The Future System for Monetary Policy Implementation

Summary of Stakeholder Feedback

April 2025

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1. Background

In April 2024, the Reserve Bank of Australia (RBA) released a consultation paper titled 'The Future System for Monetary Policy Implementation'. This presented some principles and options regarding the design of the future system and provided a list of topics on which the RBA sought feedback. This list focused on the configuration of full allotment repo in the RBA's open market operations (OMO), the potential impacts of OMO repo on Australian financial markets, the demand for reserves and the role of non-repo operations.

This paper summarises feedback received in response to the consultation paper, which informed recent changes to the configuration of OMO repo, as discussed in a speech by Assistant Governor (Financial Markets) Christopher Kent.[1] Of the 11 written responses, most came from Australian and global banks and almost all of them were marked as confidential. The RBA later met with seven respondents to seek clarification or further information on the specific topics discussed in their submissions. This summary is based on information received from both written responses and these follow-up meetings. The RBA will continue to engage with stakeholders on the design of the monetary policy implementation system going forward.

There was general support from respondents for the RBA's plan to operate an ample reserves system with full allotment OMO repo, though views diverged on the specifics of the system's design. The following material summarises the responses we received, which helped to inform recent changes to the configuration of OMO repo.

[1] See Kent C (2025), 'The RBA's Monetary Policy Implementation System – Some Important Updates', KangaNews Debt Capital Markets Summit 2025, Sydney, 2 April.

2. Summary of Stakeholder Feedback

2.1 The configuration of full allotment OMO repo

Price

Respondents' views were varied on whether the price of full allotment OMO repo should be increased. Some respondents favoured the price at the time of the consultation of 15 basis points above the rate paid on Exchange Settlement balances (ES rate),[2] arguing that this provides an incentive for banks to hold additional reserves and thereby promotes an efficient payment system. Others advocated for a price up to 25 basis points over the ES rate to promote activity and price discovery in funding markets.

Several respondents also suggested that there could be multiple tiers of pricing for OMO repo. One suggested approach was that the interest rate on repos using collateral securities that do not qualify as high-quality liquid assets (HQLA) should be higher than for repos using HQLA collateral.

Term

Most respondents wanted the RBA to offer additional terms for OMO repo alongside the current 28-day term, with common suggestions being seven and 14 days. Opinions varied on terms shorter than one week. Respondents supporting shorter terms argued that it would allow repo dealers to more effectively match the terms at which they typically lend in private markets. Other respondents argued that offering OMO with terms shorter than seven days risked interfering with the functioning of private repo markets.

Some respondents advocated for the addition of terms longer than 30 days, stating that it would allow OMO repos to support banks' LCRs during times of stress, thereby supporting financial stability. One respondent suggested that longer term repo with the RBA on a quantity constrained basis would promote price transparency and price discovery in the private repo market. Other respondents advocated against the use of longer terms to prevent interfering with the functioning of the bank bill market and the robustness of the bank bill swap rate (BBSW) as a financial benchmark.

Frequency

Respondents generally preferred more frequent OMOs than the current weekly operations, with most responses advocating for daily operations. Several respondents highlighted that this would allow them to obtain central bank liquidity more quickly in response to liquidity shocks. Some respondents also stated that this more immediate access to liquidity in the event of a shock would allow them to hold a lower level of reserves.

2 This price can also be expressed as 5 basis points above the cash rate target, as the ES rate is 10 basis points below the cash rate target.

Collateral

Most respondents stated that the current set of eligible collateral is suitable. Some respondents advocated for including self-securitised mortgage-backed-securities as eligible collateral for regular OMO. Other suggestions included adding foreign currency debt, gold or syndicated and bilateral loans to Australian corporations.

2.2 Potential impacts of OMO repo on financial markets

The cash market

Most respondents thought that activity in the overnight cash market is likely to increase from the current level but is unlikely to recover to pre-pandemic levels, arguing that:

- Many banks would probably hold higher levels of reserves than they did under the scarce reserves system, making it less likely that they will have a liquidity shortfall at the end of the day and need to borrow additional reserves.
- Since the pandemic, banks have increasingly preferred to borrow and lend in secured markets rather than unsecured markets.

Some respondents expressed concern about the low level of activity in the overnight cash market, given the role of the cash rate as a risk-free financial benchmark rate.

However, a number of respondents expected that there will remain a role for the cash market in future to allow for the redistribution of reserves late in the day. Some respondents speculated that some banks may be slow to respond operationally to a pick-up in reserve demand in private markets and require counterparty networks and credit limits to be re-established before being able to participate fully in the cash market again.

The repo market

The consensus among respondents was that the impact on the private repo market would depend on the configuration of full allotment OMO repo. Most respondents thought that the configuration of OMO at the time of the consultation was not interfering with private repo market functioning. However, one respondent stated that the OMO price should be higher to support price discovery in the private repo market.

In general, respondents expected the private repo market to continue to grow. Several respondents advocated for the development of a secured benchmark rate, with some respondents supporting the Australian Securities Exchange's Secured Overnight Funding Index Australia (SOFIA).

The bank bill market

Most respondents agreed that the current configuration of full allotment OMO repo will have less effect on the bank bill market than the cash and repo markets. These respondents stated that this was because the bank bill market is used mainly by banks to help meet their LCR requirements, which cannot be achieved through 28-day OMO repo.

Respondents reasoned that the bank bill market could be adversely affected if OMO repo were to be offered with terms longer than 30 days and non-HQLA securities remained eligible collateral. This configuration would allow banks to use OMO repo to increase their LCRs. Several respondents noted the importance of preventing any undue impact on trading in the bank bill market due to its role in the calculation of BBSW as a benchmark.

The FX swap market

Few responses mentioned potential impacts on the FX swap market. One submission stated that the current configuration of OMO repo could reduce volatility in the short-dated segment of the FX swap market.

2.3 The demand for reserves

Most respondents indicated that they intend to hold a higher level of reserves than they held in the past, when the scarce reserves system was in operation. This involves holding additional reserves beyond those required to settle their expected level of transactions between OMO days.

However, the quantity of reserve demand varied among respondents, with some intending to hold a very small buffer beyond this transactional demand and some intending to hold a larger buffer.

Most banks intend to manage their reserves less actively and allow their buffer to absorb unexpected payments, instead of holding as few reserves as possible and borrowing in the cash market when needed. Respondents highlighted the operational efficiency of this approach, particularly in an environment where the level of reserves required to settle transactions had increased due to the increased prevalence of 24/7 payments. Some respondents also mentioned that holding more reserves makes processing large payments simpler and more efficient, and that clients had come to expect this more rapid processing of payments.

Respondents also stated that they would hold reserves to meet their expected short-term liquidity needs in a stress scenario. It was noted that the extent of this demand was uncertain because other liquid assets, such as government bonds, can also meet these needs, and the mix of assets held for this purpose can vary over time. Some respondents mentioned that they view reserves held for this purpose as distinct from, and in addition to, reserves held for transactional purposes.

2.4 The role of non-repo operations

Most respondents supported a role for non-repo operations in the future system for monetary policy implementation (such as FX swaps and outright bond purchases). Suggestions on the extent of this role varied between respondents, with some advocating for regular use of non-repo operations and others suggesting the tools should be used infrequently.

Several participants noted that market frictions may constrain the recycling of reserves between different money markets. One respondent highlighted the contribution of the 6 basis point bank levy imposed on major banks to these frictions by increasing the cost of intermediating between different markets.

Some respondents also highlighted that there may be benefits from the RBA transacting regularly in different markets by ensuring that the RBA would be operationally ready to intervene in these markets if required.

FX swaps and cross-currency basis swaps

Most respondents supported the RBA using FX swaps and noted that the RBA had previously used them to implement monetary policy. Some noted that there was little transparency around RBA operations in this market. Several respondents advocated for the RBA to use only shorter tenor FX swaps, where the market is deepest, to avoid interfering with activity in the private market. Several respondents advocated for the RBA to intervene in the FX swap market in the event of dislocation. The few respondents that mentioned cross-currency basis swaps viewed them similarly to FX swaps.

Outright purchases of Australian Government Securities (AGS)

Several respondents suggested that the RBA should purchase in secondary markets AGS that are close to maturity, as the RBA had done previously. Some respondents advocated for operations taking place when there is an oversupply of short-dated bonds in the market to mitigate the risk of market disruption. One respondent mentioned that AGS purchases would help to smooth out the liquidity impact of large maturities.

2.5 Other views

A longer term repo facility

Many respondents suggested that the RBA implement a facility for the explicit purpose of promoting financial stability. There was no consensus among respondents on the design of such a facility, but common themes were for a longer term repo facility with broad collateral eligibility, set at a higher price than full allotment OMO. Such a facility would allow banks to increase their LCRs in times of stress. Opinions differed on whether this facility should operate at all times, or only during times of stress.

Other comments

One respondent advocated for the RBA providing clear guidance ahead of any changes in OMO configuration to allow time for market participants to prepare for the new environment.

One respondent requested that the RBA publish its estimate of the ample level of reserves. This was later provided in a research discussion paper.[3]

One respondent stated its support for a central counterparty in the Australian repo market. This was subsequently addressed in a consultation conducted by the Council of Financial Regulators.[4]

3 See Bristow L (2024), 'Modelling Reserve Demand with Deposits and the Cost of Collateral', RBA Research Discussion Paper No 2024-08

4 See Council of Financial Regulators (2024), 'Reassessing the Case for Central Clearing of Bonds and Repos in Australia', Consultation, July.