



**RESERVE
BANK**

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

REGULATION OF NON-BANK DEPOSIT TAKERS

FACT SHEET FOR THE INDUSTRY

The Reserve Bank is now the prudential regulator of non-bank deposit takers (NBDTs) as well as banks.

The Reserve Bank has been given new powers to require NBDTs to meet new prudential standards and to maintain a credit rating from an approved credit rating agency. The Bank will be responsible for setting the regulatory standards for the industry and for monitoring the sector overall. Trustee corporations will continue to supervise individual deposit takers and will be responsible for monitoring compliance with the new rules as they are introduced over the next year.

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 will be progressively developed, consulted on with industry and introduced.

What does this mean?

The Reserve Bank is now responsible for setting the rules that will govern the future behaviour of deposit takers, determining who these rules apply to (i.e. examining exemption applications) and for administering the mandatory credit ratings regime. The Bank will also have a role in monitoring and enforcing compliance with the regulations.

The Bank will be working to develop and introduce new prudential regulations for the industry over the next two years. These regulations will introduce consistent standards for the measurement and management of capital, liquidity and related party exposures that are expected to be in force in 2009.

In addition, deposit takers will be required to comply with new governance requirements (at a date yet to be determined), new risk management requirements by 1 September 2009 and to obtain a credit rating by March 2010. The Reserve Bank is encouraging NBDTs to move towards adopting the new regulatory standards as soon as possible.

New reporting obligations and liabilities have also been imposed on trustees who will continue to monitor and enforce compliance with trust deeds. Henceforth, trustees will be required to report material trust deed breaches to the Reserve Bank as well as non-compliance with other requirements set by regulation. Trustees will continue to be responsible for monitoring and enforcing compliance with requirements that are incorporated into the trust deed.

The Bank will be responsible for monitoring and enforcing compliance with regulations, such as mandatory credit ratings, that are not imposed via trust deeds.

In the short term, the new legislation will not have an immediate or direct impact on deposit takers or investors.

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, to promote public confidence in, and improve the future resilience of, the NBDT 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.

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.

Overall the regime will promote the maintenance of a more sound and efficient financial system, particularly that proportion represented by the non-bank sector.

What happens now?

The Reserve Bank expects to be progressively developing and consulting on regulations with industry based on the following timetable.

Regulations	Consultation
Credit rating agency approval	Q4 2008
Credit rating requirements	Q4 2008
Capital requirements	Q1 2009
Related party requirements	Q1 2009
Liquidity requirements	Q2 2009

It is expected that the new regime will be fully in place in 2010.