

Submission

to the

The Reserve Bank of New Zealand
- Te Pūtea Matua

on the

Liquidity Management Review -
Open Market Operations and the
Committed Liquidity Facility
Consultation Paper

31 October 2025



About NZBA

1. The New Zealand Banking Association – Te Rangapū Pēke (**NZBA**) is the voice of the banking industry. We work with our member banks on non-competitive issues to tell the industry's story and develop and promote policy outcomes that deliver for New Zealanders.
2. The following seventeen registered banks in New Zealand are members of NZBA and support this submission:
 - ANZ Bank New Zealand Limited
 - ASB Bank Limited
 - Bank of China (NZ) Limited
 - Bank of New Zealand
 - China Construction Bank (New Zealand) Limited
 - Citibank N.A.
 - The Co-operative Bank Limited
 - Heartland Bank Limited
 - The Hongkong and Shanghai Banking Corporation Limited
 - Industrial and Commercial Bank of China (New Zealand) Limited
 - JPMorgan Chase Bank N.A.
 - KB Kookmin Bank Auckland Branch
 - Kiwibank Limited
 - Rabobank New Zealand Limited
 - SBS Bank
 - TSB Bank Limited
 - Westpac New Zealand Limited

Introduction

3. NZBA welcomes the opportunity to provide feedback to the Reserve Bank of New Zealand - Te Pūtea Matua (**Reserve Bank**) on its issues paper "Liquidity Management Review - Open Market Operations and the Committed Liquidity Facility" (**Consultation**). NZBA commends the work that has gone into developing this document and the technical analysis supporting it.

Contact details

4. If you would like to discuss any aspect of this submission, please contact:

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Executive Summary and Key Themes

5. **We consider it critical that the CLF is appropriately calibrated when established:** There is a risk that overall liquidity in the market could reduce if the scope of eligible collateral, facility sizing or fee structure for the CLF are not appropriately calibrated.
6. In particular, New Zealand's capital markets are comparatively limited in size. Lack of investor confidence that bank liquidity books will buy or hold securities over the full term of the relevant securities (either due to the terms of the CLF or considerations of its ongoing availability) would create concern around ongoing liquidity in those securities. That may encourage investors to focus on offshore markets with greater liquidity, and in turn encourage deposit takers and local authorities to seek to carry out issuances offshore. In each case, such impacts would negatively affect liquidity, volume and diversity of New Zealand's capital markets. If liquidity were to become impacted in these markets, then there is a risk that over time reliance on central bank liquidity (i.e. the CLF) could increase.
7. **We encourage the Reserve Bank to carefully consider the differences between New Zealand and Australian financial markets:** When comparing the Australian CLF model and the approach taken to retire it over a relatively short period of time, the Reserve Bank should be considerate of the structural differences between New Zealand and Australia's capital markets that make such an approach inappropriate here. In particular, NZ\$ issuances are limited compared to A\$ issuances and there is already more limited involvement from offshore investors in New Zealand. Additionally, in Australia there is a broader range of HQLAs, with both governmental and semi-governmental issuers (whereas in New Zealand the range of eligible issuers is narrower). Given these structural differences the Reserve Bank should be cautious when considering whether to adopt features from the Australian CLF model as any miscalibration could potentially reduce the participation of offshore investors, and, more broadly, risks diminishing New Zealand capital markets.
8. **Future changes to the CLF should be implemented incrementally and with advance notice:** NZBA emphasises the importance of ensuring that any changes relating to the CLF are both implemented incrementally and clearly signalled to the market ahead of their implementation. In order for the CLF to be an effective tool for liquidity management, deposit takers will need certainty around the sizing and pricing on the CLF and how this might change in future. Conscious of this, significant changes to the facility size, facility design and fee structure of the CLF should be implemented over a number of review cycles in order to provide deposit takers with certainty that the CLF will be both available and appropriately calibrated as a tool for effective liquidity management.
9. As a related point, we encourage the Reserve Bank to provide clear guidance as to the date from when the standing fee for the CLF will be payable. We assume the intention is that this would be implemented alongside the broader liquidity standard (i.e. 1 December 2028).
10. **The 'ample' level of settlement cash is materially higher post-COVID:** A materially higher volume of settlement cash is required today than pre-COVID to ensure there is ample settlement cash in the system. In addition to this, the Reserve Bank should consider the following factors when determining what an ample amount of settlement cash is:



- the overall size of New Zealand's banking system has grown post-COVID along with the average size of high-value transactions that require greater settlement cash needs;
- with the introduction of SBI365 deposit takers need to be cautious to ensure there is ample settlement cash available in advance of weekends and holiday periods; and
- a regime shift to an ample reserves system naturally leads to a higher level of settlement balances being required.

These indicate that the figure of what an ample amount of settlement cash is may be towards the higher end of the range proposed in the Consultation. In addition, if the OMO borrowing level is set too high and the Overnight Deposit Rate is set below the OCR, then this could complicate the Reserve Bank's efforts to ensure there is ample settlement cash available in the system.

Submissions on Chapter 2 (Open Market Operations)

Key Design Features

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

11. We submit that the Reserve Bank should seek to conduct regularly scheduled OMOs for the reasons given in Consultation, particularly in order to support market liquidity and provide financial stability.
12. We submit that the OMOs should be offered at a relatively high frequency, being at least once a week during normal operations, with the option for the Reserve Bank to schedule more OMOs during stress periods. This would give certainty to deposit takers that they will be able to meet their liquidity requirements.
13. We note that the Reserve Bank of Australia regularly conducts OMOs based on floating rate tender allocation. The Reserve Bank should clarify if it has considered implementing a similar tender process in New Zealand.

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

14. We are comfortable with the proposal to reduce the maximum tenor for the OMO to 28 days.

- *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?*

15. From a system perspective, we submit the Reserve Bank should be fully aware of the cost-benefit impacts before proceeding with the proposal in the Consultation to remunerate settlement cash below the OCR. We consider that:



- 15.1. Remunerating cash at too far below the OCR risks distorting short-term interest rate pricing and the traded price of cash. This risks increasing market volatility and instability, alongside undermining the Reserve Bank's objective of effective monetary policy implementation.
 - 15.2. The Reserve Bank of Australia operates a floating-rate repo market. The Reserve Bank would need to consider if adopting a similar structure in New Zealand would be necessary in order to effectively implement this approach. The Reserve Bank should look to engage with industry on any such changes.
16. If the Reserve Bank chooses to proceed with remunerating cash at below the OCR, we think it should also look to provide guidance around the OCR and its function as a core policy implementation tool, including in particular how other rates (i.e. the Overnight Deposit Rate) relate to the OCR. This guidance would help manage expectations and is critical to prevent any confusion and miscommunication in the market.

Submissions on Chapter 3 (Committed Liquidity Facility)

- *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?*

The Reserve Bank should further engage with industry on increasing the proposed CLF cap

17. We encourage the Reserve Bank to engage further bilaterally with industry on the proposed CLF cap discussed in the Consultation, in order to determine what cap level would be appropriate to increase liquidity in wider markets beyond NZGBs, LGFAs and Kauri bonds. Care needs to be taken to ensure that any CLF cap is not so restrictive as to discourage wider holdings of other eligible assets. Clear flexibility would improve market confidence that securities (other than NZGBs, LGFAs and Kauri bonds) can continue to be widely held, thereby promoting greater liquidity in those markets.

The Reserve Bank should engage with industry to provide guidance on the future sizing and availability of the CLF

18. The Reserve Bank should also look to assure industry that the CLF will continue to be available over the long term and that the CLF will not be radically downsized without an appropriate wind down period.
19. In order to promote stability and promote usage of the CLF it is critical that deposit takers have certainty that the CLF will continue to be available long term and will not be significantly downsized without appropriate time for deposit takers to respond and adapt in order to meet liquidity requirements. The Reserve Bank should look to engage with industry on what assurances and time frames would be appropriate to meet the above objectives, and should look to issue guidance that reassures the market of such.



20. In addition, deposit takers will need clarity and assurance on what underlying factors will drive the sizing and calibration of the CLF in the future. We encourage the Reserve Bank to engage with industry to discuss this.

- *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?*

We support the flat fee approach and note fees should be set in a manner that do not discourage participation in the CLF

21. We are supportive of the flat fee approach for the standing fee of the CLF as outlined in the Consultation.
22. A flat fee approach is simple to implement and operate. This will deliver certainty to deposit takers around the standing fees they will pay and the simplicity of a flat fee approach will be beneficial for ensuring all market participants understand the underlying fee structure of the CLF.
23. Additionally, we note that for many deposit takers, internal RMBS can be important emergency collateral. If the composition-based fee approach outlined in the Consultation were to place higher fees on RMBS then deposit takers could be discouraged from holding them, increasing risk during times of stress.
24. Further, we submit that fees should be set in a manner that does not overly discourage participants from utilising the CLF.
25. As noted above, the Reserve Bank should be looking to encourage confidence in the market that the CLF will remain an available and effective tool for liquidity management. Ensuring that fees are appropriately calibrated in a manner which does not discourage usage of the CLF is an important in order to support these outcomes.
26. Appropriately calibrated fees for the CLF are critical to ensure that deposit takers have confidence to hold a diversified pool of eligible assets. Fees that restrict the ability for deposit takers to effectively utilise the CLF run contrary to this objective and risk reducing the diversification of eligible assets (and total liquidity in those markets).
27. Additionally, we submit that the Reserve Bank should consider exempting Bank Bills with a tenor of six months or less from CLF fees in order to promote the continued functioning of the Bank Bill market. It is crucial that the Bank Bill market remains liquid in order to ensure that the BKBM rate remains both accurate and stable. Imposing CLF fees on Bank Bills with a tenor of six months or less could negatively impact liquidity in those markets, and as a result potentially distort the BKBM rate.
28. We expect that any exemption from CLF fees for Bank Bills would need to be subject to reasonable limits in order to mitigate concentration risk. We encourage the Reserve



Bank to engage with industry in order to determine what limits would be appropriate in this context. In this context, we note the Reserve Bank currently imposes limits on the use of Registered Certificates of Deposits (RCDs) as secondary liquid assets under the BS13 Liquidity Policy, which indirectly mitigates this concentration risk.

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

29. We are comfortable with the proposal for the CLF to be operationalised through the ORRF and with CLF drawdowns being priced at the ORRF utilisation fee, with the same haircuts applied.

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

The Reserve Bank should provide guidance on the terms of the annual review and should help assure industry of the long term availability of the CLF

30. As noted above, it is critical that the Reserve Bank provides deposit takers with certainty that the CLF will be available long term and that the CLF will not be radically downsized without an appropriate wind down period.

31. We submit that if the Reserve Bank is to proceed with reviewing the terms of the CLF annually, that it should first provide clear guidance to industry on the following matters:

- 31.1. **Long term availability of the CLF:** If the CLF is to be an effective tool in liquidity management, deposit takers will need certainty that the CLF will not be discontinued in the near future. We encourage the Reserve Bank to provide guidance to industry detailing how it would plan to wind down the CLF in the scenario it will be discontinued, we strongly support the implementation of adequate scale down periods to allow depositors to complete an orderly transition away from the CLF if it is to be discontinued. The Reserve Bank should look to engage with industry to determine what wind down periods might be appropriate in the context of the CLF.
- 31.2. **Guaranteed facility sizing:** As with the above, in order to be an effective liquidity management tool the CLF will need to provide deposit takers with certainty around its continued availability, including the size of the facility. We strongly support there being controls put in place to ensure that the size of the CLF is not significantly reduced following an annual review. This could take the form of a guaranteed facility size, where the Reserve Bank commits to not reducing the size of the CLF by any greater than a certain amount or percentage at any given annual review. For example, for a given facility size in any year, at least 90% of that size would be guaranteed to be available in the following year, 80% in the year after that, and so on). This would provide deposit takers with the certainty they need to utilise the CLF as part of their liquidity management. It will also be relevant to non-deposit-taker investors. They will want the comfort that, when considering purchasing CLF-eligible assets now, there will be a secondary market with deposit-takers throughout the term of the asset, because they will be able to use the CLF.



Additionally, if the Reserve Bank decides to adjust the pricing for utilising the CLF it should look to signal any changes well in advance to ensure that deposit takers have certainty about the future costs of the CLF.

- 31.3. **Market drivers to facility sizing:** It is important for industry to understand the underlying market dynamics and drivers that the Reserve Bank considers important in calibrating and sizing the CLF and to have clarity as to what indicators may result in a reduction in the size of the CLF. We would like to see the Reserve Bank provide more in depth guidance on this point to help industry understand and account for how market dynamics might impact the future sizing and availability of the CLF.
- 31.4. **Covered bond eligibility criteria:** We encourage the Reserve Bank to monitor international developments with respect to covered bond treatment and eligibility in liquidity frameworks. In particular, the Reserve Bank should consider the European Covered Bond Council's equivalence regime as well as APRA developments with respect to covered bond treatment for LCR calculation.