

Consultation Document

Primary Market Access – New Zealand Government Securities

1. Purpose

The purpose of this document is to outline a proposed new framework for Primary Market Access to New Zealand Government Securities and to invite feedback from market participants on the proposed changes.

The Treasury has recently reviewed the Operating Rules and Guidelines with the aim of developing a comprehensive set of criteria and expectations covering primary market access to issuance of nominal 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 Operating Rules and Guidelines for New Zealand Government Securities Tenders require any institution wishing to participate in primary market activities to be registered as a tender counterparty (**Registered Tender Counterparty**) with the Treasury.

Prior to 2008, NZGS issuance operations were undertaken by the Reserve Bank of New Zealand (RBNZ) using the NZClear tendering system. The Treasury took over all tendering activity from the RBNZ in April 2008 and continued to use NZClear for all issuance until January 2013, at which time the Yieldbroker auction system was implemented as a replacement tendering system. No changes to the application and approval process to become a Registered Tender Counterparty were made at either of these times.

Accordingly, entities who wish to apply to become a Registered Tender Counterparty currently need to meet the following two requirements:

1. Be eligible to hold NZGS under the relevant Information Memorandum; and
2. Have a minimum credit rating of A-/A3 or have their obligations guaranteed by a parent entity with a minimum rating of A-/A3, or be a Crown financial institution.

No other formal, or informal, requirements are placed on registered tender counterparties under the existing Operating Rules and Guidelines.

3. Rationale for Change

The objective of public debt management is to minimise the long-term cost of Crown debt with due consideration to risk.

In support of 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 public debt management. The overall aim of the proposed changes set out in this document is to develop a framework which supports the liquidity of NZGS markets and assists Registered Tender Counterparties perform their role of intermediating primary market supply to end investors.

4. Timeframes and Transition Arrangements

The Treasury seeks feedback from NZGS market participants regarding the proposed changes contained within this document over the next four weeks. All feedback must be received by **27 May 2019**.

The Treasury will review all formal responses, determine the final Primary Market Framework and, subject to any significant feedback, expect to communicate changes no later than **10 June 2019**. Following this, transitioning to the updated Primary Market Framework is expected to take place on **1 July 2019**.

Because the new Primary Market Framework will change the terms of access to NZGS tenders, Registered Tender Counterparties will need to reapply under the new arrangements. Therefore, after 1 July 2019, only institutions that have been approved as a Registered Tender Counterparty under the new Primary Market Framework will be eligible to participate in NZGS primary market activities.

5. Proposed Changes to Primary Market Framework

The Treasury seeks feedback on the following proposed key changes to the Primary Market Framework:

- a. Criteria to become a Registered Tender Counterparty (Acceptance Criteria)
- b. Criteria to remain a Registered Tender Counterparty (Maintenance Criteria)
- c. Treasury's expectations of a Registered Tender Counterparty (Expectations)
- d. Benefits of being a Registered Tender Counterparty (Benefits)
- e. Formal review process (Review)

At a high level, the changes set out in these sections aim to create a more structured and formalised relationship between the Treasury, as the Crown's agent for the issuance of NZGS, and intermediaries, who service end investors in NZGS and support the secondary market for NZGS; both critical to ensuring the objective of public debt management is met.

The framework more clearly sets out the requirements and expectations the Treasury has on registered tender counterparties in order to support both primary and secondary NZGS markets. The framework also aims to ensure that registered tender counterparties accrue benefits that reflect the value they provide to the NZGS market, the Treasury and the Crown.

Benefits arise in two forms. As issuer, actions the Treasury takes can support a Registered Tender Counterparty. This includes utilising the institution's services for related or unrelated market activities e.g. appointment to syndication panels, investor roadshows, derivative or investment business undertaken by the Treasury. Separately, access to the primary market for NZGS and formal recognition as a registered tender counterparty, in and of itself, confers a comparative advantage to operate a successful NZGS distribution business.

The ability of Registered Tender Counterparties to be able to operate a financially sustainable NZGS distribution business is critical to vibrant and robust NZGS markets, and therefore, the overall success of public debt management. As such, the proposals that follow aim to ensure that only intermediaries that are truly supporting NZGS markets will have access to the primary market, thereby creating a mutually beneficial arrangement for Registered Tender Counterparties and the Crown.

a. Acceptance Criteria

Registered Tender Counterparties **must** satisfy the following six requirements:

1. *The Registered Tender Counterparty must be a standalone legal entity, and only one application per legal entity will be accepted.*

Registered Tender Counterparties must be standalone and distinct legal entities. This means that only one application per legal entity should be submitted (for example, applications made by branches of a bank will not be accepted).

The Treasury's strong preference is to have only one Registered Tender Counterparty relationship with per group of legal entities. For example, parent, subsidiaries or offshore legal entities of the same banking family should, have a single Registered Tender Counterparty relationship with the Treasury.

- 2. The Registered Tender Counterparty must be eligible to hold NZGS under the relevant Information Memorandum.*

This is an existing requirement.

- 3. The Registered Tender Counterparty must have 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.*

The requirement for a Registered Tender Counterparty to have a minimum credit rating is not a new requirement. However, the minimum required credit rating has been lowered to reflect the low risk associated with primary market transactions executed on a delivery versus payment basis.

- 4. The Registered Tender Counterparty must allow their name and generic contact details to be published on the Treasury's debt management website as a Registered Tender Counterparty.*

The list of Registered Tender Counterparties will be published on the Treasury's debt management website to create transparency for investors around those entities that can access the NZGS primary market.

- 5. The Registered Tender Counterparty must have the ability 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' (see: https://debtmanagement.treasury.govt.nz/sites/default/files/media/media_attachment/operating-rules-guidelines-dec18.pdf for further details).

- 6. The Registered Tender Counterparty must satisfy the Treasury that they play a significant role in the intermediation of NZGS products to investors.*

A key objective of the new primary market framework is to support NZGS secondary market liquidity. Accordingly, to be granted primary market access, an institution must be able to demonstrate that they actively support NZGS secondary markets. In general, it is the Treasury's expectation that this requirement will limit Registered Tender Counterparties to banks, broker dealers and similar financial institutions providing market-making services to clients and customers.

Demonstration of support will include submitting the NZGS Turnover Survey in Appendix Two covering the six months prior to application. Other relevant information provided by the applicant entity may also be considered as part of the application.

b. Maintenance Criteria

As well as continually meeting the Acceptance Criteria above, to remain a registered tender counterparty, the Registered Tender Counterparty **must** meet the following two ongoing requirements:

1. *Participate regularly in NZGS tenders and be successfully allocated at least 5% of the total amount of NZGBs and/or NZIIBs issued via tender on a 6-month rolling average basis.*¹

Through continual participation in tendering activities of NZGBs and NZIIBs, Registered Tender Counterparties support the NZGS primary market. Achievement of this requirement will be assessed from six-months after a registered tender counterparty has been approved.

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 Registered Tender Counterparty's secondary market performance and relative geographic strengths; and
- Support investor relations activities.

c. Expectations

As well as needing to satisfy each of the mandatory requirements in the previous sections, there will be several *Expectations* of Registered Tender Counterparties.

All Registered Tender Counterparties are **expected** to:

- Participate regularly in all NZGS primary market activities, beyond the minimum requirements set out in the preceding section;
- Actively promote NZGS markets via engagement with, and the provision of relevant research to, the investor community;
- Support price transparency in NZGS products through the provision of accurate secondary market prices;
- Commit to make, at all reasonable times³, in all NZGS products, fair and reasonable prices to investors in NZGS markets;

¹ For example, if over the previous six months, issuance via tender of NZGBs totalled 2,100 million and issuance via tender of NZIIBs totalled 600 million, then an entity would need to have been allocated a total of $5\% * (2,100 + 600) = 135$ million in either NZGBs or NZIIBs over the period.

² The NZGS Turnover Survey should be completed by the registered entity for transactions across all legal entities within their group, where appropriate.

³ eg, during trading hours in the time zones where the Registered Tender Counterparty operates a NZGS distribution business.

- Uphold the reputation of NZGS markets and support the overall efficiency and functioning of the secondary market in NZGS products; and
- Provide access to NZGS products for New Zealand retail investors.

d. Benefits

There are several Benefits that result from being a Registered Tender Counterparty, these benefits include:

- Access to the primary market for NZGS, supporting the ability to provide liquidity in NZGS products to investors. Only Registered Tender Counterparties will be able to access primary NZGS tenders, which confers a comparative advantage in the distribution of NZGS to investors;
- Listing on the Treasury's debt management website as a Registered Tender Counterparty, supporting the Registered Tender Counterparty's distribution business through visibility to NZGS investors and endorsement by the Crown;
- Eligibility for appointment to syndicated issuance panels, only Registered Tender Counterparties will be appointed to NZGS syndication panels;
- Treasury support for other activity conducted by the Registered Tender Counterparty including investor relations events, conference participation, and non-issuance related transactional requirements; and
- The ability to receive regular feedback and peer comparison by way of an annual relationship review.

The relative performance of Registered Tender Counterparties in relation to the intermediation of NZGS will inform any appointments to syndicated issuance panels and the allocation of other activity across institutions.

e. Review

Registered Tender Counterparties must continue to meet the conditions set out above in the Acceptance Criteria, Maintenance Criteria and Expectations sections.

Should a Registered Tender Counterparty not be able to meet any of the Acceptance Criteria, then their status as a registered tender counterparty **will** immediately be revoked.

Failure to meet the Maintenance Criteria, or Expectations requirements, **may result** in an entity having their status as a Registered Tender Counterparty revoked. At all times registration will remain at the Treasury's discretion.

The Treasury will provide Registered Tender Counterparties formal feedback, at least annually, on their relative performance with respect to NZGS primary and secondary market activity. In addition, the review will provide an opportunity to discuss any issues pertinent to the operation and functioning of NZGS markets.

The first formal review of registered tender counterparties will occur no earlier than six months after transition to the new requirements.

6. Consultation Questions

NZGS market participants are invited to provide feedback on the proposed changes contained within this document. The following questions address specific topics for feedback. General feedback is also welcomed.

Questions for consideration/feedback:

1. Do you think the proposed new Primary Market Framework will improve the functioning and liquidity of NZGS markets?
2. Will your institution be able to satisfy the requirements set out under the acceptance criteria, maintenance criteria and expectations for registered tender counterparties? Would you like to see any changes to these requirements?
3. Does your institution foresee any practical or legal impediments to the proposed changes?
4. Does your institution have any comments, concerns or questions, regarding the proposed timeframes and transition arrangements?

Once formal feedback has been received, the Treasury may follow up with discussion of specific points.

Contact

All feedback and correspondence should be directed, in writing, via email to Matthew.Collin@treasury.govt.nz

Feedback must be received prior to 27 May 2019.

Appendix One – Registered Tender Counterparty Application Form

New Zealand Debt Management, The Treasury Application for Registration Tender Counterparty Government Securities Tenders

INTRODUCTION

Thank you for your interest in applying to become a Registered Tender Counterparty with the Treasury.

Registered Tender Counterparties are eligible to participate in primary market activities (tenders) for New Zealand Government Bonds (**NZGBs**), New Zealand Government Inflation-Indexed Bonds (**NZIIBs**) and New Zealand Treasury Bills (**NZTBs**); collectively referred to as New Zealand Government Securities (**NZGS**).

1. Acceptance Criteria

To qualify for registration, applicant institutions must at least:

- I. Be a standalone legal entity;
- II. Be eligible to hold NZGS under the terms of the relevant Information Memorandum;
- III. Have 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;
- IV. Consent to having their institution's name and generic contact information published on the Treasury's debt management website as a registered tender counterparty;
- V. Have the ability to participate in NZGS tenders via access to the Yieldbroker DEBTS application; and
- VI. Satisfy the Treasury that they play a significant role in the intermediation of NZGS products to investors (demonstrated, for example, by submitting the NZGS Turnover Survey for the previous 6 months).

2. Maintenance Criteria

Once registered, a counterparty must meet the following two requirements in order to retain registration:

- I. The counterparty must participate regularly in NZGS tenders and be successfully allocated at least 5% of the total amount of NZGBs and/or NZIIBs issued via tender on a 6-month rolling average basis⁴; and
- II. Complete and submit, on a monthly basis, the NZGS Turnover Survey outlining all secondary market activity that the entity has undertaken.⁵

⁴ For example, if over the previous six months, issuance via tender of NZGBs totalled 2,100 million and issuance via tender of NZIIBs totalled 600 million, then an entity would need to have been allocated a total of 5% * (2,100 + 600) = 135 million in either NZGBs or NZIIBs over the period.

⁵ The NZGS Turnover Survey should be completed by the registered entity for transactions across all legal entities within their group, where appropriate.

3. Expectations

All registered tender counterparties are expected to:

- I. Participate regularly in all NZGS primary market activities, beyond the minimum requirements set out in the preceding section;
- 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, at all reasonable times⁶, in all NZGS products, fair and reasonable prices to investors in NZGS markets;
- V. Uphold the reputation of NZGS markets and support the overall efficiency and functioning of the secondary market in NZGS products; and
- VI. Provide access to NZGS products for New Zealand retail investors.

4. Conditions

Adherence to the Acceptance Criteria, Maintenance Criteria, and Expectations of registered tender counterparties will be monitored on an ongoing basis.

5. Review

Should a registered tender counterparty no longer be able to meet any of the Acceptance Criteria, then their status as a registered tender counterparty will immediately be revoked. Failure to meet any of the Maintenance Criteria or Expectations of registered tender counterparties may result in an entity having their tender counterparty registration revoked.

At all times the Treasury will reserve the right to suspend or revoke any counterparty's registration, at any time, in its absolute discretion.

Additional Information

In addition to completing the attached application form, please ensure the following information is provided with your application:

1. Organisational structure, showing company names up to ultimate parent, percentage of ownership, and relationship with entity (ie subsidiary or branch operation);
2. Nature and degree of parent support / guarantee, including a copy of the guarantee (if applicable);
3. Credit rating information, including any recent rating actions or comments; and
4. Any other information you consider to be relevant to this application.

⁶ Eg, during trading hours in the time zones where the Registered Tender Counterparty operates a NZGS distribution business.

Application processing

The Treasury expects to be able to process applications within 10 business days from receipt of all applicable documentation from an applicant counterparty. However, some applications may take longer to process.

Following receipt of this application, the Treasury will:

- acknowledge the receipt of this application;
- confirm the approval/rejection of the application within 10 business days;
- confirm the effective date of registration (if approved); and
- verify the NZClear details supplied.

Please ensure you are familiar with the following documents before completing your application.

- **Operating Rules and Guidelines – Government Securities Tenders**
- **Information Memorandum – New Zealand Government Bonds**
- **Information Memorandum – New Zealand Government Inflation-Indexed Bonds**
- **Information Memorandum – New Zealand Government Treasury Bills**

These documents are available from <https://debtmanagement.treasury.govt.nz/>.

Further assistance

Any queries regarding the application process, completed applications and supporting information, can be directed to:

New Zealand Debt Management
Portfolio Management Group
The Treasury
PO Box 3724
Wellington 6140
Ph +64 4 917 6073
Email: PortfolioManagement@treasury.govt.nz

To: Portfolio Management, New Zealand Debt Management,
The Treasury
PO Box 3724
Wellington 6140

**APPLICATION FOR REGISTRATION AS A TENDER COUNTERPARTY GOVERNMENT
SECURITIES TENDERS**

Institution:

ATTACHMENTS:

- 1. Applicant Institution
- 2. Applicant Confirmation – Government Securities Tenders
- 3. NZClear Settlement Instructions, mnemonic(s)
- 4. Authorised Signatories
- 5. Application Authority
- 6. NZGS Turnover Survey (or similar)

SUPPLEMENTARY INFORMATION:

- 7. Organisational Structure
- 8. Nature and Degree of Parent Support / Guarantee (if applicable)
- 9. Copy of Parental Guarantee (if applicable)
- 10. Credit Rating Information
- 11. Other Information (if applicable)

FOR INTERNAL USE ONLY

Application Approved: _____

Date: _____

Notification sent: _____

1. APPLICANT INSTITUTION

Full legal name _____

Physical address _____

Postal address _____

Contact details
(in respect of this application) _____

Email address _____

Contact phone number _____

2. APPLICANT CONFIRMATION – GOVERNMENT SECURITIES TENDERS

The applicant institution confirms that it:

- is seeking approval for registration to participate in primary market tenders of NZGS;
- is eligible to hold NZGS under the terms of the:
 - Information Memorandum – New Zealand Government Bonds;
 - Information Memorandum – New Zealand Government Inflation-Indexed Bonds;
 - Information Memorandum – New Zealand Government Treasury Bills; and
- has a minimum long-term credit rating of BBB-/Baa3, or has its obligations guaranteed by a parent entity with a minimum long-term credit rating of BBB-/Baa3;
- consents to having its name and generic contact details published on the Treasury’s debt management website as a registered tender counterparty;
- has the ability to participate in NZGS tenders via access to the Yieldbroker DEBTS application; and
- agrees to abide by the Operating Rules and Guidelines – Government Securities Tenders.

If approved as a registered tender counterparty, the applicant also agrees to:

1. Participate regularly in all NZGS primary market activities and be successfully allocated at least 5% of the total amount of NZGBs and/or NZIIBs issued via tender on a 6-month rolling average basis;
2. Complete and submit, on a monthly basis, the NZGS Turnover Survey outlining all secondary market activity that the entity has undertaken;
3. Actively promote NZGS markets via engagement with, and the provision of relevant research to, the investor community;
4. Support price transparency in NZGS products through the provision of accurate secondary market prices;
5. Commit to make, at all times, in all NZGS products, fair and reasonable prices to investors in NZGS markets;
6. Uphold the reputation of NZGS markets and support the overall efficiency and functioning of the secondary market in NZGS products; and
7. Where possible, provide access to NZGS products for New Zealand retail investors.

Name * _____

Position: _____

Signature _____

* must be listed on Power of Attorney

3. NZCLEAR SETTLEMENT INSTRUCTIONS, MNEMONICS

Please advise the NZClear mnemonics that will be used by your institution for participating in tenders and for settlement purposes.

NZClear mnemonic	NZClear member name
_____	_____
_____	_____

Important:

The NZClear mnemonics authorised by you in this section will be used by the Treasury as the primary determinant of the authenticity of bids and offers received and settled via NZClear. If the NZClear mnemonic used by the Tender Counterparty differs from that provided to Treasury in this application, further tests of authenticity of the mnemonic and bid/s (or offer/s) may be made at the Treasury’s absolute discretion. The Treasury will be under no obligation either at law, or in equity, to make any further enquiry.

In the event of an electronic tendering failure, telephone bids (or offers) may be accepted at the Treasury’s discretion. In the event of such telephone bids (or offers) being accepted, the Treasury will validate the bid (or offer) by requiring dealers to advise the Treasury of the Tender Counterparty’s name, the authorised NZClear mnemonic and to confirm the authorisation status of the dealer. Other information may be sought by the Treasury to confirm the authenticity of telephone bids (or offers).

A maximum of two NZClear mnemonics are permitted for each Tender Counterparty.

The same NZClear mnemonic is to be used for both, placing bids (or offers as may be the case) and transactional settlement for that tender.

Any changes to NZClear mnemonics must be made in writing by the Tender Counterparty to the Treasury. These changes will be effective from two business days after the date of the Treasury’s confirmation of receipt of them.

If you have any queries regarding NZClear mnemonics, please contact the NZClear Helpdesk on +64 4 471 3918.

4. AUTHORISED SIGNATORIES

Please advise the person/s who has/have authority to authorise any subsequent changes to the information contained in this application, including the Settlement Instructions which will be used for placing bids (or offers) and for settlement activities.

Name	Position	Signature
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

5. APPLICATION AUTHORITY

Signed by _____
Name of institution

by its attorney(s): _____

in the presence of: _____

Please Note

The following documents must be supplied with this application:

1. Original Power of Attorney to be sighted upon delivery of this document to the Treasury, or a copy of the Power of Attorney certified by a solicitor as being a true copy of the original.
2. A Certificate of Non Revocation of Power of Attorney.

Appendix Two – NZGS Turnover Survey Form

New Zealand Government Securities Turnover Survey

Survey Respondent:

Month/Year:

Tenor:	All T-Bills	NZGB 2020	NZGB 2021	NZGB 2023	NZGB 2025	NZIB 2025	NZGB 2027	NZGB 2029	NZIB 2030	NZGB 2033	NZIB 2035	NZGB 2037	NZIB 2040	Bonds Total
Interbank	Purchases (\$m)													0.00
	Purchases (#)													0
	Sales (\$m)													0.00
	Sales (#)													0
Internal Balance Sheet	Purchases (\$m)													0.00
	Purchases (#)													0
	Sales (\$m)													0.00
	Sales (#)													0
NZ Domestic	Purchases (\$m)													0.00
	Purchases (#)													0
	Sales (\$m)													0.00
	Sales (#)													0
Australia	Purchases (\$m)													0.00
	Purchases (#)													0
	Sales (\$m)													0.00
	Sales (#)													0
Japan	Purchases (\$m)													0.00
	Purchases (#)													0
	Sales (\$m)													0.00
	Sales (#)													0
Asia (ex Japan)	Purchases (\$m)													0.00
	Purchases (#)													0
	Sales (\$m)													0.00
	Sales (#)													0
UK	Purchases (\$m)													0.00
	Purchases (#)													0
	Sales (\$m)													0.00
	Sales (#)													0
Europe	Purchases (\$m)													0.00
	Purchases (#)													0
	Sales (\$m)													0.00
	Sales (#)													0
North America	Purchases (\$m)													0.00
	Purchases (#)													0
	Sales (\$m)													0.00
	Sales (#)													0
South America	Purchases (\$m)													0.00
	Purchases (#)													0
	Sales (\$m)													0.00
	Sales (#)													0
Other International	Purchases (\$m)													0.00
	Purchases (#)													0
	Sales (\$m)													0.00
	Sales (#)													0
Tenders - Primary	Purchases (\$m)													0.00
	Purchases (#)													0
	Sales (\$m)													0.00
	Sales (#)													0
Total Outright Transactions	Purchases (\$m)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Purchases (#)	0	0	0	0	0	0	0	0	0	0	0	0	0
	Sales (\$m)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Sales (#)	0	0	0	0	0	0	0	0	0	0	0	0	0
Repo Transactions	Repo (\$m)													0.00
	Repo (#)													0