

Submission

to the

Reserve Bank of New Zealand –
Te Pūtea Matua

on the

Consultation Paper: *Prudential Levy*

16 October 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 sixteen 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.
 - Kiwibank Limited
 - Rabobank New Zealand Limited
 - SBS Bank
 - TSB Bank Limited
 - Westpac New Zealand Limited

Contact details

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Introduction

4. NZBA welcomes the opportunity to provide feedback to the Reserve Bank of New Zealand – Te Pūtea Matua (**RBNZ**) on the Consultation Paper: *Prudential Levy (Consultation Paper)*. NZBA commends the work that has gone into developing the Consultation Paper.
5. Our submission responds to Chapters 2-5 of the Consultation Paper. In summary:
 - 5.1. NZBA does not agree with RBNZ's conclusion that full cost recovery is appropriate for the proposed prudential levy.
 - 5.2. We consider that costs recovered via the levy should be transparent, appropriate, and linked to clearly defined regulatory activities.
 - 5.3. We agree that all sectors and subsectors prudentially regulated by RBNZ should be subject to the proposed levy, but do not believe that supervisory staff numbers are an appropriate proxy for sector allocation.
 - 5.4. We consider there needs to be, at minimum, a year between decisions made on the levy and implementation, to allow levied entities time to prepare for the changes. We also submit that the proposed 5-year review period is too long, and that material changes in supervisory scope or sector allocation should trigger an automatic review.
 - 5.5. We question whether the levy should be treated as a taxable supply under the Goods and Services Tax Act 1985 (**GST Act**) and would be happy to facilitate discussions with RBNZ and Inland Revenue on this point.

Chapter 2: Scope of a prudential levy

6. NZBA submits that further consideration should be given to whether full cost recovery is appropriate for the proposed prudential levy. We have set out below our views on the matters addressed by RBNZ under Chapter 2.
7. We partially agree with RBNZ's assessment of financial institutions under externality theory. However, while some negative externalities may be created by financial institutions, many of the risks that prudential supervision seeks to mitigate do not originate from the financial sector. For example, risks can also be created by macro-economic, environmental and geopolitical changes. Prudential risks are also managed through other regulatory initiatives such as capital requirements.
8. Accordingly, we submit that externality theory does not support full cost recovery.
9. We agree with RBNZ's position that prudential regulation and supervision is a "mixed good", with characteristics of both a private good and a public good. As noted in the Consultation Paper, a resilient and stable financial system provides benefits to all New



Zealanders. We therefore consider that beneficiary theory does not justify a full cost approach. The fact that calculating a reasonable division between private and public goods is difficult does not, in our view, justify a full cost recovery approach in and of itself.

10. We note that other industry levies in New Zealand, including those issued by the Financial Markets Authority (**FMA**) and Department of Internal Affairs (**DIA**) (in respect of anti-money laundering / countering financing of terrorism (**AML/CFT**)) entail partial cost recovery, which provides existing precedent and demonstrates that this approach is reasonably practicable and appropriate. The FMA recovers about 86% of its costs from levies, and about 14% of its costs from the Crown. This split recognises that broader financial markets participants directly benefit from operating in well-regulated markets and increased consumer confidence and participation in financial services and markets resulting from FMA regulation. In our view, a comparable split would be equally appropriate for the prudential levy.
11. NZBA therefore submits that, in determining its overall approach, RBNZ should be required to demonstrate that the costs being recovered are reasonable, efficient, and directly linked to prudential supervision. As part of this, RBNZ should examine further whether full recovery may disincentivise cost efficiency.

Chapter 3: Determining Reserve Bank costs

12. Costs recovered through a levy should be both appropriate and transparent, to ensure levy payers can have confidence that charges are fair, efficient, proportionate, and linked to clearly defined regulatory activities.
 - 12.1. Cost recovery should reflect the actual costs of delivering regulatory functions efficiently and avoid over-recovery.
 - 12.2. Transparency is equally important, as it generates trust in the process by enabling levy payers to understand what activities are being funded, how costs have been calculated, and whether opportunities exist to improve efficiency or reduce expenditure over time.
13. Together, these principles support accountability, promote trust in the regulatory framework, and help ensure that levies do not impose unnecessary and inefficient costs on regulated entities. In this section, we set out some considerations to ensure the costs underpinning the levy are appropriate, efficient, and transparent.
 - 13.1. **Overlap with existing cost recovery mechanisms:** Costs that are met through fees (e.g. licensing) should not be covered by the levy. We also note that resolution and recovery of distressed entities are currently included in the proposed levy cost-base. We submit that RBNZ should seek to separately recover these costs from the assets of the distressed entity under s 347 of the Deposit Takers Act 2023 (**DTA**), rather than levying other entities. In addition



to the existing cost-recovery mechanism, this type of activity benefits the public rather than the distressed entity – we question whether such costs would appropriately be included in levy funding in any event. We would also welcome further clarification of the broader potential impacts of the removal of a distressed entity from the levy – i.e., whether other entities' levies would increase as a result, and what the process would be if recalculation were to occur.

- 13.2. **Apportionment of project-related costs between levied sectors:** Costs that fall outside of ordinary supervision activities should be carefully assessed to ensure they are recovered from the right entities. For example, the Consultation Paper suggests that the costs of implementing the DTA are intended to be covered by the levy. It is unclear whether these costs would be directly attributed to funds levied from the deposit taking sector, or from the total pool including insurers and financial markets infrastructure. The same question would arise where specific policy work applies exclusively to one of these other sectors. We would expect that sector-specific costs are ring-fenced and attributable to the sector giving rise to them. Further, we submit RBNZ should consider and clarify how certain costs for ongoing projects would be recovered from future new entrants – for example, whether newly licensed deposit takers or banks would share implementation costs of the DTA.
- 13.3. **Costs of policy development:** Alongside its role as a regulator, RBNZ occasionally carries out policy development work on behalf of the Minister of Finance. Typically, policy development agencies working on behalf of Ministers do not recover the costs of policy development through levies. Accordingly, we submit that costs relating to policy development on behalf of the Minister of Finance (which would typically relate to Acts, regulations or unregulated areas) should not be recovered through the levy.
- 13.4. **Transparency:** We would expect greater transparency and guardrails in relation to how RBNZ determines its budget, what costs are included / excluded in the budget and in the levy, and how indirect costs are allocated. This could include public annual reporting on levy-funded expenditure, as well as independent review or validation of RBNZ's budget and cost allocation methodologies (this could be undertaken, for example, by the Ministry for Regulation or The Treasury).
- 13.5. Further transparency would also be welcomed in relation to how RBNZ has calculated specific costs, such as supervisory costs. For example, while the Consultation Paper considers branches as requiring less supervisory oversight than locally incorporated entities, it provides limited detail on how costs have been assessed against factors such as overseas deposit takers' prudential regulation and supervision in their home jurisdictions. We would



welcome greater transparency regarding the methodology and assumptions applied to ensure the proposed cost allocation and calculations are proportionate, fair, and reflective of the reliance placed on other existing prudential and supervisory obligations.

- 13.6. **Independence:** We also observe that for similar levies on the financial sector, the agency responsible for the development and / or review of the levy has been independent from the agency collecting the levy. For example, MBIE co-led a consultation on proposed changes to the FMA levy in 2021, and the Ministry of Justice led consultation on the incoming AML/CFT levy to be collected by DIA. In light of this, we query what guardrails will be put in place to give levied entities assurance that due process is followed and protect against any potential conflicts of interest (actual or perceived) RBNZ may have in setting the levy. As noted above, we consider it would be appropriate for RBNZ's budget and cost allocation methodologies to be independently reviewed or, preferably, set.
- 13.7. **Utilisation of levy costs:** There should be a clear connection between costs levied, the supervisory activities that they fund, and the outcomes they achieve. This should include how levy funding will be tracked to specific activities and outcomes, to demonstrate to levied entities that the fees are fair, efficient, reasonable, and proportionate to the activities carried out.
- 13.8. **Governance and controls over future cost increases:** In our view, to enhance stakeholder trust in the framework there need to be strong guardrails around levy growth and significant increases in recoverable costs. This should include a transparent approval pathway where material changes are proposed. As part of this, we would support a requirement for consultation with levied entities before significant methodology or funding changes are made.

Chapter 4: Sector and sub-sector allocation

14. NZBA agrees that all sectors and subsectors prudentially regulated by RBNZ should be subject to the proposed levy.
15. However, we question whether supervisory staff numbers are the best proxy for sector allocation, and whether this reflects the actual risk and complexity of supervising each sector.
16. We would appreciate clarity on the timeframe within which supervisory staff numbers have been calculated. There is a risk, for example in the absence of an appropriate adjustment, of distortion if the timeframe covers a period where there have been significant areas of work that impact one sector beyond what is typical, which could lead to a commensurate increase in staffing for that sector.



17. We further submit that existing or expected costs, protections and / or mitigants against prudential risk should be factored into allocation calculations. For example:
- 17.1. The Consultation Paper explicitly recognises that Financial Market Infrastructure operators are likely to pass levy costs on to participants. This creates the potential for other levied entities, such as banks, to bear prudential costs directly via the levy on deposit takers, as well as indirectly through participation in payment, clearing and settlement infrastructure. We submit RBNZ should give consideration to the potential cumulative costs that will apply to entities, either directly or indirectly.
- 17.2. The existence of the depositor compensation scheme provides a level of protection against the 'negative externalities' (as identified in Chapter 2 of the Consultation Paper) posed by deposit takers. This, in turn, would support a lower allocation to deposit takers than what has been suggested by solely using data on frontline supervisors per sector.

Chapter 5: Administrative considerations

18. In relation to the proposed implementation timeframe and review process, NZBA submits:
- 18.1. **Implementation timeframe:** We consider there needs to be, at minimum, a year between decisions on the levy and implementation, to allow time for banks to prepare for the changes. Relatedly, we would also welcome more detail on how a deposit taker's total assets will be calculated – for example, will the levy be based on each deposit taker's most recent disclosure statement?
- 18.2. **Review frequency and change process:** We consider a 5-year review period is too long, given the size of the levy. In our view, a review of the levy regulations and calculation methodology 2-3 years after its implementation would be appropriate, with the possibility for future reviews to occur every five years. As captured in our submissions on Chapter 3, we request greater clarity on how methodology changes, scope changes and material levy increases would be consulted on and approved, and consider the review should be carried out by an appropriate third party. Further, we submit that any material changes in supervisory scope or sector allocation, should automatically trigger a review of the levy.
- 18.3. We also consider there should be an option for levied entities and RBNZ to raise a review request when needed. For example, deposit takers could request a review of the sector split if a significant development occurs in another sector regulated by RBNZ.



GST treatment of the levy

19. Under existing tax settings, the levy will be treated as a taxable supply under section 5(6EC) of the GST Act. Goods and Services Tax (**GST**) charged on supplies to banks will only be partially recoverable, meaning the amount ultimately recovered by Government from the banking sector from the levy will be more than the intended cost recovery amount. In addition, based on the latest NZBA members' GST Group Access Ratios, the non-recoverable GST ranges from 24% to 90%. This means the final financial impost will be different to the intended cost recovery mechanism.
20. Given the intended purpose of the levy is cost recovery, and the uneven post-GST financial impact on members, we question whether the levy should be treated as a taxable supply for GST purposes. Section 5(6ED) of the GST Act treats charges, fees and levies that are listed in Schedule 1 of that Act as non-taxable legislative charges. NZBA submits that the prudential levy should be added to Schedule 1 of the GST Act.
21. We would be happy to facilitate engagement between NZBA, RBNZ and Inland Revenue on this matter.