on a continuous basis, deposit takers can perform on their obligations when

required to do so. This may require additional analysis of the specific timing of cash inflows and outflows relative to what would be required to comply with the quantitative requirements alone.

29. In complying with this requirement, deposit takers are expected to consider the following matters, where relevant (in general fewer of these factors will be material for relatively small or simple firms):

- 29.1 diversification of the liquid asset portfolio;
- 29.2 any potential impediments to the timely sale of liquid assets in private markets, at a reasonable price;
- 29.3 any intra-day liquidity risks;
- 29.4 time horizons beyond 30 days;
- 29.5 the timing of cash inflows and outflows, including their ability to meet modelled net cash outflows throughout the 30-day period for the MMR and sMMR;<sup>5</sup>
- 29.6 liability diversification (for example, by market, product, counterparty, and maturity);
- 29.7 reliance on short-term and long-term funding sourced from offshore markets;
- 29.8 any concentrations in cash outflows, both in their timing and amount;
- 29.9 the risks that actual run-off rates on DCS-protected deposits exceed the 3% run-off rate applied under the MMR and sMMR, particularly for deposit takers that rely on high proportions of DCS-protected funding;
- 29.10 the potential for cash inflows not to perform as expected in a more severe system-wide stress;
- 29.11 the risk of adverse changes to historical reinvestment rates, particularly for deposit takers that primarily rely on the reinvestment of term funding as part of their funding strategy;
- 29.12 the liquidity risks arising from contingent liabilities and off-balance sheet positions, irrespective of whether they are expected to crystallise within the 30-day MMR and sMMR timeframe;
- 29.13 the management of liquidity risk across jurisdictions, legal entities, and currencies, including cash flow mismatches arising from the use of derivatives associated with funding sourced from offshore markets; and,
- 29.14 additional vulnerabilities to liquidity risk that may arise from the nature and circumstances of their business.

---

<sup>5</sup> The formulation of the MMR and sMMR requirements means that it is possible that, due to variations in the timing of cash outflows and inflows over this 30-day period, deposit takers comply with these quantitative requirements (at the end of the 30-day period) but would not have sufficient liquid assets to cover cumulative cash outflows throughout the 30-day period.

## Liquidity risk tolerance

30. The Risk Management Standard requires deposit takers to set boundaries for risk tolerance to enable communication of a deposit taker's tolerance for a particular risk and monitor how the deposit taker is operating against its stated appetite for a particular risk. A deposit taker's risk tolerance for liquidity risk (and associated internal policies) is one example of the procedures that a deposit taker has in place to ensure it complies with clause 6.
31. A deposit taker's liquidity risk tolerance may include setting internal buffers relative to the quantitative liquidity requirements in the Liquidity Standard. Because deposit takers may face liquidity risks that may not be fully captured in the minimum requirements, buffers of liquid assets and core/stable funding above these minimums may be appropriate to address these risks. These buffers can also help a deposit taker ensure that they are continuously complying with the minimum requirements (as noted in the *Continuous Compliance* section above).

## Cash flow and Liquidity Position (Clause 7)

32. Clause 7 of the Liquidity Standard sets out the processes, controls, or other arrangements that deposit takers must have to project cash inflows and cash outflows in normal and stress situations and to manage its liquidity position.
33. As a matter of prudential best practice, deposit takers are encouraged to clearly document the processes, controls, or other arrangements used to comply with this clause.

## Cash flow projections

34. Clause 7 of the Liquidity Standard requires deposit takers to have processes, controls, or other arrangements to project cash inflows and cash outflows in normal and stress situations.
35. The intent of this requirement is to help ensure deposit takers can project cash flows under a broad range of assumptions and over longer time horizons than contemplated by the MMR and sMMR. Such projections are important for the effective monitoring of liquidity risks.
36. In complying with this requirement, a deposit taker is expected to determine (on reasonable grounds) a time horizon(s) for their cash flow projections that is appropriate to its size, complexity, and the nature of its funding profile.
37. Deposit takers' cash flow projections may wish to consider vulnerabilities such as:
  - 37.1 the price and marketability of liquid assets;
  - 37.2 the run-off of certain DCS-protected and non-DCS protected deposits (for example, the largest non-DCS protected deposits), deposits held by intermediaries (for example, 'brokered deposits'), and deposits that are not tied to a transactional facility (for example, an EFTPOS card or debit card);
  - 37.3 the availability or unavailability of secured and unsecured funding sources (for example, due to a general decline in the funding market during a period of stress, potential operational issues, or the consequences of a deterioration in the quality of collateral);
  - 37.4 early deposit withdrawal requests;

- 37.5 any concentration of expected asset or derivative inflows sourced from one or a limited number of counterparties;
  - 37.6 contingent liabilities and other off-balance-sheet items, including the risks associated with unusual demand to utilise undrawn committed lines provided by the deposit taker;
  - 37.7 the cancellation or unavailability of undrawn committed lines provided to the deposit taker;
  - 37.8 the impact of credit rating triggers;
  - 37.9 additional margin calls and collateral requirements;
  - 37.10 foreign currency convertibility; and,
  - 37.11 the ability to transfer liquidity across entities, sectors and jurisdictions, considering legal, regulatory, operational and time-zone restrictions and constraints.
38. In addition to complying with clause 7 of the Liquidity Standard, a deposit taker may also leverage its ability to produce these cash flow projections to (where relevant):
- 38.1 comply with the broader stress testing requirements contained in the Risk Management Standard;
  - 38.2 complete stress test exercises conducted by the Reserve Bank;
  - 38.3 set appropriate risk tolerances, as part of a risk appetite statement; and,
  - 38.4 ensure the effectiveness of their contingency funding plan and funding strategy.

### **Liquidity Position**

39. Clause 7 of the liquidity standard requires deposit takers to have processes, controls, or other arrangements to manage its liquidity position. The Reserve Bank considers a deposit taker's liquidity position to be its overall evaluation of its ability to meet its financial obligations as they fall due.
40. In complying with this clause, deposit takers are expected to measure and monitor their liquidity ratios, stock of liquid assets, and performance against relevant internal risk tolerances. Deposit takers are also expected to have processes, controls or other arrangements to ensure its liquidity position remains within its risk tolerance and regulatory minimum requirements.
41. The remainder of this section sets out non-exhaustive examples of specific matters deposit takers are expected to consider when complying with this clause (where relevant).

### **Managing intraday liquidity positions**

42. Intra-day liquidity risk is the risk that deposit takers are unable to meet their financial obligations as they fall due throughout the day, even if the deposit taker's total liquid assets exceed the net cash outflows (noting that liquid assets in the form of securities will take time to liquidate). These obligations are particularly relevant for deposit takers that participate directly in payments systems such as the Reserve Bank's Exchange Settlement Account System (ESAS).

43. In complying with clause 7 of the Liquidity Standard, deposit takers are expected to consider and forecast any intraday liquidity obligations that may arise, both under normal conditions and in stress. This includes considering, where relevant:

- 43.1 the rules of all payment and settlement systems in which it participates;
- 43.2 key counterparties (and their intermediaries) that act as the source of incoming or outgoing gross liquidity flows;
- 43.3 key times, days, and circumstances where liquidity flows and possible intraday liquidity needs might be particularly high; and,
- 43.4 the business needs underlying the timing of liquidity flows and intraday credit needs of internal business lines and key customers.

### **Managing collateral positions**

44. In complying with clause 7 of the Liquidity Standard, locally incorporated deposit takers are expected to include procedures to actively manage its collateral positions, if any, and its stock of unencumbered and encumbered assets.<sup>6</sup>
45. A deposit taker is expected to consider the potential impacts of any collateral requirements in a stress scenario on their holdings of liquid assets and CLF-eligible assets, including monitoring where collateral is held and how it may be mobilised in a timely manner. This includes considering where contracts governing derivatives and other transactions have relevant clauses (for example, triggered upon the deposit taker's downgrade by a recognised credit rating agency) that could require the posting of additional collateral or early repayment of existing liabilities.

### **Managing foreign currency liquidity**

46. A deposit taker that operates materially in multiple currencies would be expected to manage and control its liquidity needs in all currencies in which it undertakes business activity. In these cases, the deposit taker is expected to have procedures to monitor foreign currency liquidity needs and sources, and policies around acceptable currency mismatches.
47. A deposit taker that funds New Zealand dollar assets using foreign currency funding (or funds foreign currency assets with New Zealand dollars) is expected to maintain robust procedures, processes and controls to monitor and manage related risks. Specifically, they would be expected to take account of the risks of sudden changes in exchange rates or market liquidity, or both, that could materially affect liquidity mismatches and impact on the effectiveness of foreign currency hedges and hedging strategies.

### **Contingency funding plan (Clause 8)**

48. Clause 8 of the Liquidity Standard requires deposit takers to have a contingency funding plan (CFP), which contains actions it would take to address a liquidity stress arising from financial or other difficulties. The intent of this requirement is to increase the likelihood that, in the event of stress, the invocation of the CFP can return the deposit taker to a robust liquidity position.
49. In complying with clause 8, a deposit taker is expected to consider inclusion of the following features in their CFP:

---

<sup>6</sup> It would generally not be expected that Group 3 deposit takers would have many, if any, collateral positions.

- 49.1 the deposit taker's policies and procedures for responding to a liquidity stress. This should include clear triggers (quantitative and qualitative as appropriate), clear lines of responsibility, and activation and escalation procedures. The plan should enable prompt and effective decision-making and execution of contingency measures.
- 49.2 a plan to manage communications to promote confidence in the deposit taker;
- 49.3 alignment with any wider business continuity plan of the deposit taker; and,
- 49.4 integration of any lessons learned from liquidity stress test exercises, where applicable.

50. A deposit taker is also expected to ensure the CFP suitably addresses:

- 50.1 all the deposit taker's business lines;
- 50.2 the vulnerabilities listed in the Cash flow projections section above (where relevant); and,
- 50.3 a range of liquidity stress events, including short-term and protracted institution-specific and market-wide stress scenarios.

51. For deposit takers that maintain self-securitisation programmes (for example, as CLF-eligible assets), consideration should be given to the costs and benefits of maintaining a greater volume of self-securitised assets (beyond that pre-positioned for the CLF) in case further funding is required in a stress and the Reserve Bank is willing to provide it.<sup>7</sup> It would generally be prudent to have a greater volume of self-securitised assets than pre-positioned for the CLF and/or maintain an ability to quickly scale up the volume of self-securitised assets.

### **Funding strategy (Clause 9)**

52. Clause 9 of the Liquidity Standard requires locally incorporated deposit takers to maintain a funding strategy appropriate to the size and nature of its business. This requirement does not apply to branches.
53. The strategy must set out how the deposit taker intends to manage its funding. For example, the funding strategy could include the deposit taker's best estimate of its future funding needs and sources, as well as key sensitivities and scenario analysis.
54. Clause 9(3) requires (at least) 3-yearly review of the funding strategy by the deposit taker's Board. As a matter of prudential best practice, deposit takers are encouraged to review their funding strategy annually and ensure the period to which the strategy relates is at least as long as the frequency of review so that they are always operating under a board-approved funding strategy.
55. In complying with clause 9, deposit takers are generally expected to provide for diversification in their funding sources in their funding strategy, to the extent that this is relevant to the size and nature of their business. Examples of this include diversification in relation to:

---

<sup>7</sup> Self-securitisations are structured pools of assets, such as residential mortgages, created by deposit takers specifically to use as collateral to access liquidity from the Reserve Bank.

- 55.1 the identity or characteristics of the provider, including whether the funding is wholesale or retail in nature;
  - 55.2 the markets through which funding is raised;
  - 55.3 the tenor of funding; and,
  - 55.4 the legal structure of the funding instrument.
56. As a matter of prudential best practice, deposit takers are encouraged to:
- 56.1 monitor any excessive concentrations in the term of funding, as such concentrations can be a source of difficulty when large quantities of funding of a given term need to be renewed within a short space of time;
  - 56.2 maintain an ongoing presence in its chosen funding markets and have strong relationships with funds providers to promote effective diversification of funding sources; and,
  - 56.3 regularly gauge their capacity to retain funds from each source, both in normal times and in times of stress, and identify the main factors that affect their ability to retain funds and monitor those factors closely to ensure that estimates of likely future fund retention remain valid.

### Part 3: Mismatch ratio and core funding ratio

#### Mismatch Ratio and Requirement to maintain a mismatch ratio (Clauses 10 and 11)

57. The Mismatch Ratio (MMR) helps ensure that deposit takers are prepared for a liquidity stress that may last up to 30 days.<sup>8</sup> It measures a deposit taker's liquid assets relative to its net cash outflows. The requirement to maintain an MMR equal to or greater than 100% will generally apply to all Group 1 and Group 2 deposit takers.
58. In complying with this requirement, deposit takers are expected to target an amount of liquid assets more than the minimum required (a buffer), to help ensure that any short-term volatility in the deposit taker's net cash outflows do not result in non-compliance with the MMR. The section on *liquidity risk tolerance* above provides further guidance on liquidity buffers.
59. Because the MMR is designed to help ensure deposit takers can withstand a liquidity stress, the Reserve Bank would generally expect a deposit taker to use its liquid assets and CLF-eligible assets to meet its obligations in such an event, even if this resulted in the deposit taker contravening the MMR minimum requirement.
60. If a deposit taker's MMR has fallen below, may have fallen below, or is likely to fall below, 100% (or any other minimum requirement set by the Reserve Bank) in a material respect, it must inform the Reserve Bank as required by Section 116 of the DTA (*Licensed deposit taker must report contraventions*). The deposit taker may then be subject to requirements under Section 119 of the DTA (*Bank may require licensed deposit taker to take action in relation to contravention*).

---

<sup>8</sup> This refers to the 30 calendars days following the day of any calculation.



## Variation by condition (Clause 13)

61. Under clause 13 of the Liquidity Standard, the Reserve Bank may specify a quantity by which the deposit taker must multiply its liquid assets or net cash outflows when calculating its MMR (for example, apply a discount factor ( $<1$ ) to its liquid assets, apply a scalar ( $>1$ ) to its net cash outflows) or increase the minimum requirement for the MMR above 100%.<sup>9</sup> In applying any conditions, the Reserve Bank must be satisfied of the matters in clause 13(2). Examples of the types of circumstances where the Reserve Bank may consider this include (but are not limited to) idiosyncratic risks at the deposit taker and/or deficiencies in the deposit taker's liquidity risk management.

## Liquid Assets (Clause 14)

62. Clause 14 of the Liquidity Standard sets out the list of eligible liquid assets for the MMR. The Reserve Bank has determined, in its view, that these assets could be used to meet net cash outflows in a stress scenario contemplated by the MMR on the basis that:
- 62.1 they are cash (settlement balances or physical cash);
  - 62.2 they could be liquidated in private markets (for example, in the case of New Zealand Government Securities, Kauri bonds, and LGFA securities)<sup>10</sup>; or,
  - 62.3 they could be sold to the Reserve Bank under a repurchase agreement if they were not liquid in private markets (in the case of CLF-eligible assets).
63. Clause 14(1) requires liquid assets to be unencumbered (that is, not pledged either explicitly or implicitly in any way to secure, collateralise or credit-enhance any transaction, and are not held as a hedge for any other exposure). CLF-eligible assets are not considered encumbered because of being pre-positioned for the CLF.
64. Under clause 14(3), the amount of liquid assets in the form of securities to be included in the MMR is equivalent to the price that the Reserve Bank would purchase these securities under its liquidity facilities. This purchase price would be based on the market value of the securities, , and apply the same haircuts and calculation methodology used by the Reserve Bank to calculate the purchase price of eligible securities for its liquidity facilities, including the CLF.<sup>11</sup>
65. Haircuts are to be applied to the market value of securities regardless of whether the deposit taker itself can access the Reserve Bank's liquidity facilities. The intent of this is to ensure the value of liquid assets used for MMR purposes reflects the risk that the realisable value of these assets in a stress may be lower than their current market value.
66. As a matter of prudential best practice, deposit takers are expected to hold a diversified portfolio of liquid assets, without undue reliance on the CLF or assets that are expected to be less liquid in private markets during a stress event. The MMR applies some caps designed to provide a minimum level of diversification of liquid asset holdings. **Figure 1** below illustrates how the various caps in the MMR work together to support diversification of liquidity sources more generally, including for liquidity resulting from cash inflows.

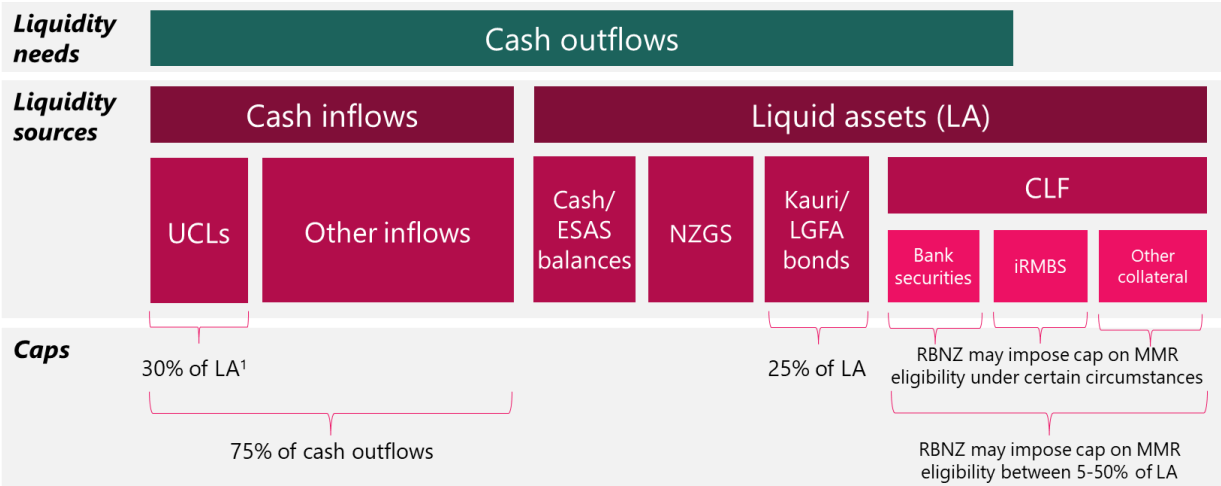
---

<sup>9</sup> The discount factor applied to liquid assets would be in addition to any existing haircuts applied to liquid assets.

<sup>10</sup> The MMR is not calibrated to an extreme market-wide stress event such as the early phase of the COVID-19 pandemic, in which case these securities would not be expected to be liquid in private markets.

<sup>11</sup> Repo eligible securities and haircuts - Reserve Bank of New Zealand - Te Pūtea Matua. In circumstances where the deposit taker has an overseas deposit-taking subsidiary, the relevant calculation methodology for eligible foreign currency liquid assets should be that used by that jurisdiction's central bank for the purposes of its comparable liquidity facilities.

Figure 1: Caps applicable to liquidity sources under MMR (not to scale)



1) Also subject to a cap of 10% of liquid assets for Undrawn Committed Lines (UCLs) with an individual counterparty and a cap of 0.1% of the assets of all deposit takers incorporated in New Zealand.

New Zealand Government Securities (NZGS)

67. As a matter of prudential best practice, Group 1 and Group 2 deposit takers are generally encouraged to hold a significant portion of their liquid asset portfolio in NZGS. As these securities tend to be the most liquid in New Zealand markets, this will help ensure that deposit takers are maximising their standalone resilience and not placing any undue reliance on the CLF to address a potential liquidity stress.

Kauri bonds and Local Government Funding Agency (LGFA) securities

68. Under clause 14(2) of the Liquidity Standard, holdings of Kauri bonds and LGFA securities, in aggregate are subject to a ‘cap’ of [25%] of total liquid assets. However, amounts more than this cap may still contribute to a deposit taker’s MMR as CLF-eligible assets.

Committed Liquidity Facility (CLF)

69. The Reserve Bank has established a CLF to address the shortage of Level 1 and Level 2 liquid assets in New Zealand. Under clause 14(1)(e), a deposit taker’s liquid assets include assets that are eligible for the CLF (hereafter **CLF-eligible assets**) but do not meet the requirements for Level 1 and Level 2 liquid assets. CLF-eligible assets are securities that are repo-eligible with the Reserve Bank, including but not limited to internal (self-securitised) residential mortgage-backed securities (**iRMBS**), corporate securities, and bank securities, where they meet certain criteria. Further details on CLF-eligible assets are available on the Reserve Bank’s website.<sup>12</sup>

70. Under clause 14(4) of the Liquidity Standard, the Reserve Bank may establish (through conditions of license) a cap on the amount of CLF-eligible assets that are eligible as liquid assets that ranges from 5% to 50% (of liquid assets).<sup>13</sup> For example, a CLF cap of 35% would mean that a deposit taker’s CLF amount could not exceed 35% of its total liquid assets (as determined according to the Reserve Bank’s CLF framework).

<sup>12</sup> Repo eligible securities and haircuts - Reserve Bank of New Zealand - Te Pūtea Matua.

<sup>13</sup> This would, however, not necessarily require deposit takers to have a CLF.

71. The Reserve Bank intends to review this cap annually and may adjust it from time to time, considering factors such as the outstanding issuance of other liquid assets, such as NZGS.
72. The Reserve Bank intends to apply the same cap (in the conditions of license) for all deposit takers in scope of the MMR.
73. The CLF amount eligible towards a deposit taker's MMR will be the lesser of the following two amounts, so long as the deposit taker has prepositioned sufficient CLF-eligible assets for such amounts:
- 73.1 the maximum amount of CLF-eligible assets that are eligible towards the deposit taker's MMR under its conditions of license; or,
  - 73.2 the CLF limit contractually agreed between the deposit taker and the Reserve Bank.
74. In the event a deposit taker has not prepositioned sufficient CLF-eligible assets to access this CLF amount, the CLF amount eligible towards the deposit taker's MMR will be the (lower) amount that has been prepositioned for.<sup>14</sup>
75. While there are no formal limits on holdings of any CLF-eligible assets, as a matter of prudential best practice, deposit takers are encouraged to maintain a well-diversified portfolio of CLF-eligible assets. Under clause 13, the Reserve Bank can apply a quantity (for example, discount factor <1) to all liquid assets, particular liquid assets, or a class of liquid assets (for example, iRMBS and other CLF-eligible assets), through conditions of license in certain circumstances. The Reserve Bank may consider using this power in cases where a deposit taker's reliance on a certain liquid asset was endangering that deposit taker's safety and soundness or broader financial system stability.
76. Deposit takers are also encouraged to periodically test their operational capacity to access the Reserve Bank's liquidity facilities through 'test trades'. For the CLF, this may be required and outlined in the CLF term sheet.
77. In the event of a liquidity stress, deposit takers are expected to first seek liquidity in private markets before accessing the CLF. This approach promotes the standalone resilience of deposit takers and positions the CLF as a backstop source of liquidity.

### **Net Cash Outflows (Clause 15)**

78. Under clause 15, a deposit taker's net cash outflows are its total cash outflows less its total cash inflows for the following 30 days, where the total amount of cash inflows relative to cash outflows is capped at 75%. The intent of this cap is to require deposit takers to hold an amount of liquid assets that is at least 25% of its net cash outflows. Absent a cap on cash inflows, the MMR may not require deposit takers to hold material amounts of liquid assets in certain cases.

### **Cash Outflows (Clause 16)**

79. Under clause 16, a deposit taker's total cash outflows include amounts of deposits that are assumed to be withdrawn (at run-off rates specified by the standard), certain amounts that are contractually due to be paid by the deposit taker, and certain amounts that may be provided

---

<sup>14</sup> In other words, deposit takers are only eligible to include CLF amounts towards their MMR if they have sufficient CLF-eligible assets pre-positioned for those amounts.

by the deposit taker under undrawn committed lines (**UCLs**), during the 30-day period.<sup>15</sup> The MMR does not include all potential cash outflows (for example, operating costs), although deposit takers may consider these in meeting the requirements in Part 2 of the Liquidity Standard.

### **Deposit outflows**

80. Deposits provided by entities that are not eligible depositors under the DCS are assumed to run-off in full (at 100%) under the MMR. This includes deposits provided by licensed deposit takers, licensed insurers, and government agencies. The Reserve Bank has published an indicative list of government agencies that are not eligible depositors for the purposes of the DCS.<sup>16</sup> Although this list is not an exhaustive or authoritative list, deposit takers may find it helpful in complying with their liquidity requirements.
81. Other deposits are to be categorised into the relevant 'size band' to determine the applicable run-off rate. Deposit takers are encouraged to aggregate balances across a given depositor's accounts in the same way they do for producing their single depositor view when complying with the DCS Standard. Deposit takers may use assumptions in allocating deposits to the appropriate size band, subject to the requirements in clause 5 of the Liquidity Standard.
82. In the case of certain deposits, such as relevant arrangements (for example, intermediated deposits), clause 16(2) permits deposit takers to 'look through' to the underlying party that primarily controls the withdrawal of the funds. For example, deposit takers may treat a single (large) deposit from an intermediary as many (smaller) individual deposits in cases where it is the individual depositors (rather than the intermediary) that would retain ultimate control over the movement of these deposits in a stress. However, look-through treatment would not be appropriate if the intermediary also could withdraw funds within the 30-day MMR period.

### **Other contractual outflows**

83. Under clause 16, amounts that are contractually due to be paid by the deposit taker include certain principal and interest payments, lending due to be drawn down where the draw-down date and principal amount are certain, and money consideration under a derivative, subject to provision and exclusions as specified in the standard. Further detail on derivatives is set out in **Box 1**.
84. For the avoidance of doubt, contractual outflows exclude distributions on Tier 1 capital instruments, and the cashflow associated with the far leg of repurchase (repo) transactions.

### **Cash inflows (Clause 17)**

85. Under clause 17, a deposit taker's total cash inflows include certain amounts that are contractually due to be paid to the deposit taker during the 30-day period, including [75%] of any amounts eligible to be included under UCLs provided to the deposit taker during this period.
86. The Liquidity Standard places limits on a deposit taker's individual and total UCLs reflecting that, if fully utilised by a deposit taker, UCLs could result in contagion across the deposit taking sector.
87. Amounts contractually due to be paid to the deposit taker include money consideration under derivatives contracts (see **Box 1** below), principal and interest under debt securities that are not

---

<sup>15</sup> UCLs are the cash outflows and cash inflows set out in clause 16(1)(h) and clause 17(1)(d) of the Liquidity Standard.

<sup>16</sup> Government agencies that are not eligible depositors for the Depositor Compensation Scheme.

liquid assets, and principal and interest under credit contracts, subject to provisions and exclusions set out in the standard.

88. For the avoidance of doubt, cash inflows do not include:

- 88.1 future fee income;
- 88.2 amounts contractually due to be paid on non-performing loans;
- 88.3 amounts that could be received from future funding where that is not from a UCL; and,
- 88.4 the cashflow associated with the far leg of reverse repo transactions.

### Box 1: Treatment of derivatives

Both the MMR and sMMR include money consideration under a derivative in the definition of cash inflows and cash outflows. The intent of including these cash flows is to capture the amounts that are contractually payable or receivable under a deposit taker's derivative contracts, including cash collateral payments for variation margin.

In general, deposit takers may calculate derivative cash inflows and outflows in accordance with their existing methodologies for assessing the fair value of their derivative contracts. This is particularly relevant in cases where a contractual cashflow depends on the future value of a financial market variable (for example, an asset price, exchange rate, or interest rate).

As the policy intent is to capture actual cash flows, deposit takers may take into account any applicable valid master netting agreements when determining money consideration under derivatives for MMR purposes. This is because amounts owed to a given counterparty under an individual derivative contract may be offset against amounts owed by that counterparty in certain circumstances. However, this does not mean that a deposit taker can net out the cash amounts payable/receivable *after* applying any valid netting agreements. For example, if the application of a valid netting agreement with a counterparty results in a net amount payable by the deposit taker of \$100, the deposit taker should count the full \$100 as a cash outflow and should not net this further against amounts receivable under the deposit taker's other derivative contracts.

Cash flows arising from foreign exchange derivative transactions that involve a full exchange of principal amounts on a simultaneous basis (or within the same day) may be reflected as a net cash flow figure, even where those transactions are not covered by a master netting agreement.

### Core funding ratio and Requirement to maintain a core funding ratio (Clauses 18 and 19)

89. The Core Funding Ratio (CFR) helps ensure that deposit takers are funding a sufficient proportion of their lending with core (stable) funding. This aims to improve deposit takers' resilience to disruptions in funding markets. The CFR measures a deposit taker's core funding relative to its total lending. Group 1 and Group 2 deposit takers will generally be required to maintain a CFR equal to or greater than 75%.

90. As with the MMR, the CFR applies to a deposit taker on a consolidated (Level 2) basis. Under clause 20, the CFR also applies on a Level 1 basis if a subsidiary of the deposit taker is an overseas company that carries on deposit-taking business outside New Zealand.

91. It is expected that deposit takers will target an amount of core funding more than the minimum required (a buffer), to help ensure that any short-term volatility in the deposit taker's

funding or total lending does not result in non-compliance with the CFR. Deposit takers should consider their business model and funding structure when determining the size of this buffer.

92. If a deposit taker's CFR has fallen below, may have fallen below, or is likely to fall below, 75% (or any other minimum requirement set by the Reserve Bank) in a material respect, it must inform the Reserve Bank as required by Section 116 of the DTA (*Licensed deposit taker must report contraventions*). The deposit taker may then be subject to requirements under Section 119 of the DTA (*Bank may require licensed deposit taker to take action in relation to contravention*).
93. There is currently no core funding requirement for Group 3 deposit takers. However, as a matter of prudential best practice, Group 3 deposit takers are encouraged to ensure that they have sufficient levels of core (stable) funding.

### **Variation by condition (Clause 21)**

94. Under clause 21 of the Liquidity Standard, the Reserve Bank may specify a quantity by which the deposit taker must multiply its core funding or total lending of money when calculating its CFR (for example, apply a discount factor ( $<1$ ) to its core funding, apply a scalar ( $>1$ ) to its total lending of money) or increase the minimum requirement for the CFR above 75%. Examples of the types of circumstances where the Reserve Bank may do this include (but are not limited to) idiosyncratic risks at the deposit taker and/or deficiencies in the deposit taker's funding strategy or broader liquidity risk management.
95. The CFR is one of the instruments that could be adjusted as part of the Reserve Bank's macroprudential toolkit. For example, the Reserve Bank may ease the CFR requirement for all in-scope deposit takers in the event of a dislocation in funding markets, to support continued lending by deposit takers during and following a systemic stress event.

### **Calculation of core funding (Clause 22)**

96. The intent of clause 22 is to define sources of core funding that are considered to be stable (remain with the deposit taker for a targeted period of one-year). Core funding includes, in full, funding that is permanent (for example, Tier 1 capital) and funding with a residual maturity greater than one year. It also includes, after applying a (discount) factor, certain funding with a residual maturity less than one year, including both DCS-protected and non DCS-protected deposits, and funding from the Reserve Bank's facilities. The (discount) factors used to measure a deposit taker's core funding are set out in the Liquidity Standard.
97. Like the MMR, deposits are to be categorised into the relevant 'size band' to determine the applicable discount factor. The considerations around aggregation of deposit balances in the *Deposit outflows* section above are also relevant to the CFR.

## **Part 4: Simplified Mismatch Ratio**

### **Simplified mismatch ratio and Requirement to maintain a simplified mismatch ratio (Clauses 23 and 24)**

98. The simplified Mismatch Ratio (**sMMR**) helps ensure that deposit takers are prepared for a liquidity stress that may last up to 30 days. It measures a deposit taker's liquid assets relative to its net cash outflows, requiring this ratio to be equal to or greater than 100%. The sMMR will generally apply to all Group 3 deposit takers. The sMMR is intended to be simplified relative to the MMR.

99. As with the MMR, the sMMR applies to a deposit taker on a consolidated (Level 2) basis. Where a deposit taker has overseas subsidiaries, it is also required to comply with a New Zealand (Level 1) sMMR, which excludes any overseas deposit-taking subsidiaries. It is expected that deposit takers will hold an amount of liquid assets more than the minimum required (a buffer), to help ensure that any short-term volatility in the deposit taker's net cash outflows do not result in non-compliance with the sMMR. The section on *Liquidity risk tolerance* above provides further guidance on liquidity buffers.
100. If a deposit taker's sMMR has fallen below, may have fallen below, or is likely to fall below, 100% (or any other minimum requirement set by the Reserve Bank) in a material respect, it must inform the Reserve Bank as required by Section 116 of the DTA (*Licensed deposit taker must report contraventions*). The deposit taker may then be subject to requirements under Section 119 of the DTA (*Bank may require licensed deposit taker to take action in relation to contravention*).

### **Variation by condition (Clause 26)**

101. Under clause 26, the Reserve Bank may specify a quantity by which the deposit taker must multiply its liquid assets or net cash outflows when calculating its sMMR (for example, apply a discount factor ( $<1$ ) to its liquid assets, apply a scalar ( $>1$ ) to its net cash outflows) or increase the minimum requirement for the sMMR above 100%.<sup>17</sup> Examples of the types of circumstances where the Reserve Bank may do this include (but are not limited to) idiosyncratic risks at the deposit taker and/or deficiencies in the deposit taker's liquidity risk management.

### **Calculation of liquid assets (Clause 27)**

102. Liquid assets can include demand deposits held with other licenced deposit takers that have an investment grade credit rating, settlement balances with the Reserve Bank, NZGS, Kauri bonds, and LGFA securities. There is no minimum or maximum requirement for holdings of any of these liquid assets. Only liquid assets in NZD may qualify as liquid assets.
103. The MMR section above provides further guidance on how securities should be valued under the sMMR. This guidance is also applicable even where the deposit taker itself cannot access the Reserve Bank's liquidity facilities.
104. Clause 27(1) of the Liquidity Standard requires eligible liquid assets to be unencumbered. Further guidance on encumbrance is provided above in the MMR section.

### **Calculation of net cash outflows (Clause 28)**

105. Under clause 28, a deposit taker's net cash outflows are its total cash outflows less its total cash inflows for the following 30 days, where the total amount of cash inflows relative to cash outflows is capped at 75%.

### **Calculation of cash outflows (Clause 29)**

106. Under clause 29, a deposit taker's total cash outflows include amounts of deposits that are assumed to be withdrawn during a stress (3% for DCS-protected deposits and 50% for non DCS-protected deposits) and other cash outflows as set out in the Liquidity Standard.
107. The sMMR applies a 100% run-off rate to all funding (regardless of whether it is DCS protected) that is due to mature and be paid out to another deposit taker within the 30-day period. For example, if a deposit taker offers term deposits, which are paid out to an account

---

<sup>17</sup> The discount factor applied to liquid assets would be in addition to any existing haircuts applied to liquid assets.

that the depositor holds with another deposit taker at maturity, the full amount payable under that term deposit should be counted towards the cash outflows once the term deposit is within 30 days of its maturity, unless the depositor has provided specific instructions to reinvest the term deposit with the deposit taker at maturity.

108. The MMR section above provides guidance on the other cash outflows, which are the same for the MMR and sMMR.

### **Cash inflows (Clause 30)**

109. Under clause 30, a deposit taker's total cash inflows include amounts that are due to be paid to the deposit taker as set out in the Liquidity Standard, including amounts eligible to be included under UCLs provided to the deposit taker during this period.

110. The MMR section above provides guidance on these inflows, which are the same for the MMR and sMMR.