



TE TAI ŌHANGA
THE TREASURY

New Zealand Debt Management

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Consultation Document

Primary Market Access Framework

1. Purpose

The purpose of this document is to outline proposed changes to New Zealand Debt Management's (NZDM) Primary Market Access Framework (Framework).¹ NZDM is a directorate within New Zealand Treasury (The Treasury).

This Framework was initially adopted in 2019 and relates to Primary Market Access to New Zealand Government Bonds (NZGBs), New Zealand Government Inflation-Indexed Bonds (NZIIBs) and New Zealand Treasury Bills (NZTBs); collectively referred to in this document as New Zealand Government Securities (NZGS).

2. Background

The objective of NZDM is to minimise the Crown's borrowing costs over the long-term with due consideration to risk, while ensuring ongoing access to debt funding markets.

To support this objective, debt management activities are conducted using the principles of transparency, even-handedness and consistency. Conducting debt management activities in this manner promotes efficient functioning of NZGS secondary markets, supports NZGS market liquidity, improves investor confidence, reduces NZGS risk premia, and ultimately minimises Crown funding costs.

The proposed changes discussed in this document are designed to more closely align the conditions of primary market access with the objective of NZDM.

¹ The current Framework can be found here:

<https://debtmanagement.treasury.govt.nz/government-securities/primary-market-access-information>

3. Summary of proposed changes

The updated Framework is similar to the one adopted in September 2019. However, there are a number of proposed changes, with varying degrees of materiality. These can be summarised as:

- a name change, where Registered Tender Counterparties (RTCs) will now be referred to as Primary Dealers (PDs). This is to bring terminology in line with peers and to avoid confusion
- a name change from Acceptance Criteria, Maintenance Criteria and Expectations to Essential Criteria, Maintenance Criteria and Valued Functions and Activities
- various changes within the sections above, including a change in credit rating requirements
- the introduction of a new Probation status for PDs.

4. Timeframes

NZDM seeks feedback from NZGS market participants regarding the proposed updated framework. All feedback must be received by **COB 5 April 2024**.

NZDM will review all formal responses and will expect to communicate final changes to the market no later than **10 June 2024**. Following this, we would expect to operate under the updated Framework beginning **1 July 2024**.

It is NZDM's intention that existing Registered Tender Counterparties will not be required to reapply under the updated Framework and will automatically become Primary Dealers. This is on the basis that NZDM is satisfied that those Registered Tender Counterparties already meet the essential and maintenance criteria under this amended framework. Prospective new Primary Dealers may apply under the new framework once the final changes are announced.

5. NZGS Primary Market Access Framework

a. Essential Criteria

In order to become or remain a PD, these seven requirements **must** be met.

1. The PD must be an entity with separate legal personality, and only one application per corporate group will be accepted.

An applicant must be a distinct legal entity (as opposed to for example an unincorporated joint venture or partnership). Only one application per corporate group should be submitted.

For example, parent, subsidiaries, multiple branches or offshore legal entities of the same banking family should have a single PD relationship with NZDM.

2. The PD must be eligible to hold NZGS under the relevant Information Memorandum.

These documents provide further information relating to NZGS including: issuance, taxation, registration, settlement, transfer, payments and any applicable selling restrictions.

3. The PD must demonstrate a long term commitment to the NZGS market.

They must uphold the reputation of NZGS markets and support the overall efficiency and functioning of the secondary market in NZGS products.

A key objective of the Primary Market Access Framework is to support NZGS secondary market liquidity, thereby reducing any liquidity premiums on NZGS and consequently minimising the Crown's funding costs. Accordingly, to be granted PD status, an institution must be able to demonstrate that they actively support liquidity in NZGS secondary markets. In general, it is NZDM's expectation that this requirement will limit Primary Dealers to banks, broker dealers and similar financial institutions providing market-making services to clients and customers.

NZDM's desire is to have a Primary Dealer set that is as large and diverse as possible and therefore would welcome applicants from new entrants to NZGS markets. However, NZDM also needs to be confident that any proposed Primary Dealer will be able to consistently meet the Maintenance Criteria (outlined below) and meet NZDM's expectations that they will actively support secondary market liquidity in NZGS products. Any new entrant will need to provide evidence of their commitment to operating a sustainable NZGS distribution business and clearly demonstrate their support for liquidity in secondary markets for NZGS products before being approved as a Primary Dealer. NZDM acknowledges that any new entrants will not have the comparative advantage of primary market access and will take this into account when assessing any new applications.

Demonstration of support will include submitting the NZGS Turnover Survey. Other relevant information provided by the applicant entity may also be considered as part of the application.

4. The PD must have sufficient long term credit strength to participate in the NZGB market.

This criterion may be satisfied by:

- A minimum long-term credit rating of BBB-/Baa3 or have their obligations guaranteed by a parent entity with a minimum long term credit rating of BBB-/Baa3.

Or in the absence of a credit rating:

- NZDM may accept the credit standing of an unrated entity through the provision of data around capital, balance sheet, risk management and regulatory requirements. Acceptance (or not) will be solely at NZDMs discretion.

5. *The PD must be able to participate in NZGS tenders via access to the Yieldbroker DEBTS application.*

All NZGS tenders are conducted over the Yieldbroker Debts application as defined in the 'Operating Rules and Guidelines Government Securities Tenders' (for further details see: <https://debtmanagement.treasury.govt.nz/sites/default/files/2023-11/nz-govt-securities-operating-rules-and-guidelines-28nov23.pdf>).

6. *The PD must allow their name and generic contact details to be published on NZDM's website as a PD.*

The list of PDs will be published on NZDM's website to create transparency for investors around those entities that can access the NZGS primary market.

7. *The PD must have sufficient staffing and technology resources available to ensure performance is not impacted through key personnel and technology issues.*

Risks across key personnel and necessary technology should be appropriately managed, including from a business continuity perspective.

b. Maintenance Criteria

As well as continually meeting the Essential Criteria above, to remain a PD, the PD must meet the following two ongoing requirements:

1. *Participate regularly in NZGS tenders and be successfully allocated a material and consistent amount of NZGBs and/or NZIIBs issued via tender.*

Through continual participation in tendering activities of NZGBs and NZIIBs, PDs support the NZGS primary market. NZDM's current view of "material and consistent" is a minimum allocation of around 5% of the total combined amount of NZGBs and NZIIBs issued via tender over the medium term.

2. *Complete and submit, on a monthly basis, the NZGS Turnover Survey outlining all secondary market activity that the entity has undertaken.²*

Information provided by the introduction of a monthly turnover survey will help to:

- assess general trends in overall NZGS market liquidity
- understand each PDs secondary market performance and relative geographic strengths, and
- support investor relations activities.

² The NZGS Turnover Survey should be completed within 10 business days of month end. The survey should cover transactions across all legal entities within the Primary Dealer's group, where possible and appropriate.

c. Valued Functions and Activities

In addition to meeting the Essential and Maintenance Criteria above, NZDM also values the PD's performing the functions below. While NZDM acknowledges each PD will differ in resources available to perform these functions, performance in these areas will be assessed by NZDM.

- I. Participate regularly in all NZGS products (NZGB, NZIIB and NZTBs) in both primary and secondary markets.*
- II. Actively promote NZGS markets via engagement with, and the provision of relevant research to, the investor community.*
- III. Support price transparency in NZGS products through the provision of accurate secondary market prices.*
- IV. Commit to make fair and reasonable prices to investors in NZGS products at all reasonable times.*
- v. Provide NZDM with useful information about trends in pricing and demand for NZGS.*
- vi. In the event of NZGB-linked futures being relisted, actively support liquidity in this product.*

d. Primary Dealer Privileges

In return for fulfilling the obligations above, PDs are entitled to the following privileges.

- Only PDs will have access to primary NZGS tenders, which confers a comparative advantage in the distribution of NZGS to investors
- All PDs will be listed on the Treasury's Debt Management website, thereby supporting a PD's distribution business through visibility to NZGS investors and endorsement by the Crown
- Only PDs will be appointed to NZGS syndication panels
- PDs will have preferential access to other NZDM activity, including investor relations events, conference participation, and non-issuance related transactional requirements
- PDs will receive regular feedback and peer comparison through an annual relationship review

The relative performance of PDs in relation to the Maintenance Criteria and Valued Functions and Activities will inform any appointments to syndicated issuance panels and the allocation of other activity across PDs.

e. Probation, Candidature and Exit Procedures

1. NZDM will also be instituting a new Probation status for PDs in the Framework. A candidate PD or a PD on probation will have all the normal privileges of a full PD but will generally not be eligible for appointment to syndicate panels.

Newly Appointed Primary Dealers

2. Newly appointed PDs will enter this probationary period as a candidate for a period of no more than one year.

Specific terms of the candidature will remain confidential between the PD and NZDM, including the specific period. During this period the candidate's performance will be measured against the criteria listed in sections 5 a), 5 b) and 5 c) above.

Following the end of the candidature period, the PD will be informed if they have been granted full PD Status. If performance is insufficient, NZDM may choose to extend the candidature period or to remove PD status from the candidate.

Existing Primary Dealers

3. Similarly, existing PDs may have a period of probation imposed upon them, should the performance of the PD deteriorate below minimum requirements. This may be caused by the dealer failing to meet the Maintenance Criteria or temporarily being unable to meet the Essential Criteria (as determined by NZDM).

Should the PD be put on probation, it is expected that senior representatives of the PD will meet with NZDM and that a plan to improve performance will be agreed upon. The probationary period will be for a set period of no more than one year.

At the end of the period, NZDM will determine if the PD performing sufficiently to be granted full PD status. If performance is insufficient, NZDM may choose to extend the probation period or remove PD status from the PD panel.

4. Notwithstanding sections e.1-3 above, NZDM reserves the right to remove an existing PD at its absolute discretion. This may be a result of the PD no longer being able to meet the Essential Criteria, or through actions of the PD that NZDM find unacceptable.

If an existing PD wishes to exit voluntarily, the PD should liaise with NZDM to minimise any market disruption, through the orderly unwind of positions and the timing of the announcement to the market.

6. Consultation Questions

NZDM welcomes feedback from all NZGS market participants on the proposed updated framework, with a particular focus on feedback from current or prospective Primary Dealers. In addition to the specific questions below, general feedback is also welcomed.

Questions for consideration/feedback:

1. Do you think the proposed changes will affect/change the functioning and liquidity of NZGS markets?
2. If you are an existing Registered Tender Counterparty does your institution intend to become a Primary Dealer under the proposed updated framework?
3. Is there any objection to NZDMs intention to automatically make existing Registered Tender Counterparties Primary Dealers?
4. Do you foresee any practical or legal impediments to the proposed changes?
5. Do you foresee any unintended consequences to the proposed changes?

Once formal feedback has been received, NZDM may follow up with discussion on specific points. An entity's feedback on this proposed framework will not be shared with any other survey participant.

Contact

All feedback should be sent by email to paxton.mckenzie@treasury.govt.nz and nick.webb@treasury.govt.nz.

Feedback must be received by **COB 5 April 2024**.