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# Review of the disclosure requirements for registered banks

## Banking System Department

The Reserve Bank recently completed a review of its disclosure regime for registered banks, aimed at refining the existing requirements, and cross-referencing them to the accounting standard FRS-33: *Disclosure of Information by Financial Institutions*. The changes to the disclosure regime have now been promulgated by the Government and will come into effect on 1 October 1998.

## 1 Background

The Reserve Bank has a statutory role in developing and administering disclosure arrangements for registered banks, as part of an overall banking supervisory framework designed to promote a sound and efficient banking system. New disclosure requirements for registered banks were introduced on 1 January 1996, in the context of the introduction of new banking supervision arrangements more generally. A previous bulletin article "New Disclosure Regime for Registered Banks", published in 1996 (Vol 59 No 1, 1996) explains in some detail the structure of this disclosure regime.

The disclosure regime is implemented by Orders in Council made pursuant to section 81(1) of the Reserve Bank of New Zealand Act 1989. The disclosure requirements were originally contained in Orders in Council promulgated in 1995, which were subsequently amended in 1996 in order to bring into effect some market risk disclosure requirements, and to make some other miscellaneous amendments.

At the time the disclosure requirements for registered banks were finalised, late in 1995, the Reserve Bank indicated to banks that it would review the requirements after banks and the Reserve Bank had sufficient experience working with the disclosure arrangements. The main purpose of the review would be to address any drafting ambiguities that might have been discovered and to assess what, if any, refining of the disclosure requirements might be appropriate.

Another objective of the review would be to cross-reference the Orders in Council to FRS-33: *Disclosure of Information by Financial Institutions*, which was approved by the Accounting Standards Review Board in April 1997, and which came into effect for accounting periods beginning on 1 April 1997.

The Reserve Bank has now completed its review of the disclosure regime and the changes proposed were recently promulgated by the Government.

## 2 Description of changes

As noted above, the changes made to the disclosure arrangements for registered banks are of two main types, and involve:

- a a cross-referencing of the disclosure regime to the accounting standard FRS-33: *Disclosure of Information by Financial Institutions*;
- b refinements of the existing disclosure requirements.

### FRS-33: Disclosure of information by financial institutions.

One objective of aligning and cross-referencing the disclosure regime to FRS-33 is to ensure that banks' financial statement reporting requirements are harmonised with those which apply to other financial institutions. In addition, reducing discrepancies between generally accepted accounting practice and the Reserve Bank's disclosure requirements helps to minimise compliance costs.

These objectives had previously been met by including within the 1995 Orders some of the definitions and reporting requirements of the draft precursor to FRS-33, Exposure Draft ED-73A. Once FRS-33 had been approved by the Accounting Standards Review Board, and thus given legal effect, it then became possible to simply cross-reference the Orders to FRS-33 for most of those particular financial reporting requirements.

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The integration with FRS-33 affects the definitions sections of all the 1995 Orders and their 1996 amendments - most definitions which relate to financial statement items are now cross-referenced to FRS-33. Also, the requirements applying at the full and half years now rely on the parallel financial statement disclosure requirements contained in FRS-33 for the disclosure of the following information: statement of financial performance, statement of financial position assets and liabilities, unrecognised assets and liabilities, and disclosures of risk concentrations.

### Refinements to the disclosure regime

The other changes made to the regime are in the nature of minor refinements, and represent editorial changes or changes to existing requirements that are intended, as the case may be, to:

- increase their flexibility;
- clarify their coverage;
- improve their effectiveness;
- better adapt them to changes that are currently taking place within the banking industry; and
- improve the reliability of the information disclosed.

Some of the more general changes are discussed below.

### Market risk information

When the market risk disclosure requirements were first introduced, on 1 April 1996, "value at risk" disclosures were relatively new in the context of a financial reporting regime. For that reason, it was decided to defer introducing an audit requirement for this information until more familiarity with the market risk framework had been gained. This objective has been achieved, and accordingly, the market risk disclosures made at the full and half year are now required to be audited, with an audit opinion given as to whether the disclosures comply with the methodology contained in the Orders in Council for deriving this information.

A detailed discussion on the framework for the disclosure of registered banks' market risks is set out in a bulletin article entitled "Disclosure of registered banks' market risks" published in 1996 (Vol 59 No 2, 1996).

### Distribution requirements for the Key Information Summary

The Key Information Summary is a document which briefly summarises a bank's financial position and risk profile, and which is targeted mainly at the prudent, but non-expert investor. In the 1995 Orders, this document was required to be prominently displayed at each bank's head office and in its branches and agencies, and to be made available free of charge immediately on request.

This is still the case. However, rapid changes have been taking place in banks' customer service delivery systems. New electronic delivery systems such as direct banking and internet banking have recently been developed, and banks are now placing greater emphasis on electronic delivery systems in general. Similarly, physical distribution outlets have been undergoing some fundamental reshaping, and overseas new kinds of outlets such as bank franchises and supermarket and shopping centre outlets are becoming increasingly common.

Against the background of these kinds of developments, it was considered that the Key Information Summary distribution requirements should be adapted to the new electronic delivery systems, as well as "future-proofed" with respect to distribution in physical outlets.

Accordingly, the requirement to display Key Information Summaries in the branches and agencies<sup>1</sup> of the registered bank has been generalised in order to cover all the different kinds of customer-accessible bank premises through which a registered bank might possibly operate, including the kinds of outlets mentioned above.

With respect to electronic delivery systems, the Key Information Summary will now be required to be made available or displayed on any internet web site that contains information primarily directed at the bank's New Zealand customers or potential customers. Also, where bank customers hold "direct banking accounts" (that is, accounts held with direct banking centres, or more specifically, with bank branches

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<sup>1</sup> In the 1998 Orders the display of Key Information Summaries in agencies has been restricted to those agencies which are primarily engaged in the business of the registered bank.

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that are not normally physically accessible by the customers of the branch), banks will also be required to advise those customers every quarter of the availability of the most recent Key Information Summary.

The latter change reflects the fact that customers dealing with direct banking centres either may not have access to an internet web site, or are unlikely to visit their bank's physical distribution outlets on a regular basis. Some customers may not have access to either of these distribution methods.

### **Availability of explanatory information on the disclosure regime**

The objective of targeting the Key Information Summary at the prudent but non-expert investor is to ensure that this investor has access to timely and easily understandable information on the financial condition of banks, and is thus in a position to make well-informed judgements on bank creditworthiness. This objective is particularly important given that neither the Government nor the Reserve Bank guarantees or insures bank deposits, or ensures that a registered bank will not get into difficulty or fail.

In order to promote a better understanding, a standard introductory paragraph has been incorporated into the Key Information Summary explaining its purpose, and advising the reader of the availability of "user friendly" information which provides additional background to the disclosures set out in the Key Information Summary. This information is contained in a Reserve Bank publication entitled "Your Bank's Disclosure Statement - What's In It For You".

### **Directors' attestations**

One of the main objectives of the disclosure regime is to reinforce, and provide a sharper focus to, the role of bank directors. A key mechanism for achieving this focus is the requirement for directors to make statements or "attesta-

tions" about certain aspects of the bank's operations, for example, as to:

- whether the registered bank has systems in place to adequately monitor and control banking risks;
- whether the registered bank complies with its conditions of registration; and
- whether exposures to related parties are not contrary to the interests of the registered bank.

In order to improve the effectiveness of these requirements, three of the attestations (those set out in the above paragraph) have been applied to the whole reporting period, rather than simply as at the balance date, as was previously the case.

### **Other changes**

A number of other minor miscellaneous technical amendments have been made to the reporting requirements of the disclosure regime. Information on the details of these changes can be obtained from the Reserve Bank.

## **3 Process and timing**

For the sake of ease of interpretation, to bring into effect the changes arising from the review of the disclosure regime, the 1995 Orders and their 1996 amendments have been simply replaced with new Orders, rather than directly amended.

The changes to the disclosure requirements will take effect on 1 October 1998, and will apply to a registered bank's first disclosure statement occurring after that date.