



**RESERVE
BANK**

O F N E W Z E A L A N D

REGULATION OF NON-BANK DEPOSIT TAKERS

FACT SHEET FOR THE PUBLIC

Following a review of New Zealand's financial sector regulation, Parliament has decided that the Reserve Bank is to be responsible for regulating Non-Bank deposit takers (NBDTs) such as credit unions, building societies and finance companies.

The Reserve Bank has been given new powers that will, over time, raise standards across the sector and improve the disclosure of financial risk to investors. Trustee corporations will continue to supervise individual deposit takers and will be responsible for monitoring compliance with new regulations that are expected to be introduced in 2009.

Legislation Process – what has changed?

The enactment of the Reserve Bank Amendment Bill (No 3) on 3 September 2008 has extended the Reserve Bank's responsibilities to the non-bank deposit taking sector. This represents the start of a two year transitional period during which prudential regulations, i.e. new rules for deposit takers, will be progressively introduced.

What does this mean?

The Reserve Bank is now responsible for setting the prudential rules for deposit takers. Compliance with these rules will be monitored by trustee companies who will continue to be the frontline supervisors of individual institutions.

The new legislation will not have an immediate impact on deposit takers or on investors.

The Bank will be working to develop and introduce new regulations for the industry over the next year. These regulations will introduce consistent standards for key risk areas such as the financial commitment of shareholders (capital), access to cash (liquidity) and lending to associated parties. It is expected that these new rules will be introduced in 2009.

In addition, deposit takers will be required to comply with new governance and risk management requirements and to obtain a credit rating by March 2010.

What this does not mean.

The new legislation will not be a 'quick fix' solution to the current challenges facing the non-bank sector. The new regulations are intended to raise standards across the industry and to improve the future resilience of the sector. They are deliberately designed not

to stifle risk taking by deposit takers and will not prevent the failure of individual institutions or insulate depositors from loss in the event of failure.

The Reserve Bank does not supervise individual institutions; this is the role of trustees. Depositors will remain responsible for their own investment decisions. The introduction of credit ratings will provide investors with a clearer basis to distinguish between lower risk and high risk investments.

What happens now?

The Reserve Bank will be developing and consulting on detailed regulations with industry in the forthcoming months. It is expected that the new regime will be fully in place in 2010.