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Operational Guidelines: New Zealand Wholesale Funding Guarantee Facility

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Media statement

Wholesale Guarantee Facility - Details

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Wholesale Guarantee Facility - Details

Following the announcement by the Minister of Finance that the Crown will offer a wholesale funding guarantee facility to investment-grade financial institutions in New Zealand, the Treasury and the Reserve Bank have today released further details of the facility.

Treasury Secretary John Whitehead and Reserve Bank Governor Alan Bollard said: "The primary goal of the facility is to support the re-entry of New Zealand banks to regular foreign markets, on a scale commensurate with our economy's overall financing needs. At the same time, we've structured the guarantee facility in a way that will encourage issuers to graduate from using a government guarantee as soon as reasonably possible."

The facility will be available to financial institutions that have an investment grade credit rating and have substantial New Zealand borrowing and lending operations.

The facility will operate on an opt-in basis, by institution and by instrument. New issues of senior unsecured negotiable or transferable debt securities will be eligible for inclusion.

A guarantee fee will be charged, differentiated by the credit rating of the issuer and the term of the security being guaranteed. "The fee schedule is designed to ensure that the facility is used while it is needed, but to encourage issuers to graduate from using the guarantee as market conditions permit. The guarantee fee will be reviewed regularly and may be adjusted in future for new issues, in light of experience with the scheme."

No instruments will be covered by both this scheme and the deposit guarantee scheme.

Dr Bollard and Mr Whitehead noted that: "As a condition of continuing to receive fresh guarantees on new issues, banks utilising this guarantee facility will be required to maintain an additional 2 per cent capital buffer, on top of the existing required 4 per cent Tier 1 capital. Banks all have at least this much additional capital at present, and maintaining current levels of capital will help protect the Crown's position as guarantor".

The main features of the facility are outlined in the **attached briefing note (/../../../../economy/guarantee/wholesale/operationalguidelines)** .

Applications to join the facility should be addressed in the first instance to The Treasury which has overall delegated responsibility for management of the scheme.

Mr Whitehead noted that draft legal documentation has been prepared and will be finalised in the next few days.

"We expect to be in a position to sign issuers up to the facility within the next week or so. Policy guidelines, which will outline formally the way in which we will exercise our discretion under the scheme, will also be published shortly."

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