Reserve Bank of New Zealand
Te Pūtea Matua

Liquidity Management Review

Consultation on Open Market Operations and the Committed Liquidity Facility

10 September 2025

CONSULTATION PAPER

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Non-Technical Summary

Our liquidity management framework

The Reserve Bank of New Zealand (RBNZ) manages the level of liquidity in the New Zealand banking system to ensure individual banks can meet daily transactional obligations through the payments and settlement system, and short-term market interest rates trade at or near the Official Cash Rate (OCR). To do this, the RBNZ conducts market operations and has facilities that allow participants to borrow and/or deposit cash with the RBNZ.

Liquidity Management Review

The RBNZ has been undertaking a review of its liquidity management framework (the Liquidity Management Review) following changes to the liquidity environment arising from the policy response to the COVID-19 pandemic. The Liquidity Management Review and the review of prudential liquidity policy (the Liquidity Policy Review) are two separate, comprehensive, multi-year reviews. The Liquidity Management Review is led by our Financial Markets Department and addresses questions around how the RBNZ provides liquidity to the system. The Liquidity Policy Review is concerned with the prudential liquidity standards that deposit takers must comply with.

Liquidity Policy Review

The RBNZ's liquidity policy ensures that deposit takers can provide depositors, and others they need to pay, with their money when they want or need it, or when it falls due. The liquidity policy does this by requiring deposit takers to carefully monitor and manage their ability to make payments to others, and by requiring them to have a minimum amount of cash, or assets (like New Zealand Government Bonds) that they can readily sell for cash, to make these payments. More details about the Liquidity Policy Review can be found at Review of Liquidity Policy (BS13) - Reserve Bank of New Zealand - Te Pūtea Matua.

What changes might be made?

To ensure our liquidity management framework is still fit for purpose given recent and anticipated changes to the liquidity environment, we may make changes to the way we conduct our liquidity management operations, particularly our Open Market Operations (**OMOs**), which are the subject of this consultation paper.

We are also consulting on the design and implementation of the Committed Liquidity Facility (**CLF)**, which will be established as a result of decisions taken in the Liquidity Policy Review (**LPR**).

What would be the impact of these changes?

Our goals with any changes contemplated in this consultation are to ensure the continued effective management of financial system liquidity and to facilitate the implementation of a liquidity policy that helps ensure deposit takers maintain a stable financial condition.

How long will this take?

We expect to conclude the Liquidity Management Review in the first half of 2026 with decisions around our ongoing use of OMOs informed by this consultation. The Liquidity Policy Review will ultimately conclude with the implementation of the Liquidity Standard (under the Deposit Takers Act 2023), which is expected to be issued on 31 May 2027 and take effect from 1 December 2028.

What do you think?

We are seeking views on the issues and questions set out in this consultation paper. The specific questions we wish to obtain feedback on are contained throughout the document. Respondents need only address those questions which are relevant to them and do not need to respond to every question. The submission deadline for this consultation paper is 31 October 2025. Responses can be submitted to: liquiditymanagementreview@rbnz.govt.nz.

Publication of submissions

All information provided in submissions will be made public unless you indicate you would like all or part of your submission to remain confidential. Respondents who would like part of their submission to remain confidential should provide both a confidential and public version of their submission. Apart from redactions of the information to be withheld (i.e. blacking out of text) the two versions should be identical. Respondents should ensure that redacted information is not able to be recovered electronically from the document (the redacted version will be published as received).

Respondents who request that all or part of their submission be treated as confidential should also provide reasons why this information should be withheld if a request is made for it under the Official Information Act 1982 (OIA). These reasons should refer to section 105 of the Banking (Prudential Supervision) Act 1989, section 54 of the Non-Bank Deposit Takers Act 2013, section 135 of the Insurance (Prudential) Supervision Act 2010 (as applicable); or the grounds for withholding information under the OIA. If an OIA request for redacted information is made, the RBNZ will make its own assessment of what must be released taking into account the respondent's views.

We intend to publish an anonymised summary of the responses received in respect of this consultation paper.

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1 Introduction

1.1 Background

The RBNZ has been undertaking a review of our liquidity management framework (the **LM Review**) since mid-2023, following significant changes to our balance sheet reflecting policy responses during the COVID-19 pandemic.[1]

As pandemic era tools unwind, we are undertaking a comprehensive review of our framework to ensure it remains fit for purpose and is robust enough to respond to future changes. This includes the approach to monetary policy implementation and management of the settlement cash level.

In parallel, the RBNZ has also been conducting a prudential Liquidity Policy Review (**LPR**) to ensure liquidity standards applied to individual entities are fit for purpose under the Deposit Takers Act 2023 (**DTA**).[2] Key milestones to date in both the LM Review and LPR are listed in **Box A**.

Following decisions taken as part of the LM Review to date, we have communicated our intention to maintain an ample level of settlement cash. This means we will maintain a level of settlement cash that is sufficient to anchor short-term market interest rates near the OCR, but not much more than this. This will be achieved through a combination of holding liquidity management reserves raised via FX swaps, and reverse repos executed through Open Market Operations (**OMOs**).[3] Using different market operations provides us with the flexibility to incorporate elements of both supply- and demand-driven approaches to liquidity provision and to achieve effective monetary policy implementation in different markets.

In addition to these "business-as-usual" liquidity management tools, we also have a standing facility in the form of the Overnight Reverse Repurchase Facility (**ORRF**) which acts as a "backstop". We presently envisage that the CLF will be a committed version of the ORRF (which is otherwise an uncommitted facility). However, we are seeking feedback on that approach in Chapter 3 of this consultation.

In addition to our regular operations and standing facilities, in the event of a crisis we can deploy additional tools to support liquidity provision and market functioning. These include the Term Auction Facility (**TAF**), which is a longer-term reverse repurchase facility, and Bond Market Liquidity Support (**BMLS**) which involves outright purchases of government bonds with a short holding period to mitigate market dysfunction.

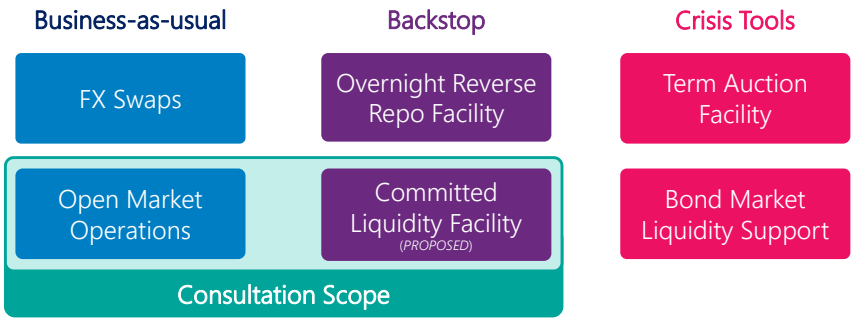
A summary of these tools is represented in **Figure 1.** Note that this does not include monetary policy tools such as Large-Scale Asset Purchases (**LSAP**) or the Funding-for-Lending programme (**FLP**) which are designed and deployed to provide monetary stimulus as determined by the Monetary Policy Committee, though such tools may also have effects on system liquidity and market functioning.

1 This is the first comprehensive review of our liquidity management operations and framework since 2006. See: Review of the Reserve Bank's Liquidity Management Operations - 17 March 2006 - Reserve Bank of New Zealand - Te Pūtea Matua

2 Review of Liquidity Policy (BS13) - Reserve Bank of New Zealand - Te Pūtea Matua

3 Karen Silk CBA Liquidity management Principles for liquidity provision and the end of an abundant era

Figure 1: Selected RBNZ Liquidity Facilities and Operations



Note: Further crisis or contingency tools (including emergency liquidity assistance) may be designed based on specific needs and crisis scenarios. Figure 1 does not include monetary policy tools, such as Large Scale Asset Purchases (LSAP) and Funding for Lending (FLP), which provide system liquidity but are approved by the Monetary Policy Committee for monetary policy purposes. Figure 1 also excludes the Bond Lending Facility (BLF), and Early Bond Repurchases. For a full summary of RBNZ facilities, see: Facilities at a glance - Reserve Bank of New Zealand - Te Pūtea Matua

Forthcoming changes to the definition of Qualifying Liquid Assets (**QLA**) for prudential purposes will result in the introduction of a Committed Liquidity Facility (**CLF**). This was flagged in May 2024 in the Deposit Takers Core Standards consultation. The design of the CLF will influence banks' incentives to hold liquid assets, including settlement cash, so it is appropriate to consult on this as part of our LM Review. We presently envisage that the CLF may be implemented as a committed line on the ORRF (**Figure 1**).

In designing our liquidity management framework, we have considered five key objectives:

1. Monetary policy implementation
2. Financial stability
3. Market liquidity
4. Regulatory consistency
5. Operational simplicity

Respondents should consider these objectives when providing feedback.

1.2 What we are consulting on

This consultation seeks input from stakeholders which will be valuable to ensure our design of OMOs and the CLF can best achieve our objectives stated above. The material for consultation is split into two parts:

- Open Market Operations (Chapter 2): **We are seeking feedback on the best way to conduct OMOs** to achieve our objectives. We discuss key design features of OMOs including the allocation method, frequency, timing, pricing, tenors and eligible collateral.
- Committed Liquidity Facility (Chapter 3): **We are sharing our thinking on how the CLF could work and seeking more detailed feedback** to supplement information gathered through LPR consultations to date. We outline key design considerations and options related to the eligibility of deposit takers, collateral, the size of the CLF and associated fees.

Respondents to the consultation may choose to respond to one or both parts of the consultation and whichever questions are relevant to them.

1.3 Request for feedback and next steps

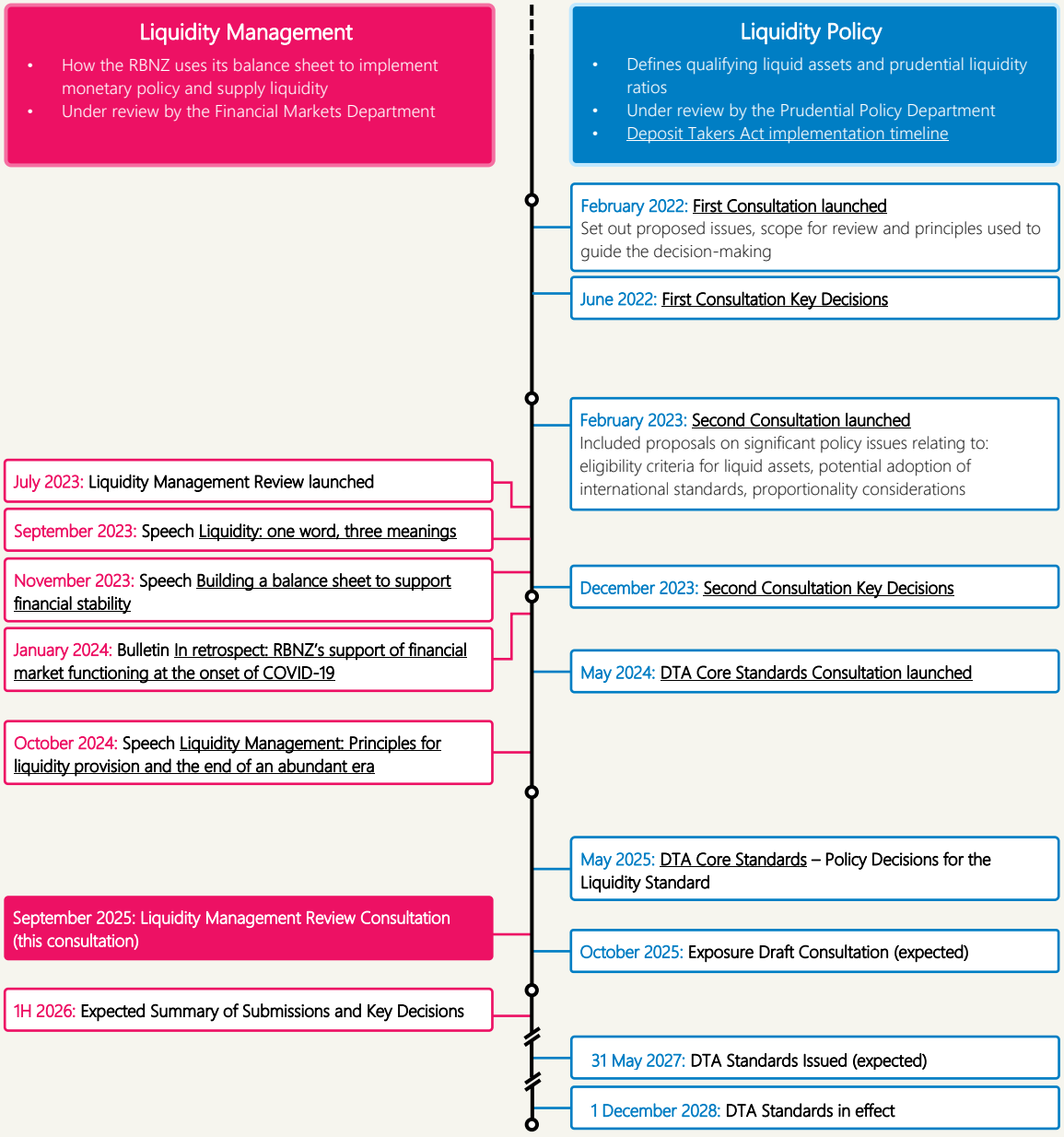
We are seeking feedback on all aspects of the proposals in this consultation paper, as well as any other related issues. After the close of the consultation period, we will review the feedback received and look to publish Summary of Submissions and Key Decisions documents in H1 2026.

The comment deadline for this consultation paper is **31 October 2025.**

We are open to meeting with stakeholders to discuss any matters discussed in this consultation.

Responses and questions should be submitted to: **liquiditymanagementreview@rbnz.govt.nz**

Box A: Liquidity Management Review and Liquidity Policy Review timelines



2 Open Market Operations

2.1 Background and overview

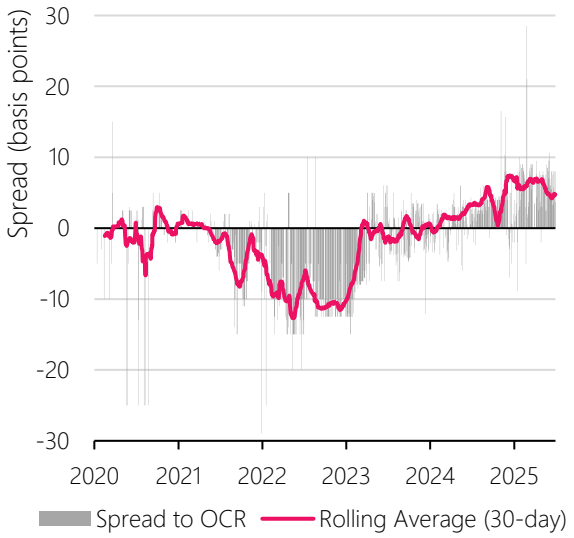
2.1.1 Background

The RBNZ implement the Monetary Policy Committee's desired stance for monetary policy by maintaining an ample level of settlement cash and remunerating this at an interest rate close to the OCR.

We aim to maintain short-term wholesale interest rates within our Board approved tolerance ranges, as prescribed in our Statement of Performance Expectations.[4]

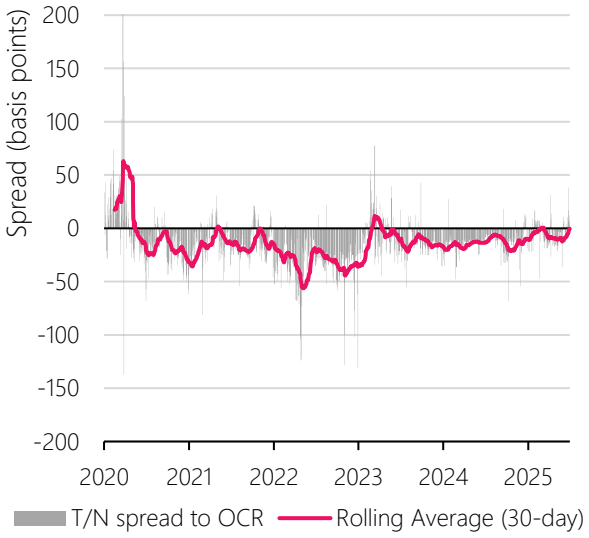
We monitor a range of short-term wholesale interest rates for implementing monetary policy, including the overnight interbank cash rate, rates on general collateral repurchase agreements (GC repo) and New Zealand dollar (NZD) interest rates implied from FX swap rates (Figure 2 and Figure 3).

Figure 2: Overnight GC repo rate spread to OCR (30-day rolling average)



Note: Data from 03/01/2020-30/06/2025. Shows daily average of unique prices at which trades transacted. Excludes outliers around MPR and MPS dates.
Source: RBNZ estimates.

Figure 3: T/N implied FX-swap spread to OCR (30-day rolling average)



Note: Data from 03/01/2020-30/06/2025. Tomorrow-next implied FX rates are monitored in addition to overnight rates as they are presumed to move in concert with overnight rates but with less volatility.
Source: RBNZ estimates.

We manage the settlement cash level, primarily using:

- **Foreign exchange (FX) swaps** – We inject and withdraw liquidity by transacting directly in the FX swap market. FX swaps undertaken for liquidity management can have a maturity of up to one year but are typically much shorter in duration.

4 See performance measure 1.4 related to monetary policy implementation: Statement of Performance Expectations 2025/2026

- **Open Market Operations (OMOs)** – We have historically used OMOs to both inject and withdraw settlement cash and maintain a broadly stable quantity of cash in the banking system. This is done through repurchase and reverse repurchase transactions with tenors typically between 1 and 7 days. Reserve Bank Bills (RB Bills) can also be issued through the OMO to withdraw settlement cash.

In addition, we also have a standing facility (available everyday) called the **Overnight Reverse Repurchase Facility (ORRF)**. This is an uncommitted facility that can be accessed by approved Domestic Markets counterparties to borrow cash using any RBNZ repo eligible asset as collateral, at a spread above the OCR, reflecting its role as a backstop liquidity facility.

Tiered remuneration framework

Since our previous LM Review and prior to March 2020, banks were discouraged from holding excess liquidity beyond that judged necessary for payments and settlements needs. Under this system, banks earned the OCR on balances held in their settlement accounts up to a prescribed "tier". Any balance held above a bank's tier was remunerated at a lower rate (typically OCR minus 100bps). This created an incentive for banks to trade settlement cash balances amongst themselves to stay under their tiers.

To maintain a relatively stable level of cash in the system and offset government cash flows, the RBNZ would regularly inject and withdraw liquidity, via OMOs, RB Bill tenders, and transacting in FX swaps.

An important feature of this framework was that the settlement cash level was below the sum of participants' tiers, meaning it was possible for participants to avoid the penalty rate by distributing settlement cash.

COVID period changes to the liquidity management framework

In March 2020, in response to significant market dysfunction and the need for monetary policy stimulus, we conducted operations that significantly increased the level of settlement cash above the sum of all participants' tiers.

To prevent banks from attempting to lend excess cash in the FX swap market, which would have resulted in short-term interest rates trading well below the OCR, we removed tiers, and all settlement cash balances were remunerated at the OCR.[5]

In this framework, the remuneration rate for ESAS account balances (the **Overnight Deposit Rate**) is expected to act as a "floor" for short term rates even at high ("abundant") levels of settlement cash.[6]

5 This rate is referred to as the Overnight Deposit Rate. At the time of writing, the Overnight Deposit Rate is priced at a rate equivalent to the prevailing OCR.

6 Another option would have been to increase the tiers proportional to the increase in settlement cash. However, this would have been administratively challenging to implement considering it was unclear at the outset the degree to which settlement cash would increase. Additionally, it could be expected that the impacts of monetary policy stimulus would not have a proportionate impact on all settlement cash holders, complicating any adjustment to existing tiers.

2.1.2 Liquidity Management Review: Rationale and decisions to date

Retaining a floor system post-COVID

We reiterated our intention to maintain a floor system instead of re-introducing tiers in 2022.[7] Maintaining a floor system allows for effective monetary policy implementation at varying levels of settlement cash and is operationally efficient – for both the RBNZ and the wider banking system.

However, because not all market participants had access to the Overnight Deposit Rate, short-term interest rates tended to trade below this level (resulting in a "leaky floor").[8] To mitigate this issue, in July 2022 we introduced a new kind of secured deposit facility: the Standing Repo Facility (SRF). This provided another means for market participants to obtain returns on overnight NZD balances close to the policy rate without needing ESAS access.

The SRF was removed in June 2025 due to minimal demand for the facility. Following a recently concluded review of ESAS access, it is now possible for a wider range of market participants and deposit taking institutions to apply for an ESAS account.

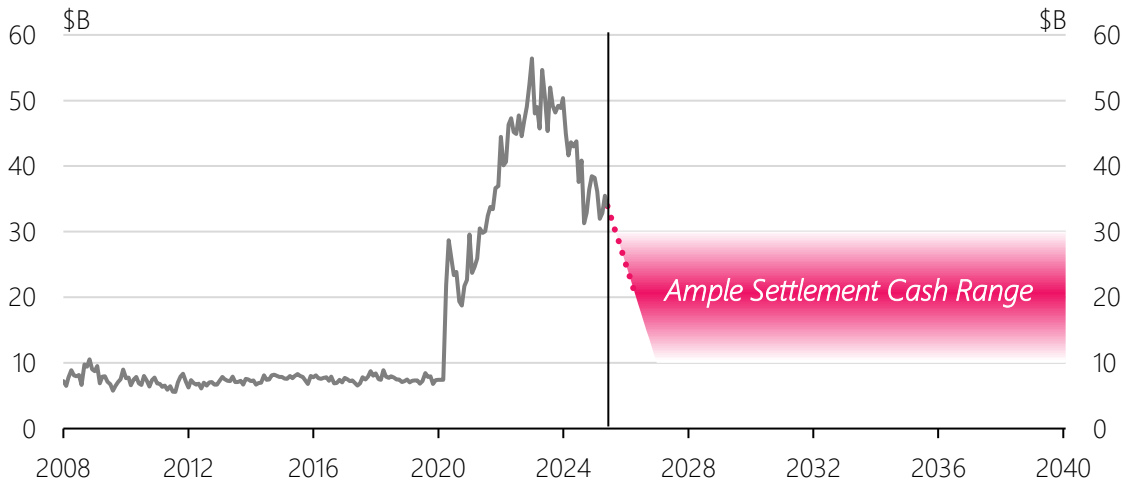
Moving towards an ample settlement cash level

As part of the LM Review, we have communicated our intention to maintain an ample level of settlement cash.

An **ample** level of settlement cash is enough to anchor short-term wholesale interest rates at or near the OCR, but not much more than this. In contrast, an **abundant** level is significantly more cash than is needed to anchor short-term rates.

Currently the level of settlement cash in the system is declining from an abundant level towards an ample level as pandemic-era stimulus matures (**Figure 4**).

Figure 4: Historical and stylised projected settlement cash levels



Source: RBNZ.

7 Reserve Bank optimising New Zealand's monetary policy implementation framework - Reserve Bank of New Zealand - Te Pūtea Matua; New Zealand's Monetary Policy Implementation Framework - Reserve Bank of New Zealand - Te Pūtea Matua

8 At very high levels of settlement cash over 2021 and 2022, high demand to deposit NZD cash, combined with market frictions, credit limits between commercial banks, and scarcity of alternative safe investment options, pushed some short-term market interest rates below the OCR. For more information, see Bulletin - How the Reserve Bank Implements Monetary Policy - June 2023.

Defining and maintaining an ample settlement cash level

Various approaches can be used to form a range of estimates of where an ample level of settlement cash is, but these estimates are subject to large uncertainty.

The ample level of settlement cash is also likely to change over time. It is expected to increase with the nominal size of the economy but may also increase at times when there is an increase in precautionary demand for liquidity.

An ample settlement cash level is more easily defined by the conditions it produces in markets (e.g. impact on short-term rates and payment patterns), rather than by a particular dollar figure.

Therefore, it is important for the RBNZ to monitor a range of wholesale interest rates and gather quantitative and qualitative market intelligence.

In an ample settlement cash system, it is not necessary to maintain a specific settlement cash level by always offsetting Crown cash flows as we did during the tiering system prior to COVID-19. However, we will continue to forecast, monitor and respond to settlement cash volatility, particularly insofar as this has impacts on monetary policy implementation.[9]

As the level of settlement cash declines, we expect demand for our facilities and the usage of various tools to change. In June 2025, we decided to increase the margin on the ORRF from OCR plus 25 basis points to OCR plus 50 basis points to revert this standing liquidity facility back to its pre-pandemic price setting, reflecting its role as a backstop.[10] We also changed the availability of some facilities, including discontinuing the SRF and only offering RB Bills on an ad hoc basis via OMOs.

As we approach an ample level of settlement cash, we expect there will be a need to offer OMOs more frequently. This will supplement our activity in the FX-swap market, which we expect will be increasingly used to inject (rather than withdraw) liquidity as we approach and maintain ample levels of settlement cash.

Whereas some central banks have indicated they will acquire their own sovereign debt for the purpose of supplying ample levels of settlement cash, we do not anticipate acquiring NZ government bonds (NZGB) for such purposes.[11] Instead, as part of our liquidity management operations, we are active in the FX swap and cross-currency basis swap markets and maintain a stock of liquidity management reserves. These reserves, which are generally denominated in US dollars, allow us to withdraw settlement cash when necessary. However, when raising these liquidity management reserves there is an injection of New Zealand dollar liquidity as we fund the purchase through the creation of settlement cash.[12] This means our liquidity management reserves provide a structural level of settlement cash.

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9 See performance measure 3.4 related to settlement cash levels and volatility: Statement of Performance Expectations 2025/2026

10 Reserve Bank announces changes to liquidity facilities and forthcoming consultation - Reserve Bank of New Zealand - Te Pūtea Matua

11 We do not wish to have an outsized footprint in the NZGB market, which can create scarcity of NZGBs for other holders, including deposit takers for whom they qualify as liquid assets and for whom we are introducing the CLF to alleviate the problem of insufficient supply of such assets. However, we do hold an inventory of non-market issued NZGBs for the purpose of facilitating repo transactions including the Bond Lending Facility (BLF).

12 The management of liquidity management reserves is governed by the Foreign Reserves Coordination and Management Framework: Foreign Reserves Management and Coordination Framework - Reserve Bank of New Zealand - Te Pūtea Matua.

At a high level, this proposed liquidity management framework is largely consistent with the status quo. However, given the likely need to more frequently inject liquidity via OMOs, we believe it is appropriate to consult on the specific design of these for the ongoing maintenance of an ample settlement cash level.

2.2 Key objectives for a Liquidity Management Framework

In designing our Liquidity Management framework, we are considering five key objectives. These have been informed by the experience of peer central banks and consideration of New Zealand's specific market characteristics.

Along with feedback from this consultation, they will guide the design of our OMOs as further outlined below:

1. Effective monetary policy implementation

OMOs will help to maintain short-term wholesale interest rates, particularly for GC repo, at or near the OCR. This is consistent with Performance Measure 1.4 which specifies our Board approved tolerance ranges, as required by our Statement of Performance Expectations.

This may be achieved by pricing the OMO at a rate sufficiently *close* to the OCR. Other key (non-price) design features of the OMO will also have an impact on short-term market rates.

2. Support for financial stability

OMOs should help to provide the liquidity that the financial system needs, at a price consistent with the stance of monetary policy.

The allocation method and availability of OMOs may need to be adjusted to changing market environments. For instance, larger or more frequent OMOs may be needed to support financial stability at times of system-wide liquidity stress where demand for settlement cash can increase rapidly.

3. Support for market liquidity

OMOs should be designed in a way that provides sufficient incentive for market participants to trade settlement cash with one another.

This may be achieved by pricing the OMO at a rate sufficiently *far* from the Overnight Deposit Rate, limiting volumes offered, or otherwise by ensuring OMOs are not perfectly substitutable for private market repo.

4. Regulatory consistency

OMOs should support the intent of prudential liquidity policy in the treatment of liquid assets and should not provide a means for regulatory arbitrage.

The RBNZ's liquidity management framework, while not a regulatory policy itself, should be consistent with any regulatory policy with which it interacts.

5. **Operational simplicity**

OMOs should be operationally simple to run and use, such that they do not place an unreasonable burden on, or introduce unnecessary risks to, the RBNZ or our counterparties.

Stakeholders are encouraged to consider and refer to the RBNZ's objectives when providing written submissions.

2.3 Key design features

We are open to feedback on all OMO parameters and to considering alternatives if there are credible benefits in serving our objectives outlined above.

Table 1 summarises key the parameters of OMOs, showing the status quo settings and what we believe are viable alternatives.

For pricing, tenors, and eligible collateral, we have highlighted alternatives which we believe would be preferable to the status quo. For the other parameters, we presently have no explicit preference between the status quo and the alternatives, subject to feedback.

The subsequent sections provide additional context and specific questions related to each parameter.

Table 1: Summary of OMO parameters and design options

Parameter	Status Quo	Other options (proposals in bold)
1. Included operations	Any combination of reverse repo, repo and RB Bills at RBNZ discretion.	Each operation included in every OMO as standard.
2. Allocation method	By competitive auction, with volume at RBNZ discretion.	A fixed-rate full-allotment (**FRFA**) auction.
3. Frequency	At RBNZ discretion.	Regularly scheduled (e.g. weekly).
4. Timing	Announced at 9:30am NZT, with the window open between 9:30am-9:45am.	An announcement and window later in the NZ banking day.
5. Pricing	The minimum bid rate on reverse repos differs by collateral type, with Tier 1 collateral priced at OCR plus 1 basis point and Tier 2 collateral priced at OCR plus 6 basis points. Repo OMO and RB Bills priced at a maximum bid rate of OCR.	**Increase the spread between the RBNZ's cash lending and deposit rates to at least 15 basis points** by increasing the lending rate on reverse repo in the OMO and potentially in part by decreasing the Overnight Deposit Rate to 5-10 basis points under the OCR.

Parameter	Status Quo	Other options (proposals in bold)
6. Tenors	At discretion of the RBNZ, but usually between overnight to 1-week tenors.	**We propose reducing the maximum tenor for the OMO to 28 days** and/or offering standardised tenors at each OMO.
7. Eligible collateral	Tier 1 and Tier 2 collateral (subject to different minimum bid rates). Tier 1 includes New Zealand Government Bonds (NZGB), RB Bills, and Kauri bonds. Tier 2 includes bank, local authority (including but not limited to LGFA), state-owned enterprise, and RMBS.	**Reduce eligible collateral to current Tier 1 collateral, plus LGFA.** **OMO eligible collateral would be subject to the same price** (but different haircuts as per RBNZ collateral framework). All other currently eligible collateral would remain eligible for the ORRF (i.e. still "repo eligible" with the RBNZ).

2.3.1 Included Operations

We intend to make available reverse repo, repo, and RB Bills through OMOs. We recently ceased the twice weekly tenders of RB Bills due to lack of demand.

In circumstances where net injections of settlement cash to the system are judged to be needed, we could choose to only offer a reverse repo. While in circumstances where a net withdrawal of settlement cash is judged to be needed, we could offer a combination of repo and RB Bills. For this approach to be most effective, the RBNZ would continue to assess the system's settlement cash needs and rely on efficient redistribution of settlement cash within the system.

Alternatively, we could offer each operation at every OMO, allowing those who are short cash and those who have excess cash to both make use of the OMO at the same time. There may be benefits to this approach if markets are highly segmented, inhibiting efficient redistribution of settlement cash. However, this approach may stifle private market repo if the terms of the OMO are too attractive.

It is worth noting that we expect cash injecting operations to be more common to maintain an ample settlement cash level, once this level is reached.

Q 1 Should both cash injecting (reverse repo) and cash withdrawing (repo and/or RB Bills) operations be offered each time an OMO is offered?

2.3.2 Allocation Method

Historically, OMOs have been offered via competitive auction, with the volume tendered at the RBNZ's discretion, based on forecast system cashflows. The volume is intended to meet expected demand. Individual bids cannot exceed the total amount on offer. A competitive auction means

that the clearing price for the OMO may rise above the minimum bid rate (currently OCR plus 1 basis point), however, in practice if the auction is sized to meet anticipated demand this may rarely be the case.

A competitive auction allocation method sized to meet anticipated demand would limit the extent to which interest rates will deviate from the OCR, while allowing for some price signals to provide information on the system's demand for liquidity (see *Pricing* section). By retaining ultimate discretion on the amount offered, the RBNZ maintains control over the size of our balance sheet and can ensure that it is no larger than necessary to implement monetary policy.

An alternative approach is a fixed-rate full-allotment (FRFA) allocation method. The FRFA allocation method allows participants their desired quantity of liquidity at a fixed price.[13] FRFA places a cap on private market interest rates and ensures effective implementation of monetary policy. However, FRFA may reduce incentives for market participants to lend cash to each other. This is particularly true if the facility is available at a high frequency and lends cash in the same tenors as private market repo. A FRFA facility may be operationally simpler to implement as it requires less overhead in gathering market intelligence to support discretionary OMO sizing decisions.

Q 2 Which allocation method of those proposed, or other alternatives, would best serve the RBNZ's objectives?

2.3.3 Frequency

Historically, the availability of OMOs and the operations included have been determined at the RBNZ's discretion based on market conditions and market intelligence. Forecast OMO volumes have been published on financial wire services up to two weeks in advance. We expect OMOs would become more frequent at ample levels of settlement cash. A discretionary frequency allows the RBNZ to retain flexibility and support market liquidity.

OMOs could instead (or also) be offered at a regular frequency (e.g., weekly and/or around specific dates such as month- or quarter- ends). The predictability of a regular frequency may help to support market liquidity and have financial stability benefits. However, a higher frequency may reduce incentives for market participants to lend cash to each other, particularly if the operation is priced favourably. The minimum frequency of regular OMOs would also have impacts on the tenors that would need to be offered (see *Tenors* section).

Q 3 Should the RBNZ conduct regularly scheduled OMOs and if so at what frequency?

2.3.4 Timing

Currently, when an OMO is offered it is announced at 9:30am, with the window open between 9:30am-9:45am and results announced before 10:00am. Successful participants are advised of their allocations shortly after.

There may be benefits to announcing and offering the OMO later in the day. For example, this may allow potential participants to have obtained liquidity from private market sources first,

13 This quantity could be up to a prescribed individual counterparty limit.

including the bank bill market. It would also make it easier for participants outside of New Zealand to participate in the OMO which could have benefits for monetary policy implementation.

Q 4 What is the best time in the New Zealand banking day to announce and run OMOs?

2.3.5 Pricing

The RBNZ aims to ensure short-term market interest rates trade at or near the OCR; this includes short-term repo rates, in addition to interbank cash rates and NZD interest rates implied from FX swaps.

It is common for rates to trade at a slight spread above or below the OCR, reflecting whether they are secured (repo, FX swap implied) or unsecured (interbank) rates and subject to the supply/demand dynamics in the respective markets (e.g. we often observe differences between FX swap implied rates and repo rates).

In pricing our reverse repo (cash lending) operations, an important consideration is the spread of this lending rate to the OCR and the Overnight Deposit Rate (these two rates are currently the same but could be different). This spread helps to ensure effective monetary policy implementation but also influences the incentive for market participants to distribute liquidity by lending/borrowing settlement cash balances to/from each other.

We are proposing to increase the spread between the lending rate on reverse repo in OMO and the Overnight Deposit Rate to at least 15 basis points (from 1 basis point currently). This could be achieved by increasing the minimum bid rate (if keeping a competitive auction) or by applying this spread to the fixed rate (if moving to a FRFA approach).

Increasing the OMO lending rate aims to balance our monetary policy implementation objectives with incentivising private market activity. We aim to provide a spread between the lending rate and deposit rate that is both narrow enough to ensure monetary control, but wide enough to incentivise cash distribution in the private market. The suggested spread is broadly consistent with spreads of peer central banks.[14]

Some central banks including the Reserve Bank of Australia (RBA) and the Bank of Canada achieve a spread between their deposit and lending rates in part by remunerating settlement cash at a rate below their policy rate. From time-to-time they may alter the spread on the deposit rate to support monetary policy implementation. These effects are not material to the stance of monetary policy given the small increments in which changes typically occur.

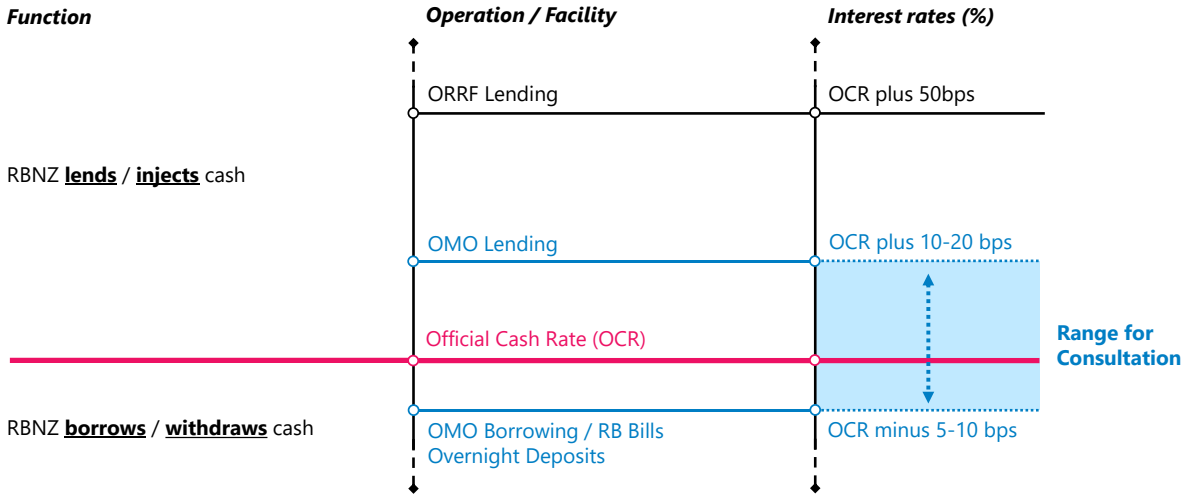
By allowing for flexibility in the Overnight Deposit Rate (i.e. allowing for an ESAS remuneration rate marginally below OCR), we could achieve a similar spread between lending and deposit rates with smaller increases to OMO lending rate. In an ample settlement cash environment, it is important that the rate on the marginal unit of liquidity provided (through the OMO) is close to the policy rate.

14 On April 2, 2025, the RBA announced a widening this spread from 15bps to 20bps by increasing the pricing of their OMO.

Some degree of flexibility in the Overnight Deposit Rate would provide the RBNZ with an additional degree of freedom to respond to market conditions and ensure the effective implementation of monetary policy in a wide range of liquidity environments.

Figure 5 illustrates how a spread of at least 15 basis points between lending and deposit rates can be achieved by lowering the Overnight Deposit Rate to 5-10 basis points below the OCR and pricing the reverse repo OMO at OCR plus 10-20 basis points. For reference, we also show the ORRF lending rate of OCR plus 50 basis points.

Figure 5: RBNZ deposit and lending rates for monetary policy implementation



It is important to note that whatever pricing parameters are chosen following this consultation, the RBNZ retains the ability to re-evaluate this setting on an ongoing basis and make changes if necessary for meeting our objectives.

Repo (cash withdrawing) and RB Bills are currently priced at OCR (or interpolated Overnight Indexed Swap for tenors where the maturity date crosses an RBNZ monetary policy meeting date), and we currently see little need to change this. However, in the instance where the Overnight Deposit Rate is below the OCR, repo and RB Bills will need to be adjusted accordingly (as shown in **Figure 5**).

Q 5	How do you expect increasing the lending rate on OMOs to impact the RBNZ's objectives?
Q 6	How do you expect a small reduction in the Overnight Deposit Rate (relative to the OCR) to impact the RBNZ's objectives?
Q 7	What is your view on the magnitude of the spread between lending and deposit rates needed to incentivise private market activity and the optimal way to construct that spread? (i.e. where should lending and deposit rates be set relative to the OCR?)

2.3.6 Tenors

Currently, reverse repos can be offered via OMO in tenors of up to 3 months, although overnight to 1 week has been the most common.

We propose reducing the maximum tenor for the OMO to 28 days, to avoid any interaction with forthcoming prudential liquidity policy. We would still expect most volume to be tendered in the overnight to 1 week range.

Under a competitive auction allocation method (as currently operated), tenors would be chosen by the RBNZ and announced as part of the OMO announcement. With a FRFA allocation method, standardisation of tenors may be preferred (i.e. always offering 7 day and 28 day).

There is also an interaction between tenors offered and the frequency of the OMO. If an OMO were to be offered at a predetermined regularity (e.g. weekly), we would likely make available tenors of the same maturity (weekly) and potentially multiples of that tenor (e.g. 14 day, 28 day).

The RBNZ maintains discretion over the tenor of RB Bills offered with maturities out to a maximum of 1 year, but with 7 day and 28 days historically having been the most common.

Q 8 Which tenor(s) should be offered for reverse repo operations to best achieve the RBNZ's objectives?

2.3.7 Eligible Collateral

Under the current framework, the minimum bid rate on reverse repos differs by collateral type, with Tier 1 collateral priced at OCR plus 1 basis point and Tier 2 collateral priced at OCR plus 6 basis points. Different collateral types are also subject to different haircuts.

To simplify the pricing structure of the OMO, we are proposing to remove differential pricing for transactions using different collateral and narrowing the universe of eligible collateral.

We are proposing that eligible collateral for the OMO will be limited to "Tier 1" collateral (NZGBs and Kauri bonds), **with LGFA securities added to this category**.

Securities issued by banks, local authorities (other than LGFA), state-owned enterprises, and RMBS (all currently Tier 2) would no longer be eligible collateral for OMOs in the normal course of business. However, these will remain eligible for the ORRF and the CLF (therefore still "repo eligible").

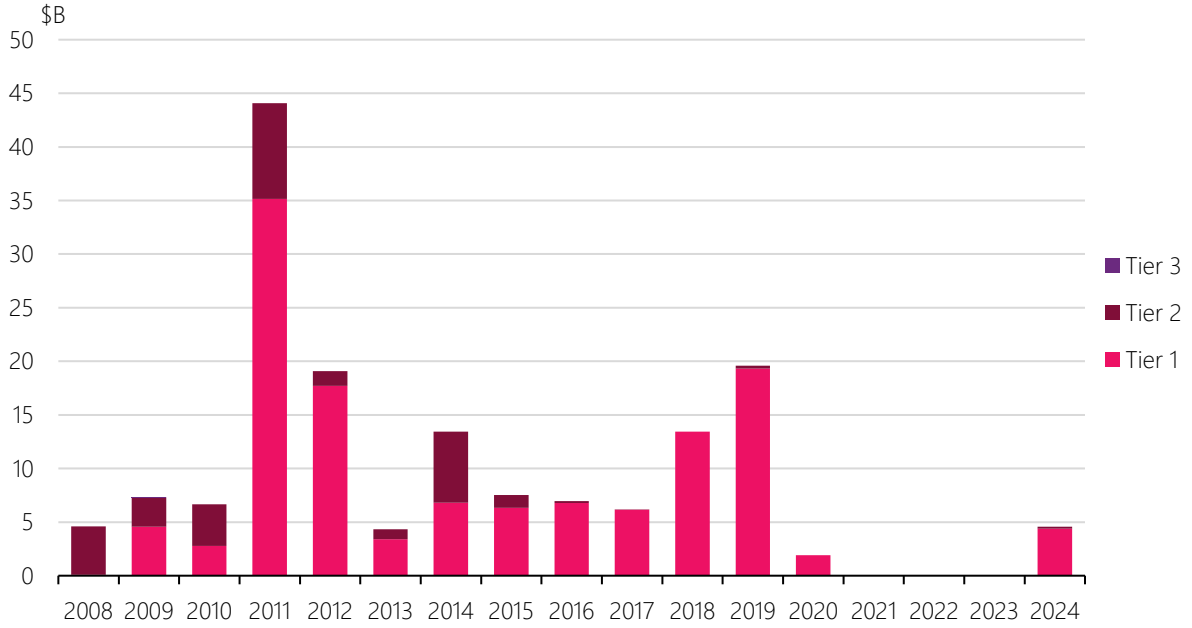
This proposed change helps to strengthen the role of the OMO as an operation to substitute cash-like collateral for cash, supporting monetary policy implementation and system liquidity. The ORRF would remain available as a backstop standing facility (available everyday) for use to cover short-term unexpected cash shortfalls and the CLF would be available as a tool for meeting prudential liquid asset requirements.[15]

15 This differentiation between facilities is similar to the differentiation between the Federal Reserve's discount window (which accepts a broad range of collateral to meet immediate, unexpected needs) versus its Standing Repo Facility which only accepts Treasuries and agency securities as collateral to support the effective functioning of monetary policy.

We have observed that historically, Tier 2 collateral has seldom been used as collateral in the OMO (**Figure 6**).

We will always retain flexibility to change eligible collateral for the OMO at short notice in response to market conditions where widening the range of acceptable collateral may be appropriate to support market functioning.

Figure 6: Reverse repo OMO volume (by Tier of collateral pledged)



Note: Tier 1 collateral includes NZGBs, RB Bills, and Kauri securities. Tier 2 collateral includes securities issued by banks, local authorities, state-owned enterprises, and RMBS. Tier 3 collateral includes corporate and asset-backed securities.
Source: RBNZ.

Q 9	How do you see the proposed changes to the eligible collateral for the OMO and removal of differential pricing impacting on the RBNZ's ability to meet our objectives?

2.3.8 Additional Questions

In addition to the questions on specific OMO parameters above, we welcome stakeholder feedback on the following questions.

Q 10	How will the OMO design choices outlined above impact the functioning and pricing of the repo market?
Q 11	What impact would you expect on other short-term wholesale interest rate markets? (e.g. bank bills and overnight indexed swaps)
Q 12	Do you have any other recommendations for how the RBNZ can best achieve our objectives and support market liquidity in short-term wholesale interest rate markets?

3 Committed Liquidity Facility

3.1 Liquidity Policy Review – Relevant Decisions to date

The LPR is a comprehensive review of the RBNZ's prudential liquidity policy (BS13), that began in 2022. Under the DTA, liquidity policy will be implemented through a Liquidity Standard which will replace BS13. The Standard is expected to be issued on 31 May 2027 ahead of implementation on 1 December 2028.

The purpose of the Liquidity Standard is to set out both the qualitative and quantitative liquidity requirements for deposit takers. These requirements help ensure that deposit takers are appropriately and prudently managing their liquidity risk and can meet their financial obligations.

The Liquidity Standard will be supported by Liquidity Guidance which provides more detail around some of the requirements in the Standard, as well as outlining some good prudential practices that deposit takers may wish to consider in managing liquidity risk.

The RBNZ published the following relevant key decisions on liquidity policy issues in December 2023:

1. Tightening the eligibility criteria for Qualifying Liquid Assets (**QLA**)[16] that count towards prudential liquidity requirements (specifically the Mismatch Ratio or **MMR**).
2. The establishment of a CLF to address the shortage of liquid assets in New Zealand and ensure healthy market functioning for liquid assets.

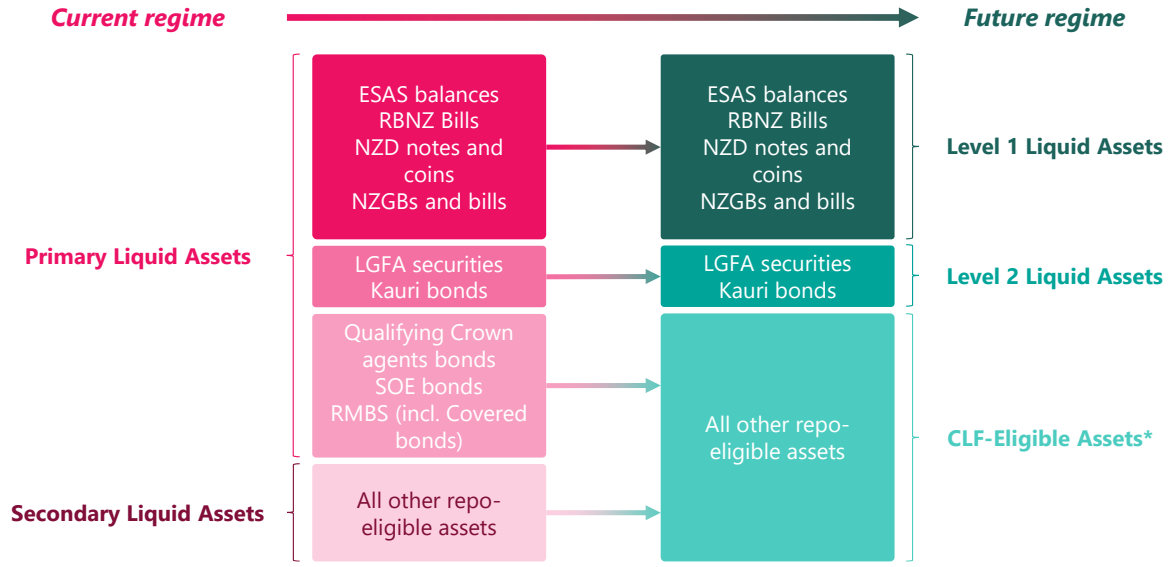
These decisions were intended to lead to deposit takers holding a greater share of their liquid assets in securities that are likely to remain liquid in private markets during stressed conditions and to better reflect the true economic cost of liquidity such that it can be properly priced and managed by deposit takers.

3.1.1 Tightening the eligibility criteria for qualifying liquid assets

The change in the eligibility criteria of QLA means that, in aggregate, deposit takers will be required to hold more Level 1 liquid assets to meet prudential liquidity requirements. Level 1 liquid assets consist of ESAS balances, RB Bills, New Zealand dollar notes and coins, and New Zealand Government Securities (**NZGS**). A limited amount of Level 2 liquid assets (Local Government Funding Agency (**LGFA**) securities and highly-rated Kauri bonds) will also count towards meeting prudential requirements. The changes compared to the current liquidity policy regime are shown in **Figure 7**.

16 Internationally, liquid assets that count towards Basel liquidity requirements are called High Quality Liquid Assets or HQLA. Given the RBNZ has not adopted the Basel liquidity framework, we are referring to the assets that count towards the RBNZ's liquidity requirements as Qualifying Liquid Assets or QLA.

Figure 7: Liquid asset classifications under current and future regimes



Note: For simplicity, excludes foreign currency assets which are no longer eligible liquid assets. NZGBs include nominal and inflation-indexed New Zealand Government bonds. LGFA is Local Government Funding Agency securities. SOE bonds are bonds issued by New Zealand State Owned Enterprises. RMBS is Residential Mortgage Backed-Securities (single-name and two-name). All other repo-eligible assets are any other securities the RBNZ designates as repo eligible (such as registered bank securities and non-bank corporate securities). *Technically, Level 1 and Level 2 Liquid assets are also repo-eligible collateral for the CLF.

The RBNZ have judged that there is insufficient supply of Level 1 and Level 2 assets for deposit takers in aggregate to meet their liquidity requirements while also maintaining a sufficient supply of these assets in the market for other investors.[17,18] Other assets that are classified as repo eligible to the RBNZ can therefore count towards prudential liquidity via a deposit taker's CLF.

3.1.2 Introducing a Committed Liquidity Facility (CLF)

The Basel Framework proposes a CLF for jurisdictions with insufficient supply of liquid assets. CLFs have previously been adopted in Australia, South Africa, and Russia. Australia has since terminated its CLF and South Africa has transitioned to a Restricted CLF, as the supply of liquid assets increased sufficiently in those countries to meet the liquidity needs of the banking system. New Zealand is not a Basel member and has not adopted the Basel III Liquidity Coverage Ratio. However, the rationale for a CLF (from Basel III) is applicable in the New Zealand context, as outlined above, subject to an appropriate design to reflect New Zealand's capital markets.

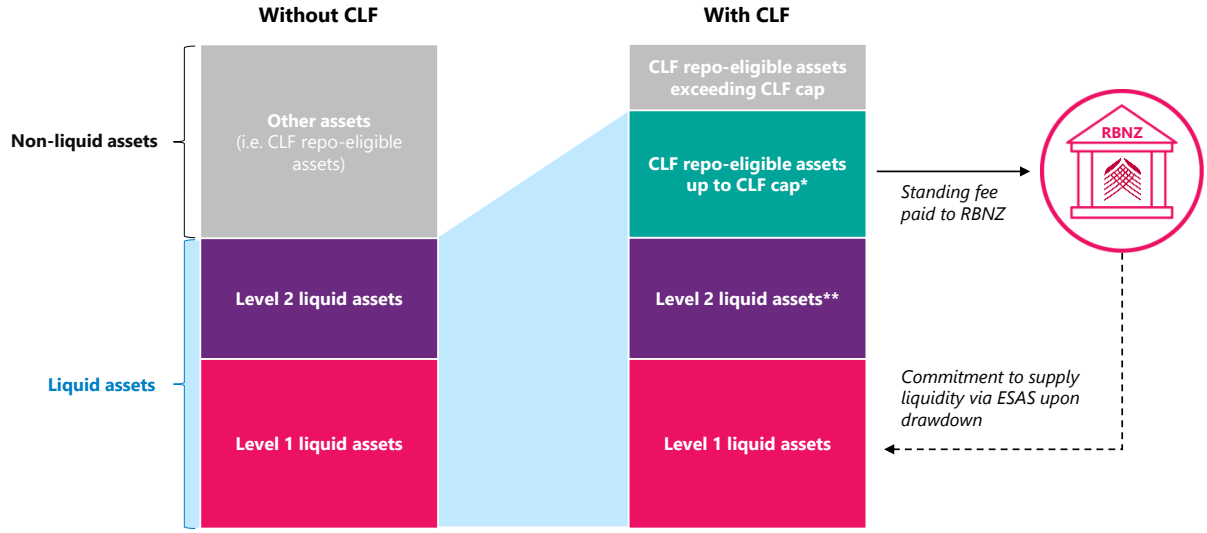
3.2 Committed Liquidity Facility Overview

The CLF is intended to alleviate the problem of insufficient supply of QLA (specifically NZGS) by enabling deposit takers to effectively transform "non-liquid" assets into liquid assets (**Figure 8**). Deposit takers pay a standing fee and pre-position (hold) such assets as collateral for a contractually committed line of credit from the RBNZ (via a repurchase facility).

17 Note that deposit takers' holdings of NZD notes and coins are primarily driven by customer demand and not for the purpose of meeting liquidity requirements (but they do count towards Level 1 assets). The RBNZ supplies NZD notes and coins to the system to meet demand, in exchange for settlement cash.

18 The aggregate ESAS settlement balance for the system, the settlement cash level, is ultimately determined by the RBNZ's operations, while the actions of ESAS accountholders and the government determine the distribution of settlement cash.

Figure 8: Stylised difference between mismatch ratio liquid assets with and without a CLF

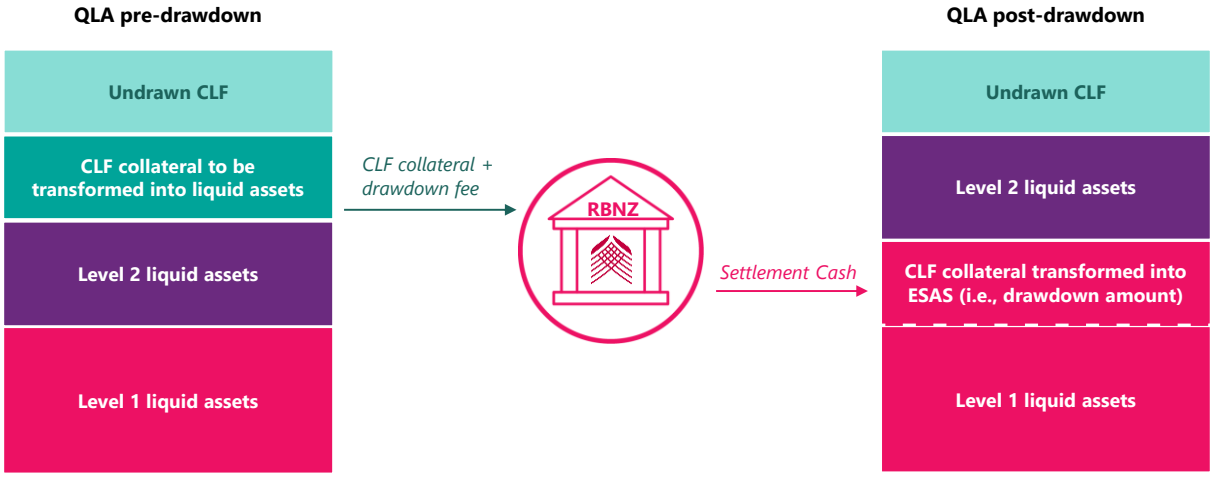


Note: * The cap will be explained in later sections of this paper. ** Subject to cap on Level 2 assets (level TBD).

A CLF participant can draw down on the CLF by pledging CLF repo-eligible collateral (which will be accepted at a haircut to market value as per the RBNZ's collateral framework) and paying an additional borrowing fee. The RBNZ provides liquidity via ESAS.[19]

Note that *having* a CLF increases a deposit taker's QLA. However, *drawing* on the CLF does not materially alter their QLA. A drawdown on the CLF would result in a change in the CLF participant's liquid asset *composition*, but not the amount of QLA (**Figure 9**). Therefore, an actual drawdown of the CLF would only be expected to cover an unexpected cash shortfall or be used as a cost-effective use of different forms of liquidity given market conditions.

Figure 9: Qualifying liquid assets pre- and post- drawdown



19 It is not essential for a CLF participant to have an ESAS account. The RBNZ can provide liquidity to a CLF counterparty without an ESAS account via their clearing bank which will be an ESAS account holder. In practice, most CLF participants are likely to also be ESAS account holders, noting the RBNZ has also recently opened ESAS access to more deposit takers.

3.3 Scope of this consultation

The purpose of this consultation is to seek feedback on the key design parameters of the CLF. High-level parameters of the CLF have been included in the LPR Consultation #2 and the Deposit Takers Core Standard Consultation, and a summary of submissions with key decisions have been published for both consultations.[20] [21]

This consultation seeks feedback on the design parameters summarised in section 3.4. This feedback will inform the RBNZ's design of the CLF, and any advice to the RBNZ's Prudential Policy Department for the drafting of the Liquidity Standard and associated Guidance.

There will be further opportunities to provide feedback on detailed operational and contractual considerations for prospective CLF participants during the development of the terms and conditions for the CLF.

What is out of scope for this consultation?

This consultation is not a regulatory consultation. A consultation on the Exposure Draft of the forthcoming Deposit Takers Act Liquidity Standard is expected to be published in late October 2025 for feedback.

The terms and conditions of the RBNZ's other liquidity facilities, such as the ORRF, remain unchanged. All securities deemed repo-eligible, along with their current haircuts imposed by the RBNZ, remain unchanged and can be pledged as collateral for the ORRF. Haircuts will be reviewed prior to the CLF being implemented, but only minor changes are expected, in particular to align the haircuts in the collateral framework with the haircuts in the Liquidity Standard.

3.4 Key CLF Design Considerations

Table 2: Summary of CLF design components and options presented in this consultation

Subject	Consultation Proposals/Options
Access	1. CLFs are designed primarily for deposit takers and at this stage we propose only introducing a CLF for deposit takers that meet the following criteria: ◦ The deposit taker must be subject to the MMR under the forthcoming Liquidity Standard (i.e., Group 1 and Group 2 deposit takers); ◦ The deposit taker must be a domestic markets counterparty of RBNZ; and ◦ The deposit taker must have positive net worth (i.e., be solvent), with the RBNZ reserving the right to request attestation of solvency.
Size and Cap	The RBNZ would annually set a cap on the maximum amount of CLF that could contribute to any deposit taker's total liquid assets when calculating its MMR. The RBNZ would translate the percentage cap to a maximum CLF dollar allocation for individual deposit takers. Deposit takers would decide on their preferred CLF size, up to but not exceeding their cap. The cap would be set sufficiently high to provide for

20 Summary of Submissions Consultation #2; Summary of Submissions Deposit Takers Core Standard Consultation
21 May 2024 Deposit Takers Core Standards Consultation (see Chapter 2, Deposit Takers Liquidity Standard), page 130.

Subject	Consultation Proposals/Options
	the required amount of QLA and promote market functioning. Our revised estimate for the CLF cap is 35-40%.
Eligible securities	All securities designated as repo-eligible by the RBNZ would be eligible. Limits may be placed on certain classes of security (such as internal RMBS) in the Liquidity Standard (beyond the scope of this consultation).
Fees	A standing fee will be charged to each deposit taker based on the size, and potentially the collateral composition of their CLF. Two options for how this fee is calculated are presented for feedback. We expect this fee would be set annually, but might be payable in instalments. A borrowing fee will be charged at the time a CLF repurchase transaction is entered into. If the CLF is operationalised via the ORRF (see below) then the borrowing fee would be the same as the borrowing rate on the ORRF (currently OCR plus 50 basis points).
Operationalisation	For operational simplicity, we propose that drawdowns on the CLF will be executed through the ORRF and be subject to the same haircuts.
Monitoring	CLF participants will be required to maintain sufficient prepositioned collateral. Reporting and monitoring will be operationalised through a modification of the prudential liquidity survey returns.
Termination or Reduction of CLF	A deposit taker has the right to terminate its CLF, subject to a notice period. The RBNZ would have the right to suspend or reduce the CLF of a deposit taker that failed to maintain the access criteria or failed to maintain sufficient prepositioned collateral.
Annual Review	The RBNZ will review the CLF cap and fees annually to ensure that they remain calibrated to achieve the policy objectives. If the RBNZ deems the CLF is no longer necessary, its removal would be signalled well in advance and likely phased out over a period of time.

3.4.1 Access

At this stage, the RBNZ is focused on establishing the CLF solely for deposit takers to provide liquidity for their prudential liquidity requirements.

Consistent with the proposals in the LPR consultations, we propose the following criteria for deposit takers to be eligible to sign up to the CLF:

- The deposit taker is subject to the MMR under the Liquidity Standard, i.e., a Group 1 or Group 2 deposit taker,[22]
- The deposit taker is a domestic markets counterparty of the RBNZ, and
- The deposit taker is solvent, with the RBNZ reserving the right to request attestation of solvency at the time of a drawdown.[23]

22 Group 1 deposit takers are those with total assets over $100 billion; Group 2 deposit takers are those with total assets between $2 billion and $100 billion.

23 In a solvency stress or resolution scenario, the RBNZ will transition the stressed deposit taker into recovery or resolution processes.

This proposal excludes Group 3 deposit takers, as they will be subject to a cash-flow coverage ratio (**CFCR**), and not the MMR under the Liquidity Standard.[24] Group 3 deposit takers would also have less restrictions on their liquid assets: demand deposits held with Group 1 and Group 2 banks are liquid assets for the purposes of calculating the CFCR, and Group 3 banks will be excluded from the cap on Level 2 liquid assets. As noted in LPR C3, Group 3 deposit takers also do not currently hold repo-eligible securities. Taking these factors together, we do not expect the CLF to provide a benefit to Group 3 deposit takers, as they are likely to be able to meet their liquidity requirements without incurring the costs associated with CLF (including the CLF standing fee).

The proposed access approach is consistent with that of the RBA, where eligible deposit takers for the CLF were defined as locally incorporated banks, subject to the LCR requirement. In South Africa, the CLF was only available to banks that experienced a shortfall in their LCR that was attributable to a general shortage of qualifying liquid assets in the South African financial system.

Q 13 Do you have any comments on the above criteria for access to the CLF?

3.4.2 Size and Cap

The aggregate size of the CLF for the system should cover the shortfall between the supply and demand of QLA (**Figure 10**). Supply of QLA is the amount of Level 1 and Level 2 liquid assets that could reasonably be held by deposit takers, leaving a sufficient quantity available for other market participants to enable liquid and well-functioning markets. Demand for QLA is the amount required by the deposit takers to meet liquidity requirements including reasonable buffers over the regulatory minimum. Sizing the CLF using this method is consistent with the Basel framework, and the approaches taken by the RBA and SARB.[25]

Figure 10: Stylisation of net shortage of QLA as the target CLF size

24 See Deposit Takers Core Standards – Summary of Submissions and Policy Decisions for the Liquidity, Depositor Compensation Scheme and Disclosure Standards (1 May 2025), consultations.rbnz.govt.nz/dta-and-dcs/deposit-takers-core-standards/user_uploads/deposit-takers-core-standards.pdf

25 LCR31 - Alternative liquidity approaches

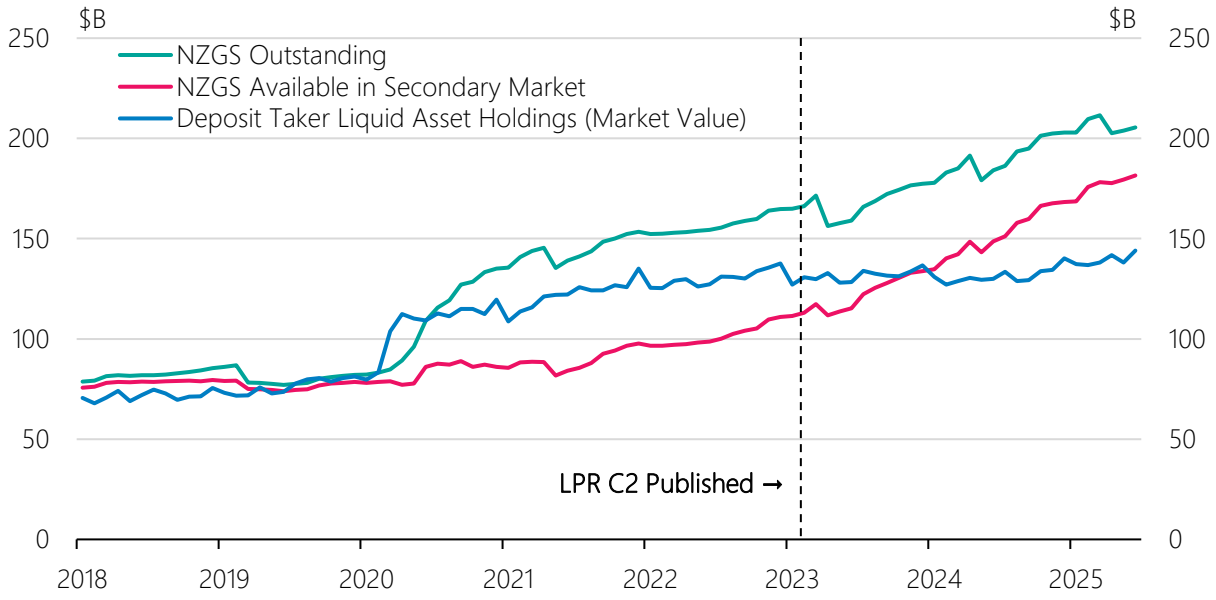
One of the objectives of the LPR is to incentivise deposit takers to hold a greater share of their liquidity in assets that are liquid in private markets. Therefore, the size of the CLF should be capped to ensure deposit takers source liquid assets primarily from Level 1 and Level 2 assets (i.e. a CLF size less than 50% of total liquid assets). However, a CLF that is too small could lead to undesirable market distortions in the markets for Level 1 and Level 2 liquid assets. The CLF cap, alongside the standing fee, will determine deposit takers' incentives to have a CLF and hold CLF-eligible assets.

Reasonable Holdings of Level 1 Assets

Level 1 assets play important roles in the financial system for a range of participants. Similar to the Australian approach, we intend to estimate the *reasonable holdings* of these assets by deposit takers to inform our assessment of the supply of QLA, and therefore, the required CLF cap. This assessment will ensure that other market participants retain access to sufficient quantities of Level 1 assets to not unduly affect overall market functioning.

For NZGBs, we have compared the size of the NZGB market over previous periods and under different conditions to inform this assessment (**Figure 11**). We have considered the volume of NZGBs held by non-deposit takers consistent with a liquid and well-functioning market.

Figure 11: NZGS market compared to deposit taker liquid asset holdings



Source: RBNZ.

The current and projected amount of NZGBs outstanding is higher than expected in the LPR consultation in 2023. We have also judged that all New Zealand Government securities should be considered available for deposit takers to hold for liquidity purposes.[26] Therefore, there is scope for deposit takers to increase their NZGB holdings over time, and the size of the CLF is likely to be lower than initially envisioned (i.e. less than the initial guidance of 40-50% of liquid assets).

26 This includes all New Zealand Government T-bills, nominal bonds, green bonds, and inflation-linked bonds.

Box B: Sizing the Australian CLF

APRA and the RBA determined the aggregate size of CLF in Australia each year by calculating:

"APRA's assessment of overall LCR requirements of locally incorporated Authorised Deposit Institutions (ADIs) minus RBA's assessment of amount of Australian Government Securities (AGS) and state government securities that could reasonably be held by these ADIs without unduly affecting market functioning."

Between 2015 and 2019, the RBA assessed that ADIs could reasonably hold 25% of the stock of HQLA securities; this was increased gradually, to 27% in 2020, 30% in 2021, and 35% in 2022, as the RBA judged that with a higher outstanding balance of bonds in the market, the share that could be held by the banking system without impacting market functioning had increased.

Other Level 1 assets include NZD notes and coins, RBNZ ESAS balances, and RB Bills. Deposit takers' holdings of notes and coins are determined by customer demand, rather than prudential liquidity requirements.

RBNZ ESAS balances (settlement cash) and RB Bill holdings are a result of the RBNZ's functions of ensuring sufficient liquidity in the payments system and implementing of monetary policy (discussed in Part 2 of this Consultation). Deposit takers' ESAS balances are declining as we move to an ample level of settlement cash. Deposit takers' have been accumulating other forms of QLA during this transition to meet their prudential liquidity requirements. Uncertainty around the ample level of settlement cash will therefore impact deposit takers' demand for QLA and the size of the CLF.

Limit on the contribution of Level 2 assets to a deposit taker's liquid assets

The key decisions arising out of LPR C2 included that highly-rated Kauri bonds and LGFA securities should be included as qualifying liquid assets, but that due to the relatively lower secondary market liquidity of these assets compared to Level 1 assets, their contribution to a deposit taker's total qualifying liquid assets should be limited.

It was proposed that the limit on the contribution of Level 2 assets to a deposit taker's total liquid assets should be between 20-25%. Holdings in excess of this limit could still contribute towards a deposit taker's MMR via the CLF.

Based on updated analysis on the size of the Level 2 asset market and the policy objectives of the CLF, we maintain that the 20-25% limit remains appropriate. A limit within this range is not expected to be binding for most deposit takers given current holdings of these assets.

The limit will ensure that the market for these assets is not unduly distorted and that deposit takers are incentivised to maintain a diverse range of liquid assets.

The final calibration of this limit will be included in the finalised liquidity standard, expected to be published on 31 May 2027, ahead of implementation on 1 December 2028.

Proposed process for setting the CLF cap

We propose that the RBNZ would set a common CLF cap that applies to every deposit taker, expressed as a percentage of the deposit taker's total liquid assets (Level 1 plus Level 2 plus CLF). The cap would be calibrated to ensure that it is sufficiently:

1. Large enough to avoid deposit takers' aggregate Level 1 holdings exceeding the estimated reasonable level.
2. Large enough to allow CLF participants to hold a diverse portfolio of CLF repo-eligible assets.
3. Small enough to require deposit takers to rely more on Level 1 and Level 2 liquid assets (i.e. less than 50%).

In calibrating the cap, the RBNZ may consider additional factors to those outlined above, such as historical demand for different types of liquid assets and estimates of the supply of different types of liquid assets in the future.

After making some assumptions of deposit takers QLA demand, we have tested a range of CLF caps and the range of Level 2 asset limits (20-25%) to determine the quantity of NZGS that deposit takers may need to acquire by the time the new Liquidity Standard would take effect in 2028.

Based on estimated QLA supply and demand, **we currently estimate that a CLF cap of 35-40% is likely to be appropriate as an initial calibration.** We will reassess this calibration and advise an initial CLF cap when the Liquidity Standard is issued in 2027.

The updated cap range is lower than the 40-50% indicative range in LPR C2, largely as a result of the increased supply of NZGBs and the projections for NZGB supply over the medium term.

Applying the cap to each deposit taker

Under the above proposal to determine a **CLF cap** (e.g., 35%) that can contribute to a deposit taker's QLA, individual deposit takers would be able to choose their CLF size *up to* the cap.

The cap would be applied to each deposit taker's projected year-ahead liquid asset needs and converted to a maximum dollar CLF. Each deposit taker would then decide on their CLF size for the year ahead, up to but not exceeding that maximum. The process to decide each deposit taker's projected year-ahead liquid asset needs is yet to be determined, but may require input from each deposit taker.

For example, for ABC Bank:

$$ABC's\ CLF\ (\$) = ABC's\ CLF\ Size\ (\%) \times\ Liquid\ Assets\ (\$)$$

where:

$$ABC's\ CLF\ size\ (\%) \leq CLF\ cap\ (\%)$$

Appendix A presents some stylised examples of how the CLF cap, size, and Level 2 limit could apply in practice to a deposit taker.

Q 14	Do you foresee any challenges with the proposed approach to allowing individual deposit takers to size their CLF up to a prescribed cap on its contribution to their mismatch ratio?
Q 15	Are there any additional considerations that the RBNZ should consider when sizing the CLF?

3.4.3 Fees

The CLF is effectively a committed line of credit from the RBNZ. As such it will have the typical pricing structure of a committed line, including:

1. **Standing fee**: an upfront annual fee that deposit takers would pay to secure a CLF. This fee reflects the value of the commitment and the difference in liquidity premia of CLF repo-eligible collateral compared to Level 1 and Level 2 liquid assets.
2. **Borrowing fee**: only applicable on a drawdown of the CLF. The borrowing fee would be the same as the interest rate charged on drawdowns from the ORRF (OCR plus a spread).

Standing fee

The standing fee reflects the benefit of the RBNZ's commitment to provide liquidity through the CLF, and for deposit takers' ability to count assets via the CLF towards their prudential liquidity requirements.

The RBNZ's current liquidity policy allows securities that are not liquid, or less liquid, in private markets, to count towards their liquidity requirements. Under the proposed liquidity policy, these assets would only count towards liquidity requirements via the CLF. By paying a standing fee to count these assets, the relative liquidity costs and benefits are more even across QLA and non-QLA assets. The standing fee would be expressed in basis points and applied to the size of each deposit taker's CLF to determine the dollar amount payable.

To determine an appropriate standing fee, we propose to follow a similar approach to that taken by the Basel framework and the RBA. Both approaches suggest the fee to be set so that the yield of CLF-eligible securities, after adjustment for non-liquidity premia (including credit risk), is no higher than the net yield on a representative portfolio of qualifying liquid assets.

Two potential methodologies for calculating the standing fee are described below. Regardless of the methodology chosen, it is likely that the CLF standing fee would be higher than the standing fee that was charged in Australia (15 to 20 basis points), as New Zealand financial markets are generally considered less liquid than that of Australia.[27] With all other things being equal, an improvement in the liquidity of New Zealand financial markets would see the fee decrease over time, while a deterioration in liquidity would see the fee increase. The fee therefore also provides an incentive for deposit takers to proactively participate and improve the liquidity of New Zealand financial markets.

27 Basel recommend a minimum fee of 75 basis points for a Restricted CLF under their LCR liquidity framework (see section 30.46).

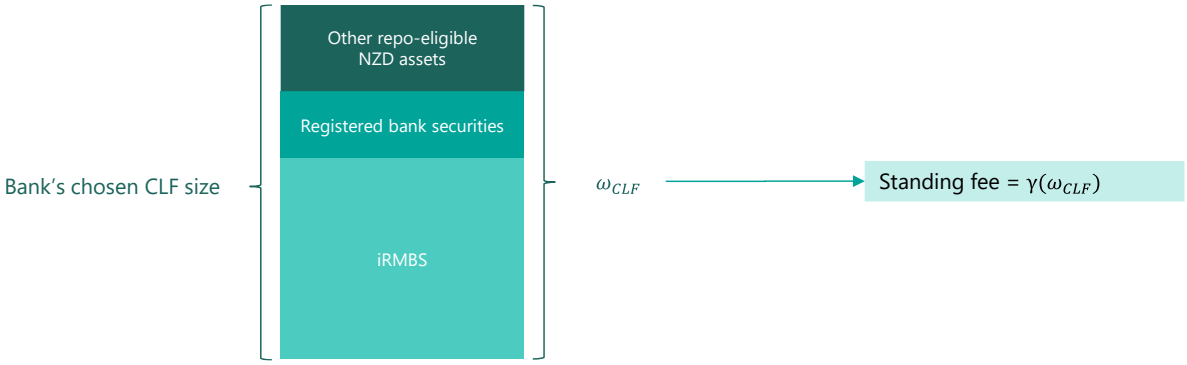
Option 1: Flat Fee

A flat fee approach calculates the standing fee by multiplying a flat fee in basis points (γ) by the size of each deposit taker's CLF (ω_{CLF}) as depicted in **Figure 12**.

The flat fee would be calculated using the estimated yield differential between NZGB yields and a weighted average yield on a portfolio of CLF repo-eligible assets. The yield differential would then be adjusted for non-liquidity premia. This approach was used in Australia, though data limitations may make it more challenging to implement accurately in New Zealand.

This option is operationally simple and easy to communicate. The downside of the simplicity is that deposit takers that hold more marketable assets (e.g. bank paper and corporate bonds) would be somewhat subsidising deposit takers that have more non-marketable assets (e.g. internal RMBS).

Figure 12: Stylised example of standing fee calculation under Option 1



Option 2: Composition-based Fee

A composition-based fee methodology could produce a more competitively neutral outcome compared to a flat fee approach. This approach is intended to capture differences in liquidity premia between marketable and non-marketable repo-eligible securities (**Figure 13**).

Marketable securities are defined here as repo-eligible securities for which there is an active secondary market, including Level 2 liquid assets held in excess of the Level 2 limit. Non-marketable securities are repo-eligible securities for which there is no active secondary market. From the current list of QLAs this category would be comprised solely of internal Residential Mortgage-Backed Securities (iRMBS). This definition does not preclude RMBS or other asset-backed securities from being categorised as a marketable security, so long as there is an active secondary market for the security in New Zealand.

Under a composition-based fee approach, the RBNZ would estimate and set a fee coefficient for both marketable (α) and non-marketable (β) repo-eligible securities that reflects differences in the relative liquidity benefit provided by the CLF. This means that the liquidity coefficient of non-marketable securities (β) would exceed that of marketable securities (α).

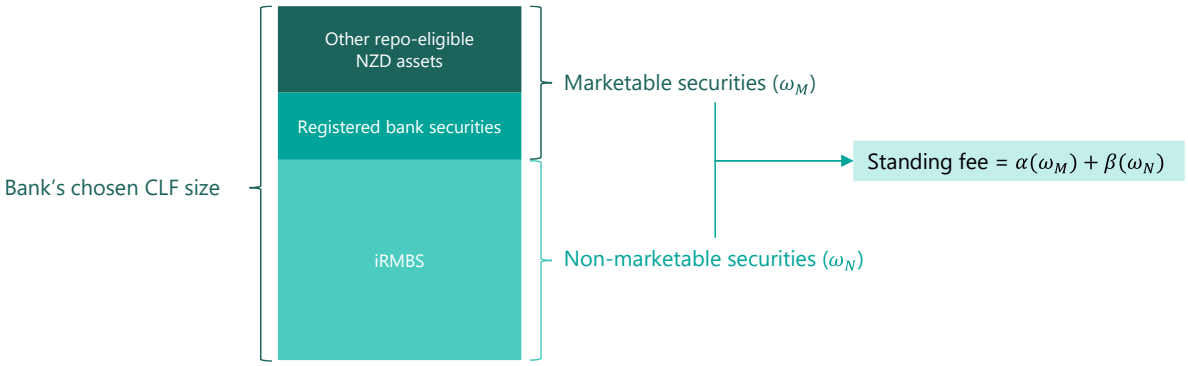
When each deposit taker applies for a CLF allocation, they would choose how much of their CLF would be composed of marketable securities (ω_M) and how much would be made up of non-marketable securities (ω_N).

The standing fee in basis points for a deposit taker would then be the weighted average of the two:

$$Standing\ fee\ =\ \alpha(\omega_M) + \beta(\omega_N).$$

Under this approach, while the formula would be the same across all deposit takers, each deposit taker could end up with a unique standing fee in basis points depending on the composition of their CLF collateral. The weights could be recalibrated annually as part of the review process.

Figure 13: Stylised example of standing fee calculation under Option 2



While this approach might better reflect the economic cost of liquidity, its additional complexity may make it harder to implement or communicate.

Q 16	Which approach for determining the standing fee would best capture the liquidity benefit provided by the CLF?
Q 17	What are the potential financial markets implications from the CLF standing fee, on qualifying liquid assets and CLF-eligible assets?
Q 18	Are there any additional considerations that the RBNZ should take into account in determining and implementing the CLF standing fee?

3.4.4 Eligible Securities

The RBNZ proposes that our Domestic Markets Repo Eligible Securities and Haircuts apply to the CLF.

There will therefore be alignment between the haircuts applied for the purposes of the Liquidity Standard and usage of any of the RBNZ's market operations and lending facilities.

The RBNZ intends to undertake a review of the haircuts prior to the introduction of the CLF to ensure they are reflective of underlying risk and consistent with international best practice. However, at this stage we do not expect any major changes to the haircuts and expect the relative liquidity value between assets to remain broadly unchanged.

BS13A included limits on iRMBS and Registered Certificates of Deposit that can count towards meeting liquidity requirements. These limits are under review and may no longer be necessary (given the CLF cap and any guidance around diversification requirements), so we are not considering these limits for the purposes of this consultation. The RBNZ will confirm at a later date whether (and if so where) those limits will exist in the new Liquidity Standard.

Q 19 What are your views regarding the proposed CLF-eligible securities?

3.4.5 Operationalisation

We propose drawdowns on the CLF would be executed through the ORRF for operational simplicity. This approach would be efficient for both the RBNZ and CLF participants as it makes use of existing infrastructure. It does mean that CLF participants will need to be operationally prepared to utilise this infrastructure, if they are not already. In our view, executing test trades on an annual basis is a good way to ensure preparedness for deposit takers and the RBNZ. We could look to make this a requirement of CLF counterparties.

CLF drawdowns would be priced at the ORRF utilisation fee, and haircuts for collateral would also be aligned as noted above. In effect, this means that the CLF would be a committed line on the ORRF. The ORRF would still remain available in its current form as an uncommitted facility for those without a CLF.

In categorising whether a particular drawdown is a CLF (committed) or a ORRF (uncommitted) drawdown, the RBNZ could deem any drawdown that pledges prepositioned CLF collateral to be a CLF drawdown.

Details of the CLF operationalisation will be finalised in the CLF terms and conditions that will be developed prior to the CLF's introduction.

Q 20 What are your views on the proposed method of operationalisation?

3.4.6 Monitoring

A CLF participant must pre-position sufficient collateral to be able to draw on its CLF, as it contributes to its prudential MMR. We envisage that prepositioned assets would be reported and monitored via the prudential liquidity survey return which is currently under development for the new forthcoming Liquidity Standard.

This monitoring approach would be practical to implement given that we are only proposing that the CLF is available for eligible deposit takers that already submit prudential returns to the RBNZ.

Q 21 What are your views on the proposed monitoring of CLF collateral?

3.4.7 Termination or Reduction of CLF

Details of the termination, reduction, or suspension of a deposit taker's CLF will be finalised in the CLF's terms and conditions that will be developed prior to the CLF's introduction.

At this stage we envisage that a deposit taker would retain the right to terminate its CLF subject to a notice period.

The RBNZ would retain the right to suspend or reduce the CLF of a deposit taker if the deposit taker becomes ineligible for the CLF by failing to meet the access criteria, until such time as the deposit taker restores eligibility.

Q 22 What are your views on the proposed termination, suspension, or reduction criteria?

3.4.8 Annual Review

We propose reviewing the CLF on an annual basis, including the cap and the standing fee.

The review will ensure that the CLF is appropriately calibrated to achieve its policy intent and evolves with changing market dynamics. However, we do not anticipate frequent or large changes to the CLF's key parameters.

In the event that deposit takers were routinely taking the maximum CLF amount and holding less than the reasonable quantity of Level 1 assets, this may indicate the terms of the CLF are too accommodative and either the cap should be lowered or the standing fee should be raised.

Alternatively, in the event that deposit takers are not subscribing to the CLF and are holding an outsized share of the market outstandings of Level 1 assets, this may indicate that the terms of the CLF are too restrictive.

Q 23 What are your views on the proposed annual review?

3.4.9 Other comments and feedback

We welcome any other comments or feedback on the proposed CLF, its features, calibration options, or market impacts, that you do not believe is covered in any of the preceding sections. Please have regard to the policy intent of the CLF and the principles from the LPR that apply.

Q 24 What additional comments and feedback do you have on the CLF?

4 Glossary

A short explanation of some of the terms and acronyms used in this consultation paper can be found below.

Open Market Operations

Abundant settlement cash	An *abundant* level of settlement cash is significantly more than is needed to anchor short-term rates.
Ample settlement cash	An *ample* level of settlement cash is enough to anchor short-term wholesale interest rates near the OCR, but not much more than this.
Bond Lending Facility (BLF)	Provides access to specific NZ government bonds via repurchase agreement. Currently priced at OCR minus 0.50%.
Bond Market Liquidity Support (BMLS)	Small scale outright purchases of New Zealand government bonds by the RBNZ to support market functioning. Currently inactive and historically only used in crisis conditions.
Exchange Settlement Account System (ESAS)	The Exchange Settlement Account System (ESAS) is New Zealand's principal high-value payment system used by banks and other financial organisations to settle transactions in real time. The sum of all settlement account balances (excluding the Crown Settlement Account) is called the settlement cash level and is managed by the RBNZ through our operations.
Foreign exchange (FX) swaps	A foreign exchange (FX) swap is an agreement between two parties to exchange currencies at the current spot rate, and to reverse the transaction at a specified exchange rate (the "forward rate") at a future date. They can also be viewed as funding or investment tools whereby one party can borrow (or lend) one currency, using another currency as collateral.
NZD	New Zealand dollar.
Open market operations (OMOs)	Operations to inject or withdraw liquidity from the banking system to support monetary policy implementation and to provide sufficient liquidity to meet the system's demand.
Overnight Reverse Repo Facility (ORRF)	Facility to provide access to liquidity at a backstop rate and against a wide set of collateral for liquidity management, monetary policy, and financial stability purposes. Currently priced at OCR plus 0.50%.
Repurchase (repo) transaction	Operations for counterparties to *lend* cash to RBNZ in exchange for collateral, which are subsequently reversed at maturity. Note: in other jurisdictions, repo refers to operations for counterparties to *borrow* cash in exchange for collateral.

Reserve Bank bills (RB Bills)	Discount securities issued by the RBNZ to withdraw liquidity from the system. The RBNZ can offer RB Bills with maturities out to a maximum of 1 year.
Reverse repurchase (reverse repo) transaction	Operations for counterparties to *borrow* cash from RBNZ in exchange for collateral, which are subsequently reversed at maturity. Note: in other jurisdictions, reverse repo refers to operations for counterparties to *lend* cash in exchange for collateral.
Settlement Cash	Electronic cash held in ESAS with the RBNZ to settle payments between ESAS account holders.
Standing Repo Facility (SRF)	A currently inactive facility that allowed counterparties to deposit NZD cash with the RBNZ in exchange for nominal New Zealand Government Securities. Priced at OCR minus 0.10%.
Term Auction Facility (TAF)	Provides term-repo funding in 3-, 6-, and 12-month terms. Currently inactive and historically only used in crisis conditions.

Committed Liquidity Facility

Borrowing fee	A fee charged for drawing down on the Committed Liquidity Facility.
Committed Liquidity Facility (CLF)	A facility where deposit takers can pledge securities in exchange for liquidity upon request. Deposit takers pay a standing fee for the guaranteed availability of the facility, and a borrowing fee upon drawdown. CLF-eligible securities could contribute towards a deposit taker's qualifying liquid assets up to its CLF size.
Level 1 liquid assets	Liquid assets under the forthcoming Liquidity Standard, that are considered by the RBNZ to be of higher quality and/or have greater expected market liquidity, namely: NZD notes and coins, Exchange Settlement Account System (ESAS) balances, Reserve Bank Bills, and New Zealand Government securities.
Level 2 liquid assets	Liquid assets under the forthcoming Liquidity Standard, that are subject to a cap on their contribution to a deposit taker's total liquid assets, namely Local Government Funding Agency securities and highly-rated Kauri bonds.
Liquidity Policy Review (LPR)	Review of the RBNZ's prudential liquidity policy, launched in February 2022.
Mismatch Ratio (MMR)	Ratio of a deposit taker's liquid assets (including amounts eligible for the CLF) 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.

New Zealand Government securities (NZGS)	Securities issued by the New Zealand Government, including Nominal New Zealand Government Bonds, Inflation-Indexed bonds, Treasury Bills, and Green Bonds.
Qualifying Liquid Assets (QLA)	Liquid assets that are counted towards the calculation of mismatch ratio. Includes Level 1, Level 2, and CLF-eligible securities prepositioned via the CLF.
Repo-eligible securities	Securities that are eligible for repurchase transactions with the RBNZ.
Standing fee	Fee charged to deposit takers to secure access to the Committed Liquidity Facility.

5 Summary of questions and request for feedback

We seek feedback on all issues and questions raised in this consultation paper. The comment deadline for this consultation paper is 31 October 2025. Responses can be submitted to: liquiditymanagementreview@rbnz.govt.nz.

We are open to meeting with stakeholders to discuss any matters discussed in this consultation.

Summary of questions

Open Market Operations

Section 2.3.1: Included Operations

Q1 Should both cash injecting (reverse repo) and cash withdrawing (repo and/or RB bills) operations be offered each time an OMO is offered?

Section 2.3.2: Allocation Method

Q2 Which allocation method of those proposed, or other alternatives, would best serve the RBNZ's objectives?

Section 2.3.3: Frequency

Q3 Should the RBNZ conduct regularly scheduled OMOs and if so at what frequency?

Section 2.3.4: Timing

Q4 What is the best time in the New Zealand banking day to announce and run OMOs?

Section 2.3.5: Pricing

Q5 How do you expect increasing the lending rate on OMOs to impact the RBNZ's objectives?

Q6 How do you expect a small reduction in the Overnight Deposit Rate (relative to the OCR) to impact the RBNZ's objectives?

Q7 What is your view on the magnitude of the spread between lending and deposit rates needed to incentivise private market activity and the optimal way to construct that spread? (i.e. where should lending and deposit rates be set relative to the OCR?)

Section 2.3.6: Tenors

Q8 Which tenor(s) should be offered for reverse repo operations to best achieve the RBNZ's objectives?

Section 2.3.7: Eligible Collateral

Q9 How do you see the proposed changes to the eligible collateral for the OMO and removal of differential pricing impacting on the RBNZ's ability to meet our objectives?

Section 2.3.8: Additional Questions

Q10 How will the OMO design choices outlined above impact the functioning and pricing of the repo market?

Summary of questions

Q11 What impact would you expect on other short-term wholesale interest rate markets? (e.g. bank bills and overnight indexed swaps)

Q12 Do you have any other recommendations for how the RBNZ can best achieve our objectives and support market liquidity in short-term wholesale interest rate markets?

Committed Liquidity Facility

Section 3.4.1: Access

Q13 Do you have any comments on the criteria for access to the CLF?

Section 3.4.2: Size and Cap

Q14 Do you foresee any challenges with the proposed approach to allowing individual deposit takers to size their CLF up to a prescribed cap on its contribution to their mismatch ratio?

Q15 Are there any additional considerations that the RBNZ should consider when sizing the CLF?

Section 3.4.3: Fees

Q16 Which approach for determining the standing fee would best capture the liquidity benefit provided by the CLF?

Q17 What are the potential financial markets implications from the CLF standing fee, on qualifying liquid assets and CLF-eligible assets?

Q18 Are there any additional considerations that the RBNZ should take into account in determining and implementing the CLF standing fee?

Section 3.4.4: Eligible Securities

Q19 What are your views regarding the proposed CLF-eligible securities?

Section 3.4.5: Operationalisation

Q20 What are your views on the proposed method of operationalisation?

Section 3.4.6: Monitoring

Q21 What are your views on the proposed monitoring of CLF collateral?

Section 3.4.7: Termination or Reduction of CLF

Q22 What are your views on the proposed termination, suspension, or reduction criteria?

Section 3.4.8: Annual Review

Q23 What are your views on the proposed annual review?

Section 3.4.9: Other comments and feedback

Q24 What additional comments and feedback do you have on the CLF?

Appendix A: Stylised Liquid Asset Holding Examples

	Deposit taker 1	Deposit taker 2	Deposit taker 3
Deposit taker's desired QLA ($) for MMR	**20.0**	**20.0**	**20.0**
Level 1 Assets			
ESAS Balance	2.0	2.0	2.0
NZGS	8.0	6.0	2.0
Other Level 1	1.0	1.0	1.0
Sub-total Level 1 Assets	**11.0**	**9.0**	**5.0**
Level 2 Assets			
LGFA holdings	2.0	3.5	4.0
Kauri holdings	1.0	3.5	4.0
Total Level 2 Assets	*3.0*	*7.0*	*8.0*
Level 2 Limit (% QLA)	25%	25%	25%
Maximum Level 2 permitted ($)	5.0	5.0	5.0
Sub-total Level 2 Assets	**3.0**	**5.0**	**5.0**
Excess Level 2 Assets	-	2.0	3.0
CLF Assets			
CLF Cap	35%	35%	35%
Deposit taker's chosen CLF (% QLA)	30%	30%	35%
Deposit taker's chosen CLF ($)	6.0	6.0	7.0
Excess Level 2 Assets	-	2.0	3.0
Other Repo-Eligible Assets	6.0	4.0	7.0
Sub-total CLF	**6.0**	**6.0**	**7.0**
QLA Reconciliation			
Total Level 1	55%	45%	25%
Total Level 2 below limit	15%	25%	25%
Total CLF (below cap and ≤ chosen CLF)	30%	30%	35%
Total QLA	**100%**	**100%**	**85%**
Excess repo-eligible assets	-	-	3.0
Achieves desired QLA?	✓ Level 2 limit and CLF cap not binding	✓ Level 2 limit binding	✗ Need to increase Level 1 holdings by $3B to achieve desired QLA