New Zealand Banking Association
Te Rangapū Pēke

Submission

to the

The Reserve Bank of New Zealand - Te Pūtea Matua

on the

Deposit Takers Core Standards (Policy proposals) Consultation Paper

16 August 2024

NEW ZEALAND BANKING ASSOCIATION – TE RANGAPŪ PĒKE
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About NZBA

1. The New Zealand Banking Association – Te Rangapū Pēke (**NZBA**) is the voice of the banking industry. We work with our member banks on non-competitive issues to tell the industry's story and develop and promote policy outcomes that deliver for New Zealanders.

2. The following eighteen registered banks in New Zealand are members of NZBA:
   - ANZ Bank New Zealand Limited
   - ASB Bank Limited
   - Bank of China (NZ) Limited
   - Bank of New Zealand
   - China Construction Bank (New Zealand) Limited
   - Citibank N.A.
   - The Co-operative Bank Limited
   - Heartland Bank Limited
   - The Hongkong and Shanghai Banking Corporation Limited
   - Industrial and Commercial Bank of China (New Zealand) Limited
   - JPMorgan Chase Bank N.A.
   - KB Kookmin Bank Auckland Branch
   - Kiwibank Limited
   - MUFG Bank Ltd
   - Rabobank New Zealand Limited
   - SBS Bank
   - TSB Bank Limited
   - Westpac New Zealand Limited

Introduction

3. NZBA welcomes the opportunity to provide feedback to the Reserve Bank of New Zealand - Te Pūtea Matua (**Reserve Bank**) on its consultation paper "Deposit Takers Core Standards (Policy proposals)" (**Consultation**). NZBA commends the work that has gone into developing this document and the technical analysis supporting it.

Contact details

4. If you would like to discuss any aspect of this submission, please contact:

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General submissions: Approach to Core Standards

5. NZBA notes that the standards will have the status of secondary legislation (in contrast to the current Banking Prudential Requirements and Banking Supervision Handbook which are given effect through individual conditions of registration). Given this new approach, we emphasise the important balance of ensuring that the requirements are sufficiently clear and precise to provide certainty, while ensuring deposit takers have the necessary flexibility required to operate different businesses – particularly given the wide range of technical content and obligations included in such standards.

6. As practical matters, enacting the standards as secondary legislation:

   6.1. may limit the Reserve Bank's ability to incorporate updates in a timely fashion, or to agree interpretations or approaches with licensed deposit takers responding to specific circumstances; and

   6.2. may effectively impose strict compliance obligations in relation to a very wide range of detailed technical requirements, such as daily calculations required to assess and include numerous inputs from across the business. Minor instances of non-compliance for a single input may then open up deposit takers to potential liability and reporting requirements. An overly prescriptive approach may necessitate deposit takers to devote disproportionate resource to minimising the risk of such minor variances, away from more material management requirements.

7. NZBA therefore submits that the standards will need to be carefully drafted to:

   7.1. be clear and precise in the matters they cover, without being overly prescriptive so that it cannot be applied correctly in all circumstances (or that the resource cost of such compliance becomes inappropriately high);

   7.2. allow the Reserve Bank to provide clear ongoing guidance as to interpretation and compliance.

8. We strongly encourage the Reserve Bank to provide such clear, detailed guidance as a priority alongside the formal standards (retained and expanded from existing guidance under the Banking Prudential Requirements), and to engage with industry on ongoing updates. This guidance should sit outside of the core standards (given it is non-binding, and to facilitate more frequent updates) but should be clearly and easily accessible in a consolidated form, clearly linked to the relevant binding standards (for instance through cross-referencing etc).

9. In addition, we note that industry workshops referred to consideration of "outcomes-based" approaches to the standards. We strongly encourage the Reserve Bank to engage closely with industry on any such approaches. Appropriately applied, "outcomes-based" approaches can provide deposit takers with flexibility to ensure that requirements are met in a range of different ways. However, by their nature the standards are complex, detailed and extensive documents. Given this technical nature it will be important that the standards are sufficiently clear and precise, to give deposit takers confidence that they are able to meet (and confirm they have met) the relevant requirements, with the potential for further guidance on intended outcomes in non-binding guidance.

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10. Lastly, we also note that section 24 of the Deposit Takers Act allows the Reserve Bank to identify the requirements in standards that apply to a deposit taker. In light of this, we think the Reserve Bank should be clear what standards or requirements in standards it considers are likely to be included as a condition to the licencing of deposit takers. This is particularly relevant to later consultations on non-core standards, but for clarity and consistency it would be helpful for this to be expressly noted throughout.

Submissions on Chapter 1: Capital Standard

Response to:

- *Q8 Do you agree with our proposed overall approach to capital requirements for Group 1 deposit takers?*
- *Q9 What impacts would you expect the proposals to have?*
- *Q24 Do you agree with our proposed overall approach to capital requirements for Group 2 deposit takers?*

Standardised risk weights

11. NZBA generally supports the Reserve Bank's approach of aligning New Zealand's standards with international good practice such as the Basel Core Principles and Australian prudential requirements where applicable (see paragraphs 104-107 and 182-186 of the Consultation).

12. However, NZBA considers that the Reserve Bank should not unnecessarily limit changes made to existing prudential requirements (see for example paragraph 108 of the Consultation). This is particularly the case where New Zealand policy positions take a broad-brush approach to prudential requirements, without any clear New Zealand specific circumstances or local legislation requirements driving such differences (or other matters described in paragraph 107 of the Consultation).

13. NZBA is concerned that, by comparison to New Zealand's framework, the Basel Committee for Banking Supervision (BCBS) standardised approach is considerably more granular and risk-sensitive in relation to a range of areas, and New Zealand's standardised approach should generally be updated to provide such granularity as well.

14. For instance:

    14.1. The latest BCBS standardised approach allows for an 85% standardised risk weight for unrated Corporate SME and a 75% standardised risk weight for Retail SME exposures, whereas in New Zealand BPR131 imposes a blanket 100% standardised risk weight. Applying the more risk-sensitive BCBS risk weights could support increased diversification in bank portfolios and competition between banks and in turn a more vibrant New Zealand economy.

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14.2. Risk weightings for residential mortgage lending under BCBS CRE20 have a much broader range of weightings than those provided in BPR131.[1] The more granular risk weights under CRE20 better reflect the risk profile of residential mortgage lending in New Zealand (even more so following the Reserve Bank's LVR restrictions on new residential mortgage lending that have substantially changed the LVR profiles of New Zealand banks, further strengthening resilience to market movements). We see no reason why the risk weights for New Zealand banks should not align with that of CRE20.

15. These distinctions do not appear to be driven by any of the matters described in paragraph 107 of the Consultation, and may provide a distorted view of risk that will be further highlighted by the increasing capital requirements imposed on banks.

16. NZBA therefore submits that it would be appropriate for the Reserve Bank to include a review of New Zealand's standardised approach risk weightings in light of the more granular approaches under CRE20.

Form of AT1 Capital Instruments

17. The NZBA submits that the Reserve Bank should consider whether AT1 capital instruments (whether by Group 1 or Group 2 deposit takers) should only be issued as legal form "equity" instruments. The market for AT1 capital instruments that are issued as legal form "equity" instruments has proved significantly smaller to date than was anticipated during the 2017-19 Capital Review. If the Reserve Bank also allowed AT1 capital instruments to be issued as legal form "debt" instruments, members consider that there would be a significantly greater investor market for such instruments without altering the economic substance of the instruments.

18. The Consultation proposes (at paragraphs 141-142, 189-190 and 307-308) to retain the Capital Review requirements for Group 1 and Group 2 deposit takers, on the basis that the Reserve Bank "do[es] not believe there is any compelling reason why they should be revised again", with a focus on delivering the main purpose of the DTA. However, in light of market experience, NZBA considers that the current policy of restricting AT1 capital instruments to legal form "equity" should be re-evaluated, on the basis that there are other approaches that would still deliver the main purpose of the DTA (in particular protecting and promoting the stability of the financial system) while more adequately addressing the principles that the Reserve Bank is required to take into account when achieving the purposes of the DTA. Requiring legal form equity instruments is at odds with the DTA principles to avoid unnecessary compliance costs and provide for deposit takers to effectively manage their capital.

19. Industry would be very happy to work with the Reserve Bank in identifying alternative proposals that meet any concerns that the Reserve Bank may have on legal form "debt" AT1 capital instruments. Members strongly encourage the Reserve Bank to establish a separate engagement with Industry to discuss these issues.

ICAAP approach

20. The Consultation provides little detail on how the current ICAAP guidelines will transition into the new capital standard for Group 1 deposit takers. We encourage the Reserve Bank to provide further information prior to issuing the exposure draft capital standard.

[1] Basel Committee on Banking Supervision - CRE20, paragraphs 20.82 and 20.84.

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21. All registered banks are currently subject to ICAAP requirements as set out in BPR100, however the Consultation only refers to strengthening ICAAP requirements for Group 1 deposit takers.[2] We encourage the Reserve Bank to provide further information on the intended approach to ICAAP for Group 2 and 3 deposit takers prior to issuing the exposure draft of the standards.

22. The capital standard will need to provide clear instructions to ensure consistency across industry, particularly in relation to the measurement of risk. Allocation of capital is not always appropriate for all the risks listed in BPR100, for every deposit taker. If the Capital Standard is too prescriptive, it risks undermining the fundamental objectives of allocating capital to reflect the risk profile.

Market risk approach requires further consideration to align with MAR40

Response to:

- *Q17 Do you agree with our proposed approach to capital requirements for market risk for Group 1 deposit takers?*
- *Q26 Do you agree with our proposed approach to capital requirements for market risk for Group 2 deposit takers?*

23. NZBA does not express a view on the proposal to align BPR140 with MAR40 across all market risk (or whether it is appropriate to maintain a general 'trading book' approach to market risk). However, we agree that now is an appropriate time to reevaluate BPR140. Banking and financial markets have changed markedly since BPR140 was put in place, so a full review and refresh of the requirements is appropriate to bring these requirements up to date.

24. In that light, there are a number of differences between BPR140 and MAR40, beyond the elements discussed in the Consultation. There are also aspects of both BPR140 and MAR40 that should be considered in light of New Zealand's modern banking environment.

25. To provide meaningful feedback deposit takers will require clarity and further consultation on the Reserve Bank's intended approach to the following areas:

    25.1. **Specific Risk:** MAR40 requirements to hold capital against specific risk captures credit spread risk on banks' liquid assets that are held to meet regulatory liquidity requirements. This is not currently captured by BPR140.

    25.2. **Interest Rate Risk:** Interest rate risk under BPR140 is calculated by taking the greater of the sum of positive or negative interest rate risk exposures across all currencies. MAR40 sums all exposures with no offsetting between positions of the opposite sign. NZBA considers that the different approaches here could result in a material change in capital for interest rate risk.

    25.3. **General bucketing and Horizontal Disallowance:** MAR40 incorporates sensitivity of financial instruments to the general level of interest rates, resulting in more granular bucketing and a change in risk weights based on the instruments' maturity and coupon.

[2] See paragraph 150-151 of the Consultation.

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25.4. **Rate insensitive products:** MAR40 does not provide any guidance on the definition and treatment of rate insensitive products (as it is designed for the trading book only). If the MAR40 approach is to be adapted to cover all market risk, guidance should be provided.

25.5. **FX risk calculations:** BPR140 does not include the interest rate component in foreign exchange (**FX**) deals as it takes the aggregate notional values in assets and liabilities. MAR40 incorporates this factor via accrued interest, unearned but expected future interest rate, and anticipated expenses as a position for FX capital calculation.

25.6. **Scaling factors:** Currently BPR140 does not apply scaling factors to capital calculations, whereas under MAR40 scaling factors are applied for interest rate risk and FX, which will increase capital requirements.

25.7. **Measurement basis:** There are interpretation challenges applying MAR40 and CAP50 to banking book positions at amortised cost – such as loans and deposits. We support the Reserve Bank reaching out to industry when developing the exposure draft to come up with a workable and standardised measurement basis for measuring exposures in the MAR40 calculation.

25.8. **Options treatment:** BPR140 allows a delta-equivalent method for calculating the interest rate risk on options. MAR40 uses the delta-plus method to include second-degree sensitivities (gamma and vega), which is a more complex calculation. Additionally FX options are not considered in BPR140.

26. We reiterate the need for early consultation and engagement with deposit takers on the above matters. In particular, we think engaging with industry on the approach to market risk (including managing transition issues) prior to the development of the exposure draft is critical to ensure that the capital requirements for market risk are fit for purpose when these changes are implemented.

Other matters

Response to: • *Q10 Do you agree with our proposal to reduce the risk weight for longer-term exposures to A-rated banks to 30%?* • *Q14 Do you agree with our proposal to create a specific risk weight for exposures to the NZ Super Fund?*

27. **Tailoring of Risk Weightings:** NZBA generally supports the proposals in the Consultation to tailor risk weightings for A rated banks and the NZ Super Fund.

Response to: • *Q23 Do you agree with our proposal approach to operational risk capital calculation for Group 1 deposit takers?*

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28. **Operational Risk:** NZBA supports the adoption of a new approach to operational risk capital requirements, however we request that the Reserve Bank considers and provides further detail on definitional issues regarding trading vs banking book. For example, is the taking of customer FX exposures and clearing them to market within a limit framework considered a trading book? And if so, then how does this differ from the centralised management of interest rate risk in the banking book (which we consider would be a banking book activity). Also, we think it is important that definitions are clear and align with the relevant accounting standards where appropriate.

Submissions on Chapter 2: Liquidity Standard

Qualitative requirements

Response to:

- *Q51 Do you have any comments or suggestions on the proposed qualitative liquidity requirements for Group 1 deposit takers?*
- *Q52 Do you have any views on our intention to supplement our qualitative liquidity requirements for Group 1 deposit takers with qualitative liquidity guidance?*
- *Q53 Do you have any comments or suggestions on the proposed qualitative liquidity guidance for Group 1 deposit takers included in the standards, as opposed to through non-binding guidance?*
- *Q76 Do you consider that Group 2 entities should be subject to the same qualitative liquidity requirements as Group 1 entities? Are there any particular requirements that are not also appropriate for Group 2 entities?*

29. At a high level, NZBA supports the themes of the proposed qualitative liquidity requirements (Table Y, pages 110-112 of the Consultation). However, as flagged in paragraph 446 of the Consultation, care needs to be taken in how these requirements are described, particularly where they refer to (i) the Board and senior management obligations, or (ii) terms that are open to interpretation or could be difficult and/or impossible to meet such as ‘actively manage’ and ‘always complying’.

30. The qualitative requirements should describe the creation and implementation of frameworks and processes to ensure the bank adequately manages liquidity risk (with use of additional non-binding guidance where applicable). As discussed in above, non-binding guidance should be provided outside of the relevant standards wherever practicable, and should (where appropriate) include criteria or examples that would demonstrate compliance. Maintaining a Reserve Bank ‘working copy’ of the standards and non-binding guidance would also be preferable for ease of reference.

31. Such an approach to qualitative requirements would align with the responsibilities of the Board (as described in paragraph 112 of the Consultation), which should focus on strategy and oversight with a due diligence duty.

32. Further, given the move to the use of standards (as secondary legislation) it should be clear that a failure to achieve the goals of such frameworks and processes in any particular circumstance should not, of itself, create a breach of the qualitative liquidity

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standard. The key focus should remain on appropriately implementing and monitoring the relevant framework to identify and respond to any concerns as circumstances change.

Definition of 'market funding'

Response to:

- *Q60 Do you have any suggestions for how entities could be captured under 'market funding' without using ANZSIC codes?*

33. We support the comments referred to in paragraph 581 of the Consultation, that ANZSIC codes have not been designed for the way they are used in the liquidity policy. Additionally ANZSIC codes will not be required under the proposed single depositor view (**SDV**) standard. However if ANZSIC codes are removed, there would need to be a clear, certain approach included to replace them and to retain a consistent approach across the industry, which the Reserve Bank should consult the industry on.

Insured deposit run-off rates

Response to:

- *Q61 Do you agree with our proposed treatment of insured deposits under the MMR (where they would have a run-off rate of 3%) and CFR (where they would have a factor of 95%)? If not, what alternative treatments may be appropriate?*
- *Q62 Do you have any views on what the appropriate run-off rate for uninsured deposits less than $5 million should be under our revised liquidity standard? Is the existing 5% run-off rate still appropriate, or should this rate be recalibrated?*
- *Q63 Do you agree with our proposal to introduce a new size band category of funding for deposits over $100 million in both the MMR and CFR?*
- *Q64 Do you have alternative views on the appropriate threshold and calibration for this potential new category of funding?*

34. NZBA supports the application of a reduced run-off rate for insured deposits, and the retention of the existing run-off rate for uninsured deposits less than $5 million.

35. However, we note that the changes proposed by the Reserve Bank to (a) classify insurance and superannuation funding as market funding and (b) create a new category of greater than $100m with 90% run-off, would result in a tightening of current liquidity standards. Having more granular run-off rates for one category shouldn't necessarily require similar changes to be made to the granularity of another. Each category should be appropriately refined and calibrated to best represent the perceived risk of outflows from such category.

36. We note that having insured and uninsured deposits with differing run-off rates introduces substantial complexity into the daily calculation, and could be difficult to determine for relevant arrangements. We submit that the Reserve Bank should also clarify how the "insured deposit" definition is intended to apply. For example, the first $100,000 of a $15 million deposit would be covered by the Depositor Compensation

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Scheme. Is the intention that banks apply a 3% run-off rate to the first $100,000, and then a 40% run-off rate to the remainder?

The Reserve Bank should continue to look at ways to align liquidity policy with the single depositor view, where appropriate

Response to:

- *Q65 Do you consider that there are any issues with requiring the grouping of deposits under the liquidity policy to be based upon the same rules to generate SDVs?*

37. NZBA considers that the Reserve Bank should look to align liquidity treatment with SDV to the maximum extent reasonably possible following the introduction of SDV in 2028.

38. However, we note that such changes will need to be well thought through, and the current significant differences between the approaches (considering control of the deposit vs beneficial ownership) means that we expect a range of technical changes to be required. Ongoing engagement with industry will be key to striking the right balance for such changes, as the technical SDV requirements are finalised and implemented. In addition, the changes will need to be clearly set out to minimize the risk of interpretation and application inconsistencies.

39. For example, a 'look-through' custodial account may consider the protected depositor to be the underlying customers from an SDV perspective; however from a liquidity perspective deposit takers may not be able to source all of the SDV data relating to a relevant arrangement into the liquidity calculation. A deposit taker may not have access to the underlying customer data in respect of relevant arrangements and as such will not be able to determine whether the underlying customers have other amounts deposited with the deposit taker which may impact on the liquidity run-off rates for those underlying customers.

Ability to use simplifying assumptions should be retained

Response to:

- *Q71 Do you agree with the removal of the provision that allows deposit takers to make any reasonable simplifying assumption in its quantitative ratios?*

40. NZBA submits that it is important to retain the ability for deposit takers to make reasonable simplifying assumptions. Liquidity ratios are complex to calculate, and need to be performed quickly and accurately.

41. Including reasonable simplifying assumptions mitigates any inherent risk of error associated with performing such calculations, as well as allowing deposit takers to more efficiently allocate resource. Without the ability to use such assumptions, as a practical matter there is a considerable risk that deposit takers would frequently be in technical breach of calculation requirements, due to immaterial errors associated with attempting to achieve full accuracy with real-world data. The removal of simplifying assumptions that provide a conservative outcome is also likely to result in significant cost being incurred for a limited benefit. However, the use of simplifying assumptions should be managed by the Reserve Bank in a manner that promotes clarity and

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transparency. The use of simplifying assumptions should be reviewed as appropriate by the Reserve Bank.

42. More generally, we consider that a materiality criterion should be applied, particularly in light of our submissions above as to the effect of setting out standards in secondary legislation, and noting that calculating liquidity on a daily basis allows little time to identify and rectify errors.

Requiring continuous compliance is unnecessary and difficult to manage

Response to:

- *Q72 Do you have any views on whether, in the normal course of business, we should require Group 1 deposit takers to comply with their quantitative liquidity requirements 'on an ongoing basis', 'at all times', or 'continuously'? What would be the expected costs and implications of such a requirement?*
- *Q73 Do you have any views on whether we should require deposit takers to calculate their MMRs and CFR seven days a week? What would be the expected costs and implications of such a requirement (e.g., potential staffing requirements over weekends)?*
- *Q77 Do you consider that Group 2 entities should be subject to the same quantitative liquidity requirements as Group 1 entities? Are there any particular requirements that are not appropriate for Group 2 entities or any negative implications of this approach for Group 2 entities that we should be aware of?*

43. We note the Reserve Bank intends to introduce a requirement that deposit takers are "continuously" compliant with quantitative liquidity requirements, rather than only requiring compliance at the end of the day. We strongly oppose this requirement as it will be unnecessarily burdensome on deposit takers and incur excessive compliance costs to track and manage.

44. The requirement to be in compliance at the end of each business day already effectively requires deposit takers to closely monitor and manage exposures through the day, and intraday liquidity management supports liquidity during the passage of time between the end of each business day and the start of the next. In practice, deposit takers already manage liquidity on non-business days to ensure they can meet ratio requirements.

45. It is also not practical, and in most cases not possible, for deposit takers to provide real-time reporting on liquidity data to the Reserve Bank. This means that in practice the Reserve Bank will still only be able to determine compliance at the end of the day. Given the significant compliance costs associated with switching towards monitoring continuous compliance would be redundant and unnecessary.

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Design of the Committed Liquidity Facility

Response to:

- *Q74 Do you have any views/comments on the potential features/components of the CLF outlined in this Table AC?*

46. NZBA welcomes further engagement with the Reserve Bank on the design of the Committed Liquidity Facility (**CLF**). To assist industry with further engagement on the features (including those in Table AC), it would be helpful for the Reserve Bank to provide worked examples of how they expect it to be available for utilisation by both Group 1 and Group 2 deposit takers.

The Reserve Bank needs to provide sufficient flexibility for branches

Response to:

- *Q93 What liquidity risk management requirements do you consider are appropriate to apply to branches?*
- *Q94 Do you agree with our assessment of the costs and benefits of applying certain qualitative liquidity requirements to branches of overseas banks?*
- *Q95 Do you agree that we should collect more information from branches on how they manage their liquidity risks?*

47. The Reserve Bank should provide sufficient flexibility to allow branches to comply with the liquidity policies of their parent bank (in accordance with home jurisdiction rules) whilst maintaining prudent management in New Zealand.

48. For instance, for branches subject to existing Group liquidity management processes and controls, a New Zealand CEO attestation that the Group framework/processes and controls sufficiently address the liquidity risks in New Zealand could be put in place, as an alternative to establishing a standalone New Zealand CEO approved framework.

49. In many cases, the parent banks of branches will be expecting adaptability between their overarching liquidity policies and that of their branches. Failure to ensure sufficient flexibility for branches may, in a number of cases, make it more difficult for branches to participate in the New Zealand market.

Submissions on Chapter 3 (Depositor Compensation Scheme Standard)

Response to:

- *Q96 Do you agree with our preferred approach of disclosure requirements to identify protected deposits?*

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- *Q97 Do you agree with our proposal to focus on the product disclosure approach?*

50. We submit that, irrespective of which DCS disclosure approach is adopted (whether product-level or deposit taker-level), the scope of coverage for disclosure or use of DCS trademarks needs to be closely considered and clearly defined, for example by collateral types and/or locations (such as branches or websites) as applicable. Industry would be concerned if the Reserve Bank required deposit takers to include the DCS disclosure/trademark in advertising or marketing material relating to the deposit taker, (such as a TV, radio or billboard advertisements for the deposit taker) whether the adopted disclosure approach is product-level or deposit taker-level.

Single Depositor View

Response to:

- *Q109 Do you agree with our assessment that the approach to SDV testing for Group 2 and Group 3 deposit takers should be the same as that for Group 1?*
- *Q110 Do you agree with our preferred approach of requiring Group 1 deposit takers to maintain a system to report aggregate data? What compliance costs are associated with this approach?*

51. **Relevant Arrangements:** We note that at paragraph 830 of the Consultation the Reserve Bank makes the comment that deposit takers will need to hold 'look-through' information on relevant arrangement accounts that are held by the deposit takers themselves (e.g. suspense accounts, some bank sponsored PIEs), and that information in relation to these accounts will need to be reported separately at the same time as the SDV files. However, no detail is provided as to the nature of this separate report, including what information will need to be reported, whether there are file specifications and what is the purpose of this reporting. Deposit takers will need to know this well ahead of time, so that they can identify how much of this information they currently hold, or if they will require further information from customers.

52. **Annual testing of SDV files:** Whilst we support testing SDV files to ensure accurate SDV records can be provided to the Reserve Bank in the event of a deposit taker failure, we submit that testing should be annual rather than six monthly. This would bring testing requirements for the DCS in line with existing testing requirements under BS11 and BS17.

53. **Road Map covering the 2025- 2028 period:** Given that under the Reserve Bank's current timeline the DCS Standard will not come into effect until mid-2028, but the DCS regime will commence in mid-2025, members seek clarification of the Reserve Bank's expected project timeline and DCS development stages in the period between 2025 and 2028. Such a general road map would assist deposit takers in being able to frame up their own road maps as part of their respective operational implementation plans/approaches to meet the 2028 requirements in a timely manner.

54. **SDV file testing:** The Consultation includes several requirements in relation to testing the SDV files[3]. There are several aspects of this that we would like clarified:

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[3] See paragraph 840 of the Consultation.

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54.1. **A statistically significant check and accurate information**: As part of the testing a “statistically significant check” of individual records on the SDV file is required to ensure the accuracy of information. We would like the Reserve Bank to clarify what is being proposed here. It is unclear whether it is being suggested that deposit takers should undertake a reconciliation exercise to ensure the SDV data is correct, or if the Reserve Bank may require deposit takers to check SDV files against source systems to ensure SDV data is complete and uncorrupted.

Deposit takers are already subject to other legislative obligations that require ongoing checking of customer information (i.e. AML/CFT Act ongoing customer due diligence (OCDD) requirements). Accordingly, there is already a certain level of ongoing updating of customer information and records. However, as a practical matter, these checks can only be periodic in nature for many customers, which means that at any given time not all customer records are up to date with current data. Customer information such as phone numbers, email addresses and physical and mail addresses can change often. Given this, if the int0ention of the exercise is to ensure the SDV data is correct, we question whether this is necessary or adds value.

If, instead, the Reserve Bank intends that the purpose of the exercise is to check SDV files against source systems to ensure SDV data is complete and uncorrupted latter, we would like the Reserve Bank to clarify what it a “statistically significant check” may involve in the context of testing SDV files. For example, would this require a set number of records that need to be checked. Additionally, this check should be limited to customers’ deposit balances and not other details which can change often.

54.2. **Reconciliation of SDV files**: When reconciling SDV files with a deposit taker’s balance, there should be a materiality threshold to any non-compliance. If an SDV file is unreconciled with the balance sheet due to a minor or inconsequential reason this should not result in that SDV file failing the testing. Likewise if only a very small number of the SDV files fail testing, this should not be considered as an overall fail of the testing requirements.

In this context we re-iterate the comment made in our DCS regulations consultation (paragraph 35), that the standards in connection with SDV files will need to be reasonable. For example, deposit takers rely on customers to keep their contact information (email, phone number and address) up to date, so a reasonableness standard should be applied to ensuring the accuracy of this information. Our comments at paragraph 0 above are relevant in this context.

55. **Detail required on the DCS and OBR interaction:** The Reserve Bank has stated that it will provide further information around the OBR and DCS interplay in the consultation on the non-core standards, including what this might look like and how it might operate.

56. The proposed OBR-DCS integrated solution will be of particular interest to a number of the members, and be a focus of attention in the context of providing disclosure about the DCS. We submit that it will be important that the Reserve Bank provides sufficient detail on its approach as soon as possible so that the solution provides useful guidance to deposit takers, and is helpful to deposit takers in the context of assessing how much information should be disclosed to depositors about the relationship

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between OBR and DCS. The inclusion of meaningful worked examples of how the interaction would work in practice is likely to be of help to the industry.

57. **Detail needed on DCS disclosures during the D0 – D1 period:** Our understanding is that the DCS disclosure requirements do not apply until the Deposit Takers Act standards generally come into effect in mid-2028. Some confusion has been created around this, and the Reserve Bank should provide clarity to industry as to what its expectations are during the period between the DCS coming into effect and the commencement of the Deposit Takers Act standards. In particular, the Reserve Bank needs to confirm that there will be no DCS disclosure requirement prior to 2028.

Submissions on Chapter 4 (Disclosure standard)

The Reserve Bank should provide clarification on how it intends to use the due diligence duty under the Deposit Takers Act

The following submissions are a response to:

- *Q113 How frequently and to what standard should we require a review of the proposed board-approved disclosure policy for deposit takers?*

58. **General comment:** As a general observation, we agree with the proposal to remove Directors' attestations and we support the Reserve Bank's endeavours to create efficiencies in the processes and controls that support the disclosure statements. However, we do not consider that the introduction of a board-approved disclosure policy to replace Directors' attestations will lower compliance costs for deposit takers. The introduction of a disclosure policy will require heavy upfront costs to design and develop the new policy that will replace the existing attestation framework, and then there will be additional upfront costs in implementing the new processes. There will also be ongoing costs to maintain the new framework. As discussed below, if such a policy requirement is included, we strongly submit that the exposure draft of standards must provide sufficient information to support deposit takers in the development and implementation of this policy.

59. **Further detail required around the assurance settings:** We consider that the discussion on Assurance settings (paragraphs 897 – 899) in the Consultation does not provide sufficient information for members to provide a fulsome response. As this is a largely untested and unexplored area, in order for deposit takers to properly assess these proposals they need to understand how the assurance settings are to operate. The Reserve Bank will need to provide more information to industry on its expectations and understanding, including:

    59.1. how the director due diligence duty will work in practice, including practically how it is expected to differ from the current processes surrounding director attestations;

    59.2. what level of detail will be required in the board-approved disclosure policy in order for it to be appropriate. The Consultation refers to the board-approved disclosure policy covering "internal controls and procedures". However, internal controls and procedures are already well documented by deposit takers. Moreover, this level of detail is not considered appropriate for Directors of a deposit taker. A more appropriate approach would be to target

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the disclosure policy on being about how the Directors gain assurance over the accuracy of the disclosures within the disclosure statement (this may then reference other existing policies covering relevant internal controls);

59.3. whether the review of the board-approved disclosure policy is to be internal only, and why is there a need for any additional assurance. For many deposit takers, there is limited benefit to an external review of policy and there is sufficient assurance provided over the disclosures through the audit process. Accordingly, additional assurance could be considered unnecessary and overly burdensome; and

59.4. what assurance is being requested with the 'annual audit' (i.e. whether the level of assurance required will necessitate an external audit, internal audit, control audit or limited assurance) and clarification of the timeframe for this. Paragraph 897 of the Consultation mentions an internal review on a three-year cycle, however, the table at page 204 refers to an 'annual audit'.

We hope that significantly more detail will be included in the exposure draft of the Disclosure Standard in due course to fully illustrate the Reserve Bank's expectations. Deposit takers will also need an indication of what guidance will be issued in connection with the Disclosure Standard. In that regard we would expect the guidance is consulted on and finalised well ahead of the due date required by the Deposit Takers Act (i.e. within six months of section 97 commencing).

60. In relation to branches of deposit takers that are overseas incorporated banks, we question if it is necessary for the disclosure policy to be approved by the board of the overseas bank. Instead, we consider it is appropriate for the policy to be approved by the chief executive officer (CEO) of the branch given the due diligence duties in section 94 of the Deposit Takers Act lie with the CEO, and such an approach is aligned with other proposals in the Consultation regarding approvals for branches e.g. the approval of the liquidity risk management policy is proposed to be approved by the CEO.

Other matters

The following submissions are a response to:

- *Q114 Do you agree we have the right set of options for Group 1 deposit takers?*
- *Q115 Do you agree with our assessment of the costs and benefits of these options for Group 1 deposit takers?*
- *Q119 Does our proposed Disclosure Standard overall meet the needs of depositors to make well-informed choices on the financial products and institutions in which they invest? Do our proposed requirements assist depositors to have access to timely, accurate and understandable information to help them to make these decisions?*

The Reserve Bank should clarify what it expects the template form of disclosure statements to be

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61. The Consultation outlines that the Reserve Bank will require group 1 and 2 deposit takers to provide their disclosure statements in a "template" form[4]. As we understand this will only require a standardised order for the disclosure of information, rather than providing a prescriptive "template" for disclosure statements.

62. While members support efforts to improve the accessibility and comparability of information, we would like the Reserve Bank to clarify what this "template" will consist of, in particular whether it will require information to be presented in accordance with a set style and/or design guide and if the template is intended to cover the entire disclosure statement (including the financial statements prepared under NZ IFRS) or only the disclosures under the Deposit Takers Act. We are mindful that deposit takers need to have some flexibility as to the way in which they present and report information in their disclosure statements. Flexibility is also important here given the NZ IFRS Accounting Standards require certain judgments to be made and can vary depending on each deposit takers circumstances and operations.

63. In the context of supporting efforts to improve comparability of information, we have the following observations and suggestions on how this could be most effectively implemented:

    63.1. using standardised naming conventions for Note Disclosures and for the disclosures included within is a reasonable option that is easy to implement. Deposit takers need flexibility in approach, some choose to integrate the Order-in-Council requirements with NZ IFRS requirements, while others have separated out the Order-in-Council requirements into a separate section to make them identifiable there (which can have the effect of having certain disclosures described in two places in the document (e.g. Risk Management)). However, having a standard naming convention of Note Disclosures could improve comparability; and

    63.2. clearly stating where the format of a table is required to be followed and how nil amounts should be treated (i.e. nil lines or excluding that row of the table).

Disclosure of the CEO and executive management remuneration

64. The Consultation proposes that group 1 and 2 deposit takers will be required to provide details of the remuneration of the CEO and executive management of the deposit taker[5].

65. Registered banks already provide some level of information on CEO and executive management remuneration both publicly and privately to the Reserve Bank through aggregate key management personnel reporting in disclosure statements and at a more detailed level through private reporting of connected exposures under the current regime.

66. We also note that public reporting of the remuneration of the CEO and executive team already takes place in the annual report of the deposit taker in accordance with the Companies Act requirements (unless the deposit taker's shareholder elects not to disclose this information)[6].

[4] See paragraph 905 of the Consultation and item 3 of Appendix 3 (and item A of Appendix 4).

[5] See paragraph 905 of the Consultation and item 4 of Appendix 3 (and item B of Appendix 4).

[6] See section 211(1)(g) of the Companies Act 1993

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67. Given the level of existing reporting on CEO and executive remuneration, we question if any additional granularity is necessary, and the need to include an additional requirement for such information to be included in disclosure statements.

68. In the case of branches of deposit takers that are overseas incorporated banks, the issue as to whether such overseas banks include details of the CEO or senior management remuneration in their annual reports will be a matter of the law under which those accounts are produced. They may not reflect the position under the Companies Act. Moreover, even if such disclosure does occur, it will be in respect of the CEO and executive management of the overseas bank as a whole. The local CEO and executive management may not be within the ambit of any such disclosure requirement given their position within the overseas bank as a whole. Additionally, it is not clear which positions within a branch would be classed as 'executive management' other than the local CEO. Separately, we query what value disclosure of the local CEO and executive management remuneration would have for a reader of the branch's disclosure statement. Accordingly, we question whether the policy to be adopted in relation to locally incorporated deposit takers should be equally applicable to branches of deposit takers that are overseas incorporated banks, given the potential disconnect with the corresponding overseas public disclosure requirements.

Linking the Dashboard to the Disclosure Statements

69. The Consultation proposes that for group 1 and 2 deposit takers there is a link to the Reserve Bank's Bank Financial Strength Dashboard ("**Dashboard**") on the deposit taker's website, and that the Dashboard URL is included in the deposit taker's disclosure statements. We note that the Consultation considers that such a link would bring the two more closely together as parts of a single coherent disclosure regime[7].

70. We do not support "linking" the Dashboard to disclosure statements, as we understand that if this "linking" was to occur, it may result in adverse unintended consequences. For example, the Dashboard may be treated as "Other information" by deposit takers' auditors. This would mean that the auditors would potentially need to review the underlying information that is included in the Dashboard for a deposit taker to ensure that it is not inconsistent with the information in the deposit taker's disclosure statement. These additional audit requirements would result in additional compliance costs for deposit takers. It is difficult for members to properly quantify such cost at this stage, as it would depend on each auditor's scope and plan work for the work. Furthermore, the "linking" of the Dashboard could potentially mean the information on the Dashboard could become "incorporated by reference" and become relevant information that may impact existing funding programmes and future prospectuses and there are also restrictions on stock exchanges on clickable links for published documents.

71. We query whether the Reserve Bank could achieve it's intended goal through a different approach that did not require deposit takers to incur additional audit work and compliance costs. One option would be for there to be a standard paragraph included in the disclosure statements explaining the existence of the Dashboard but not linking directly to it.

Reducing transition compliance costs for Disclosure Statements

[7] See item 1 of Appendix 3 of the Consultation.

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72. As a suggestion to help reduce the compliance costs incurred by deposit takers transitioning from the existing Order-in-Council regime for disclosure statement content to the new Disclosure Standard, we suggest that, so far as possible, the Reserve Bank use the same naming and ordering conventions in the Disclosure Standard as it has used in the existing Order-in-Council.

73. Deposit takers have built up over time compliance processes to ensure that the Order-in-Council disclosure requirements have been met. Following the same naming and ordering conventions in the Disclosure Standard would help to avoid unnecessary internal compliance cost and work for deposit takers through them being able to generally “lift and shift” the current processes to the new disclosure standard requirements (e.g. schedule 2, clause 1 in the Order-in-Council should remain schedule 2, clause 1 in the new the Disclosure Standard).

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