

Submission

to the

**The Reserve Bank of New Zealand
- Te Pūtea Matua**

on the

**Deposit Takers Standards –
Tranche 3 Consultation**

11 September 2026



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 seventeen registered banks in New Zealand are members of NZBA and support this submission:
 - 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
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 - Industrial and Commercial Bank of China (New Zealand) Limited
 - JPMorgan Chase Bank N.A.
 - Kiwibank Limited
 - Rabobank New Zealand Limited
 - SBS Bank
 - TSB Bank Limited
 - Westpac New Zealand Limited

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Introduction

4. NZBA welcomes the opportunity to provide feedback to the Reserve Bank of New Zealand - Te Pūtea Matua (**Reserve Bank**) on its consultation on tranche 3 of the Deposit Takers Act 2023 (**DTA**) Standards (**Consultation**). NZBA commends the work that has gone into developing this document and the technical analysis supporting it.
5. This submission is intended to provide our responses on the Disclosure Statements, Operational Resilience, Outsourcing and Related Party Exposure Standards. We have provided our commentary on the Capital and Internal Models Standards in a separate submission.

General comments across all Standards

6. **Use of defined terms:** As previously noted, we think it is important that the Reserve Bank considers the use of defined terms in the Standards in the broader context of the DTA and other Standards. It is important that defined terms are interpreted consistently between the Standards where they are common. Differing terminology should only be used where differing interpretations are intended between Standards. Broadly we note the need for care to be taken to ensure that defined terms are used in the appropriate places throughout the Standards.
7. **Expansion of requirements through guidance:** As noted previously, we think the Reserve Bank needs to be cautious of expanding the scope of the Standards through broad guidance. It is critical that all requirements are set out in the Standards themselves. In particular, we note some examples of this below in respect of both the Operational Resilience and Outsourcing Standards.
8. **2028 compliance date and transitional arrangements:** As previously noted at the Group 1 DTA implementation workshop hosted by the Reserve Bank, there is broad industry concern regarding the 1 December 2028 compliance date for all DTA standards. A switchover across multiple systems, processes and frameworks over the course of one day elevates compliance risk and creates material resource strain should any issues or disruptions arise. Accordingly, we ask the Reserve Bank to allow deposit takers to transition to DTA compliant systems when ready, with oversight from deposit takers' individual supervisors as part of the transition planning monitoring engagement.
9. **Implementation of a definitions standard:** We have concerns about the potential disconnect with having definitions held across a number of Standards. We think it would be helpful for the Reserve Bank to consider publishing a definitions standard that compiles the definitions from across all Standards (similar to the current BPR001 approach, but of a broader application). Centralising definitions would be helpful for readers of the Standards and would help improve the readability of all Standards. If the Reserve Bank does not want to release a formal compiled Standard, then we encourage the Reserve Bank to compile all definitions into a guidance document or a similar "working document" as this would be a helpful and practical tool for readers to understand the Standards.



Submissions on the Disclosure Statements Standard

- *Q1 Do you have any comments on the draft list of headings in Appendix A of the Guidance or how it relates to clause 15 of the exposure draft?*
- *Q2 Do you have any comments on the drafting of the prudential disclosure requirements or their alignment with each respective standard?*
- *Q3 Do you have any comments on the proposed definition of 'credit rating' in clause 140?*
- *Q4 Do you have any other comments on the attached exposure draft of the Disclosure Statements Standard?*
- *Q5 Do you have any comments on the attached draft Guidance to support the Disclosure Statements Standard? For example, are there any areas of the standard that you think would benefit from further guidance?*

Timing for the release of the updated Disclosure Statements Standard

10. We note that it is likely that the Disclosure Statements Standard will need to be updated further once the Reserve Bank has reviewed feedback on the 2026 Banking Prudential Requirements (BPRs) exposure draft consultation.
11. If there are to be further changes to the Disclosure Statements Standard it is critical that these are communicated to deposit takers at the earliest possible opportunity and an updated exposure draft is provided as soon as practicable. Deposit takers will need certainty around these requirements, and we encourage the Reserve Bank to swiftly communicate any changes.

The Reserve Bank should look to provide clarity on the credit rating definition as soon as practicable

12. We note the rationale of not including the credit rating definition required under section 59 of the DTA in the Disclosure Statements Standard given it does not apply to group 3 deposit takers. We agree that this seems a sensible approach. However, we think the Reserve Bank should look to provide clarity to deposit takers on the approved rating agencies and any other technical elements of this definition as soon as possible.

General comments on the Disclosure Statements ED

13. We note the following in relation to the Disclosure Statements Standard Exposure Draft (the **Disclosure Statements ED**):
 - 13.1. **Use of defined terms:** Whilst mid and year end "balance date" are defined terms in the Disclosure Statements ED, both mid and year end "reporting date" are used frequently but not defined. Additionally, we note that the term "funds management or securitisation" (which has been taken from the Capital Standard) has been used inconsistently. For example, clause 83(2) refers to "funds management, securitisation" which is not the defined term. We request that the existing defined terms are used, where appropriate.



- 13.2. **Presentation requirements:** Whilst we agree with the policy intent of having standardised headings and an index/contents page we think that deposit takers should have some flexibility to order the required headings and sub-paragraphs as they see appropriate. Given the required headings would still be included, we consider that allowing deposit takers flexibility to order these as they see fit would not impact readability or comparability, given readers would ultimately still have the same headings to cross-refer against. By way of an example, deposit takers may prefer to present financial statements at the beginning of the Disclosure Statement, rather than part way through as per the proposed order of the headings currently.
- 13.3. In addition, reflecting the comments we made on the Disclosure Statements ED in relation to the Tranche 2 consultation:
- (a) we submit that deposit takers should be entitled to add entity specific information if required to meet a deposit taker's specific circumstances. Permitting such a degree of flexibility would enable deposit takers to accurately describe their circumstances, with limited risk to undermining the policy intent of standardised headings; and
 - (b) we request that the Reserve Bank clarify whether cross-references to accompanying financial statements are permitted, and how disclosure requirements already addressed in the financial statements should be incorporated within the prescribed disclosure statement structure.
- 13.4. **Assurance report requirements:** Clause 18(b) notes that for mid-year disclosure statements a reasonable assurance report must be provided in respect of information disclosed under (among other parts), Part 10. Part 10 only contains year-end disclosures. This reference should be removed from clause 18(b).
- 13.5. **Branch audit, risk and remuneration committees:** It would be helpful for the Reserve Bank to clarify in clause 28 that branches can rely on group audit, risk and remuneration committees.
- 13.6. **Total capital requirements:** Clause 42 is somewhat difficult to follow as drafted, particularly as it relates to the total capital references and cross referencing to the Capital Standard. Further we query if the definition of "total capital ratio requirement" should be framed as the "*combined capital* ratio requirement".
- 13.7. **Solo capital ratios:** Clause 44 requires that solo capital ratios are given in addition to the capital ratios required under clause 43. We submit that the Reserve Bank should clarify in the final Standard or Guidance that a deposit taker is not required to make additional disclosures under clause 44 if they do not have any subsidiaries (as otherwise the information would be the same as presented under clause 43). This clause should also clarify that the requirement only applies if it is part of a deposit taker's licence conditions (as per clause 10 of the Capital Standard exposure draft).



- 13.8. **Composition of capital:** We note the references to the Capital Standards in each of clause 46(2) and 47(2)(c) will need to be updated once the Capital Standard is finalised, as these are currently incorrect.
- 13.9. **Application clauses:** The Reserve Bank should consider re-framing clause 59 to refer to a New Zealand deposit taker that is an internal models deposit taker, as is the case with clause 51 and ensure the language used in the various application clauses is consistent.
- 13.10. **Exposures assessed using internal models:** In relation to clause 61, the Reserve Bank should include wording to clarify that PD grades can be aggregated from internal PD grades, providing there are a sufficient number of aggregated grades to allow for a meaningful differentiation of credit risk. In addition:
- (a) we query whether the reference to "small- or medium-sized enterprises" in the definition of "specified exposure class" in clause 61(5)(e) should be "small-businesses" for consistency with clause 34 of the Internal Models Standard;
 - (b) the reference in clause 62(1) to "exposures in the specialised lending class" (and its use in clause 62(2)(a)) should be changed to "specialised lending exposures" to align with the terminology used in the Internal Models Standard;
 - (c) we note that the table at paragraph 63 of the Disclosure Statement Guidance (which is intended to replicate the table in the existing Order in Council) does not align with the requirements listed in clause 61 of the Disclosure Statements ED.
- 13.11. **Lending subject to standardised approach: certain on-balance-sheet exposures:** We note that clause 63(3)(f) should refer to Guardians of New Zealand Superannuation, rather than the fund itself. Also, we suggest that clause 63(3)(g) be clarified to specify that it only applies to loans not backed by a Crown guarantee (as covered under clause 63(3)(h)).
- 13.12. **Counterparty credit risk:** We query whether clause 66(1)(a) should say "or the slotting approach" rather than the current drafting being "of the slotting approach". In addition, we note that clause 66(2)(d) refers to risk weighted exposure while the Disclosure Statement Guidance refers to risk weighted assets. We request that the Reserve Bank clarify whether these are intended to be the same?
- 13.13. **Credit risk mitigation naming:** Clauses 71 and 72 do not relate to credit risk mitigation, so we query if subpart 3 should be renamed to reflect this. Additionally, the Reserve Bank may wish to retitle clause 72 "Controls surrounding credit risk ratings system" for consistency with the existing Order in Council.
- 13.14. **Comparison of figures assessed using internal model against standardised floor:** Generally, we think the Reserve Bank should consider aligning the terminology used in clause 73(5) with the Capital Standard.



- 13.15. **Standardised equivalents of internal models risk-weighted assets:** We query if "the totals of amounts disclosed under each of paragraphs (a) to (d)" in clause 74(1)(e) would be better framed as "and a total for all exposure classes of the amounts disclosed under each of paragraphs (a) to (d)."
- 13.16. **Standardised equivalent capital ratios:** We query whether in clause 75(5) the current reference to "total credit risk RWA" should instead refer to "total RWA".
- 13.17. **Operational risk:** The capital requirements for operational risk referred to in clause 77(2)(a) are only required to be updated annually. Given this we think the Reserve Bank should clarify the same information can be presented in both the half-year and year-end disclosure statements. Additionally, we note the table at paragraph 73 of the Disclosure Statements Guidance does not take account of the information required by clause 77(2)(c).
- 13.18. **Market risk end-period capital charges:** The Reserve Bank should consider amending clause 78 in order to allow overseas deposit takers to disclose market risk capital charges using a methodology that is aligned with an internationally recognised Basel capital framework (provided the alternative method materially meets the existing requirements under clause 78). This would avoid duplication for overseas deposit takers who often already calculate Basel market risk and would deliver efficiency gains for these deposit takers whilst still ensuring the information provided is timely and understandable.
- 13.19. **Banking and trading book measures:** The Disclosure Statements ED does not align well with the Capital Standard exposure draft in terms of the introduction of the banking and trading book measures and their differing calculation frequency requirements. In this context, we submit that the Reserve Bank should clarify the "peak end-of-day capital charge" definition in clause 78. In particular:
- (a) on initial application, it is unclear to us whether the peak end-of-day capital charge is intended to be calculated using the methodology prescribed under the proposed new Capital Standard or based on the prevailing capital framework applicable during the reporting period; and
 - (b) it needs to be made clear that peak end-of-day capital charge measured in clause 78(2)(b) does not apply to the banking book. There will be no comparability between deposit takers in relation to the peak end-of-day capital charge for the banking book where, under the draft Capital Standard (clause 236), deposit takers will be calculating the charge for different periods (i.e. some will be calculated daily, weekly, monthly or quarterly as opposed to a 6-month period as per the definition of peak end-of-day capital charge in clause 78(5)).

Additionally, as it relates to reporting peak exposures, we request that the Reserve Bank clarify the following:



- (c) if an overlay is applied, will it cover the whole period or will it be applied purely to the peak exposure day or be based on some days with and others without the overlay?
- (d) is the peak exposure day calculated independently for each category or are the total category values for the day taken to be the maximum total peak market risk?
- (e) Are trading and banking books reported on a combined or separate basis for each category and peak?

13.20. **Capital for other material risks:** Clause 80(1) provides that the capital for other material risks applies to all deposit takers. We submit that this requirement should not apply to branches of overseas deposit takers. We consider the disclosures that branches would need to make about internal capital allocation for “other material risks” will not be comparable with the disclosures that NZ incorporated deposit takers make. In particular:

- (a) the “internal capital allocation” for other material risks for a branch will be based on the branch’s group internal capital adequacy assessment process (ICAAP) (or equivalent framework). This is likely to result in the types and amounts of capital allocated to other material risks being calculated by branches on a different basis to that which applies to locally incorporated deposit takers. Accordingly, unless branches implemented an ICAAP framework at a local level (which would just be for the purpose of producing disclosure statements), the disclosures by branches are unlikely to be comparable with the disclosures by locally incorporated deposit takers. This could create confusion for readers of the disclosure statements;
- (b) what will qualify as “other” material risks for branches may be materially different to locally incorporated deposit takers given the different breadth and focus of the businesses of branches. So, again, the disclosures for branches are unlikely to be comparable with those for locally incorporated deposit takers.

Additionally, it would be helpful if the Reserve Bank could clarify that “other material risks” is not intended to capture credit risk, given credit risk disclosures sit in Parts 4 and 5 of the Standard instead.

13.21. **Definition of “insurance business”:** The definition of “insurance business” in clause 82 is misaligned with the definition included in the Capital Standard exposure draft (and the existing definition in BS 1). The existing Order in Council also makes a distinction between disclosures relating to a deposit taker’s insurance business and those relating to the marketing and distributing of insurance products (the latter of which is the definition of “insurance business” in the Disclosure Statements ED). If the policy position is to carry over the existing Order in Council requirements, then we consider that the definition needs to align with the Capital Standard and clause 82 needs to be drafted to reflect the existing Order in Council. Additionally, clause 90(3) appears to erroneously refer to “insurance activities” instead of “insurance business” and should be updated to reflect the existing Order in Council.



- 13.22. **References to insurance, securitisation or funds management businesses:** Clauses 83, 84 and 87 refer to one or more of a deposit taker's funds management, securitisation and insurance business, although it is not clear in the context of branches whether this is only in relation to their New Zealand business. The Reserve Bank should consider clarifying in either the final Standard or Guidance that these clauses only apply to the New Zealand business of a branch.
- 13.23. **References to non-financial business:** Clause 85 requires that certain disclosures are made in relation to a deposit taker's non-financial business in New Zealand. We consider this should be qualified so that it applies to a deposit taker's "material" non-financial business only. Otherwise, insignificant and non-material disclosures may be required in respect of a deposit taker's non-financial business (for example any subleasing arrangements for office space or other immaterial non-financial business). This would align with the approach to restricted activities, where it only applies to services material enough to be disclosed in financial statements.
- 13.24. **Meaning of peak end-of-day aggregate amount of funding:** Clause 91(2) should be amended to make it clear that the amount in clause 91(1)(b) should be calculated at the balance date of the entity to which the funding has been provided. As drafted, this clause is inconsistent with the approach taken in the existing Order in Council and could be interpreted as the balance date of the deposit taker.
- 13.25. **Additional mortgage information:** We seek clarity on the requirements in clause 95(1) for overseas deposit takers as this clause only refers to New Zealand deposit takers. However, under the existing Order in Council, this requirement also applies to overseas banking groups which include a New Zealand IRB Bank.
- 13.26. **Peak ratio information:** Clause 101, which only applies to a New Zealand deposit taker (as per clause 98), cross-references the amount referred to in clause 85(3)(b). However, clause 85(3)(b) only applies to an overseas deposit taker (as per clause 85(1)). Can the Reserve Bank clarify its intention here, including checking whether there is any inconsistency with paragraph 89 of the Disclosure Statements Guidance. Further, clause 101(2)(b) should refer to "maximum end-of-day aggregate amount" as per paragraph (a) of the definition of "peak end-of-day aggregate credit exposures" in clause 112(4).
- 13.27. **Aggregate exposure limit:** Clause 103(1)(c) should be better aligned with the Related Party Exposures Standard. As drafted, clause 103(1)(c) requires that a statement is made to "state whether, within the aggregate exposure limit, credit exposures to non-deposit taker related parties must not exceed 15% of the deposit taker's capital group tier 1 capital." We consider this is best framed as requiring a deposit taker to "state *that*, within...". In addition, we note that paragraph 92 of the Disclosure Statements Standard guidance erroneously refers to clause 8(2) of the Related Party Exposures ED, rather than to clause 9 (to which this clause relates).
- 13.28. **Unfunded contingent credit protection disclosure:** Clause 105(1)(a) includes the "total amount of contingent exposures that are to a related party", whereas the existing Order in Council uses the "aggregate amount".



We are concerned that the drafting of clause 105 could be read as requiring disclosures on a per related party basis, rather than in aggregate. Can the Reserve Bank clarify that the interpretation should align with the existing Order in Council?

- 13.29. **Peak end-of-day total credit exposures:** Clause 112(4)(b) defines peak end-of-day aggregate credit exposures by dividing the amount of credit exposures over the period by the deposit taker group's tier 1 capital at the year-end reporting date. However, the existing Order in Council allows a deposit taker to either divide by tier 1 capital at the year-end reporting date or use the maximum end-of-day aggregate amount of credit exposures. Can the Reserve Bank clarify whether this change is intentional?
- 13.30. **Capital adequacy:** In clause 116, the reference to "internal capacity adequacy assessment process" should instead be to "internal *capital* adequacy assessment process". We also suggest the word "discussion" is removed for clarity and consistency with other requirements.
- 13.31. **Reviews of risk management framework:** Clause 117(2) should be amended to reflect the requirements under clause 24 of the Risk Management Standard. The clause should, accordingly, be redrafted as follows: *"If the deposit taker has undertaken a review of its risk management framework, the disclosure statement must include a statement confirming the results of the review were notified to the Board"*.
- 13.32. **Access to holding entity disclosures:** Can the Reserve Bank please clarify the scope of "their New Zealand chief executive" in clause 119(2)(b). We assume this is a reference to the New Zealand chief executive of the subsidiaries, but we query if this is correct given the clause only applies to overseas deposit takers.
- 13.33. **Impact of new NZ IFRS 18 Disclosures:** IFRS 18: (Presentation and Disclosure in Financial Statements) is effective for annual reporting periods beginning on or after 1 January 2027. This introduces new categories and subtotals in the statement of profit or loss. We request that terminology is aligned in the Disclosure Statement Standard where appropriate. For example, clause 125(2)(a) of the Disclosure Statement ED requires disclosure of "total net trading gains or losses" whereas IFRS 18 requires "operating profit or loss". This would result in deposit takers needing to disclose a reconciliation between GAAP disclosures and regulatory disclosures, which appears to be an unintended consequence.
- 13.34. **Deleted requirements from the existing Order in Council:** We note the following requirements which have not been carried over from the existing Order in Council. In each case, can the Reserve Bank please clarify if these have been deliberately omitted:
- (a) **Involvement in relevant funds management, securitisation, or insurance business:** Clause 83 requires the year-end disclosure statement "describe the involvement in any funds management, securitisation, or insurance business". However, the existing Order in Council also requires disclosure of "arrangements to ensure no adverse impact arising from activities specified";



- (b) **Credit risk mitigation disclosure requirements:** Schedule 17, clause 7 of the existing Order in Council requires disclosure of certain credit risk mitigation not covered by NZ IFRS 7. This does not appear to have been carried over to the Disclosure Statements ED. Can the Reserve Bank confirm if it considers these requirements are covered in clause 57 of the Disclosure Statements ED?
 - (c) **Total credit exposures to related parties:** The requirements of clause 100 generally align with existing requirements. However, the Disclosure Statements ED no longer requires disclosure of the total credit exposures to “all related parties” as a percentage of Tier 1 capital;
 - (d) **Definition of immediate relative or close business associate:** Clause 27(5)(a) uses the terms “immediate relative” and “close business associate” but does not define them. We note “immediate relative” is defined in clause (4)(1) of the existing Order in Council, and we assume the definition of “close business associate” is that used in section 291A(5) of the Companies Act 1993.
- 13.35. **Typographical errors in the Disclosure Statements ED:** As a general comment, we note that there are a number of typographical errors and clause cross reference errors in the Disclosure Statements ED which will need to be corrected before the Disclosure Statements Standard is finalised. These include at clauses 3(1) (the definitions of full-year disclosure period, initial disclosure period, new qualifying credit and senior manager), 3(2), 20(3), 37(3), 37(5), 94, 95, 98, 138(2), 138(4), 139(5) and 140(d).

Comments on the updated Disclosure Statements Standard Guidance

14. We note the following in relation to the draft Guidance for the Disclosure Statements Standard (the **Disclosure Statements Guidance**):
- 14.1. **References to indirect powers of voting products:** We note the addition of paragraph 23 in the Disclosure Statements Guidance, which encourages deposit takers to use certain visual aids where they think it would enhance comprehension of the information. This paragraph uses the example of a diagram showing the nature of a person’s indirectly held power under clause 25(2)(b)(ii). We do not think this example is particularly helpful or relevant for deposit takers. Including this as an example will risk setting an expectation that if a deposit taker has a person with an indirectly held power, then such a diagram will be required. Deposit takers should be able to manage how they are best to present this information. This example should therefore be removed from the Disclosure Statements Guidance.
 - 14.2. **Cross references to Disclosure Statements Standard:** As a general note, there are a number of incorrect cross references to the Disclosure Statements ED which will need to be corrected before the Disclosure Statements Guidance is finalised.
 - 14.3. **Inconsistent use of terminology:** The use of the terms “risk weighted assets” and “risk weighted exposure” are used inconsistently between the Disclosure Statements Guidance and Disclosure Statements ED. For



example, clause 66(2)(d) of the Disclosure Statements ED uses the term “risk-weighted exposure” but some of the template tables in paragraph 65 of the Disclosure Statements Guidance use the term “risk weighted assets”.

- 14.4. **Other comments:** The Reserve Bank should consider removing the reference to “restrictions” in paragraph 84 of the Disclosure Statements Guidance.

Submissions on the Operational Resilience Standard

- *Q6 Do you have comments on the structure of the exposure draft of the Deposit Takers (Operational Resilience) Standard?*
- *Q7 Do you have any comments on the exposure draft of the Guidance to support the Deposit Takers (Operational Resilience) Standard?*
- *Q8 Do you have comments on the interactions between the Operational Resilience Standard and the Outsourcing Standard?*
- *Q9 Do you have comments on our draft template for the critical operations and material service providers register?*

Interaction between the Outsourcing Standard and Operational Resilience Standard

Interaction to be considered in light of key principles

15. We consider that there is a tension between the inter-relationship of the Outsourcing and the Operational Resilience Standards which gives rise to some issues with the Reserve Bank’s approach to the two standards.
16. We submit that the two standards should be amended to reflect the context of the differing purposes that they serve:
- The intent of the Operational Resilience Standard is to assess deposit takers’ operational resilience in the context of an “ordinary course of business” state with operations running normally;
 - The Outsourcing Standard (like BS11) is focused on the situation where a deposit taker is facing resolution and separation is needed for the continuity of the deposit taker.
17. At the same time, for deposit takers subject to the Outsourcing Standard requirements, care needs to be taken when layering those requirements on top of the Operational Resilience Standard requirements. In particular:
- There should not be any broadening of the BS11 regime through the Outsourcing Standard, whether intentionally or unintentionally through the interaction of the two standards. The existing understanding, knowledge and systems built around BS11 need to form the basis for the Outsourcing Standard given the time that deposit takers have spent becoming familiar with the current regime and the significant amounts spent by deposit takers implementing the requirements of BS11; and



- It is important that the in-principle materiality and proportionality (as included in the Operational Resilience Exposure Draft) should be extended to the Outsourcing Standard.

Changes to key definitions

18. We consider that several of the key terms used within the standards are inappropriate given the focus of the standards.

The definition of “critical operation” needs clarification

19. The definition of “critical operation” in clause 10(2) of the Operational Resilience Standard Exposure Draft (the **Operational Resilience ED**) is too broad, in particular the inclusion of the limb in clause 10(2)(a). The reference to the “continued operations of the deposit taker” extends the concept of a critical operation beyond the traditional standard of operational resilience to include operational resilience in a broader crisis management/resolution situation. Limb (a) should be deleted so that the definition focusses on a “business as usual” situation as discussed above.
20. This would also align the definition with that used in CPS230 (see paragraph 34). That definition is framed in the context of processes which if disrupted beyond tolerance levels would have “a material adverse impact on its depositors, policyholders, beneficiaries or other customers, or its role in the financial system” only.
21. We do not believe that any of operations falling within limb (a) that are not already covered by limbs (b) or (c) of clause 10(2) require the level of resilience proposed by the Operational Resilience ED given the principles discussed above.
22. We also submit that clause 10(3) is too prescriptive, by requiring a deposit taker to define the specified processes as critical operations if it undertakes them. In contrast, the CPS230 requirement is not as prescriptive, requiring a deposit taker to include the specified processes as critical operations “unless it can justify otherwise” (see paragraph 35). Accordingly, CPS230 allows for risk assessments and proportionality to apply, with the potential for critical operations to vary with the size, scale and priorities of each deposit taker. We submit that clause 10(3) should be amended to allow for such risk assessments and proportionality to apply.
23. By way of example, clause 10(3)(a) covers ‘the payment of monetary claims’ as a critical operation. For a Group 1 deposit taker, this could place automatically a large number of processes in scope of critical operations, when the deposit taker may not reasonably believe them to be considered material, such as ATM cash withdrawals, same day cleared payments, bank cheque issuance.
24. As an aside, we question whether clauses 10(3)(d) and (e) are necessary, as clearing and settlements would be captured as part of the payment of monetary claims operations in clause 10(3)(a).

The definition of “material service provider” needs clarification

25. The definition of “material service provider” in clause 22(a) of the Operational Resilience ED needs to be reconsidered in light of its use in the Operational Resilience Standard. By referring a third party that “provides” a critical operation to the deposit taker, the definition focusses on third parties that are providing the entirety of a critical



operation. Most deposit takers will not have any third parties that provide such level of service provision. We question, therefore, whether the definition achieves the Reserve Bank's intent.

26. The definition should instead refer "material service providers on which a deposit taker relies to undertake a critical operation or that expose it to material operational risk". This would mean that third parties who provide a material part of the overall critical operation or who, as a consequence of providing their services, expose the deposit taker to material operational risk, would be covered. We submit that this would better reflect practice, where often a deposit taker will deliver critical operations themselves, but rely on third parties to provide important parts of those operations (i.e. technology, data services or communications).
27. This approach would also align the definition with that used in CPS230 (see paragraph 48), which defines material service providers as "those on which the entity relies to undertake a critical operation or that expose it to material operational risk". In that regard, we note that CPS230 includes a level of materiality by referring to *material* operational risk, which would be appropriate to include in the Operational Resilience ED definition.

The draft Critical Operations and Material Service Providers Register could benefit from being simplified

28. We are supportive of the single register approach, as we note this will prevent duplication and presents a more efficient option for recording what critical operations and material service providers have the greatest impact on the operations of a deposit taker. However, we believe that there are some areas of the draft Critical Operations and Material Service Providers Register (the **Register**) that could benefit from clarification and simplification. We consider that simplicity is a crucial element for the Register.
29. In particular, we request that the Reserve Bank clarify the intended purpose of the Register and identify what fields it sees as necessary to meet that purpose. We submit that to the extent that a field does not directly meet this purpose it should be optional or collected on a reasonable endeavours basis and it should be made clear that immaterial inaccuracies in these fields do not constitute a breach of the Standard.
30. On the basis that the intention is to record information needed for supervisory and resolution purposes, we submit that the mandatory fields are limited to the following: critical operations supported; primary service location; related-entity status; contract term and renewal availability. As examples, a supplier's physical address, registered address, multiple cost fields, renewal dates, expiry dates, and named individual contacts do not seem necessary to achieve this purpose, and we submit that they be removed.
31. Further, the Reserve Bank should avoid prescribing highly granular administrative information where minor inaccuracies could constitute technical breaches despite having no material impact on resilience or resolution outcomes.
32. Further, we would appreciate if the Reserve Bank could clarify a number of terms used in the Register, namely: "critical data", "direct MSP arrangement", "indirect MSP arrangement", "fourth party", "downstream arrangement" and "outsourced material service provider arrangement".



33. We submit that the Reserve Bank limit requirements related to significant fourth parties/material subcontractors to taking reasonable steps to identify those involved in the delivery of a critical operation. The Reserve Bank should outline any process for altering register fields, noting that the Reserve Bank should engage with deposit takers before making changes.
34. We note the following specific comments on fields within the draft Register template (to the extent they are retained):
- 34.1. *Company number*: “not available” or equivalent should be permitted for offshore entities, fourth parties or providers where a New Zealand company number is not applicable;
 - 34.2. *Materiality rating*: Can the Reserve Bank clarify whether a prescribed rating scale must be used or whether deposit takers may use their internal risk/materiality frameworks?
 - 34.3. *Substitutability rating*: Further guidance or examples on such a rating would be useful to ensure consistent interpretation across deposit takers;
 - 34.4. *Critical data location*: Can the Reserve Bank clarify that data location can be captured at a practical level such as jurisdiction, region or cloud region, and should not require physical infrastructure-level detail where that is not meaningful or available;
 - 34.5. *Is this a third party or a fourth party provider*: This field should be amended to “Significant fourth parties to this MSP” with the descriptor amended to “Confirm whether deposit taker is materially exposed to a fourth party via this MSP”. This would mean that only known material fourth parties supporting critical operations or that materially affect material service provider (**MSP**) resilience would be captured, not every known fourth party. This would align with a practical, risk-based approach;
 - 34.6. *Contract status*: This field should be removed as inactive contracts should be removed from the register;
 - 34.7. *General Comment*: As a general comment, the Register should be clear as to which fields must be completed for arrangements in scope of the Resilience Standard and/or as defined in the Outsourcing Standard.

Branches should be permitted to rely on existing group operational resilience policies provided they materially comply with the objectives of the Operational Resilience Standard

35. We submit that branches should be permitted to rely on existing group level operational resilience policies and not be required to comply with the Operational Resilience Standard. This would be on the basis that the branch materially meets the clause 3 objectives of the Operational Resilience Standard, which would be confirmed by suitable attestation by the New Zealand CEO.
36. We submit that this approach would support a more resource efficient and proportionate approach for branches. This would also prevent the need for branches to adapt group level policy to a New Zealand specific policy. We consider that this



would be resource intensive and costly for branches and could limit the appetite of branches to participate in the New Zealand market.

37. Many branches have a group level operational resilience policy that, for example, complies with CPS 230 already. So, requiring them to adapt those policies to comply with the technical requirements of the Operational Resilience ED will require significant resources, whilst serving a limited prudential purpose.
38. This will be especially so if group level policy, based on the requirements of the branch's home jurisdiction, otherwise meets the objectives of the Operational Resilience Standard, or if the branch complies with the requirements of the overseas jurisdiction from which it is essentially supported (e.g. Australia and CPS 230).
39. Such an approach would also be in line with the policy decisions made by the Reserve Bank in July 2025, where the Reserve Bank stated:

*"In complying with the Operational Resilience Standard, branches can leverage the overseas deposit taker's or group's policy or framework to comply with the requirements. This includes documentation relating to the results of control testing, audits, reviews and assurances that involve their systems, processes and plans. The NZ CEO of a branch will need to be able to demonstrate to the Reserve Bank the adequacy of the overseas deposit taker or the group's assessment, policy or framework in meeting the requirements of the Operational Resilience Standard and the intended policy outcomes for the New Zealand branch."*¹

40. We note that the Reserve Bank has already allowed a similar accommodation for branches in respect of using group level fit and proper policies under the Governance Standard (as consulted on as part of the Tranche 2 Standards consultation).

General comments on the Operational Resilience ED

41. We note the following general points in relation to the Operational Resilience ED:
 - 41.1. **Definition of "ICT system"**: We consider that the reference to "support" in the definition of "ICT system" is too broad and could inadvertently include almost every software system used by a deposit taker. We consider that it is important this definition is clarified to limit this to systems which *materially* support (or which *provide essential* support to) the delivery of a critical operation.
 - 41.2. **Approaches to applying and interpreting standard**: We consider that clause 6 would be more appropriate as guidance. This clause is prescriptive in nature and could be read as prescribing steps for deposit takers to take when designing fit for purpose and proportionate compliance, which would require evidencing for each requirement. The same comment applies to the corresponding clause in the Risk Management ED (clause 6).
 - 41.3. **Operational risk framework**: The language used in clause 13(2) repeats the language used to describe the broader risk management framework in the Risk Management Standard exposure draft at clause 7(2), which includes

¹ See page 119 (paragraph 4.5.1) of the Deposit Takers Non-Core Standards - Summary of Submissions and Policy Decisions - 17 July 2025



operational risk as a component. We query the value in replicating these requirements across two standards. To this end clause 15(2)(a) of the Operational Resilience ED also duplicates clause 29(1)(a) of the Risk Management Standard exposure draft and should, therefore, be removed.

- 41.4. **Operational risk profile:** We submit that clause 14(1)(a) should refer to an operational risk profile being consistent and proportionate to the deposit taker's nature, size and complexity and require the resulting risk profile to be assessed against risk appetite. As drafted, this requirement could be read as requiring the assessment to produce an in-appetite result whereas a genuine risk profile could be outside appetite. Further, can the Reserve Bank provide clarity on situations where exemptions to risk management frameworks are in place, and as a result, assessments are not maintained.
- 41.5. **Reviews of operational risk management processes, systems, and controls:** The review requirements in clause 17 appear to be overly prescriptive and imply that all controls reviewed should be provided to senior management, without accounting for the materiality and proportionality of the control. This essentially duplicates clause 22 of the Risk Management Standard and should, therefore, be removed.
- 41.6. **Reporting requirements:** The reporting requirements in clause 26(1) are onerous and we submit that the Reserve Bank should take a proportionate approach here. In the case of large deposit takers with a significant number of MSPs, the notification of each material change or new arrangement could result in frequent (and in many cases daily) notification to the Reserve Bank. It is also unclear why each material change or new arrangement is required to be notified to the Reserve Bank and how the Reserve Bank intends to use this information.
- 41.7. Further, the Register contains highly sensitive commercial information, and frequent sharing of this information gives rise to significant data risk. If the reporting requirements are retained, deposit takers should only be required to provide the full register to the Reserve Bank once per month at most, if the deposit taker has entered into a new arrangement with a material service provider in that month. This would reduce the data risk compared with the current proposal under clause 12(2)(a) that the full register be provided in such circumstances. Given that deposit takers are effectively required to keep the information in the register up to date at all times, we submit that such an approach would provide an appropriate balance between ensuring that the register is available quickly in a disruption/crisis scenario and reducing the administrative burden of constantly reporting details of the register to the Reserve Bank.
- 41.8. **Board approval:** Clause 33(1)(a)(iv) requires a deposit takers board approve ICT systems tolerances. This would be a significant exercise for larger deposit takers that rely on many systems. We note that clause 18 already requires ICT systems tolerances to be within the tolerances of critical operations and therefore we propose that Board approval of critical operations tolerances is only required.
- 41.9. **Specific clarifications:** We submit that the Reserve Bank should provide clarification on following areas:



- (a) *Clauses 7(1)(b) and 35(1)(b)*: The use of “whether affected by and inclusion or exclusion under [clause 7(3)/subclause (3)] or otherwise” should be clarified. Is this intended to capture the group as modified under clause 7(3)?
- (b) *Clauses 7(2) and 35*: Clause 7(2) also recognises that the application through the group should be dependent on whether the related entity could pose a material operational risk to the deposit taker itself, however this does not seem to be reflected in clause 35(1)(b);
- (c) *Clauses 8(1)(a) and (b)*: We submit that these clauses should be limited to when a deposit taker undertakes a regular review of information or conducts regular testing of processes required by the Standard;
- (d) *Clause 12(2)(a)*: This clause appears to overlap with clause 26 as it relates to new MSP arrangements. Any duplication should be removed, assuming this requirement remains (see our comment at paragraph 41.7 above);
- (e) *Clause 12(4)(c)*: This clause requires a deposit taker to “*Document* any material changes to existing arrangements”. We request this wording is aligned with the rest of clause 12(4) to clarify that the “documentation” is the updating of the register for such material changes;
- (f) *Clause 13(3)*: The Governance Standard requires the board to be responsible for ensuring that the deposit taker's directors and senior managers have the appropriate skills and experience, both individually and collectively, to prudently govern and manage the deposit taker. We consider this requirement is clear and sufficient, so additional requirements relating to specific skills and experience should not be necessary;
- (g) *Clause 15(1)(a)*: Should this clause be amended to refer to operational risks with a “more than minor impact on its business operations”. As drafted this clause is broad and could require unnecessary assessment of minor operational risks. As noted at paragraph 41.3 above this clause duplicates clause 29(1)(a) of the Risk Management Standard ED and should therefore be removed;
- (h) *Clauses 16(2), 21(2) and 35(2)(c)*: For clarity, the timing of the notifications in these clauses should be expressly linked to the *determination* of materiality in clauses 16(1)(b), 21(1) and 35(2)(c) respectively, rather than “awareness” of the incident;
- (i) *Clause 21(4)*: The reference to “business day” should be amended to “working day”, in order to ensure consistency across standards. Further, we submit that the 10-day notification requirement for material ICT control weaknesses is an *operationally* challenging requirement;



- (j) *Clause 23:* The Reserve Bank should clarify if clause 23(3)(c) applies to any arrangement under which another person would deliver all or part of the critical operation, including through subcontracting, assignment, transfer or novation of the arrangement;
- (k) *Clause 27:* The Reserve Bank should consider removing clause 27(3) as it lacks sufficient clarity and may overlap with existing requirements. For example, it is unclear what is meant by “maintain the capabilities required to execute its business continuity plan” and whether this extends beyond the capabilities that should already be considered through the development, review and testing of the business continuity plan;
- (l) *Clause 29:* Clause 29 should clarify that the testing programme should cover every critical operation over a reasonable cycle, with annual testing focussed on material risks and priority scenarios. We submit that there should not be a requirement for every critical operation covered by the business continuity plan be tested annually;
- (m) *Clause 30(2):* This clause should be clarified to refer to notification of “material changes *with resilience significance*” in the second sentence only. In order for the clause to make sense, the words “, both the board and” should also be removed;
- (n) *Clause 32:* Can the Reserve Bank provide further guidance in connection with BCP activation for critical operations, and the requirement to notify the Reserve Bank. There might be cases where a deposit taker may initiate an activation strategy in order to pre-empt rather than respond to a disruption. In these circumstances it is not clear to us that the Reserve Bank requires notification and whether notification in such circumstances is necessary. The guidance on this clause should be clear that if a BCP plan is activated in circumstances where it is not required for a critical operation, that notification is not required;
- (o) *Clauses 33(1)(a)(ii), (iii) and (vii):* We query if these clauses should be retained given the approval of a risk profile and the risk management framework falls with management and not the board (which approves the risk appetite instead). We also query if it is appropriate for boards to approve the business continuity plans for critical operations;
- (p) *Clause 33(2)(a):* This clause appears to overlap with clause 26(3). We submit that these requirements should be consolidated to prevent duplication of requirements;
- (q) *Clause 33(2)(b):* We submit that this clause should be limited to notification of testing outcomes only, as it is unclear what other aspects relating to the deposit takers business continuity plan for critical operations the board is expected to be notified of under this subclause (given the board is required to approve the business continuity plan for critical operations);



- (r) *Clause 35(2)(c)(i)*: This clause should be clarified to refer to the impact on the group's financial position, rather than on "an entity in the group". As drafted it could result in a much lower threshold and mean that notifications need to be made to the Reserve Bank that do not impact on the group as a whole. We consider that this should align with the drafting of clause 16(1)(b) as it relates to having a "material adverse impact....";
- (s) *Schedule 1, clause 1*: There should be a clear distinction in this clause and the Register between mandatory fields that are necessary to meet the intended purpose of the register, and non-mandatory fields, particularly for the purpose of reporting breaches. In particular mandatory fields should all be listed in this clause (noting there are a number that are required in the Register but not listed in this clause currently, i.e. MSP location, contract status, start date). Non mandatory fields should not be included in this clause (or at least noted as optional). Further, we submit that clause 1(f) should be removed, as deposit takers need certainty around the required information and this requirement adds uncertainty.

41.10. **Issues specifically affecting branches:** If, notwithstanding our comments above, it is determined that the Operational Resilience Standard will apply to branches, we note the following additional points that affect branches:

- (a) *Clause 33(1)(a)(ii)*: the New Zealand CEO should not be required to approve the operational risk management framework under clause 33(1)(a)(ii) for the same reasons given above;
- (b) *Clause 33(1)(a)(v)*: branches should be permitted to leverage a group ICT systems policy where the New Zealand CEO considers that the policy adequately addresses the branch's New Zealand operations (and the New Zealand CEO should not be required to approve those group policies). In this context, we note that branches are likely to rely on their group's technology systems and teams rather than have their own separate systems and teams; and
- (c) *Clause 34*: We query if the senior manager definition from the DTA (which only includes the New Zealand CEO and CFO) is appropriate in this clause. We consider that the "senior manager" definition from the Disclosure Statements Standard would be a more appropriate definition, as this is broader in its scope. We are concerned that it may not be appropriate to place responsibility for maintaining and managing the operational risk management framework on the New Zealand CEO and CFO alone.

Comments on the updated Operational Resilience Standard Guidance

42. We note the following in relation to the draft Guidance for the Operational Resilience Standard (the **Operational Resilience Guidance**):

- 42.1. **Guidance on resilience outcomes:** Deposit takers would also find it helpful if more guidance could be provided on possible resilience outcomes (i.e. manual workarounds, alternate providers or operating with degraded service



levels). We note, however, that any additional guidance should be qualified as illustrative only.

- 42.2. **Concentration risk:** Deposit takers could also benefit from guidance on how concentration risk should be assessed. Often this risk could arise not as a result of a single provider, but by location or industry also. Guidance on this point would be helpful, but we note that it should be qualified as illustrative only to prevent complicating this assessment for deposit takers.
- 42.3. **Operational risk management frameworks:** We agree with the comment in paragraph 42, that “An operational risk management framework is a subset of a risk management framework”. However, we note paragraph 44 states “The intent is that the objectives of the frameworks reinforce each other,...”. We consider that this wording could be confusing, as it implies that the overall risk management framework under the Risk Management Standard and the operational risk management framework are two different frameworks reinforcing each other. We question whether this was the Reserve Bank’s intention. For clarity we suggest changing the wording in paragraph 44 to “The intent is that the objectives of the operational risk framework reinforce the objectives of the overall risk management framework”.
- 42.4. **Operational risk profile:** Paragraph 50 should clarify that the assessment under clause 14(1)(c) may be embedded in existing change, investment, product, outsourcing or architecture governance processes rather than requiring a separate standalone assessment.
- 42.5. **Guidance on Artificial Intelligence:** With regard to the guidance on Artificial Intelligence (see Box 1 on page 21 of the Operational Resilience Guidance), we suggest that the guidance acknowledges the role of existing, mature frameworks like Model Risk Management to avoid duplicative governance structures for managing AI risk.
- 42.6. **Fourth-party risk:** In the context of paragraph 113 of the Operational Resilience Guidance, we request that the Reserve Bank clarify its expectations in relation to fourth parties. We submit that the requirement be focused on assessing the material service provider's ability to manage its own supply chain, which can be achieved through due diligence and/or contractual provisions with the MSP, rather than expecting that deposit takers directly manage or audit the fourth party. We are supportive of adopting the APRA approach to fourth parties, where requirements are limited to reasonable efforts to identify significant fourth party dependencies that impact critical operations.
- 42.7. **Scope of “adequate inquiry”:** The definition of “third party” in the Operational Resilience ED (which includes related entities) when read with the requirement to conduct an adequate inquiry into the ability of a material service provider to meet the requirements of the deposit taker, means that a deposit taker would need to make an adequate inquiry into its own related entity. Paragraph 115.1 of the Operational Resilience Guidance sets out that this inquiry could include a competitive selection process. In the context of a related entity, we consider that a competitive selection process may not be helpful or achievable and even in a non-related party scenario is not necessary to support an “adequate inquiry” being made. We submit that the



Reserve Bank should replace this wording with “appropriate due diligence process” or similar wording.

- 42.8. **Scope of, and requirements for, arrangements with material service providers:** The example terms listed in paragraph 116 should be removed, as they are overly prescriptive and expand the requirements beyond what is provided for in clause 23 of the standard. In addition, we note that paragraph 26 of the draft Guidance for the Outsourcing Standard (the **Outsourcing Guidance**) covers a similar subject matter. The guidance should be aligned across both documents or removed entirely (see our submission on this at paragraph 66.2 below). If separate guidance is retained, then paragraph 116 of the Operational Resilience Guidance should be framed as expecting but not requiring the listed terms, as is the case with the Outsourcing Guidance already.
- 42.9. The elements listed in paragraph 120 should be removed, as they are overly prescriptive. These requirements include a number of methodologies, procedures and processes to be contained in a policy, which is inappropriate and fails to recognise the purpose of a policy.
- 42.10. Per our comment in paragraph 41.6 above, we submit the requirement to notify material changes to MSP arrangements should be removed. In any event the examples of ‘material changes’ listed in paragraph 129 are overly prescriptive and, in some cases, would not ordinarily be classified as ‘material’ (for example, the name of the accountable person). Any required guidance should focus on changes that have an impact on the deposit taker’s resilience, rather than administrative details that do not affect resilience, continuity or supervisory oversight.
- 42.11. Paragraph 147 should be placed with the guidance for clause 31 (paragraphs 152 and 153), as the current location of this paragraph suggests that additional assurance reviews are required, that are not explicitly provided for in clause 29.
- 42.12. Paragraph 157 could clarify that the board’s oversight under clause 33 should be risk-based and focus on material MSP risks, tolerance breaches, significant incidents, critical dependencies, concentration risks, test failures and remediation progress.
43. It would be helpful if the Operational Resilience Guidance provided examples directed at branches with limited New Zealand operations. The Operational Resilience ED requires a deposit taker to identify operations that are critical to its business and lists processes that must be treated as critical if undertaken, including payment of monetary claims, deposits, custodial services, settlements and clearing. For a branch, it would be helpful to confirm that the list applies only where those activities are actually undertaken by the New Zealand branch.



Submissions on the Outsourcing Standard

- *Q10 Do you have any comments on the alignment of scope, requirements, and terminology between the Outsourcing Standard and the Operational Resilience Standard? In particular, do you have any comments on the use of 'material service provider arrangement' in both Standards, noting that it has a narrower definition in the Outsourcing Standard?*
- *Q11 Do you have any comments on the review requirements in the Outsourcing Standard?*
- *Q12 Do you have any other comments on the exposure draft of the Outsourcing Standard?*
- *Q13 Do you have any comments on the attached draft Guidance to support the Outsourcing Standard? For example, are there any areas of the Standard that you think would benefit from further guidance?*

Comments on requirements in relation to essential service providers

44. **Requirement to maintain a list of essential service providers:** The requirement to maintain a list of essential service providers as set out in clause 39 of the Outsourcing Standard Exposure Draft (the **Outsourcing ED**) should be removed.
45. Including a requirement to maintain a list of essential service providers will effectively require deposit takers to dedicate resources to maintaining two lists that will, in a large part, duplicate supplier information. This will result in unnecessary additional cost and regulatory burden for deposit takers.

General comments on the Outsourcing ED

46. **Outcomes:** We query if the reference to “existing customers” should come after “account activity reporting” in clause 3(2)(d) rather than before it. As drafted, there could be an implication that the limitation of providing the service to existing customers only applies just to basic banking and not to account activity reporting as well, which we assume is not the case. In any event, we query if “account reporting activity” needs to be included at all given it is incorporated into sub-paragraph (a)(v) of the definition of “basic banking services” itself.
47. **Definitions:** As a general comment, the definitions are unclear and confusing and could be simplified. In particular, we submit that it would be helpful if the Reserve Bank could provide clarity on the following definitions in the Outsourcing ED:
 - 47.1. **“basic banking services”:** This definition should be updated to reflect the guidance in existing Large Bank User Group (**LBUG**) FAQ 2.1 Q9 A9 where the Reserve Bank has advised it is comfortable with banks running off all non-New Zealand Dollars (NZD) products and services after separation (which would otherwise be caught by the basic banking services definition).

In addition, we request that the existing guidance on non-basic banking services is carried over to the new Outsourcing Standard and Guidance. In particular, the guidance that a bank may be able to run off these products,



and that the level of back up necessary to meet this requirement may be less than the back-up capability otherwise set out in the BS11 should be replicated in the new Outsourcing Standard and Guidance;

- 47.2. **“downstream arrangement”**: we understand this definition is intended to refer to the contract between a related party (who the deposit taker has outsourced to) and an independent third party, for the service the deposit taker has outsourced. However, the distinction between an “outsourced material service provider arrangement” and a “downstream arrangement” is not clear and these definitions are confusing;
- 47.3. **“failure”**: We think the definition of “failure” could use refinement and clarification. Subparagraph (b) of this definition captures the inability of a deposit taker to meet the outcomes in clause 3 because of an interruption, suspension or unavailability as a “failure”. These events in isolation are not typically thought of as failure events. Given this definition is tied throughout the Outsourcing ED to triggering risk mitigation obligations, including robust backup capability and alternative arrangement requirements, this would appear to extend the Outsourcing ED beyond the intended purpose of supporting recovery and resolution. The Reserve Bank should consider removing (b) from this definition or consider tying (b) to the occurrence of one of the failure scenarios included in (a) of the failure definition;
- 47.4. **“parallel rights”**: Paragraph (b)(i) of this definition requires that contracts with third parties involved in an outsourced material service provider arrangement provide “for the continuation of the supply of a critical operation *on substantially the same terms* as under the downstream arrangement”. We are not sure if it is necessary for a contract with a third party to have the same terms as a related party contract, provided the ultimately the same services are being delivered.

Further, we are not sure why step in rights are required to “enforce the rights of a related entity”. It seems unreasonable to expect a deposit taker to replace the related party. Instead, we suggest that the reference is to the deposit taker having rights to be able to enforce directly under the downstream arrangement. Additionally, we query the use of the word “failure” in this definition as this is defined in the Outsourcing ED by reference to the Deposit Takers Act. Accordingly, it should not be used to describe the “failure” of the related party.

48. **Parallel rights requirement**: We request that the Reserve Bank reconsider the drafting of the Parallel Rights requirement in clause 8. In particular, we consider that the first part of the clause should be drafted as follows:

A deposit taker must ensure that it has parallel rights in relation to an outsourced material service provider arrangement, unless the deposit taker -
....

This is because the deposit taker holds the parallel rights, not the material service provider arrangement.

49. In this context, we note that paragraph 28 of the Outsourcing Guidance incorrectly describes the situation. The parallel rights are not actually included in the “outsourced material service provider arrangement”. The deposit taker needs to agree the parallel rights with the independent third party.



50. We also query in clause 8(a) why a deposit taker needs approval under both (i) and (ii) if the deposit taker decides to substitute. The Reserve Bank should only need to approve the backup capability and shouldn't need to approve the substitution as well.
51. **Ongoing requirements for backup capability:** We query if the drafting of clause 10(b) should include "48 hours of the *failure*" given that failure is a defined term and the event that triggers the failure may be quite some time before the eventual failure. In respect of clause 10(c) we note that "legal and practical control" is no longer defined but appears in the Outsourcing Guidance. Further, in respect of clause 10(d), we submit that the Reserve Bank should clarify that the 6 hour period begins from the separation/failure, as for clause 10(d)(ii) and we query why the wording of clause 3(2) has been replicated here also.
52. **Fully automated substitution:** Clause 10(e) requires that "backup capability is sustainable, in that it could be substituted for the material service provider arrangement on an ongoing and fully automated basis to deliver the critical operation with minimal impact and disruptions". The reference to on a "fully automated basis" goes beyond existing requirements under BS 11 and may not always be possible or proportionate to the importance of the relevant service. We submit that the Reserve Bank should remove this reference given that the corresponding reference in the Outsourcing Guidance notes that this is only required where relevant (see paragraph 37).
53. **Testing of end-to-end functionalities:** We request that the Reserve Bank clarify that testing methods in clause 10(f) may be proportionate, and may, for example, include scenario-based or component testing where full end-to-end operational testing is impractical. We consider that such testing methods will suffice in such circumstances so long as the deposit taker can demonstrate that the outcome can be achieved.
54. **Backup testing:** Clause 11 requires each backup test to be reported to the board separately, instead of the annual notification currently undertaken for the separation test. We query whether this is necessary and submit that there should be a single notification only. Further, the Reserve Bank should consider issuing practical guidance on approval expectations for backup, including the level of testing, assurance and documentation required. This would support consistency across the industry without embedding overly detailed requirements in the Outsourcing Standard itself.
55. **Bank approval for certain service provider arrangements:** Clause 12 retains the requirement for Reserve Bank approval (via a "non-objection" under BS11) before a deposit taker enters into an in-scope outsourcing arrangement with a related party. We recognise the Reserve Bank's interest in maintaining visibility and oversight of related-party outsourcing arrangements, given the potential risks that may arise in these circumstances. However, the ultimate responsibility for compliance with the Outsourcing Standard sits with the deposit taker and the decision to enter into an outsourcing arrangement, and the assessment of appropriate risk mitigants are matters for the deposit taker which remains accountable for those decisions regardless of whether regulatory approval has been obtained.
56. We request that the Reserve Bank consider whether a notification approach could achieve the same supervisory objectives more efficiently than an approval requirement. Notification would continue to provide the Reserve Bank with visibility of related-party outsourcing arrangements and the associated back up and resilience measures, while enabling the Reserve Bank to engage or seek further information where appropriate. This approach would preserve supervisory oversight while



reinforcing the principle that responsibility for compliance decisions remains with the deposit taker. It would also be supported by existing audit and breach reporting requirements.

57. **Application for temporary suspension:** Whilst we acknowledge that clause 20 has been carried over from the existing BS11 policy, we query the practicality of the temporary suspension provisions. The definition of “extreme event” is very narrow, and, in these scenarios, the process proposed may not take into account the speed of decision making or practical difficulties with obtaining formal Reserve Bank approvals.
58. **Approval following temporary suspension:** It is not clear to us why an additional approval is needed for non-related party MSP arrangements being resumed after a temporary suspension under clause 25, when clause 26 also requires a deposit taker to provide a report on whether they have complied with the Outsourcing Standard in respect of the relevant suspended MSP arrangement.
59. **Separation plan requirements:** The separation planning requirements in Part 5 of the Outsourcing ED should be more clearly tied to ensuring that material service provider arrangements do not compromise a deposit taker’s ability to meet the outcomes in clause 3 of the Outsourcing ED in the event of failure. As currently drafted, the requirement for the deposit taker to explain how it would meet the clause 3 outcomes could be read as broader than addressing the possibility of an abrupt loss of access to the critical operations provided by a related entity other than a subsidiary and the reference to critical operations here as their own separate objective for the separation plan is confusing. We suggest clarifying in clause 32(2)(b)(i) that the separation plan should focus on arrangements needed to meet the outcomes set out in clause 3 up until the separation, where the parent or related party provides, or materially supports, a critical operation under a material service provider arrangement.
60. **Testing of separation plan:** We request the Reserve Bank clarify that annual testing in clause 36 be proportionate and may include table-top exercises, scenario tests, component testing or targeted operational tests where full end-to-end testing is impractical. Given this, we submit that it may be more appropriate to shift this into guidance or update clause 36(2)(a) to include wording around testing being “reasonably practicable” (as is the case in clause 11(1)(a)).
61. **Reporting and approval of changes to separation plan:** We request that clause 38(1) is aligned with the existing requirement in BS11, including the existing LBUG FAQ B5 Q4 A4 where the Reserve Bank confirms that the changes to the separation plan should be reported to the Reserve Bank at least annually, in line with each deposit taker’s annual review process. The clause should also be amended to provide clarity that the deposit taker is not required to apply to the Reserve Bank for approval of every material separation plan change before it is made. Further guidance on what changes the Reserve Bank would consider material in this context would also be helpful. Separately, we submit that clause 38(3) should be expanded to also cover changes that have already been approved by the Reserve Bank for related party services.
62. **BS11 compendium fields carried into the Register:** In relation to clause 41, we disagree with requiring the following fields to be recorded in the Register. We view these fields as less relevant in the context of a statutory/resolution manager and maintaining these fields can be burdensome relative to the risk profile (and could result in breaches that are purely administrative in nature). The Reserve Bank should consider either removing the following fields, or marking them as optional. Providing



guidance on the level of detail to be included in the register and required timeframe for inclusion would also be helpful for deposit takers:

- 62.1. Requirements to record both upfront and ongoing costs. The term “upfront costs” is not well defined. It may be applied inconsistently across deposit takers which could potentially undermine its purpose. Additionally, contract value is not necessarily a reliable indicator of whether a contract is critical, significant to ensure reliance or the materiality of a supplier, noting that upfront costs are a point in time/historic value that is not relevant to the objectives of the outsourcing policy. If this is to be retained however, we suggest this is limited to the “annual cost” in-line with the current settings; and
 - 62.2. Information required under clause 41(c) (i.e. any other information specified by the Reserve Bank). As noted above, we do not think it is appropriate for fields to be added without consultation with industry given deposit takers’ need for certainty as to the breadth of these fields and how they may change in future.
63. **External review requirements:** We are generally comfortable with the triennial requirement for an external review of a deposit takers outsourcing arrangements and its separation plan every three years as proposed under clause 42. We appreciate the Reserve Bank taking previous industry feedback into account on this matter and support continued engagement on this up until the final Standards are released. However, we have several comments on the proposal:
- 63.1. We suggest that the Reserve Bank could consider aligning the proposed review requirement with the wording of clause 17 of the Operational Resilience ED (where reviews are carried out by “a suitably qualified person with sufficient operational independence”, with examples given in the guidance) for consistency;
 - 63.2. Clause 42(1) refers to an “advisory review”, whilst clause 42(4)(a) refers to an “advisory assessment”. Are these intended to be different?
 - 63.3. The words “, appear sufficient to support,” in clause 42(4)(a) do not appear to add anything in the context of the requirement. Accordingly, we submit that these words are removed;
 - 63.4. We submit that clause 42(5)(a) should be updated to refer to the first board meeting “as soon as is reasonably practicable” following the receipt of the report. This would take into account situations where the report was delivered after the deadline for board materials to be circulated;
 - 63.5. In relation to the transition to 3-yearly advisory reviews, we suggest that the Reserve Bank take a practical approach to the commencement of the 3-yearly advisory reviews. If the approach is taken that the first review commences 3 years from the last review, this could mean some deposit takers must conduct this first advisory review only a few months following the Outsourcing Standard coming into force (meaning the review would need to encompass aspects of both old and new requirements). As an alternative to this approach, in order for the Reserve Bank to allow the review to be reset from the date the Outsourcing Standard comes into force, it could suggest interim arrangements for the first triannual review.



64. **Removal of the exempt list and list of pre-approved services and functions:** We agree with the Reserve Bank's intention to no longer maintain an exempt list or a list of pre-approved services and functions. We agree that removing these static lists (and including a materiality test for outsourcing arrangements instead) fits a principles-based approach.
65. **Transition of Existing Arrangements:** We submit that the "grandfathering" provisions in clause 1 of Schedule 1 of the Outsourcing ED need to be amended to make it clear that all existing outsourcing arrangements are deemed to meet the requirements of clauses 7 to 9 of the Outsourcing ED, as well as being deemed to be "approved material service provider arrangements". In particular, the Reserve Bank should confirm that arrangements entered into with the existing prescribed contractual terms required under BS11 remain compliant. We are concerned that the new prescribed contractual terms requirements in clause 7 require the existing outsourcing arrangements to reference resolution under the DTA. If the arrangements are not grandfathered for that purpose, then they would need to be re-opened immediately to update those clauses. For completeness, we suggest that the references to BS11 in a number of the clauses of Schedule 1 should refer to it being "first issued" in January 2006, given that the current regime was introduced later in September 2017.

Comments on the updated Outsourcing Guidance

66. We note the following in relation to the Outsourcing Guidance:
- 66.1. **Examples of critical operations:** The examples of critical operations in paragraph 16 of the Outsourcing Guidance are unhelpful and not useful examples of critical operations. This could create uncertainty for deposit takers when identifying material service provider arrangements that are in scope under the Outsourcing Standard. If examples are to be used in the Outsourcing Guidance, they should be clearly captured as critical operations, as many of these examples may not be considered critical operations (depending on the specific circumstances of a deposit taker). The Reserve Bank should clarify that any examples given in the Outsourcing Guidance are illustrative only and are not intended to broaden the scope of the critical operations definition.
- 66.2. **Examples of contractual terms:** The examples of terms which are not required by the Reserve Bank (but that it expects to see included), as set out in paragraph 26 of the Outsourcing Guidance, are unhelpful. We submit that they should be deleted. We consider these to be commercial matters for deposit takers to determine on a case-by-case basis. We note that the Reserve Bank effectively acknowledges this at paragraph 27 of the Outsourcing Guidance. Providing non-binding examples is unhelpful and potentially creates unnecessary confusion in this context.
- 66.3. **Parallel rights:** Paragraph 30 of the Outsourcing Guidance clarifies when there is no need for step-in rights to be included in the agreement with the related party. However, we consider that this creates a confusion, as the step-in rights need to be in the downstream agreement with the third party (not with the related party), as otherwise they will not apply to the third party. We request the Reserve Bank further review this point.
- 66.4. **Backup capability:** At paragraph 34 the Outsourcing Guidance states that the requirements in clause 10 of the Outsourcing ED should be "treated as



operational capabilities rather than static arrangements”. We are unclear as to what the Reserve Bank means by this and request the Reserve Bank to clarify this. For example, is this only about the testing of back-up capabilities?

- 66.5. **Sustainability of Backup capability:** We submit that paragraph 37 of the Outsourcing Guidance should recognise that backup capabilities are designed to be used (and therefore be fit for purpose) for a resolution environment. While the capability should allow the deposit taker to meet the outcomes in clause 3 of the Outsourcing ED, there is no expectation that it will be the ongoing, long-term system for the deposit taker. Accordingly, it should be recognised that backup capability may not have the full functionality of the “business as usual” system, provided it meets the outcomes.
- 66.6. **Reporting on testing of end-to-end functionalities for backup capability:** Paragraph 40 of the Outsourcing Guidance provides significantly greater detail on the content and level of testing than is specified in the Outsourcing Standard itself. This includes reporting on test scope, outcomes, dependencies, root causes and remediation activities. We submit that this is not necessary.

Submissions on the Related Party Exposures Standard

- *Q14 Do you have any feedback on the new requirements in the Related Party Exposures Standard for New Zealand deposit takers that are subject to group supervision in New Zealand?*
- *Q15 Do you agree that the drafting of the ‘related party’ definition reflects the previously announced policy intent?*
- *Q16 Are there any unintended consequences of changing the ‘significant influence’ definition to align with other Standards that we should be aware of?*
- *Q17 Do you have any other comments on the attached exposure draft of the Related Party Exposures Standard?*
- *Q18 Do you have any comments on the attached draft of the Guidance to support the Related Party Exposures Standard?*

We are generally supportive of the proposed definition of “related party”

67. We are generally supportive of the definition of “related party” included in clause 4 of the Related Party Exposures Standard Exposure Draft (the **Related Party Exposures ED**), noting that it largely reformulates the existing BS8 definition of “connected person”. We are supportive of carrying over this definition and agree with the way in which it has been simplified in the Related Party Exposures ED.
68. The Reserve Bank however should consider whether the use of “licensed deposit taker group” in clause 4(5) is appropriate. This is narrow in scope and could exclude SPV’s who are otherwise members of the capital group (and should therefore not be a related party). Given this, the Reserve Bank should consider expanding this clause to include members of a deposit takers capital group.



We are comfortable with the changes to the significant influence threshold

69. We are comfortable with the revised definition of “significant influence” in the Related Party Exposures ED, including the reduced threshold for exercising voting rights or director appointment rights from 25% to 20%.

General comments on the Related Party Exposures ED

70. **Consistency of defined terms:** We note that there are a number of defined terms used in the Related Party Exposures ED that are common with the equivalent APRA standards. Where this is the case, we think the Reserve Bank should exercise caution to avoid confusion between these definitions.
71. For example, we would appreciate if the Reserve Bank could confirm that the significant influence threshold is not intended to apply to general aggregation requirements. A number of deposit takers with Australian parents use the aggregation requirements from APS 221 to ensure consistency with their parent bank. APS 221 contains a much higher threshold for “significant influence” (i.e. 50%). Given this, we request that the Reserve Bank make it clear that the significant influence threshold in the Related Party Exposures ED does not also extend to general aggregation requirements.
72. **Definition of holding entities:** It is unclear whether the term “subsidiary” in the definition of “holding entity” in section 7(3) of the DTA is intended to refer to both direct and indirect subsidiaries when the term is used in the Related Party Exposures ED. We consider that capturing indirect subsidiaries would make the definition of “related party” in clause 4 of the Related Party Exposures ED too wide in the context of complex deposit taking/banking groups and we request that indirect subsidiaries be excluded.
73. **Off-balance sheet value:** The Reserve Bank should consider amending clause 14(4) to make it clear that unfunded contingent credit protections arrangements with a related party are to be excluded. This would be consistent with paragraph 27 of the draft Guidance for the Related Party Exposures Standard (the **Related Party Exposures Guidance**), which specifically mentions that contingent credit exposures to related parties are not to be recognised.
74. **Cross references to Capital Standard:** We note there appears to be a number of incorrect references to the Capital Standard in the Related Party Exposures ED, which will effectively require the Capital Standard and Related Party Exposures Standard to be finalised at the same time. In particular:
- 74.1. *Clause 12:*
- (a) The cross reference in clause 12(1)(b) should be subpart 7 of Part 5 rather than subpart 5 of Part 5;
 - (b) The cross reference in clause 12(2) should be Part 6 rather than subpart 5 of Part 5; and
 - (c) The cross reference in clause 12(3) should be to subpart 2 of Part 3, rather than Part 5.



- 74.2. *Clause 14(3)*: The cross reference should be to subpart 7 of Part 5, rather than subpart 5 of Part 6.
- 74.3. *Clause 16*: The references to subpart 5 of Part 5 for credit risk mitigation should be updated to Part 6 (or subpart 5 of Part 6).
- 74.4. *Clause 16(4)*: The cross reference should be to subpart 3 of Part 6, rather than subpart 2 of Part 6.
- 74.5. *Clause 17*: The cross reference to subpart 3 of Part 6 should be to subpart 7 of Part 6.
- 74.6. *Clause 18*: The cross reference to subpart 5 of Part 5 should be subpart 3 of Part 6.