



Summary of Consultation Feedback

Primary Market Access Framework – New Zealand Government Securities

The Treasury received formal responses from 10 institutions as part of the consultation process. Below is a summary of the feedback received in response to each of the consultation questions, along with the Treasury's responses.

1. Do you think the proposed new Primary Market Access Framework will improve the functioning and liquidity of NZGS markets?

Feedback:

Market participants acknowledged the proposed changes set out in the new framework were broadly consistent with the requirements in other sovereign bond markets. Overall, respondents indicated that over time these changes would improve the functioning of NZGS markets as Registered Tender Counterparties become more relevant and accountable.

Views regarding market liquidity were mixed. Some respondents thought the changes would incentivise registered tender counterparties to be more active in the provision of secondary market liquidity, however most noted that ultimately, liquidity was a function of market size, number of market makers and diversity of the investor base. There was concern from a few respondents that the changes may lead to a reduction of participants in the market, which could ultimately be detrimental to liquidity.

Treasury Response:

It is important to emphasise that the changes set out under this framework relate to primary market activities only. The Treasury believes that clearly delineating primary market activities from the secondary market is vital to ensuring secondary market turnover can be maximised. Market participants that are not Registered Tender Counterparties can still manage risk and execute transactions in the secondary market. By incentivising Registered Tender Counterparties to be more active in the secondary market, the Treasury considers that all participants will benefit from better price transparency and consistently higher levels of secondary market liquidity over time.

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?

Feedback:

There were two main issues raised by respondents to this question. The first regarded **Maintenance Criteria 1: regular participation in NZGS tenders**. In general, respondents acknowledged the need for Registered Tender Counterparties to make use of their primary market access and actively participate in tenders, however there was some concern raised about having a specific minimum allocation number and the outcomes that this may generate.

The second area of feedback related to the last **Expectation Criteria: Provide access to NZGS products for New Zealand retail investors**. A few respondents noted that this would not be possible for them to meet, given legal considerations and organisational structure.

The Treasury Response:

The Treasury accepts the concerns raised by respondents regarding having a specific minimum allocation number included in the Maintenance Criteria. It is important however, that Registered Tender Counterparties have clarity on what constitutes the required level of tender participation on an ongoing basis. To achieve this balance, Maintenance Criteria 1 has been reworded as follows:

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

Detail around this criteria has been included to define the Treasury's current view of what constitutes "material and consistent" (a minimum allocation of *around 5%* of the total combined amount of NZGBs and NZIIBs issued via tender over the medium term). The Treasury also recognises that this requirement may change over time dependent on market conditions, number of Registered Tender Counterparties, and other external factors. Treasury will regularly review all aspects of the Primary Market Access Framework to ensure they are still fit for purpose and continue to deliver outcomes that are consistent with the overall objective of public debt management.

With respect to retail, the Treasury's intention by including this Expectation was to incentivise Registered Tender Counterparties to provide access to NZGS products to New Zealand retail investors *where possible*. It is for this reason that it was not included as a mandatory requirement; this recognises that there are instances where a Registered Tender Counterparty will not be able to meet this criteria. To ensure clarity on this point, the Expectations section now states "*that Registered Tender Counterparties are expected, but not required, to meet the criteria below*". The last criteria has also been changed from "*provide access*" to "*facilitate access*" which will capture instances where institutions are not directly dealing with retail, but are helping to distribute NZGS products through retail channels.

3. Does your institution foresee any practical or legal impediments to the proposed changes?

Feedback:

Respondents indicated that the proposed changes created no specific legal issues for them, apart from noting the challenges regarding the provision of access to retail investors (discussed above). Clarification was sought regarding the expectation to provide research to investors and how this might fit with MiFID regulations.

There was also a question regarding the Treasury's view on any potential competition issues that might be associated with the proposed changes.

Treasury Response:

The Expectations section of the framework has been amended to specify that it is not mandatory for Registered Tender Counterparties to meet all criteria in this section. The Treasury acknowledges that each Registered Tender Counterparty will differ in their ability to meet these expectations depending on their business strategy and organisational structure.

The final version of the Primary Market Access Framework has been updated to provide further clarity around the Treasury's purpose in restricting access to primary market activities and outlines in more detail the process by which a new entrant can qualify as a Registered Tender Counterparty.

4. Does your institution have any comments, concerns or questions regarding the proposed timeframes and transition arrangements?

Feedback:

No material feedback was received regarding timeframes or transition arrangements.

5. Other General Feedback

Feedback:

Additional feedback was provided on the NZGS Turnover Survey in Appendix Two. Respondents highlighted the need for consistency in terms of how this survey was populated, specifically regarding the treatment of internal transactions and the type of Repo transactions that were reported. There was a further suggestion that the Treasury explore making this information available, in aggregated format, to investors and intermediaries to assist with transparency of transaction volumes and general liquidity trends in NZGS markets.

The Treasury Response:

The Treasury agrees that it is critical that the Turnover Survey is completed on a consistent basis and will undertake to work with Registered Tender Counterparties on how the survey should be populated. Formal guidance on how to complete the survey to ensure the data that is captured is accurate and reflective of genuine secondary market turnover will also be provided. The Treasury will also undertake exploration into how this data might be summarised, then disseminated to investors and intermediaries to support additional transparency regarding secondary market activity.

Contact

For further information regarding specific feedback, please contact:

Matthew Collin
Head of Portfolio Management, Capital Markets
Matthew.Collin@treasury.govt.nz

DDI: [+64 4 917 6015](tel:+6449176015)