

CROWN WHOLESALE FUNDING GUARANTEE SCHEME - POLICY GUIDELINES

23 December 2008

1. Background

On 1 November 2008, the Minister of Finance announced the establishment of a Crown Wholesale Funding Guarantee Scheme. On 4 November 2008, the Minister of Finance delegated to the Secretary to the Treasury the authority to give in writing guarantees as part of the management and administration of that scheme, such guarantees to be in such form as the Secretary to the Treasury may from time to time determine.

These guidelines relate to the exercise of discretion under that delegated authority.

2. Discretion

Each decision to:

- a establish a Crown Wholesale Funding Guarantee Facility with a specific entity;
- b grant a Crown Wholesale Funding Guarantee under such a facility; or
- c issue or enter into related documentation under such a facility,

is at the sole discretion of the Crown.

3. Overarching Principles

The establishment of a Crown Wholesale Funding Guarantee Facility with a specific entity, and grant of a Crown Wholesale Funding Guarantee under such facility, must be “necessary or expedient in the public interest.”

The key “public interest” factors when considering the establishment of a Crown Wholesale Funding Guarantee Facility with a specific entity, and each grant of a Crown Wholesale Funding Guarantee under such a facility, include:

- a Facilitating access to wholesale financial markets by financial institutions with substantial New Zealand borrowing and lending operations, in a global environment where international investors remain highly risk averse and where many other governments have offered guarantees on their banks’ wholesale debt;
- b Encouraging issuers to withdraw from using the guarantee facility, and enabling the Crown to withdraw from offering it, on new issues as soon as the international markets return to normal; and
- c Avoiding the macroeconomic risks that could be associated with overly-concentrated future maturities of guaranteed debt, for an institution or for the financial system as a whole.

4. Facility Matters

4.1 Applications for a Crown Wholesale Funding Guarantee Facility

Entities applying for a Crown Wholesale Funding Guarantee Facility should be financial institutions which meet all of the following criteria:

- a carry out substantial borrowing and lending operations in New Zealand involving non-related entities;
- b have a current investment grade credit rating for its long-term unsecured, unsubordinated debt securities;
- c hold a suitable level of capital above current regulatory minima. Appropriate levels may be determined on a case-by-case basis, but in the case of locally incorporated banks will be an additional buffer of 2 per cent Tier 1 capital, above the current 4 per cent regulatory minimum; and
- d are entities that:
 - (i) issue senior negotiable or transferable debt securities in the wholesale financial markets; or
 - (ii) guarantee the issue by wholly owned subsidiaries of senior negotiable or transferable debt securities in the wholesale financial markets.

4.2 Other factors that may be considered in exercising discretion to offer, or refuse to offer, a Crown Wholesale Funding Guarantee Facility

- a The size of the Entity;
- b The credit rating and credit outlook of the Entity, including any rating agency reports on the Entity;
- c The related party exposures of the Entity;
- d The audited accounts of the Entity ;
- e The track record of the Entity with respect to such matters as whether it has met its payments as they fell due and maintained solvency;
- f The quality of the information provided by the Entity;
- g The capacity of the Entity to issue non-guaranteed securities;

- h if the Entity applying for the Crown Wholesale Funding Guarantee Facility takes deposits from the New Zealand public, whether that Entity has also applied to participate in the Crown Retail Deposit Guarantee Scheme; and
- i Any other factors relevant to facilitating access to wholesale financial markets by financial institutions with substantial New Zealand borrowing and lending operations, in a global environment where international investors remain highly risk averse and where many other governments have offered guarantees on their banks' wholesale debt.

5. Issue by Issue matters

5.1 Criteria Relevant to Guarantee Coverage of Securities Issues

All securities the subject of:

- a any application for a Crown Wholesale Funding Guarantee; or
- b the Crown's issuance of or entry into related documentation,

should satisfy all of the following criteria:

- c the securities have yet to be issued;
- d the securities are senior negotiable or transferable debt securities;
- e the securities are unsecured vanilla instruments (such as certificates of deposit, commercial paper, bonds or notes) or covered bonds;
- e the issuer or guarantor of the securities is a party to a current Crown Wholesale Funding Guarantee Facility;
- f if the guarantor (other than the Crown) is a party to a current Crown Wholesale Funding Guarantee Facility, then the securities are to be issued by a wholly owned subsidiary of the guarantor;
- g the maturity date of the securities does not result in a mix of wholesale security maturities that, for an individual institution or in aggregate, could threaten the stability of the New Zealand financial system or the health of the New Zealand economy;
- h the securities are denominated in NZD, AUD, USD, EUR, JPY, GBP, CHF, SGD or HKD or other major readily convertible currencies acceptable to the Crown;
- i if the issuer or guarantor is the New Zealand branch of an entity that is not incorporated in New Zealand then the securities are denominated in NZD; and
- j the Entity continues to maintain any additional capital requirements (as per 4.1(c) above).

5.2 Other factors that may be considered in exercising discretion to offer, or refuse to offer, a Crown Wholesale Funding Guarantee or related documentation

- a The matters listed in paragraph 4.2 of this policy guidance;
- b whether the specific approval sought would advance the objectives of:
 - (i) facilitating access to wholesale financial markets by financial institutions with substantial New Zealand borrowing and lending operations, in a global environment where international investors remain highly risk averse and where many other governments have offered guarantees on their banks' wholesale debt;
 - (ii) encouraging issuers to withdraw from using the guarantee facility, and enabling the Crown to withdraw from offering it, on new issues as soon as the international markets return to normal; and
 - (iii) avoiding the macroeconomic risks that could be associated with overly-concentrated future maturities of guaranteed debt, for an institution or for the financial system as a whole; and
- c whether the grant of a guarantee or specific approval sought would prevent Her Majesty the Queen in right of New Zealand from issuing securities or raising funds in any wholesale securities market.

6. Factors that should be considered in exercising discretion regarding the fees applied in the Crown Wholesale Funding Guarantee Scheme

The overarching consideration in setting and reviewing fees should be to advance the objectives outlined in Section 3 above.

In making any changes to the fee structure, the following factors should be taken into account:

- a international market access conditions;
- b usage of the Crown Wholesale Funding Guarantee;
- c market prices for credit risk on the types of institutions using the Crown Wholesale Funding Guarantee;
- d spreads between guaranteed and non-guaranteed debt issuance, in New Zealand and abroad; and
- e spreads between government and bank borrowing rates in New Zealand and abroad.