Impact Summary: Changes to Disclosure Orders in Council (OiCs)

Section 1: General information

Purpose
The Reserve Bank of New Zealand (the 'Reserve Bank') is solely responsible for the analysis set out in this Regulatory Impact Statement (RIS), except as otherwise explicitly indicated. This analysis has been produced for the purposes of: • Advising the Cabinet Legislation Committee (LEG) on whether to submit two Orders in Council (OiCs) made under Section 81 of the Reserve Bank of New Zealand Act 1989 to the Executive Council. These OiCs amend existing disclosure requirements for registered banks (for locally-incorporated and overseas incorporated banks respectively), removing the requirement to prepare off-quarter disclosure statements. The Amending Orders also make various other changes to align the content of full and half year disclosure statements with the new 'Bank Financial Strength Dashboard' (the 'Dashboard') for locally-incorporated banks. • Providing additional public information on the reasoning behind the adoption of the Dashboard. This RIS has been prepared in accordance with New Zealand Treasury guidelines. The Reserve Bank is responsible for the quality assurance of content and analysis of the RIS.

Key Limitations or Constraints on Analysis
This RIS supports the proposed changes to two registered bank OiCs. The proposed changes will remove 'off-quarter' disclosure requirements for locally-incorporated banks and branches of overseas incorporated banks, respectively. In addition there are a number of technical amendments to both OiCs. Some of the latter changes will better align the information in half and full year requirements with that contained in the new quarterly 'Dashboard' of financial and prudential information for locally-incorporated banks. The analysis in this RIS focusses primarily on the options for making off-quarter disclosure by registered banks more cost-effective. The accompanying technical amendments will not be detailed in any depth: they generally provide clear but minor benefits with minimal cost implications. The analysis here relies on assumptions regarding the costs and benefits that the Reserve Bank would expect to accrue from the proposed changes to both individual banks and the financial system as a whole. These assumptions have been informed by information provided by registered banks and other stakeholders during the consultation process, as well as the understanding that the Reserve Bank has developed on the contribution of disclosure requirements to market discipline (and hence to the soundness and stability of the financial system) since the disclosure regime for registered banks was first introduced in 1996.

Quantitative estimates have been used where relevant, although there is a range of estimates from individual banks on the compliance costs associated with off-quarter public disclosure. That said, the costs that both locally-incorporated and branch banks currently incur in the preparation and publication of disclosure statements are not particularly large, relative to overall operating costs and the size of their balance sheets.

Banks also incur costs in the production of private prudential and statistical reporting that is currently provided to the Reserve Bank, and which will form the basis of the new Dashboard. The Dashboard will add to these existing costs because banks have chosen to be involved in the process of publishing the information extracted from the private reporting. Banks have not provided any estimates of these marginal cost increases associated with the Dashboard (note, the Dashboard only applies to locally-incorporated banks).

As a result, the net costs to locally-incorporated banks arising from the removal of off-quarter disclosure requirements, and the replacement with the Dashboard, are difficult to quantify with any precision. However, the Reserve Bank expects the changes to unambiguously reduce costs for branches, and leave costs unchanged or slightly reduced overall for locally-incorporated banks relative to the status quo (noting that locally-incorporated banks will face Dashboard process costs four time a year). The Reserve Bank views these changes as fairly immaterial in relation to banks' overall operating costs.

The expected benefits from the proposed changes are not readily amenable to quantification. The public disclosure of information supports market discipline, but measuring market discipline itself is challenging. Moreover, mapping the specific contribution of market discipline to the Reserve Bank's statutory purpose of promoting and maintaining a sound and efficient financial system is challenging – in particular, distinguishing this contribution from the other two 'pillars' of self and regulatory discipline, that together with market discipline constitute the Reserve Bank's three pronged prudential framework.

That said, the Reserve Bank continues to believe that market participants can and should play an important role in influencing the behaviour of banks. The Reserve Bank is of the view that the proposed changes will enhance market discipline by making it easier for the market to compare and analyse individual bank-specific information, while potentially expanding the range of market actors who potentially exert such influence over banks. The benefits that enhanced market discipline can deliver are potentially of a different order of magnitude to the minor impact on banks' compliance costs.

In sum, the level of analysis undertaken in this RIS is broadly commensurate with the magnitude of the problem that has been identified and the size of the potential impacts of the options being considered – in light of the small cost impacts and the wider uncertainty around assessing the impact on market discipline and financial stability more generally.

Responsible Manager (signature and date):

Cavan O'Connor-Close

Manager, Operational Policy, Prudential Supervision Department

C. O'Connor-Close

Reserve Bank of New Zealand

30 January 2018

Section 2: Problem definition and objectives

2.1 What is the policy problem or opportunity?

All registered banks are required to produce disclosure statements on a quarterly basis. The required content varies depending on whether it is a full year, half year or 'off-quarter' disclosure statement, and whether the bank is locally-incorporated or a branch of an overseas incorporated bank. Off-quarter disclosure statements refer to the first and third quarters of the bank's annual financial reporting cycle.

The Reserve Bank's disclosure requirements for banks are overlaid on top of financial reporting obligations in the Financial Markets Conduct (FMC) Act 2013, which are enforced by the Financial Markets Authority (FMA). Under the FMC Act banks must prepare annual financial statements in accordance with generally accepted accounting practices. The FMC Act also requires that the annual financial statements are audited by a qualified auditor (within the meaning of the Auditor Regulation Act 2011).

The Reserve Bank's disclosure overlay for registered banks reflects the important role that banks play as financial intermediaries in a financial system, and the impact that their distress or failure can have on the real economy.

[Note, Reserve Bank disclosure requirements also provide a rationale for exemptions registered banks are given from some disclosure requirements in the FMC Act. Banks are not required to prepare a *Product Disclosure Statement* (PDS) for example, or register entries for offers of basic banking products (e.g., transactional accounts and term deposits) to retail investors.]

Disclosure statements must be signed by bank directors, who attest to the veracity of the information provided (for branches the NZ CEO also signs). Banks must publish their quarterly disclosure statements on their websites and make hard copies available on request.

Public disclosure directly addresses the market failure associated with asymmetric information – the difference between the knowledge a bank has on its own financial condition, and the information that is available to external stakeholders about the bank. While market participants may demand such information in the absence of formal regulatory requirements, the information produced may not met the needs of all participants, be ad hoc, or not based on generally accepted and comparable accounting standards. Moreover, there may be little way for the market to know, *ex ante*, that the information being provided is reliable and producing a fair picture of the institution's financial position (this would only emerge *ex post*, once an institution comes under stress or evidence of fraud is made public).

Thus there is a clear role for government authorities to set minimum requirements attached to publicly disclosed information in order to help ensure its integrity, and to make it ultimately useful for stakeholders.

The public dissemination of bank information for prudential purposes supports 'market discipline' by allowing a variety of stakeholders to evaluate the financial health of the bank, and therefore to make informed decisions about the amount of funding they are willing to provide to the bank, and/or the interest rate they demand for supplying such funds as depositors or other creditors. Market discipline refers to the subsequent effect on a bank's behaviour arising from the actions of market participants.

In addition, the requirements for directors to attest to the disclosed information also supports internal governance processes within the bank (i.e., self-discipline), by embedding a process of due diligence and a point of focus for the Board's role in overseeing the operations of the bank.

Disclosure requirements impose costs on banks in the form of direct financial costs associated with the preparation of full year and interim financial statements (for half year and quarterly disclosure statements) and the opportunity costs of bank staff and director time. The Reserve Bank, as a matter of good regulatory practice, has periodically reviewed the disclosure regime to ensure it remains fit for purpose. A major review over 2009-11 resulted in the streamlining of requirements, resulting in cost savings for banks while maintaining the importance of market discipline and its contribution to financial stability.

At the time, it was noted that the preparation of off-quarter disclosure statements may not deliver the clear expected benefits relative to the costs involved in their production and preparation. This specific issue was subsequently addressed in the Reserve Bank's Regulatory Stocktake conducted over 2014-15. The Stocktake's main objective was to enhance the efficiency, clarity and consistency of the prudential requirements pertaining to banks and non-bank deposit-takers. Reviewing disclosure requirements formed one part of the Stocktake's terms of reference.

Banks provided a wide range of cost estimates for the preparation of off-quarter disclosure statements, from $11,200 for a small bank to (in one case) several hundred thousand dollars per annum, with the most common estimate around $100,000 per annum based on direct financial costs associated with the preparation of interim financial statements (based on NZ IAS 34), as well as staff and director time in preparing, reviewing and signing off the statements. To place these estimates in context, the average level of operating expenses for the big-4 banks was just over $1 billion on an annual basis (as at the September quarter 2017); around $90 million for other locally-incorporated banks; and around $20 million for standalone branches.

Other issues with current off-quarter disclosure identified by banks and other stakeholders during the course of the Stocktake process included:

- the perceived limited number of people using the off-quarter statements in general;
- the general limited value to the market of the information contained in the off-quarter statements given the lag in producing the statements (two-month publication deadline for each bank, but the Reserve Bank table allowing cross-bank like-for-like comparison is not published for another two months after that);
- the limited value of off-quarter disclosure for branches in particular;
- the general increase in private reporting requirements which has reduced the value of off-quarter statements for the Reserve Bank's internal supervisory purposes; and

- the way the lead time in preparing off-quarter statements may narrow the window for banks seeking offshore wholesale funding, at least according to the feedback from some banks.

As a result of industry feedback the Reserve Bank resolved to remove off-quarter disclosure requirements for branches, but maintain some form of quarterly disclosure for locally-incorporated banks given that some market participants (e.g. rating agencies) do appear to place some value in disclosure at that frequency.

The Stocktake highlighted a second general problem with the current disclosure regime – issues associated with the accessibility and comparability of disclosure statements. Disclosure statements are in large part made up of financial reporting based on accounting standards, complemented with additional regulatory information. Accounting standards do not prescribe exactly how financial information must be prepared and presented. As a result, there are differences in how information in disclosure statements is presented, together with a lack of standardisation. This impacts the ability of users to digest and understand disclosure information and imposes additional costs on efforts to compare across registered banks. These issues detract from the disclosure regime's role in supporting and facilitating market discipline. Note, additional supplementary information contained in disclosure statements based on prudential regulatory requirements (such as capital ratios) is more standardised, and hence comparable across banks.

Currently the Reserve Bank provides a summary table on its website of individual bank data. This is based on the largely non-templated (i.e., non-standardised) bank disclosure statement data (with respect to financial reporting) and therefore suffers from the same issues noted above. In addition, the summary table does not hold a prominent place on the website, nor is the data particularly timely (as noted above, there is a four month lag in the publication of this information on the website).

In summary, the status quo provides potential benefits in terms of embedding a set of disclosure requirements on a prescribed quarterly frequency that helps support market discipline. The due diligence required to sign-off each quarterly statement also helps to establish a degree of self-discipline with penalties for false or misleading attestations.

The potential costs come in the form of the potentially disproportionate costs (relative to the perceived benefits) involved in preparing off-quarter disclosure statements, including bank staff and directors' time to prepare and review. Off-quarter disclosure may also narrow the window available for banks to raise funds. The number of market participants who actively use off-quarter disclosure statements in their monitoring of banks' financial position and performance also appears fairly small. The specific role of branch off-quarter disclosure in supporting market discipline appears limited. More generally, the current lack of standardisation of quarterly disclosure may be preventing the full benefits of disclosure and its contribution to market discipline from being realised.

2.2 Who is affected and how?

The Reserve Bank exercises its powers under the Reserve Bank Act to register, regulate and supervise banks for the purposes of:

(a) promoting the maintenance of a sound and efficient financial system; or

(b) avoiding significant damage to the financial system that could result from the failure of a registered bank.

The Reserve Bank's prudential framework is founded on three pillars to support the achievement of its statutory objectives: self-discipline, market discipline and regulatory discipline.

Quarterly disclosure statements are regulatory requirements designed to explicitly underpin the market discipline pillar. A bank's external stakeholders can make an important contribution to the soundness and efficiency of the financial system by the influence they can exert on individual bank behaviour. In addition, the attestation process that is tied to the preparation of quarterly disclosure statements (and described briefly in section 2.1 above) also supports self-discipline. Self-discipline refers to the bank's internal governance processes and risk management frameworks, the responsibility for which rests with a bank's directors and senior management. The decisions banks make with respect to their own risk profile, for example, can have an important bearing on the health of the financial system as a whole, particularly the decisions of the larger and more systemically important banks in the system.

To foreshadow the discussion in section 3, the Reserve Bank proposes to adjust the way it supports the market discipline pillar by:

1. removing off-quarter disclosure requirements for all banks (and hence the formal attestation requirements tied to off-quarter disclosure); and

2. imposing quarterly 'Dashboard' requirements for locally-incorporated banks.

[Note the half and full year disclosure requirements remain in place for both locally-incorporated and branch banks.]

The proposed changes will potentially affect the behaviour of both registered banks and external stakeholders.

For all registered banks the changes will directly affect their compliance obligations associated with specific disclosure requirements. Locally-incorporated banks will have additional obligations tied to the new Dashboard requirements.

In substance however, the Reserve Bank does not expect a significant change in the behaviour of banks related to the preparation and provision of publicly disclosed information. While the proposals will remove the formal attestation process tied to the preparation of off-quarter disclosure statements, the provision of private reporting data for the Dashboard will likely be accompanied by a de facto process of validation and internal sign-off. This is because of the way the Dashboard will provide a side-by-side comparison of various standardised financial and prudential metrics designed to sharpen market discipline. Banks are therefore likely to take as much care in the preparation of Dashboard information as they would for half and full year disclosure statements.

However, the Dashboard will allow banks to better benchmark themselves against their competitors, as like other stakeholders, the only means of currently doing so is based on current information contained in disclosure statements, which is to some extent non-standardised both in content and layout, because of the flexibility allowed by accounting standards, as noted above. Locally-incorporated banks' behaviour may be influenced by this enhanced ability to undertake peer review of performance.

Moreover, if the Dashboard enhances market discipline as intended, this should significantly influence bank behaviour, improving the soundness of individual institutions and the stability of the financial system.

The Dashboard will make it easier for existing users of disclosure information to access and compare banks across a number of metrics. In doing so the Dashboard will both lower the costs of producing comparative analysis, and provide the basis for a more detailed and richer analysis of locally-incorporated banks. This will be of particular value to rating agencies, credit analysts, academics, and other market commentators and analysts.

By increasing accessibility for users, the Dashboard will also potentially broaden the range of market participants who currently exert market discipline. A communications strategy that will accompany the Dashboard's introduction will help in this regard, with a focus on ordinary depositors who are currently only weakly exerting such influence over banks' behaviour. It is hoped that this set of stakeholders will better understand the financial position of their bank and make more informed financial decisions. This is particularly important since the Reserve Bank operates a non-zero failure regime, and where a proportion of depositor funds are potentially subject to loss in the event that their bank fails and is liquidated or resolved using the Open Bank Resolution (OBR) policy.

The removal of off-quarter disclosure requirements and its replacement with the Dashboard for locally-incorporated banks is widely supported by industry and other stakeholders. There is no obvious set of stakeholders who are opposed to improving market discipline and its contribution to financial system stability. However, during the consultation process on the Dashboard, banks generally preferred a more scaled-back approach to off-quarter disclosure for locally-incorporated banks, rather than its replacement with a Dashboard (see section 5).

2.3 Are there any constraints on the scope for decision making?

The policy work involved in the current disclosure proposals reflect a multi-stage process of consultation beginning with the Regulatory Stocktake, a specific consultation on the Dashboard concept, and finally consultation on the specific disclosure OiC changes.

As a result of the Regulatory Stocktake, the Reserve Bank committed to removing off-quarter disclosure requirements for branches. At this time the Reserve Bank ruled out removing completely some form of off-quarter disclosure requirements for locally-incorporated banks. A ‘continuous disclosure’ option was also consulted on and subsequently rejected by the Reserve Bank.

The Reserve Bank followed up with consultation on two options for locally-incorporated bank disclosure: the Dashboard concept, and a scaled back off-quarter disclosure for locally-incorporated banks (this is the ‘Pillar 3’ approach identified below in section 3).

The Reserve Bank subsequently decided upon the Dashboard as its preferred option and followed up with additional consultation on the substance of this approach, effectively making the existing off-quarter disclosure requirements redundant.

Thus for the purposes of the Amending Orders to the two OiCs, the Cabinet Legislation Committee is effectively deciding between the status quo and the Dashboard (accompanied by removal of off-quarter disclosure requirements for all registered banks, and various technical amendments).

The key dependency for the removal of the requirement for locally-incorporated banks to publish off-quarter disclosure statements is the implementation of the quarterly Dashboard. Once the off-quarter publication requirement is no longer in effect, the Dashboard will need to have gone ‘live’ shortly thereafter and be producing the new quarterly data so there are no obvious breaks in the data (banks vary in respect to their year-end reporting dates; as a consequence ‘off-quarter’ balance dates vary across banks). Conversely it would not be efficient for a bank to go through the time and expense (which nevertheless is not expected to be particularly significant) of reviewing their Dashboard data, while still having to meet the formal off-quarter disclosure requirements.

Another dependency is alignment between the information contained on the Dashboard with that required in the half and full year disclosure statements. The Dashboard and disclosure statements are different forms of disclosure but they broadly cover the same material so users will expect a certain amount of consistency between the two publications. A number of technical amendments contained in the current Amending Orders help to improve consistency. Other changes will be considered over time to further improve alignment as experience with the Dashboard evolves.

Section 3: Options identification

3.1 What options have been considered?

As outlined in section 2.3 there have been a number of options that have been proposed and consulted on throughout the process which began with the Regulatory Stocktake. The main options included:

1. Status quo (see section 2.1).
2. Removing off-quarter disclosure requirements for all banks.
3. Removing off-quarter requirements for branches, scaling back requirements for locally-incorporated banks.
4. Removing off-quarter requirements for all banks and replacing with a quarterly Dashboard for locally-incorporated banks.

[Note, a 'continuous disclosure' option was also identified during the Stocktake. However given the objective of standard stock market disclosure is somewhat different to the financial stability objective of the Reserve Bank's disclosure regime, and because of the potentially burdensome nature of constructing such a regime for prudential purposes, this option was quickly dismissed by most submitters and ruled out for further consideration by the Reserve Bank.]

The general criteria that have been used to assess these options are tied to the overall impact on market discipline and hence how the users of disclosure information may be affected, together with the compliance cost impact on registered banks.

Removing off-quarter requirements for branches

Removing branch off-quarter disclosure requirements is common to all options 2-4 above. Branches are not a separate legal entity from the overseas incorporated bank. As a result, specific branch information is less relevant than information about the entire overseas legal entity from a soundness and stability perspective – the branch, for example, is not specifically required to hold capital and report the amount held against its New Zealand exposures.

Moreover, branch depositors and other creditors cannot exercise much market discipline over the whole bank, where the branch represents a small percentage of the overseas incorporated bank's business – as in the case of all branches that currently operate in New Zealand.

For these reasons off-quarter disclosure is likely to add little value for market participants, with sufficient information continuing to be provided in the half and full year disclosure statements.

Removing off-quarter disclosure requirements would result in cost savings for branches, both in terms of direct financial costs, and from savings in staff and director time. This is likely to be a lot lower than the $100,000 pa average per bank noted in section 2.1 (by virtue of the existing scaled back requirements for branches relative to locally-incorporated banks).

Option 2: removing off-quarter disclosure requirements for all banks

Removing off-quarter requirements would result in the cost savings based on the figures described under the status quo – around $100,000 per annum on average per bank. This figure masks variation across large and small banks, and between locally-incorporated and branch banks. [Note, the Reserve Bank does not consider these cost savings particularly significant however, given the level of banks' operating costs and size of their balance sheets, even for the smaller banks.] Removal may also widen the window for wholesale market funding for some banks.

At the margin, moving to a six-monthly disclosure cycle would negatively impact market discipline, particularly that imposed on locally-incorporated banks. A number of stakeholders (such as rating agencies) see continued value in some form of quarterly disclosure as a mechanism for monitoring bank performance and financial health.

In addition:

- Removing off-quarter disclosure would mean that the latest public information could be up to nine months out of date (given publication lags).
- New Zealand banks have a variety of financial reporting years (end-March, end-June, end-September, and end-December), so removing off-quarter disclosure would further detract from comparability as banks would not all be publishing data covering the same six-monthly period.
- New Zealand would be at odds with international standards for quarterly disclosure (e.g., the Basel Committee's Pillar 3 requirements).

Option 3: Scaling back off-quarter requirements for locally-incorporated banks

This option described as the 'Pillar 3' option in the Dashboard consultation would involve scaling back off-quarter disclosure to essential information on capital and asset quality (while adding information on liquidity that is currently absent).

This would result in some, albeit small, reduction in costs for banks. This approach would be broadly consistent with Basel's Pillar 3 approach to disclosure (hence the name), and would not significantly detract from market discipline even though less information would be disclosed overall.

Option 4: Removing off-quarter requirements for all banks and replacing with quarterly Dashboard for locally-incorporated banks

The Dashboard is an online tool that would provide side-by-side comparison of all locally-incorporated banks on key data, hosted on the Reserve Bank's website, and updated quarterly with an initial eight week lag. The content for the Dashboard would be drawn from banks' private reporting to the Reserve Bank, which is done using standardised templates.

The main benefits of the Dashboard lie in the material enhancement to market discipline by improving the accessibility and comparability of information available to depositors and other market participants.

It is expected that the publication lag will be similar to the current two month deadline for off-quarter disclosure, and this would apply every quarter. This means data would be updated on the Reserve Bank's website within two months compared to the four months it currently takes the Reserve Bank to publish its summary comparison tables of individual banks' disclosure statement data. .

The marginal costs of producing the Dashboard data, relative to the status quo, are low since banks are already required to provide this data as part of standardised private prudential reporting. Additional costs may be incurred by locally-incorporated banks from the due diligence they will carry out to ensure the integrity of this Dashboard data (banks have decided they need to set up internal processes to mirror the attestation process that is a legal requirement for disclosure statements). However, this due diligence is expected to improve the quality of private reporting to the Reserve Bank.

Although the Reserve Bank expects this due diligence exercise to be considerably less burdensome than the formal requirements for off-quarter disclosure (interim financial reporting requirements and director attestation), the banks will have to carry it out four times a year rather than twice a year. Locally-incorporated banks do not expect the overall reduction in costs for them to be significant relative to option 1.

Option 4 reduces costs for branches as noted above and imposes no additional costs relative to baseline since they are not required to submit data for the Dashboard (however, some information on the branches of 'dual-registered' banks - overseas banks that operate both as a subsidiary and branch in New Zealand - will be included in the Dashboard).

The exclusion of branches from the Dashboard reflects the lower net benefits for market participants of quarterly disclosure for branches in general, relative to locally incorporated banks, and that continued half and full year requirements will be sufficient to meet the needs of various external stakeholders.

3.2 Which of these options is the proposed approach?

The best option is option 4 detailed above – the removal of the formal off-quarter disclosure requirements for all banks and its replacement with a quarterly electronic Dashboard of bank-specific information for locally-incorporated banks.

Option 4 materially improves the contribution of public disclosure to market discipline. It does so by making it less costly for existing users of disclosure data to access and analyse bank information, while potentially broadening the range of actors who would exert 'discipline' over bank behaviour. All other options, including the status quo, either broadly maintain or detract (option 2) from the current level of market discipline stemming from public disclosure.

Option 4 does not impose significant costs on locally-incorporated banks, indeed, the Reserve Bank believes that this option will leave costs unchanged or slightly reduced overall relative to baseline, given that banks are already currently required to provide standardised template information via private reporting.

Option 4 directly reduces compliance costs for branches, although this is common to all options except the status quo.

Option 4 is well aligned with government's 'Expectations for the design of regulatory systems' and the principles of good regulatory stewardship.

Section 4: Impact Analysis (The 'Dashboard' approach)

4.1 Summary table of costs and benefits

Affected parties *(identify)*	**Comment**: nature of cost or benefit (e.g. ongoing, one-off), evidence and assumption (e.g. compliance rates), risks	**Impact** *$m present value, for monetised impacts; high, medium or low for non-monetised impacts*
Additional costs of proposed approach, compared to taking no action		
Regulated parties	Increase costs on top of existing private reporting requirements for 15 locally-incorporated banks, mainly around internal processes to ensure integrity of the Dashboard data (de facto sign-off process etc.).	Low
Regulators	One-off costs for development of the Dashboard and implementation, including communications strategy. On-going maintenance of the Dashboard by the RBNZ. Loss of market discipline mechanism over branches associated with removal of off-quarter disclosure requirements.	Medium Low Low
Wider government	N/a.	
Other parties	Removal of off-quarter disclosure requirements for branches (and no replacement via Dashboard requirements) will reduce ability of market participants to exert market discipline over branches. Greater ability to access and compare banks likely to prompt more (i.e., greater volume) of analysis/commentary, relative to baseline.	Low Low
Total Monetised Cost		
Non-monetised costs		Low

Expected benefits of proposed approach, compared to taking no action		
Regulated parties	Material cost savings from removal of formal off-quarter disclosure requirements for all banks (i.e., including preparing interim financial statements and director sign-off requirements).	~$100,000 pa per bank on average
Regulators	Improved market discipline will contribute to the soundness and efficiency of the NZ financial system – one of the RBNZ's key statutory purposes. Dashboard will improve the current set of templated private reporting provided to the RBNZ, by enhancing the integrity of the data (via additional internal scrutiny from banks and additional external scrutiny from the market).	High Medium
Wider government	To the extent that the Dashboard improves market discipline and contributes to financial, stability, this will reduce the contingent liability to the Crown from financial crises, via reducing the probability of failure.	High
Other parties	On-going cost reduction to users to access and analyse disclosure information and therefore enhanced ability to exert market discipline.	High
Total Monetised Benefit	25 registered banks @ $100,000 pa average per bank	$2.5 million
Non-monetised benefits		High

4.2 What other impacts is this approach likely to have?

The Dashboard may contribute to an improvement in financial literacy, particularly for those groups of stakeholders who currently only exert a low level of market discipline on registered banks, such as ordinary depositors. The effect of this is uncertain and will depend on the outcomes and success of the communications strategy the Reserve Bank will develop to accompany the launch of the Dashboard. The focus initially will be on raising awareness among the media and general public prior to introduction, followed by engagement with other key stakeholders and broader education efforts post-implementation.

The Inland Revenue Department (IRD) currently uses off-quarter disclosure statements for general monitoring of banks, such as for quarterly checking of bank's compliance with thin capitalisation rules. During the Regulatory Stocktake, the IRD advised the Reserve Bank that they would prefer the continuation of off-quarter disclosure, accepting a scaled down version. In the absence of formal off-quarter disclosure the IRD indicated that they would likely require banks to provide similar information privately. We understand that they are currently exploring what additional information they might require from banks for tax purposes.

Institutional investors make use of quarterly disclosure statements both for the information they provide and because the attestation process underpinning the preparation of disclosure statements provides a degree of legal comfort (by helping to meet some requirements of their investment mandates). These users would be negatively impacted if there was a reduction in the frequency of disclosure publication without a suitable replacement. The Dashboard initiative is likely to be viewed favourably by large investors because it provides a central repository of prudential and financial information that is easy to access. Institutional investors will also benefit from more standardised financial information as compared to disclosure statements where there is more discretion for reporting. However, some institutional investors may view the removal of off-quarter statements as a loss of information because the Dashboard disclosures do not require a formal sign-off by bank directors.

Section 5: Stakeholder views

5.1 What do stakeholders think about the problem and the proposed solution?
As noted in section 2.3 the policy work involved in the current disclosure proposals has reflected a multi-stage process of consultation with stakeholders beginning with the Regulatory Stocktake, specific consultation on the Dashboard concept, and finally consultation on the specific disclosure OiC changes. The nature of this consultation reflects the Reserve Bank's adherence to good regulatory practice and stewardship. This consultation has involved formal feedback provided by submitters to various consultation documents produced by the Reserve Bank. In addition, the Regulatory Stocktake included five workshops with banks, extensive consultation with other Government agencies such as the IRD and the FMA, and engagement with an 'expert panel' to help the Reserve Bank test ideas. The Reserve Bank also engaged directly with a broad range of users of disclosure information such as rating agencies and academics. The views of a number of independent bank directors were also sought during this process. In the second phase associated with consultation on the Dashboard concept, the Reserve Bank reached out to a broad range of stakeholders. This outreach included workshops with banks, on-the-record meetings with journalists, and engagement with the Commission for Financial Capability (CFFC) and the New Zealand Bankers Association (NZBA). The Reserve Bank also contacted a number of other stakeholders including rating agencies, accounting firms and institutional investors. Over the course of the process beginning with the Regulatory Stocktake, stakeholders have been broadly supportive of the Reserve Bank's efforts to improve the effectiveness of public disclosure by banks. Stakeholders have, however, offered a variety of views on specific issues across the various consultations, sometimes at odds with the Reserve Bank's preferred policy position. In some areas the detail of final policy positions has been modified by the feedback received during consultation. For example, during consultation on the Dashboard, which also considered option 3 described in section 3.1 – scaled back off-quarter disclosure requirements for locally-incorporated banks – banks were mostly in favour of the latter instead of the Reserve Bank's preferred Dashboard option. Banks were concerned by a number of features of the proposed Dashboard including the proposed timing of information being published, the control and ownership of the data on the Dashboard and the proposed inclusion of liquidity metrics. The Reserve Bank subsequently confirmed a decision to go with the Dashboard and remove off-quarter disclosure requirements for all banks (option 4 as described in section 3.1). The Reserve Bank undertook a follow-up consultation with banks on the specific mechanics and content of the Dashboard, taking into account many of the concerns initially raised by banks. The finalised Dashboard includes refinements around the timing of publication, measures to ensure data quality and the specific metrics that will be included in the Dashboard.

The final phase of consultation involved feedback from industry on the specific changes to the two OiCs, for locally incorporated banks and branches respectively. Section 81A of the Reserve Bank Act requires the Reserve Bank to consult with both registered banks and the FMA, as well as any persons (or organisations representing those persons) that may be substantially affected by the Orders.

The proposed changes to both OiCs are primarily to give effect to the removal of off-quarter disclosure requirements for all banks. Other changes include some of the technical changes to half and full year disclosure requirements as confirmed by the Regulatory Stocktake, and changes to better align the information that banks will continue to publish in their half and full year disclosure statements with that contained in the Dashboard. The two key changes here are:

- Requiring banks to publish three key liquidity ratios and aligning the definition with the Dashboard version.

- Changes to the definitions of concentrated credit exposures to individual counterparties to align with the definition being used for the large exposure reporting template for use in the Dashboard.

In terms of feedback from consultation on the proposed changes to the two OiCs, three sets of comments were received, and all were supportive of the main changes proposed and of the proposed drafting changes to the Orders to achieve them. Respondents identified some further minor changes that are desirable to maintain consistency with the changes already proposed, and to update or remove references to superseded legislation and regulations.

The most substantial issue raised was not on the content of the disclosure statements as such, but on the nature of the audit opinion required on the full year disclosure statement. The concern was that the three liquidity ratios would be subject to a ‘positive assurance’ form of audit opinion, rather than a ‘negative assurance’ review opinion: it was argued that the liquidity ratios are of a level of complexity, and rely on judgement, to a similar extent to the existing information on capital adequacy, which is already covered by a negative rather than positive assurance opinion. The Reserve Bank has accepted this argument, and included the liquidity ratios within the scope of the existing auditor review of the capital adequacy information.

Section 6: Implementation and operation

6.1 How will the new arrangements be given effect?

The proposed changes to the two OiCs will be given effect by Amending Orders as agreed by the Cabinet Legislation Committee – that is the removal of off-quarter disclosure requirements for all banks, together with the various technical amendments to the half and full year requirements.

The changes proposed for the locally-incorporated bank OiC, in particular, are required to take effect from the same date that quarterly data on those banks starts to be published on the Dashboard. The Dashboard will go 'live' using 2018 first quarter data in late May. As a result the changes to the Amending Orders must be agreed by Cabinet to come into force no later than 31 March 2018.

A breach reporting regime is currently being developed to support the removal of off-quarter disclosure requirements – i.e., the process of publishing notification of breaches of banks' conditions of registration during the six month period between the half and full year disclosure statements in the absence of off-quarter disclosure statements. The approach undertaken here will be to create a standing obligation for banks to report breaches to the Reserve Bank. The Reserve Bank will publish breaches of conditions of registration on its website. This new breach reporting regime should be in place by end-March.

Banks have an exemption from disclosure requirements under the Financial Markets Conduct Act 2013 for offers of certain financial products (given the presence of the Reserve Bank's quarterly disclosure requirements). This includes not having to prepare and produce a product disclosure statement or register entries for offers of basic banking products (transactional accounts and terms deposits) to retail investors. The Ministry of Business, Innovation and Employment (MBIE) has indicated that the replacement of off-quarter disclosure statements by the Dashboard will not undermine the basis for these exemptions, but that that a minor consequential change will need to be made to the Financial Markets Conduct Regulations 2014 to remove the word 'quarterly' from one reference to disclosure statements. This change is expected to be made by end-March.

In addition, the NZX currently provides a waiver from separate reporting for banks with listed instruments because they publish the required information in their quarterly disclosure statements. The NZX has indicated to the Reserve Bank that it will continue to issue this waiver when formal disclosure reporting shifts to a six-monthly basis because similar information will be available on the Dashboard.

The content for the Dashboard is drawn from banks' private reporting to the Reserve Bank under sections 36 and 93 of the RBNZ Act 1989, while exemptions under sections 156G and 105 will be used by the Reserve Bank to publish individual bank data from this private reporting.

The Dashboard itself has been subject to a development process including website development, workshops with banks and data trials (using 2017 Q3 data). Another trial and workshop will be held at the end of February 2018 using 2017 Q4 data. The website development work is expected to be completed by the end of March 2018.

There is no specific offence for false or misleading disclosures on the Dashboard itself. However, the Reserve Bank expects the private reporting which informs the Dashboard to be of high quality and it is an offence under sections 36 and 93 of the Act to provide information that is false and misleading. Banks will have the opportunity to review their own Dashboard data prior to publication, as well as providing written contextual information to accompany Dashboard data. The Reserve Bank will process all corrections to private reporting before publication of the Dashboard. In addition, banks will be able to correct their Dashboard data after publication has occurred. These revisions will be made transparent in order to support market discipline.

The Reserve Bank has made a change to BS13, the Reserve Bank's liquidity policy. This has changed the definition of the denominator used in the calculation of a bank's core funding ratio, from the value published in the bank's most recent quarterly disclosure statement, to a more timely value extracted from the bank's monthly prudential reporting to the Reserve Bank.

Section 7: Monitoring, evaluation and review

7.1 How will the impact of the new arrangements be monitored?

The Dashboard is primarily intended to enhance the ability of market participants to monitor the financial position and performance of locally-incorporated banks. However, measuring 'market discipline' is challenging.

Nevertheless, the Reserve Bank will be closely engaging with stakeholders both pre and post implementation to ensure the Dashboard is meeting expectations. As mentioned earlier, a communications strategy will help raise awareness of the Dashboard across stakeholder groups.

One simple metric that the Reserve Bank will use to gauge interest in the Dashboard will be through the monitoring of website traffic and downloads of Dashboard data. Some other measures of success will be:

- qualitative feedback from key market participants;
- frequency of data revisions;
- media engagement; and
- level of interest from other stakeholders.

The links between the Dashboard, market discipline and changes in bank behaviour will be harder to discern. Ultimately improved market discipline should led to a corresponding improvement in the various measures of individual bank soundness that the Dashboard itself seeks to portray. But disentangling the specific effects of the Dashboard itself on the evolution of Dashboard metrics, from other factors, will be difficult.

7.2 When and how will the new arrangements be reviewed?

The Reserve Bank will review the impact of the removal of off-quarter disclosure and the implementation of the Dashboard on an on-going basis.

Part of this review will be to ensure that the information requirements in the Dashboard align with that required in the half and full year disclosure statements.

As mentioned in section 7.1 the Reserve Bank will engage with stakeholders to ensure that the Dashboard is meeting expectations. Feedback from this process may result in modifications in the design and layout of the Dashboard.

In addition to the format of the Dashboard, the Reserve Bank will consider changes and enhancements to the content of the Dashboard. One example here is that the Reserve Bank will look to add metrics on exposures to connected persons some time after the 'go live' introduction of the Dashboard in May.

Other areas for further review and potential development of the Dashboard include explanatory material to support the quantitative metrics. Initial experience with the Dashboard, together with engagement with CFFC and the FMA, will help shape work in this area to ensure the Dashboard meets the needs of a diverse set of stakeholders.

Locally-incorporated banks, as the providers of the underlying content for the Dashboard, will be given an on-going opportunity to provide feedback to the Reserve Bank. The Reserve Bank has already worked closely with banks in the design phase of the Dashboard, and will continue to do so post-implementation.