



Liquidity Policy

Annex: Liquid Assets

Prudential Supervision Department
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Liquid assets

1. This Annex defines primary and secondary liquid assets for the purpose of calculating the one week and one mismatch ratios as required by the Reserve Bank's liquidity policy.
2. **Primary liquid assets** contain the following classes of assets:
 - (a) Exchange Settlement Account balances held at the Reserve Bank (no haircut);
 - (b) New Zealand dollar denominated notes and coins held by the registered bank and demand balances with other New Zealand registered banks (no haircut);
 - (c) foreign currency notes and coins held by the registered bank, and foreign currency demand balances held with overseas banks, subject to a five percentage point haircut; and
 - (d) securities as listed in Annex 1, with the corresponding haircuts listed in that annex.
3. **Secondary liquid assets** contain the following classes of assets:
 - (a) securities as listed in Annex 2, with the corresponding haircuts listed in that annex.
4. Cover factors (also known as "risk margins" and "haircuts") which apply to each class of security included in liquid assets are detailed in Annex 1 and Annex 2.
5. The haircuts listed for corporate securities, asset-backed securities, and bonds issued by registered banks include a 5% additional margin to reflect the fact that the markets for these instruments are typically neither very deep nor liquid. (These haircuts are highlighted in bold italics in the attached.) The Reserve Bank may agree that the registered bank can remove the 5% add-on for a particular security, if the bank provides good evidence that it is frequently traded.
6. In place of the standard cover factors listed in the attached Annexes, the registered bank may apply the following cover factors to any security held by the bank which matures within the time horizon of the respective mismatch ratio calculation:
 - (a) Securities denominated in New Zealand dollars: 0%.
 - (b) Securities denominated in a foreign currency: 5%.
7. The credit ratings provided in Annex 1 and Annex 2 are Standard and Poors' ratings. Credit ratings by other acceptable ratings agencies which are broadly equivalent to the S&P ratings are to be allocated to the corresponding S&P rating.
8. For avoidance of doubt, types of security such as floating rate notes and subordinated debt, which may not be eligible in the Reserve Bank's Domestic Market Operations,

are eligible as liquid assets provided they fall into one of the issuer and rating categories in the attached.

9. Other than foreign currency denominated securities specifically referred to in the attached, all securities must be denominated in New Zealand dollars.
10. The following **eligibility limits** apply:
 - (a) The limit for eligibility of all residential mortgage-backed securities (including covered bonds) held by the registered bank across all issuer names, after applying the haircuts, is 4% of the bank's total assets.
 - (b) The limit for eligibility of total RCDs issued across all names held by the registered bank, after applying the haircuts, is 2% of the bank's total assets.
 - (c) For the purpose of these limits, total assets is the figure published in the bank's latest disclosure statement.
 - (d) If the bank provides a back-up liquidity line covering more than 50% of a particular issue of asset-backed securities, that issue must not be included in the bank's liquid assets.

Annex 1 - Primary liquidity assets

Class	Security	Credit rating	Cover factor ("haircut")	
			maturity	
			< 3 years	≥ 3 years
New Zealand government securities			(per cent)	
	Treasury bills	AAA	1	-
	Bonds	AAA	1	3
	Inflation indexed bonds	AAA	1	3
Reserve Bank of New Zealand				
	RB bills	n/a	1	-
Local authority securities				
	Commercial paper†	A-1+	10	-
		A-1	15	-
		A-2	20	-
	Bonds	AAA	5	8
		AA- to AA+	8	10
		A- to A+	10	15
		BBB- to BBB+	15	20
State owned enterprises				
	Commercial paper†	A-1+	10	-
		A-1	15	-
		A-2	20	-
	Bonds	AAA	5	8
		AA- to AA+	8	10
		A- to A+	10	15
		BBB- to BBB+	15	20
"Kauri" securities ‡				
	Commercial paper†	A-1+	10	-
	Bonds	AAA	3	5
Residential Mortgage backed securities (including "covered bonds")				
Two name basis	Commercial paper†	A-1+	10	-
	Bonds	AAA	5	8
Single name basis	Commercial paper†	A-1+	19	19
	Bonds	AAA	19	19
† Commercial paper securities are discount securities with maturities of 365 days or less.				
‡ Kauri securities are NZD securities issued by overseas sovereign, supranational and quasi-sovereign entities.				

Annex 2 - Secondary liquidity assets

Class	Security	Credit rating	Cover factor ("haircut") ‡	
			maturity	
			< 3 years	≥ 3 years
(per cent)				
Securities guaranteed by the NZ government				
	Commercial paper†	A-1+	10	-
	Bonds	AAA	5	8
Securities guaranteed by AAA rated sovereign entities				
	Commercial paper†	A-1+	10	-
	Bonds	AAA	5	8
Foreign currency denominated securities guaranteed by the NZ government				
	Commercial paper†	see footnote *	15	-
	Bonds	see footnote *	13	15
Foreign currency denominated securities, issued or guaranteed by AAA rated sovereign entities, or issued by AAA rated supranationals				
	Commercial paper†	A-1+	15	-
	Bonds	AAA	10	13
Local authority securities				
	Commercial paper†	< A-2 and unrated	25	-
	Bonds	<BBB- and unrated	25	30
Corporate securities				
	Commercial paper†	A-1+	15	-
		A-1	20	-
		A-2	25	-
	Bonds	AAA	10	13
		AA- to AA+	13	15
		A- to A+	15	20
		BBB- to BBB+	20	25
Asset backed securities	<i>(ineligible if the bank is the liquidity provider for more than 50% of the issue)</i>			
	Commercial paper†	A-1+	15	-
		A-1	20	-
		A-2	25	-
	Bonds	AAA	10	13
		AA- to AA+	13	15
		A- to A+	15	20
		BBB- to BBB+	20	25

Annex 2 - Secondary liquidity assets (cont'd)

Class	Security	Credit rating	Cover factor ("haircut") ‡	
			maturity	
			< 3 years	≥ 3 years
<i>(per cent)</i>				
Registered bank securities				
	Registered Certificates of Deposit (RCDs)†	A-1+	10	-
		A-1	15	-
		A-2	20	-
	Bonds	AAA	10	13
		AA- to AA+	13	15
		A- to A+	15	20
		BBB- to BBB+	20	25
‡ haircuts shown in bold italics include 5% additional margin to reflect lower liquidity (see introductory notes)				
† Commercial paper and RCD securities are discount securities with maturities of 365 days or less.				
* the acceptable ratings are the current foreign currency sovereign ratings for New Zealand, short-term or long-term as applicable				