



Reserve Bank
of New Zealand
Te Pūtea Matua

Liquidity Management Review

Summary of Submissions and Key Decisions

19 March 2026

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1. Background

The Reserve Bank of New Zealand – Te Pūtea Matua (we/the Reserve Bank) published a Consultation Paper, "Liquidity Management Review – Consultation on Open Market Operations and the Committed Liquidity Facility", on 10 September 2025, with submissions closing on 31 October 2025.

The consultation was a part of the Reserve Bank's review of its liquidity management framework (the Liquidity Management Review). The Reserve Bank manages liquidity in the New Zealand banking system so banks can meet daily payment obligations and short-term interest rates stay near the Official Cash Rate (OCR). To do this, the Reserve Bank conducts market operations under the liquidity management framework and has facilities that allow participants to borrow and/or deposit cash with the Reserve Bank. The review was prompted by changes in the liquidity environment, following policy responses to the COVID-19 pandemic.

The consultation sought feedback on our approach to Open Market Operations (OMOs) and provided some guidance on the current thinking around the forthcoming Committed Liquidity Facility (CLF).¹ The feedback informs the Reserve Bank's design of OMOs and CLF to achieve our monetary policy and financial stability objectives.

We received a total of 19 submissions, of which 15 provided feedback on OMOs and 16 on the CLF. Two submissions requested to be kept confidential. The remainder are available to view on the [Liquidity Management Review Consultation webpage](#) with one subject to partial redaction.

This document provides a summary of the feedback we received and our initial responses to this feedback.

On the OMO, changes to the design and approach of operations are expected to come into effect on Thursday 2 April 2026, subject to some additional liaison with potential counterparties to ensure operational feasibility.

On the CLF, the feedback received as part of the consultation has been used to inform some in-principle design decisions. It has also highlighted areas where future work is required.

¹ OMOs are 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. CLF is 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 (for the purposes of prudential liquidity requirements) up to its CLF size.

2. Open Market Operations – summary of submissions and our response

Based on the feedback from respondents, and considering our key objectives, we intend to make changes to our approach to OMOs. These are summarised in the box below. Parameters in brackets are subject to final confirmation.

OMO Parameters

Operations offered	Reverse repo OMO; other operations on ad hoc basis only
Method	Full allotment
Tenors	7-day and 28-day
Pricing	[Floating Rate] OCR+10bps
Overnight deposit rate	OCR
Eligible Collateral	New Zealand Government Bonds; Reserve Bank Bills, approved Kauri securities and Local Government Funding Agency bonds.
Timing	Announced Thursdays 11.30am NZT; window closes 11.45am NZT; results announced approx. 12.00PM NZT

2.1 Included operations

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

Respondents were split on whether to offer both cash injecting and withdrawing operations each time an OMO is offered.

Some respondents advocated offering both each time, citing certainty for market participants and monetary policy implementation benefits.

Other respondents advocated only offering one type of operation, based on the overall assessment of system liquidity. These respondents felt that offering both operations every time an OMO is run could crowd out private market activity, thereby limiting the efficient redistribution of liquidity. Some also noted that in an ample liquidity environment, it was much more likely the RBNZ would need to inject than withdraw settlement cash on a weekly basis.

Our response

For now, we intend to only include reverse repo (cash injecting) operations for each regular weekly OMO. To maintain an ample liquidity environment, it is more likely we will be required to inject settlement cash. Only offering reverse repos minimises the risk of us disintermediating market activity. This does not prevent us from offering repo (cash withdrawing) OMO in future, as part of the regular weekly OMO, or on an ad hoc basis, if required.

2.2 Allocation method

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

Most respondents expressed a preference for a Fixed Rate Full Allotment (FRFA) allocation method. Several noted this approach best aligned with the RBNZ's stated objectives, including operational simplicity, effective monetary policy implementation and financial stability. Many noted that being able to access liquidity at a fixed spread to the Official Cash Rate (OCR) would provide the market with increased transparency and certainty. This approach also removes the need for the RBNZ to precisely calibrate required volumes for each operation.

Those in support of a competitive auction highlighted the benefits of allowing the market to determine the price of liquidity, believing that this best supported the RBNZ's objective of supporting market liquidity.

Our response

We have decided to adopt a FRFA allocation approach going forward.² This approach is clear, operationally straightforward, and will allow market participants to determine the amount of liquidity they need at a known price, and plan accordingly around our regular operations. In combination with our chosen price settings discussed below, we expect this approach to support implementation of monetary policy by meeting demand for liquidity at a rate close to the OCR.

In most cases, a full allotment approach removes the need for us to precisely calibrate a liquidity injection to maintain an ample settlement cash level; however, we will continue to monitor the level of system liquidity given our activity in other markets such as FX swaps and the potential need for ad hoc OMOs. Persistently high demand for liquidity in OMOs may also signal that we need to increase the structural balance of settlement cash via other operations.

2.3 Frequency

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

Almost all respondents were in favour of OMOs being run on a weekly basis, while also maintaining flexibility for additional ad hoc operations in response to market conditions. A regular schedule would provide predictability and certainty to market participants.

A small minority of respondents favoured more frequent OMOs, such as twice-weekly or daily, to provide more flexibility.

In terms of specific days of the week to conduct a weekly OMO, one respondent specifically advocated a Thursday OMO offering, citing alignment with the timing of OCR changes, typically announced on Wednesday afternoons and effective from Thursday mornings.

² Given we are moving to a floating rate OMO, this will technically be a fixed spread full allotment OMO at OCR plus 10 basis points. Floating rate interest will be calculated using a simple interest methodology.

Our response

We have decided to adopt a weekly frequency for OMO, with operations each Thursday and will maintain flexibility to offer ad hoc operations as necessary. While some participants have suggested a higher frequency, we feel that a weekly operation balances the need to provide the market with some certainty and regularity in our operations while not crowding out private market activity.

While we will maintain flexibility to offer ad hoc operations, these are expected to be seldom required. In the weekly OMO, we will be offering 7- and 28-day tenors (see below) which will provide participants with flexibility to manage liquidity over key balance dates such as quarter-end. Market participants should assess their liquidity needs and plan accordingly around the weekly OMO, while also being able to make use of the Overnight Reverse Repo facility (ORRF). The ORRF is a standing facility that can be accessed at any time, but at a higher margin and with a wider eligible collateral set. Market participants are encouraged to use this facility if it suits their liquidity needs and if it is economically sensible to do so (See [RBNZ statement on use of the Overnight Reverse Repurchase Facility](#)).

2.4 Timing

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

A majority of respondents expressed a preference for holding OMOs later than the current 9.30am NZT timing. It was generally agreed that a later time for operations would support wider participation. However other factors highlighted for consideration in choosing an appropriate time included the timing of economic data releases, New Zealand Debt Management (NZDM) tenders, BKBM rate set and allowing sufficient time for trade settlement before the close of NZClear.

Those that preferred maintaining the 9.30am NZT timing highlighted the benefits of allowing participants to have certainty over liquidity at the start of the day. Some suggested a possible afternoon operation could be added in addition to the 9.30am operation.

Our response

We have decided to change the timing of our OMO from 9.30am NZT to 11.30am NZT. We feel that this change balances the need to make OMO more accessible to a wider range of participants while allowing sufficient time for trade settlement. This timing should also avoid overlapping with any domestic data releases or regular market events such as the BKBM rate set or NZDM tenders. With the new timing we would expect the OMO to open at 11.30am NZT and close at 11.45am NZT with results published around 12.00pm NZT.

As per the Operating Rules and Guidelines, details for successful bids in any RBNZ operations, including security when required, should be confirmed with the RBNZ within 45 minutes of the results being published. All OMO trades must be completed no later than 4:00pm NZT on the day of the transaction.

As explained above, the weekly OMO will occur on Thursdays. This aligns with the day on which OCR decisions take effect and minimises the impact of public holidays, many of which are on Mondays and Fridays. Any planned OMO or maturities that coincide with a public holiday will be adjusted accordingly.

2.5 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?)

OMO Lending Rate

Most respondents supported increasing the OMO lending rate from the current minimum bid rate of +1bp on tier 1 collateral.³ However, among those that supported increasing the lending rate, views differed on the exact level to which the OMO lending rate should be increased. The most common spread mentioned was +10bps but ranged from +5bps to +20bps.

In terms of the impact a higher lending rate would have, some suggested it would incentivise private market activity, improving market depth and liquidity. It was noted that a higher lending rate would place a ceiling on short-term market rates, particularly if accompanied by a full allotment allocation method. It was also noted that this would limit the impact of shocks or periods of market stress, provided the rate was not set too high which could create issues of stigma.

It was also noted that wider spreads may not be sufficient to incentivise greater interbank trading and instead may just lead to higher rates being passed on to other participants in the repo markets. It was suggested starting with a narrower range would be beneficial and potentially widening this in the future, if necessary.

Overnight Deposit Rate (ODR)

Only two respondents expressed a preference for an overnight deposit rate below OCR. These submitters believed that remunerating deposits at a small spread below OCR of ~5bps was small enough that it was unlikely to materially undermine rates trading close to OCR but may help incentivise lending of cash balances and improve market liquidity and pricing. However, it was noted that this was unlikely to be as effective at encouraging cash distribution as the pre-pandemic tiered remuneration framework.

Those that advocated for keeping the ODR at OCR highlighted potential impacts on the pricing of OIS and their usefulness as a hedging instrument. Some believed that the ODR would become the effective policy rate, while others highlighted potential redocumentation of contracts linked to OCR and operational risks and costs.

Our response

We have decided to set initial pricing on the reverse repo (OMO lending rate) at a floating rate of OCR+10bps and to maintain the ODR equal to the OCR for now. This represents a spread of 10bps between these two rates. This spread is lower than we suggested in the consultation. Having

³ Expressed as a spread to Overnight Indexed Swaps (OIS) in the current framework

considered the feedback and noted recent market conditions in the general collateral (GC) repo market, we believe this is an appropriate initial setting to ensure that GC repo rates continue to trade close to the OCR.

Our preference is to price OMO transactions using a floating rate OCR to minimise interest rate risk, particularly for a 28-day tenor. Given we did not explicitly note this in the consultation we are open to additional feedback on this, particularly around any operational constraints (see Next Steps below).

We intend to monitor the impact this pricing, alongside the other design elements of the OMO, has on the usage of the facility as well as private market activity and pricing.

We may adjust the pricing of the OMO and/or the ODR in the future to achieve our objectives including effective monetary policy implementation and sufficient market liquidity. These technical adjustments, if and when they do occur, would not reflect any change in the stance of monetary policy as decided by the Monetary Policy Committee.

2.6 Tenors

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

There was a general consensus among respondents that 7-day and 28-day terms should be offered regularly, while maintaining flexibility for other tenors on an ad hoc basis.

Two respondents also suggested offering a 14-day term on a regular basis.

Our response

We will initially offer both 7- and 28-day terms at each weekly OMO. Offering standard tenors that align with the frequency of operations will provide consistency and predictability for market participants. We expect that offering two terms should provide market participants with sufficient flexibility to manage their short-term liquidity needs.

We will still maintain the option to offer other tenors on an ad hoc basis both at the weekly OMO or for any ad hoc operations.

2.7 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?

There were mixed views on the proposed change to remove tier 2 collateral, except for Local Government Funding Agency bonds (LGFA), as eligible collateral for OMOs. Those supportive of this change believed there would be minimal impact from it, noting tier 2 collateral remain eligible for ORRF (and forthcoming CLF) and had rarely been pledged in OMOs to date.

Those who disagreed cited a potential decrease in market liquidity in non-government securities and believed that the fact that these have rarely been pledged in OMOs in the past should carry less weight as their OMO eligibility still contributed to their market liquidity.

Our response

We have decided to proceed with the proposed changes to eligible collateral for OMOs. Specifically, the eligible collateral will be limited to New Zealand Government Bonds (nominal and inflation-indexed), Reserve Bank Bills, approved Kauri securities and LGFAs.

While we acknowledge some of the concerns raised about the exclusion of other assets including Bank Bills and the potential impact on liquidity, these are very rarely used in OMO and will remain eligible for the ORRF (therefore still “repo eligible” with the RBNZ). We will retain flexibility to change eligible collateral for OMOs at short notice in response to market conditions.

2.8 Additional Feedback

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

There was a consensus among submitters that more regular and consistent OMOs should help anchor pricing of secured and unsecured cash markets around the OCR. This is expected to support stable pricing in other short-term interest rates such as FX forwards.

Submitters noted the importance of ongoing dialogue with market participants and the need for the RBNZ to be nimble and flexible to adjust its framework if necessary to achieve its objectives.

One submission highlighted some of the shortcomings in New Zealand’s repo market relative to peer jurisdictions. One submission suggested that the RBNZ’s counterparty criteria could be expanded to include more types of financial institutions.

Two submissions highlighted that the current pricing on the ORRF was adding stigma to the use of that facility.

Our response

Our decisions around the design of the OMO have been informed by feedback in the consultation and consideration of our key objectives. We acknowledge the importance of being flexible and adjusting to market conditions, particularly as the system adapts to an ample liquidity environment.

We will continue to maintain regular dialogue with market participants and welcome feedback on an ongoing basis. Any changes to the operating framework will be communicated as usual via [Domestic Markets Media Releases](#).

We are supportive of steps that can improve the depth and breadth of New Zealand’s capital markets, particularly those that are relevant for monetary policy implementation. To that end we are open to being part of industry efforts to improve liquidity by strengthening our financial market infrastructures, potentially including (but not limited to) central clearing.

In relation to the ORRF, we intend for this facility to be part of BAU liquidity management for both the RBNZ and our counterparties. Its pricing reflects the added optionality it provides users in terms of daily availability and a wider set of eligible collateral. We are comfortable with the use of

the ORRF to manage liquidity and when it is economically sensible to do so. We are open to revisiting the pricing of the facility alongside our planned review of collateral haircuts and counterparty access criteria (refer CLF section of this paper).

2.9 Next steps

We intend for the proposed changes to OMOs to come into effect on 2 April 2026. Prior to this, we will engage with market participants on the operational feasibility of pricing using a floating rate OCR. Final decisions will then be reflected in the [Operating rules and guidelines](#) and relevant web pages including [Facilities at a glance](#) page.

Following these changes, our near-term priorities in regard to domestic liquidity management operations will be reviewing counterparty eligibility criteria and collateral haircuts, prior to implementation of the CLF.

3. Committed Liquidity Facility

The need for a CLF arises from the shortage of qualifying liquid assets (QLA), following decisions made under the prudential Liquidity Policy Review that included tightening the eligibility criteria for QLA. The new Liquidity Standard will come into effect with other core standards of the Deposit Takers Act (DTA) in December 2028, with the final standard issued in May 2027.

The change in the eligibility criteria for QLA means that, in aggregate, deposit takers will be required to hold more Level 1 and Level 2 liquid assets to meet prudential requirements under the DTA. Level 1 liquid assets will consist of ESAS balances, Reserve Bank Bills, New Zealand dollar notes and coins, and New Zealand Government Securities. Level 2 liquid assets consist of LGFA securities and highly rated Kauri securities. Other currently qualifying prudential liquid assets, such as corporate bonds and internal Residential Mortgage-Backed Securities, would no longer qualify as prudential liquid assets, though they remain repo-eligible with the RBNZ under the Overnight Reverse Repo Facility (ORRF).

The CLF enables deposit takers to count CLF-eligible securities (up to a deposit taker's CLF size) towards their prudential liquidity requirements. The CLF would be subject to a standing fee which essentially reflects the value of the RBNZ's commitment to provide liquidity for these securities via the ORRF.

This chapter covers the in-principle decisions on the CLF, including access, size, and fees.

3.1 Access

Proposal

Deposit takers that meet the following criteria may apply for a CLF allocation:

- Deposit taker must be subject to the mismatch ratio (MMR) under the forthcoming Liquidity Standard (i.e. Group 1 and Group 2 deposit takers);
- Deposit taker must be a domestic markets counterparty to the RBNZ; and
- Deposit taker must have positive net worth (i.e. be solvent), with the RBNZ reserving the right to request attestation of solvency.

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

All Group 1 and Group 2 deposit takers' submissions agreed with the proposed CLF access criteria.

Industry groups representing Group 3 deposit takers disagreed with the proposed requirement for eligible deposit takers to be subject to the mismatch ratio (MMR), as it would exclude Group 3 deposit takers. They highlighted the impacts of forthcoming changes under the new Liquidity Standard on Group 3 deposit takers, including changes to the treatment of term deposits.⁴ They

⁴ Ineligibility of term deposits with maturities greater than 30 days as liquid assets (under the forthcoming Liquidity Standard) could require some NBDTs to instead place funds with counterparty banks for periods less than 30 days. These deposits would be treated as deposit taker funding by the counterparty (100% outflow), with risk weights of at least 20% which could result in a lower yield on those funds. The submitter also noted that establishing an ESAS account could be costly, due to agent bank fees.

also noted the potential for a deposit taker to transition from Group 3 to Group 2 and that they may hold more repo-eligible assets in the future.

The same submitters also suggested that the RBNZ should “permit” Group 3 deposit takers to be domestic markets counterparties with the RBNZ, and to broaden Level 2 liquid assets for Group 3 deposit takers (e.g., to include highly rated bank securities).

Regarding the solvency criteria, one deposit taker raised the prospect of the RBNZ providing a standardised form for a CLF user to attest its solvency, similar to that used in Australia.

One deposit taker suggested that any future changes to CLF access criteria should be signalled at least three years in advance, to ensure adequate time for deposit takers to update their portfolios, as well as internal systems and processes.

Our response

Our **in-principle decision** is to explore expanding the CLF access eligibility criteria to all deposit takers covered under the Liquidity Standard (including Group 3 deposit takers), subject to being RBNZ domestic markets counterparties. This includes considering whether to expand the list of eligible liquid assets available to Group 3 deposit takers and provide them with the ability to utilise the CLF towards meeting their simplified mismatch ratio requirement (as Group 1 and Group 2 deposit takers are able to utilise the CLF towards meeting their mismatch ratio requirement). We will undertake a review of the domestic markets counterparty criteria in 2026, prior to finalising the CLF term sheet.

3.2 Size and cap

Proposal

RBNZ would annually set a cap (in percentage terms) on the maximum amount of CLF that could contribute to any deposit taker’s total liquid assets when calculating its MMR. 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 (in dollar terms), up to but not exceeding their cap. The cap would be set sufficiently high to provide for the required amount of QLA and promote market functioning. Our revised estimate for the initial CLF cap is 35-40% of total liquid assets (Level 1 plus Level 2 plus CLF).

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?

Most respondents agreed that the proposed approach—allowing institutions to size their CLF up to a prescribed cap—is workable. Comments highlighted that an overly restrictive CLF cap could reduce market liquidity by forcing deposit takers to hold a greater percentage of QLA in Level 1 and Level 2 liquid assets. Respondents also noted the need for robust liquidity forecasting and sufficient forward guidance regarding changes to the CLF size and cap.

Some Group 2 deposit takers requested higher caps. These submitters said that their relatively smaller holdings of CLF-eligible assets could be easier to liquidate compared to larger holdings; and that a larger cap would allow them to hold a mixture of CLF assets, alongside internal

Residential Mortgage-backed Securities (iRMBS). They also recommended that Group 2 deposit takers are provided with additional flexibility for any CLF diversification limits.

An industry body encouraged ongoing bilateral engagement between the RBNZ and industry and regular reviews to maintain confidence and support market liquidity, beyond the markets for New Zealand government bonds (NZGBs), LGFAs, and Kauri bonds.

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

Supply constraints in some QLA were noted by several submitters. Factors noted included high non-resident holdings of NZGBs, declining Kauri issuance, increasing issuances by domestic issuers in offshore markets, and limited domestic issuer diversity (alongside any single name counterparty concentration limits)—underscoring the need for diversified liquidity portfolios and periodic CLF reviews.

Most respondents did not explicitly comment on the guidance of an initial CLF cap set between 35–40%. Many cautioned against setting the cap too low due to measurement uncertainty, with one respondent recommending the CLF cap to be sized at least 40% to ensure effectiveness and mitigate market disruption. A Group 3 industry group noted that an undersized cap could crowd out Group 3 deposit takers from accessing Level 1 and Level 2 liquid assets.

One submitter recommended more explicit guidance on methodology including key market fundamentals, and suggested monitoring metrics should include the ratio of government bond market size relative to bank balance sheets. They also submitted that the RBNZ should outline the conditions under which the CLF may be scaled back or phased out, such as improvements in market depth, increased issuance of QLA, or changes in the composition of bank holdings.

Our response

Our **in-principle decision** is to adopt the proposed approach for sizing the CLF. Comments on the risks of an undersized cap are consistent with our assessment. The specific pressures noted on the supply of QLA are useful for furthering our analysis.

We note the suggestion for a higher CLF cap and more flexible diversification requirements for Group 2 deposit takers. While this may be justified by their smaller nominal holdings of assets, the cap encourages diversification of liquid assets. The cap also serves as a limit on the use of iRMBS as a prudential liquid asset, since the proposed Liquidity Standard contains no other limit on iRMBS eligibility.⁵

We note the need for long-term certainty in the availability of the CLF, and the potential impact of CLF calibrations on New Zealand debt capital markets. It is our intent to calibrate the CLF in a way that balances the policy intent of the forthcoming Liquidity Standard with the need to support market liquidity and capital market development.

⁵ The eligibility limit on iRMBS, under BS13A, equivalent to 5% of total assets, was imposed to address encumbrance risk.

3.3 Standing Fee

Proposals

- **Flat fee**, calculates the standing fee by multiplying a flat fee in basis points by the size of each deposit taker's CLF. The flat fee would be calculated using the estimated yield differential between NZGB yields and a weighted average yield on a portfolio of repo-eligible assets, adjusted for non-liquidity premia; OR
- **Composition-based fee**, calculated as the weighted average of marketable and non-marketable repo-eligible securities. RBNZ would set a fee coefficient for both marketable and non-marketable repo-eligible securities that reflects differences in the relative liquidity benefit provided by the CLF, and each deposit taker applies the coefficient to their CLF allocation composition.

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

Most submitters supported a flat fee structure, with some proposing additional features that resemble the composition-based fee. Four submitters supported a composition-based fee.

Submissions supporting the flat fee tended to highlight operational simplicity and the importance of keeping the standing fee low. Submissions in support of the composition-based fee suggested that it would be more competitively neutral by more accurately reflecting the liquidity benefit provided by the CLF for different types of assets.

Operational simplicity

Most submitters in support of the flat fee structure highlighted its operational simplicity, ease of communication, and predictability. For instance, it was noted that the composition-based fee would be more operationally complex for deposit takers who need to accurately forecast the composition and volume of their CLF assets for the upcoming 12-month period.

One submitter noted that the flat fee has been used in Australia and would be well-understood by market participants.

Internal Residential Mortgage-backed Securities (iRMBS)

An industry group and Group 2 deposit takers preferred the flat fee as the composition-based fee was likely to apply a higher fee to iRMBS, potentially impacting the viability of iRMBS programmes. They noted that smaller deposit takers had relatively higher fixed costs associated with iRMBS programmes. A higher cost of holding iRMBS could dissuade Group 2 deposit takers from establishing or keeping these programmes, which could increase risk during times of systemic stress, as iRMBS can serve as collateral for contingent funding.

Proponents of the composition-based fee saw the higher fee on iRMBS as helping to achieve a competitively neutral outcome by ensuring there is no cross-subsidisation across CLF assets and participants.

Low fee

Many submitters raised the importance of a low fee, with an industry group submitting that the fee should be appropriately calibrated to not discourage take-up of the CLF.

Risks of a standing fee set too high that were noted by submitters included: potential adverse impacts on monetary policy transmission; potential distortion in markets for Level 1 and Level 2 liquid assets; a reduction in deposit takers' participation in markets for CLF-eligible assets limiting the growth potential of these markets; a reduction in the diversification of deposit takers' liquid asset portfolios.

One deposit taker suggested a combination of a low standing fee and a high drawdown fee to reflect the standby nature of the CLF.

Debt capital market development

Several submitters noted concerns regarding liquidity in debt capital markets.

One industry group suggested exempting short-dated (a tenor of six months or less) registered bank securities ("bank bills") from the standing fee, with the intent to promote the functioning of the bank bill market to ensure the accuracy and stability of BKBM benchmark interest rates. This sentiment was echoed by other submitters, as noted in Q17 and Q18. The submission also noted the need for limits to mitigate concentration risk, if bank bills were to be exempt from the CLF standing fee.

One submitter noted that the composition-based fee approach could boost New Zealand debt capital markets by incentivising the primary issuance of residential mortgage-backed securities in the market (compared to the status quo of banks self-securitising iRMBS). This was echoed by a Group 1 deposit taker that, despite supporting the flat fee approach, also submitted that the RBNZ could explore a lower fee for iRMBS where a registered bank issues a comparable structure to external investors, as this would support market development and price discovery.

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

A common theme of submissions was the risk that higher CLF fees could distort liquid asset allocation decisions, leading banks to favour Level 1 and Level 2 assets over CLF-eligible assets. Respondents noted such a shift could reduce demand for CLF-eligible assets (corporate bonds and bank bills), undermining market depth and liquidity in domestic debt capital markets. Reduced participation by banks in CLF-eligible assets may lead to higher borrowing costs for issuers and diminished secondary market activity, affecting price discovery and investor confidence for these securities.

Some submissions also highlighted the risk of issuers turning more to offshore markets, which could weaken the resilience and development of New Zealand's financial ecosystem.

To mitigate these risks, some submitters that supported a flat fee also proposed a range of adjustments to the CLF fee structure. Suggestions included fee exemptions or reductions for short-dated bank securities (as noted in the response to Q16 above) and certain repo-eligible assets.

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

Several submitters stressed the importance of transparency and engagement. They advocated for clear documentation of the fee-setting methodology and regular consultation with market participants to ensure the fee remains appropriate and predictable.

Smaller banks recommended a gradual, flexible approach to fee implementation, warning that a flat fee at the higher end of the indicated range could disproportionately impact them. They also submitted that adjustments for non-liquidity premia are complex and dependent on assumptions regarding cost of capital, that differs across deposit takers.

Overall, the feedback recommended the RBNZ adopt a measured, consultative, and market-sensitive approach to CLF fee design to support financial stability and capital market development.

Our response

Our **in-principle decision** is to adopt the composition-based fee structure.

While most submitters supported a flat fee, these submissions highlighted risks that are likely to be better addressed through a composition-based fee structure. Some of these submitters also suggested changes to the flat fee structure to achieve outcomes that could be directly achieved by the composition-based fee.

While there may be additional complexity in implementing a composition-based fee, there is also complexity in determining a flat fee as it would require us to make assumptions on what 'typical' QLA and CLF asset holdings look like for deposit takers.

Since no active market exists for iRMBS, a flat fee is likely to subsidise deposit takers with iRMBS to the detriment of deposit takers without these programmes. The composition-based fee approach would allow us to apply liquidity premia to marketable and non-marketable (i.e. iRMBS) securities separately, without making assumptions about a typical deposit taker's liquid asset composition and thereby ensuring a more competitively neutral outcome.

The composition-based fee structure would also better address the concerns raised on debt capital market development and the bank bill market. A lower coefficient for marketable securities (that reflects their relative liquidity to non-marketable securities), which includes bank bills, should not materially adversely impact the functioning of these markets. We also note that the composition-based fee structure could incentivise securitisation market development, as market-issued and traded residential mortgage-backed securities would be subject to the lower fee compared to iRMBS.

3.4 Eligible Securities

Proposal

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).

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

Deposit takers generally supported the proposed approach, with one Group 1 deposit taker highlighting the operational simplicity from aligning eligible securities and haircuts for market operations, liquidity facilities, and the Liquidity Standard.

As noted in the Standing Fee section, two large deposit takers and an industry group suggested differential treatment of eligible securities, for example, carve-outs for registered bank securities or to classify bank securities that are less than 198 days to maturity, as Level 2 liquid assets.

Group 2 deposit takers submitted that smaller deposit takers are disproportionately impacted by the proposed changes to the eligibility criteria for liquid assets, due to their relatively conservative liquidity risk profiles and higher funding costs.

Our response

Our **in-principle decision** is to deem all RBNZ repo-eligible securities as eligible for the CLF, for alignment across market operations and liquidity facilities.

While the suggestions for differential treatments of eligible securities and comments on the liquid asset criteria are noted, these decisions have been made under the prudential Liquidity Policy Review. Concerns around impacts to registered bank securities may be able to be addressed via the composition-based fee as described in the Standing Fee section.

3.5 Operationalisation

Proposal

For operational simplicity, we propose that drawdowns on the CLF will be executed through the ORRF and be subject to the same haircuts.

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

All submitters on this question either supported the proposed approach or had no feedback to provide. Submitters representing most of Group 1 and Group 2 deposit takers explicitly supported operationalisation via the ORRF, pricing of CLF drawdowns at the ORRF utilisation fee, and alignment of haircuts. Two deposit takers explicitly supported the proposal on annual test trades to ensure preparedness.

Our response

Our **in-principle decision** is to operationalise the CLF via the ORRF, given submitters' support for the proposed approach which uses existing infrastructure. We also note the support for annual test trades.

3.6 Monitoring

Proposal

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.

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

Group 1 deposit takers and a Group 3 industry group agreed with the need for monitoring of CLF collateral, with most supporting the monitoring through prudential liquidity survey returns.

Two deposit takers requested additional information on the format of the monitoring, with one noting that future reporting is likely to continue to present an end-of-month snapshot.

Our response

Our **in-principle decision** is to monitor CLF participants' collateral through monthly prudential liquidity returns. We note that the updated prudential liquidity survey, which incorporates the fields necessary for CLF monitoring, will be subject to consultation in 2026.

3.7 Termination or Reduction of CLF

Proposal

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.

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

Two Group 1 deposit takers supported or had no objections to the proposed termination, suspension, or reduction criteria, while noting further details are needed. A Group 3 industry group and an offshore deposit taker also submitted that the proposals were reasonable and broadly consistent with similar central bank arrangements.

One Group 1 deposit taker highlighted the importance of material changes being signalled well in advance, and the CLF being phased out over an extended time period. The submitter stressed the need for long-term certainty to allow deposit takers to incorporate changes in their long-term funding plans in an orderly manner.

One Group 2 deposit taker suggested that if standing fees are paid upfront, any termination, suspension, or reduction should be accompanied by a partial fee refund.

An offshore deposit taker suggested that a bank wishing to terminate their own facility should be subject to a notice period to inform the RBNZ and market participants.

Our response

Our **in-principle decision** is to adopt the proposed approach, with clear guidance on process and timelines. We acknowledge the importance of certainty for liquidity planning and will consider related points raised by submitters.

3.8 Annual Review

Proposal

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.

Q23 What are your views on the proposed annual review?

Submitters on this question were supportive of an annual review, with some suggesting an initial six-month review. One deposit taker suggested a semi-annual or quarterly review cycle.

One deposit taker submitted that differing liquidity management approaches by deposit takers may pose challenges for the RBNZ in determining whether CLF settings are too accommodative or restrictive. Another deposit taker noted that the average investment duration of deposit takers' liquidity portfolios can be significantly longer than 12 months.

One deposit taker also sought clarification on the scope of the annual review, specifically whether the cap on Level 2 liquid assets and the eligibility criteria for CLF assets would be included in the annual review.

An industry group submitted that clear guidance on the following should be provided to industry, if the RBNZ were to implement annual reviews:

- Long-term availability of the CLF, including details on how the RBNZ would wind down the CLF if it was discontinued.
- Minimum guaranteed CLF sizing, to maintain certainty of CLF availability and demand for CLF-eligible assets from year-to-year. This could be through a commitment by the RBNZ to not reduce the size of CLF by more than a certain amount each year.
- Underlying market fundamentals considered by the RBNZ in sizing the CLF.
- Covered bond eligibility criteria, in the context of international developments.

Our response

Our **in-principle decision** is to conduct an annual review of CLF size, caps, standing fee, and testing requirements for CLF users, with a sufficient notice period for any change following a review.

We will conduct further analyses on the implications of guaranteed facility sizing and seek to strike a balance between providing certainty and retaining flexibility to respond to changes in market structure and size over time.

3.9 Other comments and feedback

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

Submitters also provided other useful comments on a range of issues related to the CLF and the prudential Liquidity Standard. These included management of liquid asset portfolios, operating costs of iRMBS programmes, the classification of qualifying liquid assets, comments regarding the prudential Liquidity Policy Review, and implications of the CLF for New Zealand debt capital market development.

Early Communication

Comments noted that early clarity on CLF parameters would support more informed and timely decision making by issuers and investors. In addition to the points already highlighted in response to earlier questions, submitters requested timely clarity on changes in haircuts and the treatment of the CLF in RBNZ liquidity stress tests.

Covered Bonds

Some submissions suggested that the RBNZ should consider the treatment of covered bonds in the CLF or whether covered bonds should be Level 1 or Level 2 liquid assets. It was suggested that a deep and liquid market for NZD covered bonds would enhance the supply of qualifying liquid assets and reduce the need for the CLF in the long-term.

Our response

The RBNZ thanks submitters for their additional comments and acknowledges the issues noted. In particular, the value of early communication and openness to further engagement throughout the CLF design and implementation phases is welcomed.

The CLF consultation was not a regulatory consultation and took the decisions to date from the Liquidity Policy Review as given. However, comments regarding the Liquidity Policy (including access, proportionality, and classifications of different Level 1, Level 2, and CLF-eligible assets) have been noted by the Prudential Policy Department.

3.10 Next steps

Detailed development of the CLF will continue through 2026, including collation and analysis of data, reviews of domestic markets counterparty criteria and collateral haircuts, and further engagements with stakeholders. Terms and conditions of the CLF will be finalised when the Liquidity Standard is issued in May 2027 and the CLF will be operational when the Deposit Takers Act standards come into effect, in December 2028.