

Non-bank Deposit Takers Association's submissions on the *Liquidity Standard exposure draft*

Submission to the RBNZ on the Liquidity Standard exposure draft

INTRODUCTION

1. This submission is made by the Non-Bank Deposit Takers Association (the **NBDTA**) in response to the Reserve Bank of New Zealand's (the **RBNZ**) tranche 1 of the *Deposit Takers Act 2023* (the **DTA**) standards consultation package, *Liquidity Standard exposure draft* (the **Standard**) and *Liquidity Standard Guidance Note draft* (the **Guidance**).
2. Our submission focuses on six key areas of the Standard. Please see the below summary of our key submission points. Not all of the questions raised in the supporting information on the Standard cover note were relevant to us but our submissions below address questions two and five.
3. Our submission is further to and is informed by our engagement with the RBNZ in respect of the Standard at a 15 January 2026 meeting with a working-group of the NBDTA. This submission represents the NBDTA's formal response to the Standard, and in many cases reiterates the views expressed at the meeting with the RBNZ.

Summary of key points

Our submissions are, in summary:

General

- (a) we seek clarification that debt securities provided through "look through" providers, where the debt is ultimately repayable by a licensed deposit taker, will qualify as liquid assets under clause 27(1)(c) of the Standard, and if so, we request that this interpretation be explicitly stated in the Guidance for clarity.
- (b) clause 27 of the Standard should include provisions for debt securities eligible for RBNZ liquidity facilities (similar to clause 14(1)(e)), to future-proof the Standard and to avoid subsequent amendments if liquidity facility eligibility is changed (as we have also submitted in favour of previously).
- (c) the 100 per cent. run-off rate applied to deposits held by Group 1 and 2 deposit takers and repayable to Group 3 deposit takers under clause 16(1)(a)(i) creates unintended negative pricing consequences, by making our deposits less valuable to Group 1 and 2 deposit takers, and is based on unjustified assumptions. Accordingly, we propose either a lower run-off rate or a graduated approach (similar to clause 16(1)(d)) instead.

Simplified MMR – calculation of cash outflows

- (d) there is ambiguity in how to treat maturing deposits when a depositor has both insured and uninsured deposits, but building detailed single depositor view reporting with depositors' maturity profiles is overly complicated and costly for Group 3 deposit takers. Accordingly, the Guidance should clarify that deposit takers can choose between:
 - (i) a detailed depositor maturity profile; or
 - (ii) an assumed overall book insured vs uninsured ratio,

to calculate the outflow allocation between the insured and uninsured run-off rates.

- (e) the 50 per cent. run-off rate for uninsured deposits under clause 29(c) of the Standard is significantly higher than the run-off rate seen in practice (even during times of stress) and may adversely affect Group 3 deposit takers with a lower proportion of insured deposits. Accordingly, to avoid disproportionate impacts, we submit that a proportionally fair and appropriate run-off rate is a graduated run-off rate table (similar to the Group 1 and 2 deposit takers table). We propose a table with proportions of:
 - (i) five per cent. of debt securities less than five million;
 - (ii) 20 per cent. of debt securities five million or more but less than 10 million; and
 - (iii) 50 per cent. of debt securities 10 million or more.
- (f) the 100 per cent. outflow treatment under clause 29(a) for debt securities to be repaid to an account with another deposit taker does not align with the experience of certain Group 3 deposit takers, where historical data indicates a significant proportion of term deposits are reinvested at maturity. Accordingly, we submit that the RBNZ should consider permitting Group 3 deposit takers to adopt a behavioural, rather than contractual, approach to run-off calculations by applying a conservative reinvestment rate of 50 per cent., rather than assuming 100 per cent. outflow.

DETAILED SUBMISSIONS

General

Calculation of liquid assets – “look through” deposits included in the calculation of liquid assets

4. We note that under clause 27(1)(c) of the Standard, on-demand debt securities repayable *to the deposit taker by a licensed deposit taker* with an investment grade credit rating are to be included in the calculation of a deposit taker’s liquid assets.
5. As discussed with the RBNZ already, we note that some deposit takers use “look through” arrangements, where an intermediary invests in deposits on their behalf. This occurs where the intermediary pools funds to access wholesale rates on deposits, with the deposits held on trust. Because the deposit taker is the beneficial owner of the deposit, the deposit taker has been able to “look through” the trust arrangement to the underlying licensed deposit taker that issued the debt security when calculating liquidity ratios.
6. We understand from our discussions with the RBNZ that clause 27(1)(c) will not disqualify such debt securities from a deposit takers calculation of its liquid assets. Accordingly, we submit that this interpretation should be specifically set out in the Guidance for clarity.

Calculation of liquid assets – future-proofing clause 27 by including liquidity facility eligible assets

7. We submit that the calculation of liquid assets for Group 3 deposit takers under clause 27 of Part 4 of the Standard should include a similar clause to clause 14(1)(e), being that other debt securities eligible as collateral for a liquidity facility provided by the RBNZ are to be included in the calculation of liquid assets for Group 3 deposit takers.
8. We acknowledge that Group 3 deposit takers are currently ineligible for RBNZ liquidity facilities. However, our position remains that we would welcome a change to this over time. We understand that the RBNZ is currently reviewing access to committed liquidity facilities for Group 3 deposit takers, and we refer to our submission on the *2025 Liquidity Management Review – Consultation on Open Market Operations and the Committed Liquidity Facility* in this respect.
9. Accordingly, we submit that clause 27 of Part 4 of the Standard should be future-proofed by including an equivalent to clause 14(1)(e) that will apply to the extent the Group 3 deposit taker is a participant in DMO, to avoid the need for subsequent amendment if Group 3 deposit takers became eligible for liquidity facilities.

Calculation of cash outflows for Group 1 and 2 deposit takers – run-off rate for debt securities held by licensed deposit takers

10. We note that under clause 16(1)(a)(i), for the purposes of calculating cash outflows under Part 3 of the Standard (applicable to Group 1 and 2 deposit takers), the principal sum of maturing deposits repayable to Group 3 deposit takers is to be treated as an outflow (that is, a 100 per cent. run-off rate). This can be contrasted with large corporates with sophisticated treasury teams, whose deposits are not treated with the same presumed withdrawal rates in times of stress and are instead subject to a graduated run-off structure (under clause 16(1)(d)).
11. We submit that there is no reason to treat our deposits differently from such large corporates, and the assumption that we will need to draw on all our deposits during times of stress should be revisited (this assumption would put us in breach of our own liquidity requirements). This treatment causes unintended pricing consequences for Group 3 deposit takers in respect of our deposits with Group 1 and 2 deposit takers, which we are required to hold to meet our own liquidity requirements. Clause 16(1)(a)(i) has the effect of making debt securities repayable to Group 3 deposit takers less valuable than those repayable to other customers for Group 1 and 2 deposit takers. As a result, this would

negatively affect the pricing for our deposits from Group 1 and 2 deposit takers, and accordingly, our profitability and capital buffer.

12. Accordingly, we submit that this unintended consequence is not justified, and there are valid reasons to revisit the underlying assumptions leading to this. Although we recognise the RBNZ's rationale that in a liquidity event, we may need to withdraw funds from deposits with Group 1 and 2 deposit takers to cover our own depositors' withdrawals, a 100 per cent. run-off rate does not fairly represent that risk. Accordingly, we submit that a fairer outcome would be a lower run-off rate, or a graduated approach in line with or similar to clause 16(1)(d).

Simplified MMR – calculation of cash outflows

Insured vs uninsured debt securities allocation

13. We note that the Standard is silent on the approach to be taken in the following scenario:
- (a) a depositor has a \$50,000 debt security maturing within 30 days, and a further \$80,000 debt security maturing in more than 30 days;
 - (b) under the depositor compensation scheme, \$100,000 of the depositor's debt securities is insured, and \$30,000 is uninsured;
 - (c) accordingly, for the purposes of clause 29(b) and (c) of the Standard, how should the maturing \$50,000 debt security be treated? That is, should the run-off rate:
 - (i) be three per cent. of the entire principal sum as an insured debt security; or
 - (ii) apply to part of the maturing security at a 50 per cent. run-off to reflect that a proportion of the depositor's deposit is uninsured.
14. We understand from our engagement with the RBNZ that it considers the work that will be done on the single depositor view (the **SDV**) would mean that this could be applied at a depositor level across maturity periods, or under clause 5(1) of the Standard, a deposit taker could rely on an assumption (for example, assuming an insured vs uninsured ratio across the deposit takers overall book, and applying that ratio to maturing deposits).
15. We submit that:
- (a) building SDV reporting that also includes a maturity profile at a depositor level is overly complicated for Group 3 deposit takers. The technology costs and operational risks of doing so are not proportional to the material effect on liquidity risk of doing so; and
 - (b) nonetheless, to preserve flexibility in approach, the Guidance should be amended to clarify that a deposit taker can either:
 - (i) apply a detailed depositor maturity profile; or
 - (ii) apply an assumed overall book insured vs uninsured ratio,to calculate the outflow allocation between the three per cent. and 50 per cent. run-off rates.

Run-off rate for uninsured deposits

16. We note that the 50 per cent. run-off rate for uninsured deposits under clause 29(c) of the Standard, when considered alongside the three per cent. run-off rate for insured deposits under clause 29(b), may adversely affect Group 3 deposit takers with a lower proportion of insured deposits. The 50 per cent. run-off rate is significantly higher than the run-off rates we see in practice, even during stress

events. The 50 per cent. run-off rate is also significantly higher than the equivalent rates for Group 1 and 2 deposit takers in the context of the realistic size of deposits we hold.

17. We acknowledge the RBNZ's position that a consistent approach across all Group 3 deposit takers is required. However, we submit that it would be more appropriate to align with the Group 1 and 2 deposit takers approach of a graduated run-off rate table (as in clause 16(1)(d)). Accordingly, we submit that a proportionally fair and appropriate run-off rate is a graduated run-off rate table with proportions of:
 - (a) five per cent. of debt securities less than five million;
 - (b) 20 per cent. of debt securities five million or more but less than 10 million; and
 - (c) 50 per cent. of debt securities 10 million or more.
18. To the extent this is not changed, because our members have different business models and serve different niches, some Group 3 deposit takers will be disproportionately affected by this, where they have relatively higher proportions of uninsured deposits. On the basis that we think the rate is unjustified, this approach does not support the purpose of promoting diversity of deposit taker business models.
19. In addition, we note the following two points on the use of "DCS-protected deposit" and "non DCS-protected deposits" in the Guidance (where a "DCS-protected deposit" means a deposit that is protected under the DCS):
 - (a) First, the relevant distinction used in the Guidance is not between "protected deposits" as defined in the DTA and other financial products offered by a deposit taker, but between those "protected deposits" that are covered by the DCS and are entitled to compensation vs uncovered "protected deposits" in respect of which no compensation is payable.
 - (b) Secondly, paragraph 106 of the Guidance refers to a 50 per cent. run-off rate for "non DCS-protected deposits" and a 3 per cent. run-off rate for "DCS-protected deposits". On the other hand, the Standard refers to the concept of deposits in respect of which a levy is payable under the DTA (aligning with the distinction identified above). You have told us that the intention is for "protected deposits" to be subject to the 3 per cent. run-off rates for the DCS insured amount, and the net, uninsured amount of a "protected deposit" is to be subject to the 50 per cent. run-off rate. Accordingly, the Guidance should be amended to clarify this intention and the fact that the sum of "DCS-protected deposit" is subject to different run-off rates for its insured vs uninsured amounts.

Run-off rate for deposits to be repaid to other deposit takers

20. We note that under clause 29(a) of Part 4 of the Standard, the principal sum of a debt security that is to be repaid other than into an account with the deposit taker is treated as an outflow. We submit that this treatment has a potentially disproportionate negative effect on certain Group 3 deposit takers, and does not align with those deposit takers' experience of deposits being re-invested.
21. For example, for certain Group 3 deposit takers, debt securities will always be due to be repaid to an account with another deposit taker as they do not operate their own transaction banking accounts. However, historical data indicates that a significant proportion of term deposits (in some cases, over 80 per cent.) are reinvested at maturity with the same deposit taker.
22. Accordingly, we submit that the RBNZ should consider permitting Group 3 deposit takers to adopt a behavioural approach, rather than a strict contractual approach, to run-off calculations by applying a conservative reinvestment rate of 50 per cent., rather than assuming 100 per cent. outflow for deposits where depositors have yet to advise their intentions. We acknowledge that the liquidity standard is intended to address non-business as usual situations, however, historical precedent suggests that 100 per cent. outflows are unlikely. Accordingly, in our view, a 50 per cent. run-off rate

reflects a conservative but realistic rate for a stress scenario and is a more appropriate and proportional approach.

23. Under the Standard currently, we note that the approach to calculating cash outflows is generally overly conservative, and results in disproportionate and varied outcomes for different deposit takers' business models without justification. Our members' calculation of their effective run-off rates when calculating cash outflows under the Standard range from 10 per cent. to over 70 per cent. (in some cases). We do not think that the Standard is currently accurately reflective of the risk, and it results in unjustified, disproportionate burden on some members and their business model. We submit that the run-off rates do not need to be overly conservative, because practically conservatism is built in elsewhere in the Standard and related standards (for example, the cap on cash inflows and the management buffer that we will need to hold in accordance with our risk management program).
24. We submit that, taken together, our submission on changing the run-off rate for the calculation of uninsured deposits and for deposits to be repaid to other deposit takers, results in a more proportionate cash outflow calculation that better reflects the risk in a stress scenario and is a required change to preserve flexibility and diversity in deposit takers' business models. We have proposed run-off rates that we believe would result in a realistic "effective" run-off rate across the Group 3 deposit taker sector. We note that Group 3s have a range of business models and changing the different run-off assumptions will affect our members in different ways. We are open to working with the RBNZ to workshop the settings to ensure they are fit for purpose across the sector.