RESERVE BANK

OF NEW ZEALAND

TE PŪTEA MATUA

Consultation Document: The Dashboard Approach to Quarterly Disclosure

The due date for submissions has been extended by two weeks to ensure that all stakeholders have the opportunity to provide written feedback. Submissions on the consultation now close at **5pm on 15 December 2016**.

September 2016

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The Reserve Bank invites submissions on this consultation document by 5pm on Thursday 15 December 2016.

Submissions and enquiries should be addressed to:

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***Important disclosure statement**: All information in submissions will be made public unless you indicate you would like all or part of your submission to remain confidential. Submitters who would like part of their submission to remain confidential should provide both a confidential and public version of their submission. Apart from redactions of the information to be withheld (i.e. blacking out of text) the two versions should be identical.*

Submitters who request that all or part of their submission be treated as confidential should provide reasons why this information should be withheld if a request is made for it under the Official Information Act 1982 (OIA). These reasons should refer to section 105 of the Reserve Bank of New Zealand Act 1989, section 54 of the Non-Bank Deposit Takers Act, section 135 of the Insurance (Prudential) Supervision Act 2010 (as applicable); or the grounds for withholding information under the OIA. If an OIA request for redacted information is made the Reserve Bank will make its own assessment of what must be released taking into account the submitter's views.

The Reserve Bank may also publish an anonymised summary of the submissions received on this consultation.

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Executive summary

ES 1. The Reserve Bank's prudential framework is based on a three pillar approach that relies on self-discipline, market discipline, and regulatory discipline.[1] While the regulatory discipline pillar has been bolstered in recent years in line with international developments, market discipline remains a central component of the Reserve Bank's regulatory approach. The Reserve Bank recently published a Bulletin article emphasising the importance of market discipline in its regime and the mechanisms that need to be in place for it to be effective.

ES 2. Public disclosure is critical to effective market discipline. Disclosure has long been at the heart of the Reserve Bank's regulatory regime, with the disclosure statement regime for banks introduced in the 1990s. Over time, we have made improvements to the accessibility, timeliness and comparability of the information we require banks to disclose. For example, we conducted a comprehensive review of our disclosure regime in 2011, and made a series of changes as a result. We also looked again at disclosure requirements in our recent Regulatory Stocktake project.

ES 3. A key focus of the Stocktake was the content and the frequency of disclosure statements, particularly the requirement for banks to prepare off-quarter disclosure statements. After considering the feedback that we received and the role of market discipline in the prudential regime, we concluded that it would not be appropriate to remove the requirement for locally incorporated banks to publish some form of off-quarter information. In particular, we concluded that six-monthly information on the financial situation of locally incorporated banks is not sufficiently frequent to provide adequate market discipline.

ES 4. However, the Stocktake also identified a new option for public disclosure by locally incorporated banks, which we had not included in our prior consultation and are therefore consulting on now. The new option, Option A in this paper, is the Dashboard approach to disclosure. The Dashboard would provide a side-by-side comparison of individual locally incorporated banks, according to key metrics, hosted on the Reserve Bank's website and updated quarterly. We believe that the Dashboard approach would enhance market discipline by presenting individual bank data in a more accessible and comparable way. This data would be largely drawn from information locally incorporated banks will report to us privately and therefore achieve efficiencies for these banks by allowing their public disclosures to leverage off data they already privately report.

ES 5. The consultation paper proposes to include in the Dashboard credit ratings, key financial performance and position information, capital, asset quality and liquidity information, and potentially a metric comparing information on large credit exposures. We are currently proposing to present the data on the Dashboard in two formats: a "High Level Summary" and a "Detailed Report." We are also proposing to provide enhanced explanatory material on some of the matters being disclosed on the Dashboard. (This would just aim to explain certain core concepts like capital ratios, rather than provide commentary on data relating to specific banks). The proposed content of the Dashboard is set out in Appendix 1. A comparison of the Dashboard and the current off-quarter, half-year, and

[1] By self-discipline we mean a firm's internal governance and risk management systems. By market discipline, we mean the incentives placed on firms by the fact that investors and other market participants are monitoring their risk profile, and financial performance and position. By regulatory discipline, we mean the requirements placed on a regulated firm by the prudential regulation.

full-year disclosure statement requirements is provided in Appendix 2. The proposed layout of the Dashboard is provided in Appendix 3.

ES 6. We believe the Dashboard will broadly meet and, in many respects exceed, international standards for quarterly capital and asset quality disclosure by banks. We also consider that the Dashboard will be an innovative way of enhancing disclosure and market discipline. Because of the relatively small number of locally incorporated banks in the New Zealand system, it is possible to see all banks side by side, either all together or in peer groups. We believe this offers a greater opportunity to compare institutions and to bolster market discipline, one that would be more difficult in a market with a much larger number of participants.

ES 7. While the Dashboard produces the best outcome overall in terms of balancing improvements to market discipline and efficiency savings for locally incorporated banks, and it is our strongly preferred option, we are also consulting on a further option for these banks, Option B, which we are calling a Pillar 3 approach. The Pillar 3 approach would provide essential information on capital and asset quality, plus liquidity, and would help to still meet international standards on disclosure. Option B is our “fall-back” option, should the Dashboard not prove feasible.

ES 8. By contrast, the Stocktake concluded that off-quarter disclosure requirements for branches be removed altogether, and accordingly we are not proposing to include branches in the Dashboard or the alternative Pillar 3 approach. For locally incorporated banks, our current preference is to remove the off-quarter disclosure requirement for all locally incorporated banks, and to replace it with the Dashboard. It is important to note that under this approach locally incorporated banks will also continue to also prepare full and half year disclosure statements along with disclosures on the Dashboard. If we adopt this approach we also need to address several knock-on effects. These include how to deal with disclosure of breaches of conditions of registration and new capital issuance by locally incorporated banks, and disclosure of breaches of conditions of registration by branches.

ES 9. In respect of breaches of conditions of registration by locally incorporated banks and branches, our preferred option is to build on the proposed new regime under which banks will privately report breaches to us, by publishing details of any breach that is reported to us. Banks would also continue to publish breaches in their full and half year disclosure statements.

ES 10. In respect of new capital issuance by locally incorporated banks, our preferred option is six monthly disclosure, with information about capital issuances just being included in full and half year disclosure statements. However, we may revisit this if the Basel Committee concludes that more frequent disclosure should still be required, or investors signal their support for it. In this case an alternative option would be either to require a conditional disclosure statement in off-quarters that would just contain information on the capital issuance, or to provide banks with a clear expectation that they should disclose information about these capital issues on their websites, or for the Reserve Bank to publish the relevant information reported to it by banks.

ES 11. We should note that, if the Dashboard option is selected, its implementation, as well as the removal of the off-quarter disclosure requirement for branches, depends on the completion of the Reserve Bank’s balance sheet redevelopment project. This project, which began in mid-2015, is a complete redevelopment of the Bank’s private statistical reporting. The changes proposed in this paper can only be implemented in the first half of 2017 once the balance sheet redevelopment is complete.

ES 12. Submissions on this consultation document close on 15 December 2016, and we currently expect to announce our final policy decisions on these matters in the first quarter of 2017. Subject to the nature of these decisions any changes would be implemented in 2017 once the balance sheet redevelopment project is complete.

Introduction

Consideration of banks' public disclosure requirements during the Regulatory Stocktake

1. In June 2014, the Reserve Bank announced that it would carry out a Stocktake of the prudential requirements applying to registered banks and licensed NBDTs. The objectives of this project were to enhance the clarity, consistency and efficiency of the prudential requirements applying to banks and NBDTs, and to identify areas where we could further improve our policy development process around prudential and macro-prudential regulation.

2. A key focus of the Stocktake was the content and the frequency of disclosures by banks, particularly the requirement for banks to prepare off-quarter disclosure statements.

3. After considering the feedback that we received and the role of market discipline in the prudential regime, we concluded that it would not be appropriate to remove the requirement for locally incorporated banks to publish some form of off-quarter information. In particular, we concluded that six-monthly information on the financial situation of banks is not sufficiently frequent to provide adequate market discipline. This was also the view of a number of non-bank submitters, who argued strongly for the "in principle" benefits of off-quarter disclosure statements in contributing to market discipline.

4. We also noted a number of other considerations that indicate benefits from locally-incorporated banks continuing to provide off-quarter information to the market. For example:

   - A number of stakeholders noted the importance of information being publically available on all banks, to enable the benchmarking of individual institutions;

   - New Zealand registered banks have a variety of financial reporting years. Removing off-quarter disclosure would undermine comparability, as banks would not all be publishing data covering the same six-month periods;

   - The regulatory framework in New Zealand stresses market discipline and is not a "zero-failure" model. Disclosure is a key element that supports this framework, and significantly scaling it back would be inconsistent with this approach. In this context we note that depositors in New Zealand are not covered by a deposit insurance scheme, and if their bank becomes insolvent and is subject to Open Bank Resolution (OBR) they may lose part of their deposits. A key benefit of OBR is that it provides authorities with the ability to impose losses on creditors without closing the bank. We believe this supports market discipline and improves incentives for investors and larger depositors to monitor banks. However, for this monitoring to be effective it is essential that relevant information is disclosed to the market on a frequent basis.

5. However, we also concluded that the current content and presentation of off-quarter disclosure statements may not support market discipline as effectively as possible. It also remains important to ensure that the disclosure regime is designed in a way that ensures that the benefits it provides outweigh the costs.

6. For locally incorporated banks, we now propose two options. The first option (Option A) is the concept of a Dashboard. This would involve the Reserve Bank hosting on its website a Dashboard of data reported by individual locally incorporated banks. By

presenting information for all banks in a single place it should facilitate accessibility and comparability. Because this data would be largely drawn from information banks report to us privately, it should achieve efficiencies for banks, (i.e. by allowing them to make their public disclosures by leveraging off data they will already be reporting to us). The Dashboard is our strongly preferred option.

7. The second option (Option B) would be to narrow the existing content of off-quarter disclosure statements down to capital and asset quality disclosure, but also to add summary liquidity ratios. This would be sufficient to broadly meet the requirements for off-quarter disclosure in Pillar 3 of the Basel framework. For convenience, we call this option the “Pillar 3 approach”. This may result in some cost reductions for banks, but is unlikely to significantly improve market discipline, as it would result in less information being disclosed by banks overall. However, any adverse effect it might have on market discipline would be mitigated by it focusing on the information that expert audiences tell us is the most important (including liquidity ratios for the first time), and by it being combined with enhancements to the summary comparison tables on our website.[2] However, it would clearly not achieve the same benefits for market discipline as Option A.

8. We do not discuss the status quo as an option in this consultation document, as the Stocktake consultation paper already compared the status quo with the Pillar 3 option – in light of all the feedback that we received on that comparison, we have confirmed that the Pillar 3 option is preferred to the status quo. We note that the Dashboard or Pillar 3 option would replace the current off-quarter disclosure statements for locally incorporated banks.

9. As noted above our strong preference is to adopt the Dashboard. We consider that it provides significantly greater benefits through encouraging market discipline, while being likely to provide at least some marginal compliance cost saving. However, since it is a new concept, the Dashboard does raise a number of design questions (that we discuss further below). We expect that these questions can be resolved, but we consider that it is also prudent to include the Pillar 3 option as a fall-back approach at this stage.

10. In contrast with locally incorporated banks, we concluded that the requirement for branches to provide off-quarter disclosures should be removed. Largely this is because the costs and benefits of off-quarter disclosure are different for branches. For example:

- Branch information in most cases is less relevant than information about the entire bank; and
- Branch depositors generally cannot exercise significant market discipline over the whole bank, where the branch represents a relatively small proportion of its overall business.

11. We note that both locally incorporated banks and branches would also still continue to prepare full and half-year disclosure statements once the Dashboard for locally incorporated banks was in place and the requirement for locally incorporated banks and branches to prepare off-quarter disclosure statements was removed.

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[2] See for example, the G1 table at: http://www.rbnz.govt.nz/statistics/g1 .

12. We note that implementation of these changes to the disclosure statement regime would also depend on the Minister of Finance accepting a recommendation from the Reserve Bank to have the necessary amending Orders in Council made.

Balance Sheet Redevelopment Project

13. As part of a separate initiative, independent of the Regulatory Stocktake, the Reserve Bank is in the process of redesigning its registered bank balance sheet collection (Standard Statistical Return). This balance sheet redevelopment project is also aiming to update the concepts and definitions used in private reporting by banks and address gaps in current data collections.

14. As part of the project, the Bank is also expanding its private collection of data through a series of prudential “satellite” reports. The purpose of these new reports is to collect additional prudential data from banks, in order to enhance the Bank’s monitoring and supervisory capabilities. The reports cover capital, large exposures and connected exposures. Once the redeveloped balance sheet collection is in place, the Bank will collect these satellite reports on a quarterly basis. The new balance sheet will also contain more detailed information on asset quality, which will be collected monthly.

15. Implementation of both the Dashboard (if it is adopted), and removing off-quarter disclosure statements for branches, would also need to wait until early 2017, when the balance sheet redevelopment project is expected to be complete.

16. Firstly, this is because our aim is to build the Dashboard off the data collected as part of the new balance sheet and our other existing private reporting (e.g. the Income Statement survey). Secondly, it is because our bank supervisors and our macro-financial team rely on some of the information in off-quarter disclosure statements, particularly for calculating system aggregates. We will not be receiving all of this information through private reporting until the balance sheet redevelopment is complete.

The role of disclosure and market discipline more broadly

17. Some commentators have argued that the ability of most members of the public to assess the financial stability and prudential soundness of a bank may be limited. Anecdotal evidence we have received suggests that, while there are depositors who can and do assess financial stability, these depositors indeed represent a small number of the overall depositor base. However, in more volatile times it is likely that more depositors will invest time in assessing the risk profile of their bank. It is therefore important that the correct information is available even if it is not used by all investors all of the time.

18. As a regulator, we would like retail depositors to be more aware of issues relating to financial stability, and are looking to improve their understanding of data on banks, either independently, or through secondary sources like credit rating agencies or other market commentators. The disclosure requirements put in place by the Reserve Bank are a mechanism by which all investors in a bank, from depositors to sophisticated institutional lenders, can do their own research and risk assessments. Given the large proportion of bank funding that comes from retail depositors, we would like to promote additional market discipline from this sector. As a web-based platform, the Dashboard will enable us to better track the usage of disclosure data, to see the trends over time and help us monitor how it is being used.

The purpose and structure of this consultation document

19. The purpose of this consultation document is primarily to seek feedback on the proposed design of the “Dashboard” and “Pillar 3” options for changes to locally incorporated bank’s public disclosure requirements. The document also discusses a number of flow-on issues for locally incorporated banks from these options, and for branches from the decision to remove the requirement for them to prepare off-quarter disclosure statements.

20. This consultation document is divided into four main parts, specifically:

- Part 1: Problem definition and objectives for locally incorporated banks
- Part 2: Option A – The Dashboard
- Part 3: Option B – Pillar 3 Approach
- Part 4: Other issues and follow-up work

21. Submissions on this consultation document close on 15 December 2016, and we currently expect to announce our final policy decisions on these matters in the first quarter of 2017. Subject to the nature of those decisions, any changes would then be implemented by mid-2017.

Part 1: Problem Definition and Objectives

Problem definition

Market discipline: Off-quarter disclosure statements

22. During the Stocktake we identified the following impediments to off-quarter disclosure statements supporting market discipline:

- Differences in how information in disclosure statements are presented and the lack of standardisation;
- The information in disclosure statements not always being accessible to non-expert users;
- Some unnecessary information being disclosed quarterly that is better disclosed on a half-yearly basis;
- A lack of simple mechanisms for comparing the financial soundness of different banks.

23. Also, the information currently included in disclosure statements has some potential gaps that may hinder the ability of users to make a full assessment of the risks of an institution. For example, the Reserve Bank does not currently require any off-quarter liquidity disclosure. The Bank does, however, require some supplemental disclosure relevant to liquidity risk for the half and full-year, in addition to the information on liquidity risk required by NZ IFRS 7.

Market discipline: Comparative tables on the Reserve Bank's website

24. Our current approach to publishing comparisons is via a summary table on our website called the "G1: Summary Information for Locally Incorporated Banks." A number of features of the current G1 restrict its usefulness in encouraging market discipline. Specifically:

- Timeliness: The current content of the G1 is outdated. It is currently posted with a lag of at least four months. Also, at present, the information is manually extracted from disclosure statements. This extra step adds to the time needed to prepare and publish the G1 and creates additional administrative burden (because of the potential for error associated with manual data extraction).

- Comparability: The data is currently based on non-templated information extracted from banks' disclosure statements. Because much of this information comes from the financial statements (prepared under NZ IFRSs) that make up a large part of DSs, it can be presented and interpreted in different ways and is not always directly comparable from bank to bank.

- Accessibility: The current G1 is difficult to find on our website. The current links to the document are to the main "banks" statistics page. The G1 tables are at the very bottom of this table – they are hard to differentiate from the financial system aggregates also presented and quite easy for a non-expert user to miss. Currently, there are no direct links to this information from the main list of registered banks.

25. 2015 user statistics on our website show that on average over 100 people per month currently look at the G1, about 55% of whom come from New Zealand, over 20% from Australia, and some from Germany, the US, the UK, Japan and Singapore. While these numbers demonstrate there is some usage of the data, we think the usage of the data can and should be increased.

26. We currently have a web (.html) and an Excel (.xls) version of the G1. The Excel version contains summary information only and is organised by quarter, with one Excel worksheet per quarter. 2015 user statistics on the G1 download show only on average 25 people per month are downloading the table, primarily from New Zealand and Australia. We are interested in better understanding the needs of these users to ensure the downloadable information best suits their needs. As with the web version, we think the usage of this data can and should be increased.

Market discipline: Financial reporting

27. A recent study titled "Information Needs of Users of New Zealand Capital Markets Entity Reports," highlighted a series of opportunities for improvement in bank financial reporting. The study was commissioned by the External Reporting Board (XRB) and conducted on its behalf by Massey University. While the study concluded that, in general, users are satisfied with the current state of financial reporting (for Tier 1 for-profit entities), it identified a number of improvements that could be made, including (among other things)[3]:

[3] The report also recommended comparing actual and target figures, additional management discussion, improved segment reporting and improved financial instrument disclosure by discouraging boilerplate reporting and focusing on what would facilitate users' comprehension.

- Simplifying financial statements to enhance the user's ability to understand them;
- Standardising further the presentation of financial statements to enhance comparability; and
- Providing guidance for preparing and reporting "dashboard"-style key financial information including significant ratios.

Costs and inefficiencies association with the off-quarter disclosure statement requirement

28. During the Stocktake, the estimates of the cost to banks of preparing off-quarter disclosures statements varied significantly, but were on average around $100,000 per year for the large banks. We do not view these costs as especially large in the wider context of our regulatory framework with its focus on market discipline (in this respect we note that frameworks that place more emphasis on regulatory discipline tend to lead to higher compliance costs for banks in other areas). However, it is a matter of good regulatory practice to ensure that requirements do not impose unnecessary costs, and we noted in the Stocktake that there may be more cost-efficient ways of achieving the market discipline benefits of off-quarter disclosure statements.

29. We also identified various potential inefficiencies in banks' disclosure requirements – most importantly, that there was an overlap between the information they report privately to the Bank, and the information they disclose publically (which creates the need to prepare the same information for different purposes).

<u>Objectives</u>

30. In considering the design of disclosure requirements for locally incorporated banks, our primary objective is to promote the maintenance of a sound and efficient financial system. Our secondary objectives are to:

    - Enhance market discipline through improving the usefulness, timeliness, accessibility and comparability of information disclosed to the market;
    - Ensure the benefits of disclosure requirements outweigh the costs;
    - Minimise compliance costs to the extent consistent with ensuring effective market discipline; and
    - Ensure consistency with international standards to the extent appropriate for New Zealand conditions.

Part 2: Option A - Dashboard approach

31. As noted above, the Dashboard would be hosted on the Reserve Bank's website and would comprise a Dashboard of data reported by individual locally incorporated banks. This data would be largely drawn from information that banks report to us privately for prudential purposes. The design of the Dashboard raises a number of questions, which can be divided into three categories: those that relate to the content of the Dashboard (i.e. what information it contains), those that relate to its presentation, and those that relate to its mechanics (i.e. how it is operationalised). The discussion below sets out our proposals on these three matters in turn.

Content of the Dashboard

Introduction

32. The Dashboard should provide information on "financial stability," which is a complex and multi-faceted issue, and requires analysis of a number of diverse metrics. Our initial proposal for the Dashboard is based on feedback we received from users of disclosure statements as part of the Regulatory Stocktake. With this current consultation, we are also hoping to receive broader and more detailed feedback. As discussed at the end of this section, depending on the outcomes of the consultation, we may consider additional user focus groups or targeted feedback sessions to finalise the Dashboard design.

33. We propose that the information on the Dashboard would be presented in two parts (a "high level summary" and a "detailed report"). We believe that this will allow the Dashboard to better service the needs of different users. The table below summarises the key features of this approach.

	High Level Summary	Detailed Report
Target Users	Individual retail depositors and the "general public"	Rating agencies, journalists, sophisticated investors, academics, students, and other analysts looking to conduct detailed quantitative analysis on individual banks and the overall system
Summary of Data Provided	Focus on key, high level data and ratios	Additional detail, including $ figures and information regarding risk weighted assets and asset quality

34. As a starting point, we propose that the Dashboard also contain information on the following matters:

- Credit ratings;
- Capital;
- Asset quality;
- Financial performance and position; and
- Liquidity.

35. In addition, we are considering whether it would be appropriate for the Dashboard to contain information on large exposures and loan-to-value ratios.

36. The specific information relating to these matters that would be included in the Dashboard is discussed below, and summarised in appendix 1.

Credit Ratings

Proposed content

High level summary	Detailed report
• Summary of ratings	• Summary of ratings

Comment

37. Credit ratings are an independent assessment of the financial capability and willingness of an entity to meet its financial obligations as they fall due (i.e., its creditworthiness). The obligation to disclose credit ratings has been a feature of New Zealand's prudential supervision of registered banks since 1996. It became mandatory for all banks to have a credit rating from an approved rating agency in 2002. Ratings can take time to be adjusted, however, and investors should also have the chance to do their own independent analysis of bank financial stability.

<u>Capital and Asset Quality</u>

Proposed content - Capital

High level summary	Detailed report
• Total capital ratio • Comparisons to regulatory minimums (buffer)	• Total capital ratio • More detailed capital rations (CET 1 and tier 1) • Comparisons to regulatory minimums (buffer) • Common equity Tier 1 Capital ($), deductions ($), Net Common Equity Tier 1($), Total Additional Tier 1 ($), Total Tier 1 Capital ($), Tier 2 Capital ($) • RWAs for credit risk, by portfolio (all banks) • RWAs for market risk and operational risk (all banks) • RWAs for equity exposures (IRB banks)

Proposed content – asset quality

High level summary	Detailed report
• Non-performing loans (NPL) as % of gross lending	• NPL as % of gross lending • NPL ($) (90 days past due + impaired assets) • Gross lending ($) • Individual provisions as % of impaired assets • Total credit risk exposure by type and portfolio • By portfolio: impaired facilities, past due facilities, specific provisions, charges for specific provisions, write-offs

Comment

38. In the Bank's view, capital is the single most critical piece of information in assessing financial stability. A bank's capital ratio indicates its ability to withstand a range of risks, including credit risk, liquidity risk and operational risk.

39. Detailed information on asset quality (e.g. loan losses and provisions) provides additional detail on more specific exposures that have given, or may potentially give, rise to losses.

40. In our work related to the Regulatory Stocktake, one key user group we canvassed were rating agencies. Rating agencies are particularly important in our framework, given the important role they play for market discipline by summarising key information into easy-to-understand metrics. Preliminary feedback from rating agencies has indicated they are interested in tracking (at a minimum) basic capital and asset quality information across the system, on a quarterly basis, as a way to benchmark the individual banks that they rate and to monitor the overall financial system.

41. Disclosure of basic capital and asset quality is consistent with the current Basel Pillar 3 off-quarter requirements, although Basel does not prescribe the detailed asset quality reporting that we are proposing as part of the Dashboard. Our proposals go further and are consistent with the current APRA approach to quarterly disclosure, as described in APS 330 (see Appendix 4). We believe the current APRA requirements provide highly useful information, which would help users assess financial stability in a more meaningful way than "straight Pillar 3."

Financial Performance and Position

Proposed content – financial performance

High level summary	Detailed report
• Net profit as % of total assets	• Net profit as % of total assets • Net profit ($) • Net profit as % of average equity • Net interest income ($) • Net interest margin

Proposed content – financial position

High level summary	Detailed report
• Total assets ($)	• Total assets ($) • Total liabilities ($) • Average equity ($)

Comment

42. In addition to capital and asset quality, high level information regarding financial performance and position is also important in assessing financial stability as it provides useful background and context. Profit figures indicate ongoing performance of the organisation and feed into the capital calculation, via retained earnings.

Liquidity

Proposed content

High level summary	Detailed report
• One-month mismatch ratio (%) • Comparison to regulatory minimums	• One-month mismatch ratio (%) • One-week mismatch ratio (%) • Core funding ratio (%) • Comparisons to regulatory minimums

Comment

43. Another item we are proposing to include is summary information on a bank's liquidity risk, which is another key element of financial stability. The international trend is towards more liquidity disclosure, and by incentivising banks to improve their funding profiles in an ordinary environment it can also improve resilience in a crisis. Given the importance of market discipline in the Reserve Bank's framework, it is essential that creditors are able to assess the risks that they are exposed to, and exposing banks to the consequences of reporting a weak position creates a strong incentive to operate robustly at all times. The Reserve Bank does not believe a "Dashboard" without liquidity would allow users to effectively evaluate financial stability.

44. Our initial proposal is to include the one-week and one-month mismatch ratios, as well as the core funding ratio. We would also compare these to the regulatory minimums. Our initial proposal is to require the figures as at the reporting date, which would mean they would be reported with at least a month of lag time. We may also consider requiring period highs, period lows and the average, to ensure the information accurately reflects each bank's position. We should note that the appropriate liquidity metrics to disclose, and the relevant lag time, may change as a result of the liquidity review the Bank will be conducting shortly.

45. Banks have raised a number of concerns over time about the risk that a bank disclosing a breach of a minimum liquidity ratio could trigger a run on the bank. However, we believe that with the time lag built in by the publication deadline, this risk can be managed. By the publication date, a bank would be able to explain the cause of the breach and how it had been remedied (if minor), while if the breach was symptomatic of a more serious problem, more drastic remedial action would be needed well before that.

Q1: Do you have any comments on the proposed content of the Dashboard? Is there any additional information you would like to see in the Dashboard? What would be the benefits of this information?

Additional subject areas that could be included in the Dashboard

Large Exposures

46. The Bank is also considering whether to include a quantitative metric related to large exposures in the Dashboard. The current disclosure Orders in Council require banks to report large exposures (defined as exposures to individual counterparties or groups of related counterparties of greater than 10% of the banking group's equity) in off-quarters, as well as in the full-year and half-year disclosure statements. The Bank

does not have a limit or capital charge for large exposures and (since 1996) has placed a strong emphasis on disclosure requirements and market discipline to monitor and control large exposures.

47. While the Bank could consider dropping the off-quarter disclosure requirement completely, doing so would mean banks could dramatically increase their concentration risk to individual borrowers, without providing any information to this effect to the market. Excessive credit concentration has historically been a key cause of bank failure and is an important aspect of evaluating financial stability.

48. The Bank is looking to provide a simplified way to report large exposures, in a more comparable, Dashboard-amenable manner. Our initial proposal is to require that banks report their top single exposure, as a % of CET 1 Common Equity Tier 1 Capital ("CET1"), as well as the sum of their top 5 exposures, as a % of CET 1 Capital, but excluding the following from the exposure calculation:

- Connected exposures
- Exposures to central governments of any country with a long-term credit rating of A- or A3 or above
- Exposures to bank counterparties rated A- or A3 or better.

Q2: What would be the benefits and costs of including some sort of metric of large exposures in the Dashboard? Do you have any comments regarding the proposed metrics? Can you suggest another metric you think would better capture this information?

Loan-to-value ratios

49. At this stage, we have not included LVR data in the Dashboard. We are interested in feedback from users as to whether or not this information should be included.

Q3: Should LVR data be in the Dashboard?

Q4: What are the marginal costs to banks associated with providing the information we propose to include in the Dashboard? Please include only the <u>marginal</u> costs, beyond the costs associated with producing the proposed private prudential reports covering these items.

<u>Other issues relating to the content of the Dashboard</u>

Alignment with system aggregates

50. In designing the Dashboard, we would aim to establish some degree of consistency between the individual firm-level data we provide and the system level aggregates we are monitoring in our Financial Stability Report, as well as the system aggregates we make available. This would enable users to benchmark their institutions to each other and to the system averages.

Scope of the reporting group

51. In terms of the reporting group for which we would require dashboard disclosures, our initial proposal is to require data on the NZ banking group of NZ-incorporated banks.

For dual registered banks, this would mean reporting just the NZ banking group, not the whole New Zealand geography.

Quantitative Information

52. At this stage, we are proposing that the Dashboard contain only quantitative information. It would also be possible to provide an opportunity for banks to include qualitative background comments, perhaps through a direct link to any explanatory information that a bank would wish to include. This could include qualitative explanations of any major movements since the last period, for instance. This is a feature of the current Basel requirements and we think this could be helpful in interpreting the data[4]. We have not included this in our initial design, but we are interested in feedback from users as to whether they think this would be helpful in explaining the information. We could offer this as an optional feature, or as a requirement. We could put the information on our own website, or provide a link to a dedicated place on each bank's website.

Q5: Should we enable, or even require, qualitative explanations of any of the Dashboard figures, if material changes have taken place?

Relationship with private statistical reporting

53. In the feedback on the Regulatory Stocktake, several (non-bank) submitters argued that we should publish all of the information we receive through private reporting, potentially even publishing a monthly Dashboard of this information. While this principle has some appeal, there are three main reasons why we do not consider it appropriate.

54. First is the issue of commercial sensitivity. The detailed information we will be collecting in the private prudential reporting on large exposures, for instance, contains individual counterparty and credit information and is highly commercially sensitive. We are not proposing to make that level of information public on the Dashboard.

55. Second is the importance of definitions and context. Also, although much of the information we receive is now in templated format, there is still quite a lot of variation in reporting across banks. Some banks define terms differently and Reserve Bank supervisors are aware of these nuances. These may not be clear to members of the general public, without the appropriate context. Much of the data we receive from banks could be open to misinterpretation if released without the appropriate context. While clear definitions, footnotes and explanatory material can all help to mitigate these risks, the Bank aims to limit the opportunities for misinterpretation of individual bank data.

56. Third, there is the potential trade-off between timeliness and data quality. In privately reported data we expect a high level of data quality, though we sometimes accept a very marginal reduction in data quality in exchange for receiving the information quickly. While we aim to achieve a high standard of accuracy for all of our data, the standard for public disclosure is higher, in order to support the credibility of the regime.

[4] As noted in Appendix 6, the Basel templates require an "Accompanying narrative where banks are expected to identify and explain the drivers behind differences in reporting periods T and T-1, in cases where these differences are significant."

This is underscored by the penalties in the legislation for false disclosure, and is an issue we are giving careful thought to in the design of the Dashboard. We are proposing a quarterly dashboard, as we do not currently believe that, with our existing resources, we could ensure sufficient quality of data produced any more frequently (i.e. monthly data).

Comparison with the content of disclosure statements

57. As discussed above, the current proposal is that the information in the Dashboard will be drawn from the private prudential reporting currently in place. As a result, we recognise that this data will not align perfectly with the information provided in the half- and full-year disclosure statements. Additional detail on the relationship between the quarterly Dashboard and the half and full-year disclosure statements is provided below in the section on "Operation of the Dashboard" (paragraphs 92-95).

58. Obviously, it is possible to put additional information into the Dashboard. At the extreme, it would be possible to put all of the information we are collecting privately into the Dashboard. As discussed above, there are a number of reasons we do not propose doing that. At this stage, we are proposing only a version of the Dashboard that we consider to be scaled-back (in comparison to the current off-quarter disclosure statements), and that uses the definitions from private reporting.

59. Appendix 2 provides a very high level, broad-brush summary of how this data compares to the data in the current off-quarter, half-year and full-year disclosure requirements.

Parallels with the earlier concept of a Key Information Summary

60. Long-time users and preparers of disclosure statements will recognise that the "High Level Summary" information is quite similar to the information that was historically provided in the "Key Information Summary" (referred to as the KIS). Prior to 2011, the Reserve Bank required banks to prepare a "Key Information Summary" as one of the three components of their disclosure statements (the other two being the General Disclosure Statement (GDS) and the Supplemental Disclosure Statement (SDS)). The KIS contained a baseline of basic financial position information, the bank's credit rating(s) and key financial performance information. Extracts from the KIS are available in the downloadable historical data tables on the Reserve Bank's website (http://www.rbnz.govt.nz/statistics/g1). The KIS also contained summary metrics that reported large exposures to individual counterparties or groups of related counterparties.

61. The 2011 Disclosure Review recommended discontinuing the KIS as the Bank concluded that very few people were using this information. Instead, the Bank decided to retain just a single disclosure statement, targeted at a more sophisticated audience: this is a revised version of the previous GDS, including a very few items that were only in the KIS or SDS. Although we discontinued the KIS, we continued to present most of the former contents of the KIS on the main G1 page (current figures) and in the downloadable tables (historic figures).

Presentation and format of the Dashboard

General approach

62. While we could theoretically design the presentation of the Dashboard "from scratch", we would prefer to build on the existing G1. Consistency with the current G1 would make it easier for users to create an historical data set, tracking the development of at least some metrics over time.

63. The proposed presentation of the Dashboard builds on the G1, but changes the format and enhances it in a number of ways, tailoring it to the target users of the information.

64. As noted earlier, information on the Dashboard would be published in two different parts, aimed at different types of users. The table below provides more detail on the different ways that information would be presented in the two different parts of the Dashboard.

	High Level Summary	Detailed Report
Target Users	Individual retail depositors and the "general public"	Rating agencies, journalists, sophisticated investors, academics, students, and other analysts looking to conduct detailed quantitative analysis on individual banks and the overall system
Summary of Data Provided	Focus on key, high level data and ratios	Additional detail, including $ figures and information regarding risk weighted assets and asset quality
Format of Data	Web page (.html or .pdf)	Simple excel, perhaps with an expanded "database" option for more sophisticated users
Key Accessibility Features	Hyperlinks to definitions and to bank websites Link to bank websites for further information	Hyperlinks to definitions and to bank websites Simple excel with drill down (or potential drill-back for time series) capability Potentially an additional database option that would be easy to manipulate (e.g. create pivot tables) and perform more in-depth, customised analysis
Time Series of Data	Single Period	Current quarter plus prior 4 quarters, at a minimum, in simplest version; if a "database" option is created, full time series data set

File types

65. In terms of format of the general information, the Bank is proposing that High Level Summary information be contained in .html or .pdf format, with links to additional data in Excel/.xls. We would propose presenting the Detailed Report in an .xls format. We are also considering creating a database of the information in this report, which we would also likely structure in .xls format to make the data easier to manipulate, thereby improving accessibility for these target users.

Q6: Do you have any comments on the file types proposed for each type of user? Do you think a "database" approach would enhance accessibility of the information? Is there any other format that might enhance the accessibility of the data (for any profile of users)?

Data presentation

66. In terms of the presentation of the information, the Reserve Bank is still evaluating how much processing, summarising or re-packaging of the data the Bank itself should do. While the Reserve Bank does not see its role as providing extensive commentary on the disclosed information, some level of factual, impartial or explanatory commentary could improve accessibility and understanding of the data, and minimise the risk of its misuse or misinterpretation. In considering the optimal format for the data, the Bank has considered approaches of other regulators and the most recent publications of the Basel Committee on Banking Supervision (see Appendices 5 and 6).

67. In order to enhance the accessibility of the data to target users, the Bank could:

    a. Develop two simple, data-focused reports: a High Level Summary and a Detailed Report.

    b. Improve the links to explanatory material, helping users better understand the data and the definitions of terms being used.

    c. Supplement the data with user-friendly charts and graphs aimed at presenting the information in a clearer and more comparable way. Charts and tables could potentially be organised by peer groups, to enhance comparability. As a baseline, we would propose a chart that compares capital ratios (between banks and vs. the regulatory minimums), as well as simple asset quality, profitability and liquidity metrics.

    d. Develop a more comprehensive database, to potentially allow users to create their own customised reports.

    e. Enhance the database by creating peer group information and doing more industry benchmarking (as other regulators have done).

    f. Provide impartial written information or highlights regarding key features of the information.

    g. When the data is published, hold information sessions, highlighting key features of the information and helping users to understand the data being presented.

68. As all of the efforts above entail significant costs and investments on the part of the Bank, we are interested in user feedback regarding the potential benefits of the information, as well as the potential enhancements (charts, graphs, highlights, information sessions) discussed above.

69. One of the Bank's concerns is the potential over-simplification of data. While some simplification can make it more accessible to less sophisticated users, financial stability is obviously a complex topic, with multiple metrics that should be taken into account when making any assessment. The Bank's challenge will be to make the data and analysis more accessible, without over-simplifying it.

70. Another concern of the Bank's is the potential for errors in the Dashboard. This is a risk the Bank currently confronts with the G1 tables, and mitigates primarily through internal quality control efforts. The more processing of the data the Bank does, the more opportunities for error are introduced. Automation of the processes could minimise the opportunities for error, but some possibility would remain. The Bank is obviously keen to avoid the publication of any erroneous data, particularly data that might result in any commercial detriment or benefit to any banks.

71. The Bank is conscious of having to avoid being perceived as endorsing any given bank. Any presentation of data that clearly identified one bank as a better performer than another might be perceived as an endorsement by the Reserve Bank. Again, this is an issue that can be addressed by making available a range of different metrics, and through clear statements to users regarding the purpose of the data and importance of independent analysis.

72. The Bank does not want to pursue any ranking of banks. Ranking is a simple analytical tool for benchmarking organisations and comparing individual organisations to each other and clearly showing how each organisation fits within the full spectrum. This is an approach used by other government agencies in other "Dashboard" style comparisons of groups of organisations[5].This is also an approach used frequently by organisations like Organisation for Economic Co-operation and Development (OECD) in cross-country comparisons. While rankings present a clear comparison, the Bank is concerned that rankings may imply an endorsement of one bank or another, even when presented as a series, where different entities are ranked at the top. At this stage, we are not proposing to include rankings as part of the Dashboard.

> *Q7: What, beyond publication, should the Bank do to enhance understanding of the data it publishes? How valuable/what are the benefits of this work in terms of market discipline, or in other areas?*

Data Periods to Cover

73. In terms of the periods for which to require reports, our current thinking is to vary the reference period by format of the document.

- For the High Level Summary, we would propose to only include current period data, to keep the information high-level and accessible.

- For the Detailed Report, we would likely take a similar approach to the one we currently use for other statistical reporting. In the current quarterly income statement summary, for example, the Bank makes available comparisons for the three prior quarters, as well as the two prior years (http://www.rbnz.govt.nz/statistics/s21). This is also the approach the Bank takes for the current G3 (Quarterly banking system aggregates) http://www.rbnz.govt.nz/statistics/g3 If we were to create a database, we would make the full time series accessible in the database.

74. Basel is currently proposing its own "Dashboard" of data for individual banks (see details in Appendices 5 and 6). In its proposal, Basel requires a quarterly report,

[5] One example we reviewed was the Ministry of Health's survey of "How is my DHB performing?" http://www.health.govt.nz/new-zealand-health-system/health-targets/how-my-dhb-performing/how-my-dhb-performing-2015-16

clearly showing (for each metric) the development of the metric over the prior four quarters (details in Appendix 6).

> *Q8: How much previous period data would you like to see in the Dashboard?*

Operation of the Dashboard

No exemption for small locally incorporated banks

75. In the conclusions of the Stocktake that were announced in December 2015, we noted that further consideration may be given to the idea of smaller banks being excluded from the Dashboard requirement (e.g. banks with under $200 million in retail deposits).[6] While the costs of this requirement may be proportionally larger for these banks, we propose that all locally incorporated banks (irrespective of their size) should be covered by the Dashboard. The main reason for this is that it encourages market discipline by facilitating comparisons across all banks. Investors in small locally incorporated banks can effectively exert market discipline, and we believe it is important to provide them with the relevant information to do this. We also consider that the requirements to prepare quarterly disclosures will often help to support the internal governance of smaller, new entrant banks.

> *Q9: Do you agree with our conclusion that all locally incorporated banks should be required to make disclosures on the Dashboard?*

Dashboard disclosures must be made on a quarterly basis rather than just for off-quarters

76. Locally incorporated banks have a number of different balance dates. As a result, disclosures on the Dashboard would have to be made on a quarterly rather than an off-quarter basis (in order to ensure that it contains up to date information on all locally incorporated banks at the end of each quarter).

77. We note that this also means that at the end of a bank's full-year and half-year, they will be publishing disclosure statements and quarterly information on the Dashboard.

Mechanism to implement the Dashboard / measures to ensure data quality

78. We see two broad options for how the Dashboard could be implemented. Specifically:

- The Reserve Bank could publish data banks have privately reported to it under sections 36 or 93 of the Act (subject to certain legal constraints); or
- An Order in Council could be made under section 81 requiring quarterly disclosures.

79. Our preference is for the first of these two options, as it allows for the greatest flexibility in setting out how the data will be published and the nature of the quality controls banks will be expected to apply to the data. By contrast, requiring Dashboard disclosures under section 81 would make them a kind of disclosure statement, and would mean that they would have to be signed by directors.

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[6] See page 25 of the Summary of Submissions and Policy Decisions

80. However, it should be noted that if the first of these options is adopted there will be no specific liability regime for false or misleading disclosures on the Dashboard itself. Instead the incentives to ensure the quality of the data would be:

- The fact that it is an offence to include a misleading or deceptive statement in information privately reported to the Bank; and

- The fact that specific information privately reported to the Bank will then be made publically available, and will need to be publically corrected if later found to be inaccurate.

81. By contrast, if Dashboard disclosures were mandated under section 81 they would be subject to the same liability regime for false or misleading statements as applies to directors. It would also mean that under the Act they would need to be signed by directors. In substance this could either mean:

- Directors signing off on the adequacy of the process for ensuring the accuracy of the information; or

- Directors signing off on the accuracy of the information.

> *Q10: Do you agree with the Dashboard being implemented through the Bank publishing information that is privately reported to it under sections 36 and 93? Do you consider that this will create adequate incentives to ensure the quality of the data?*

<u>Uploading information on to the Dashboard</u>

82. We propose that banks lodge Dashboard disclosures with the Reserve Bank electronically, using the same secure upload service that they currently use for uploading private statistical returns.

83. Once data from private statistical returns has been uploaded, our current approach is for the Reserve Bank to then control how that data is processed and what aspects are transferred to our website (currently aggregated from individual bank statistical returns). One approach would be for the Dashboard to operate in the same way (i.e. individual banks upload their data and then the Reserve Bank conveys that information across to the Dashboard on its website).

84. An alternative approach would be to have the system automatically transfer uploaded data across to the Dashboard. Our existing IT infrastructure does not provide this kind of functionality, but it does have the advantage of avoiding any risk of errors slipping into the data that may result from the Reserve Bank having to separately convey uploaded data across to the Dashboard.

85. Banks will have a deadline for posting information on the Dashboard at the end of each quarter. Information from individual banks could be posted on the Dashboard as soon as it is uploaded rather than waiting until all banks have uploaded their Dashboard disclosures for the quarter (as this may help to encourage banks to make these disclosures more quickly). Alternatively, information on all banks could be posted on the Dashboard on the same date.

86. We note that banks will need a mechanism to correct any errors in information they have uploaded onto the Dashboard. We anticipate that this will be done by banks

uploading corrected data and the Dashboard indicating (probably through a footnote or similar mechanism) where these corrections have been made.

87. Our current thinking is for the Dashboard data to be accurate "as at" the reporting date, and only updated during the quarter if errors were discovered. If the credit rating were to change during the quarter, however, we would propose to update the Dashboard with a footnote, indicating that the rating had since changed. This would ensure that users are looking at the most accurate information on each of the banks. We would also provide the updated information on another section of our website, where we maintain a register of banks and their credit ratings. We would work to make this as clear as possible on our website, and provide a link to the updated information.

> *Q11: Do you have any comments on the options of the Reserve Bank transferring uploaded data across to the Dashboard, or the system automatically transferring uploaded data across to the Dashboard?*
>
> *Q12: Do you think that data should be posted on the Dashboard as soon as it is uploaded by individual banks, or that data on all banks should become available on the Dashboard at a set date at the end of each quarter?*
>
> *Q13: Do you have any comments on the proposed mechanism for banks to correct data on the Dashboard?*

Consistency of disclosures across banks

88. A core objective of the Dashboard is to encourage comparability of data across banks. For this objective to be achieved it is essential that banks are preparing the data using the same concepts and definitions. Finding common definitions of certain concepts (for example, Net Interest Margin) can often be difficult.

89. Existing statistical reporting uses a number of prescribed definitions, which we would expect to also be used by banks when preparing Dashboard disclosures. One of the objectives of the balance sheet redevelopment is to tighten definitions and improve comparability of the data. The "prepare once, use many times" approach that underpins the statistical collections assumes that the same definitions will be used for statistical reporting and Dashboard disclosures.

> *Q14: Do you agree with the approach of using the definitions in statistical reporting on the Dashboard? If not, do you have a view on what approach should be taken to designing definitions for this purpose?*

Time lag for publishing Dashboard disclosures after the end of each quarter

90. Our preference is to eventually have the Dashboard data available within one month of the reporting date. Depending on the feedback received, we could consider a staged approach to the implementation timeline (as we have done in the pilot phase of the balance sheet redevelopment project).

91. We would encourage submitters to be as specific as possible about how much time would be needed between the end of each quarter and the publication of the Dashboard disclosure. In this respect, submitters should also set out the assumptions underlying this timing.

> *Q15: What mechanism for ensuring the quality of the data do you prefer, what are the compliance costs associated with each option, and what would be the implications of each option for how long after the end of each quarter the data could be published?*

Relationship with full and half-year disclosure statements

92. The relationship between the Dashboard and the full and half-year disclosure statements that banks will still be preparing raises a number of issues.

93. Firstly, how consistent are the publication deadlines for disclosure statements and Dashboard disclosures at the end of the half-year and full-year? At present full-year disclosure statements must be published with 3 months of the end of the year and half-year disclosure statements must be published within 2 months of the end of the half-year. As discussed above, we anticipate that Dashboard disclosure may need to be made within 1 month of the end of each quarter, depending upon the mechanisms in place to ensure the accuracy of the data.

94. Assuming for the moment that Dashboard disclosures will be published before disclosure statements at the end of the full-year and half-year, it may be necessary to update these Dashboard disclosures to reflect the content of these disclosure statements. We would anticipate that this updating would be done via the same updating process described above, for any other errors in the information that is originally posted on the Dashboard at the end of each quarter.

95. The aim of the Dashboard would be to align with the data produced for private prudential reports. These reports may not, in all cases, align perfectly with the figures reported in half-year and full-year disclosure statements, nor will they necessarily align perfectly with financial statements. We would encourage submitters to indicate any areas where differences in the definitions used in these two concepts could create problems reconciling the information in the Dashboard with the information contained in disclosure statements.

> *Q16: Do you agree with our approach to reconciling disclosure made in the Dashboard with full and half-year disclosure statements? Are there other aspects of this issue we should be considering?*

Conclusion

96. We consider that the Dashboard is likely to materially enhance market discipline by improving the accessibility and comparability of information available to depositors and market participants.

97. We also expect that the marginal costs of producing disclosures on the Dashboard should be low, as banks will be providing this information in any case as part of their standard prudential reporting (assuming the proposed changes arising out of the balance sheet redevelopment go ahead). Also, given the importance of the information, we believe it should already be included in banks' existing Board and Management reporting.

98. Depending on responses to the Dashboard proposal as set out above, we may consider conducting additional user focus groups to finalise the Dashboard design. If we use focus groups, we would likely tailor these to particular categories of users (e.g.

institutional investors vs. retail depositors/consumer groups). Particularly for the engagement with retail depositors, we may consider partnering with other organisations in doing this, in order to expand our reach and optimise the feedback received.

Part 3: Option B - Pillar 3 option

Summary

99. Option B, the Pillar 3 Option, is a slight modification of an option that emerged from our Stocktake consultation, before we considered the benefits to market discipline from the Dashboard in more detail. The only difference between this Option B and what we presented during the Stocktake is that we are now recommending retaining off-quarter disclosure by all locally-incorporated banks, not just the larger ones. Although we prefer this option to the status quo (due to the compliance cost saving it provides) and are presenting it as our fall-back option, our clear preference is for the Dashboard, on a number of levels.

100. Under Option B, locally-incorporated banks would be required to publish off-quarter updates following largely the existing disclosure statement mechanism, but with the content scaled back to provide only the information that rating agencies and key investors/analysts have indicated they view as most essential to be updated more than six-monthly.

101. The content would consist mainly of summary information on capital adequacy, asset quality and liquidity. The off-quarter disclosure would also retain the current requirements to provide details of any breach of a condition of registration during the latest quarter.

102. There would be no change in the requirements for full and half-year disclosure statements (other than the minor changes set out in the Stocktake feedback statement). We refer to this option as the “Pillar 3 option” as it is intended to achieve broad consistency with the off-quarter disclosure requirements in the Basel Committee’s Pillar 3 framework. We are not planning in the near term to consider whether to make the radical changes that would be needed to align with the pending changes in Pillar 3’s full and half-year disclosure requirements: some of those changes are finalised but not yet in force, and others the Basel Committee is still consulting on.

103. The Reserve Bank has already committed to removing the off-quarter disclosure requirement from branches of overseas banks, although this will not be implemented until the balance sheet redevelopment has been completed (as discussed above). The Reserve Bank intends to put in place an alternative mechanism for ensuring that any breach of a condition of registration by a branch is still disclosed at least quarterly.

Basis for design

104. The objectives in determining the capital adequacy and asset quality content in the off-quarter disclosure statement are to achieve the best possible consistency with the following:

- The Reserve Bank’s existing disclosure requirements for capital adequacy and asset quality (both off-quarter, and full and half-year).

- APRA's current requirements for off-quarter disclosure by ADIs (authorised deposit-taking institutions – see Attachment C in APRA's prudential standard APS-330, copied here at Appendix 4).

- The Basel Committee's expected future Pillar 3 off-quarter disclosure requirements. Appendix 6 includes copies of two Pillar 3 templates: (1) Template OV1, which international banks are expected to implement from end-December 2016 and (2) proposed Template KM1, a quarterly "Key Metrics" summary (also referred to as a Dashboard), to be implemented from end-December 2017 (subject to consultation).[7]

105. The thinking behind these objectives is as follows.

106. Firstly, the Reserve Bank has no plans in the short term to materially change disclosure requirements for capital and asset quality in the half-year and full-year disclosure statements. So to allow readers both to have a consistent view of one bank's capital adequacy and asset quality over time, and to compare these aspects across different banks on a given date, which may be an off-quarter balance date for some banks but a half or full-year date for other banks, it is important that the off-quarter disclosure of capital adequacy and asset quality remains consistent with those at full and half-year (albeit a subset of those).

107. Secondly, we expect that closer alignment with APRA would be a more efficient outcome for the four big Australian-owned banks that account for the large majority of total locally-incorporated banks' balance sheets, and it would also make it easier for investors to make comparisons with the parent groups. But offsetting those efficiencies is the potential cost to banks of making the necessary changes from what they currently disclose in off-quarters, and the smaller banks would not obtain the same benefits to offset these costs. Also, we believe that requiring some off-quarter disclosure beyond APRA's requirements is justified by the greater emphasis placed on market discipline in the Reserve Bank's regulatory approach.

108. Thirdly, the Reserve Bank aims for consistency with Basel requirements that represent internationally agreed standards, although not to the extent of imposing requirements that are not fit for purpose for New Zealand. Consistency with Basel disclosure standards also helps investors make comparisons between New Zealand banks and other banking groups around the world. Also, as APRA normally implement Basel standards closely, it is likely that they will reflect Basel's new off-quarter disclosure requirements in their own requirements shortly. So to the extent that consistency with APRA is desirable, taking Basel into account should future-proof our off-quarter disclosure against changes that APRA is likely to make.

109. Some of the rows in the Basel templates are not relevant for New Zealand banks (see yellow highlighted rows in Appendix 6).

110. One Basel requirement that could be relevant, but that we do not propose to implement for the time being, is quarterly disclosure by IRB banks of the drivers of change in total RWAs over the quarter (changes in assets, changes in weightings, and so on). As this is not currently required at the full year and half year, for consistency we do not propose to include this requirement in off-quarter disclosure statements. If

[7] These two templates are excerpted from pages 10 and 17 of the Basel consultation document Pillar 3 disclosure requirements: consolidated and enhanced framework).

we pursue Option B, we might investigate in due course whether it is desirable to add this to IRB banks' disclosure every quarter.

111. The Basel Committee is proposing to include, in its "Key Metrics" template, quarterly disclosure of each bank's two Basel liquidity ratios (the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR)). The Reserve Bank believes that a bank's liquidity position is a key matter that should be disclosed in the off-quarters alongside capital and asset quality. The question of whether New Zealand banks should be subject to the LCR and NSFR will be decided when we have completed our review of the liquidity policy. But we do not see that as a reason to defer better liquidity disclosure.

112. We therefore propose that the Option B disclosure should include a bank's one-week mismatch ratio, one-month mismatch ratio and core funding ratio as at the reporting date. Similarly to the potential liquidity metrics for the Dashboard, we may also consider requiring period high, period low and average, to ensure the information accurately reflects each bank's position. This will change to disclosure of LCR and NSFR, if we decide to go down the Basel liquidity route. Also, this points to the need to also include these ratios in full-year and half-year disclosure statements. (The same consideration applies to including liquidity ratios in the Dashboard).

Detailed content

113. A sample of what the reduced off-quarter disclosure requirement might look like was first provided to banks at a Stocktake workshop on 26 August 2015. That sample was based only on the principle of maintaining as much continuity as possible with the existing off-quarter disclosure of capital adequacy and asset quality.

114. A summary of what we propose now for the off-quarter disclosure under Option B is attached as Appendix 7. This aims to follow the above principles. So where applicable, this Appendix shows in table form how the proposed disclosure would compare to the equivalent requirement under the current Orders in Council, and to the current APRA requirement. We have not included a comparison with the Basel requirements in the table, as they are at a higher level. As can be seen from Appendix 6, Basel does not require credit risk RWAs by portfolio, or separate analysis of credit risk.

115. The proposed items summarised in Appendix 7 would have to be defined by suitable text to fit within the existing Order in Council for locally-incorporated banks. Compared to the way that the APRA or Basel requirements are framed, the wording would therefore be more legalistic, less flexible and longer. This follows from the nature of Orders in Council as legal instruments rather than standards issued by a regulator. We would consult further on this detailed text if respondents are in favour of taking this option further, taking account of any detailed comments on the content.

116. The proposed disclosure includes a few matters not falling directly under the heading of capital adequacy, asset quality or liquidity. The reasons for these are set out below.

<u>Breach of condition of registration</u>

117. The Reserve Bank views the disclosure by a bank of any breach of its conditions of registration as an important component of both its market and its self-discipline pillars. We are therefore not prepared to accept the disclosure of any breaches happening only six-monthly rather than quarterly. This would allow a lag of up to nine months between a breach happening and being publicly disclosed.

LVR breakdown

118. Banks are currently required to disclose a breakdown of their outstanding residential mortgage lending by loan-to-valuation ratio. Under Option B, the Reserve Bank sees no reason to reduce the frequency of locally-incorporated banks providing this information from quarterly to half-yearly. Branches will in future only be disclosing this information six-monthly, but their share of mortgage lending is very small. Reserve Bank aggregate statistics will still provide public information on the total shares of new and outstanding high-LVR lending on a quarterly basis.

New capital instruments

119. The Basel Committee revised its Pillar 3 disclosure regime in 2012 to reflect the “Basel III” enhancements to the levels and quality of capital. One aspect of this was the requirement for a bank to maintain on its website at all times the key terms and conditions of all of its regulatory capital instruments outstanding, and to update this disclosure as soon as possible after any new instrument is issued.

120. The Reserve Bank implemented this within the constraints of the disclosure legislation[8], and on a “fit for New Zealand” basis, by requiring off-quarter disclosure statements to include the terms and conditions of any new instrument issued during that quarter. Under Option B, this could be continued within the current off-quarter disclosure mechanism.

121. However, the section in Part 4 below headed “New capital issuance” discusses reasons why six-monthly updates may in future be sufficient. If that is agreed, then this information could be cut from off-quarter disclosure under Option B.

Director attestation

122. The requirement for directors’ signature imposed by s82 of the Act would still apply. We propose to include a directors’ attestation requirement that spells out what that signature amounts to. This continues the existing attestation that the disclosure statement contains everything it is required to contain, and is not false or misleading. We also propose that directors will continue to state whether or not each believes, after due enquiry, that the registered bank has complied with all conditions of registration that applied over the period. (This complements the continuing requirement to disclose any breaches.) But as confirmed in the Stocktake feedback, we believe that it is sufficient for directors to attest six-monthly rather than quarterly to the other attestation matters (on connected exposures, and risk control systems).

Credit rating

123. We propose to retain the requirement for a bank to publish its credit ratings, in the current off-quarter summary form. This is arguably the single most useful item of information for the less sophisticated reader of disclosure statements, and we do not expect it to be burdensome for a bank to meet this requirement.

[8] The Reserve Bank consulted on a number of options for how to achieve this. This pointed out that the exact Basel approach would need the regularly-updated template to be a new form of disclosure statement, which we concluded was unreasonably burdensome given the rigid nature of the s81 powers.

Q17: Do you agree with the proposed content of the off-quarter DS under Option B?

Mechanics of this approach

124. As noted above, the mechanics would largely follow those of existing off-quarter disclosure statements. Banks would continue to publish them on their websites.

Deadline

125. The current deadline for publication of off-quarter disclosure statements is two months after balance date. The proposed new off-quarter disclosure statement would be considerably shorter than the current requirement. Most significantly, it would not include interim financial statements in accordance with NZ IAS 34. On the other hand, the director signature requirement is fixed in primary legislation (s82 of the Reserve Bank Act), and hence will continue to apply for the foreseeable future. Taking these factors into consideration, the Reserve Bank proposes a slightly reduced publication deadline of six weeks.

126. If at some point an opportunity arises to review the Act, the Reserve Bank may support changes to allow the publication of off-quarter disclosure statements without a legal requirement for directors signatures. We would be interested in banks' views on what publication deadline would be realistic in that case, allowing for the time needed for a bank's internal sign-off processes.

Q18: Please give your views on what is a realistic publication deadline, both under the current proposal, and in the event that the s82 director sign-off requirement is removed at some point.

Relationship with other reports

127. As noted above, one design objective is to maintain reasonable consistency with full-year and half-year disclosure statements. This is intended to allow a continuous time series to be created.

128. The proposals in Appendix 7 are largely consistent with the private prudential satellite reports for capital adequacy (in their current drafts), that are being developed as part of the redevelopment of the balance sheet private reporting to the Reserve Bank.

129. There is less consistency at present with the draft satellite reports on asset quality: this reflects the fact that the breakdown by counterparty type in the disclosure is distinct between IRB and standardised banks, reflecting the current disclosure approach in full and half-year disclosure, which in turn is based on the different capital treatments in BS2A and BS2B. For example, for IRB banks there is an "other retail" category, but for standardised banks these are subsumed in the catch-all "other asset" category risk-weighted at 100%. That inconsistency cannot be comprehensively fixed without making major changes to standardised banks' full and half-year capital adequacy and asset quality disclosure.

130. The Stocktake consultation paper proposed that banks would start reporting selected financial information from their disclosure statements in a templated form by electronic submission direct to the Reserve Bank (see Part 1 (c), page 24). The aim is to streamline the process by which bank data is input to tables on the Reserve Bank's website. (Tables G1 and G2, referred to above.) Under Option A, the Dashboard

mechanism would supplant that proposal. However, under Option B the earlier proposal would go ahead. Under Option B, banks would be required to enter specified figures from their off-quarter, half-year and full-year disclosure statements into new Excel templates.

131. Table G1 (for locally-incorporated banks) would need to be revised to reflect the reduced content of off-quarter disclosure statements. Capital ratios and asset quality information on the table would still form a quarterly series, but other financial information including profit and loss data would be reduced to six-monthly. On the other hand, information on the components of capital requirements would be part of the quarterly series for the first time.

Part 4: Other issues and follow-up work

132. The issues discussed below are follow-up issues that are relevant to locally incorporated banks regardless of which of the options (Dashboard or Pillar 3) is selected. The issues also affect branches due to the decision to remove the requirement for them to prepare off-quarter disclosure statements.

Other issues: locally incorporated banks

Disclosing breaches of conditions of registration

133. As discussed above, the Reserve Bank views the disclosure by a bank of any breach of its conditions of registration as an important component of both its market and its self-discipline pillars, and therefore believes the delay before a breach is disclosed should not be any longer than at present.

134. The existing timeliness can be easily maintained under Option B. In this case, quarterly disclosure of any breaches would continue via the current off-quarter disclosure mechanism (see the details of Option B above). But under Option A, timely disclosure of breaches requires some further consideration, separate from the Dashboard mechanism as such.

135. As another outcome of the Stocktake, the Reserve Bank has already confirmed that it plans to put in place an obligation for a bank to report privately to it any breach or potential breach of a condition as soon as practicable after the bank becomes aware of it (See paragraphs 207-217 of the Stocktake feedback statement.) There are some practical issues to be dealt with in implementing this requirement. We plan to consult on the precise details of the approach shortly.

136. This reporting regime will provide the platform for our preferred option for keeping publication of breaches sufficiently timely. This would involve the Reserve Bank publishing the details of any confirmed breach of a condition of registration by a bank, shortly after the bank has reported the breach to the Reserve Bank. Section 105(2)(d) of the Act permits publication of breaches, on the basis that public disclosure of a breach supports the market discipline component of the Reserve Bank's supervisory approach.

137. As part of the proposed breach reporting regime, the Reserve Bank is keen for any bank to alert it to any matter that may constitute a breach, or may be about to lead to a breach. This can then prompt a discussion with the bank to decide whether or not a breach has in fact occurred. We would not want a publication requirement to discourage banks from being pro-active in contacting the Reserve Bank at an early

stage. However, we believe it is important that disclosure of an actual breach is required by a formal legal obligation, not by voluntary agreement.

138. The Dashboard’s focus on financial data means that it would not provide a natural mechanism for the publication of breaches. However, we propose that a link can be provided from the main Dashboard page to a separate web page providing a log of banks’ breaches of conditions of registration.

139. An alternative approach to achieving sufficiently timely disclosure of breaches would be to make them disclosable under a form of “conditional off-quarter disclosure statement”, using the s81 disclosure powers, which would be implemented within the current locally-incorporated Order in Council. This would stipulate that the bank must publish an off-quarter disclosure statement if it has breached a condition during the reporting period. The content of the disclosure statement would be just the details of any breach, and the directors’ signature (as required by s82). However this would be a much less efficient solution, given that the Reserve Bank plans in any case to put in place a regime for banks to report breaches to it, so the choice is between the Reserve Bank publishing information it will already have, or a registered bank going through the whole formal publication mechanism for an off-quarter disclosure statement just for this purpose.

140. The Reserve Bank acknowledges that breaches can arise for minor and technical reasons, and has committed to revise some policies to reduce the scope for this happening. But realistically, situations where such breaches arise can never be removed entirely.

141. Whatever the outcome, the current requirement for disclosure of any breaches, and for directors otherwise to attest that there have been no breaches, would continue in full-year and half-year disclosure statements, in respect of the six month period to the reporting date. Breaches disclosed in this way would in most cases already have been published on the Reserve Bank’s website.

Q19: Please provide any comments on the proposed approach to ensuring timely disclosure of breaches by locally-incorporated banks.

New capital issuance

142. As discussed under Option B above, among Basel III changes implemented by the Reserve Bank was a requirement for a bank to include in its off-quarter disclosure statements the terms and conditions of any new instrument issued during that quarter. While that was done on a “fit for New Zealand” basis that did not amount to implementing the full letter of the Basel requirements, the Reserve Bank would prefer not to move further away from Basel compliance without sound reasons.

143. The current Basel requirement is the following:

- *Banks are required to keep the completed main features report up-to-date, such that the report is updated and made publicly available whenever a bank issues or repays a capital instrument and whenever there is a redemption, conversion/write-down or other material change in the nature of an existing capital instrument.*

144. APRA (for instance) have implemented this with a requirement for any bank to update its main features report within seven calendar days of an update in its capital instruments.

145. However, a recent Basel consultation paper proposes a more relaxed timeframe for the updating of this information. The proposed new timing requirement (our underlining) is:

- *Frequency: Table CCA should be posted on a bank's website. It should be updated whenever the bank issues or repays a capital instrument (or other TLAC-eligible instrument where applicable), and whenever there is a redemption, conversion/write-down or other material change in the nature of an existing instrument. Updates should, at a minimum, be made on a semi-annual basis.*

146. The Basel consultation closed on 10 June 2016, and we would expect the finalised document to be published within a few months.

147. If the wording change above is confirmed, our preferred option is to move to six-monthly updating of the terms and conditions of banks' capital instruments. Under both Option A and Option B, this would be achieved within the full-year and half-year disclosure statements as at present. There would be nowhere else that we would require this information to be disclosed, under either option. Our thinking behind this is:

- We do not see the terms of such instruments as a matter that market commentators are likely to have an urgent interest in seeing;

- The terms that are required for instruments to be eligible as capital are tightly defined, and banks must obtain a non-objection from the Reserve Bank before any instrument is recognised as capital of a given class;

- The quarterly updates under both Option A and Option B would reflect the value of any new eligible capital instrument issued during the latest quarter, in the summary capital ratios;

- For any public issues, detailed information on the offering are in the public domain at the time of issue; and

- As well as these "in principle" reasons, this approach would also not move us further away from the Basel Pillar 3 requirement: in fact with Basel clarifying that updating "whenever" can include a lag of up to six months, our maximum deadline would move marginally closer to Basel's.

148. If this Basel change is not confirmed, then for reasons of approximate Basel compliance we would prefer to find a mechanism for details of any instruments to be published in the off-quarter. That would be straightforward under Option B, as described above, but would present more of a challenge under Option A: terms and conditions of an instrument are textual information of the sort that is not well-suited for inclusion in quarterly Dashboard reporting.

149. But compared to the challenges posed by timely disclosure of breaches, we believe that providing details of new capital instruments should be a less sensitive matter, and is therefore open to a wider range of options, including potentially a voluntary regime. We discuss three possible options below. These may fall away in any case, if the Basel changes are confirmed.

150. A first option would be to require a type of "conditional disclosure statement" in the off-quarters, similar to that mentioned above in relation to breaches of conditions. The content of the disclosure statement would be just the details of any new instrument, and the directors' signature.

151. Some banks have already indicated that this would add considerable burden compared to complete removal of formal off-quarter disclosure requirements. In effect, banks would have to retain some of their current processes for off-quarter disclosure, to ensure that no legal obligation had been breached in any case, and to publish the signed disclosure statement in the event of a new issue.

152. A second option would be for the Reserve Bank to make it clear that it expects banks to publish the information on their website in a timely fashion (with details to be confirmed). This would effectively be a voluntary disclosure approach, as it would not be backed up by a specific power in the Act. However, the Reserve Bank would monitor whether banks were meeting its expectations, and if this approach was not proving effective would revive one of the other two options.

153. A challenge with these first two options is how and where a bank would present this information on a new capital instrument on its website and label it so as to make it meaningful for readers, and avoid confusion with the Dashboard.

154. A third option would use a mechanism similar to that preferred for the Dashboard, namely a s93 notice requiring banks to submit the templated details of any new issue to the Reserve Bank in a timely fashion, and subsequent publication of those details by the Reserve Bank using the exception provided by s105(2)(d) of the Act. Under this option, the exact publication mechanism would also need further work, but the information could for instance be accessed on the Reserve Bank website via a link from the Dashboard page.

155. Banks' full-year and half-year disclosure statements would under all outcomes continue to include contractual details of all capital instruments currently outstanding.

Q20: If the Basel change is confirmed, do you have any concerns about this updating happening only six-monthly? Otherwise, which of the three options for off-quarter updating do you prefer and why? Can you suggest any other mechanism to achieve sufficiently timely publication of terms of new capital issues?

Other issues: branches

Disclosing breaches of conditions of registration

156. The concern about maintaining timely disclosure of breaches of conditions of registration applies to branches, in the same way that it applies to locally-incorporated banks under Option A. That is, the Reserve Bank believes it is important to put in place an alternative mechanism to ensure that any breach continues to be disclosed at greater than six-monthly frequency, given that branches will stop publishing off-quarter disclosure statements.

157. The suggestion above for locally-incorporated banks is also broadly applicable to branches. We propose that timely disclosure of breaches by branches should be achieved in the same way as it would for locally-incorporated banks under Option A: namely, building on the proposed breach reporting regime, so that the Reserve Bank would publish confirmed breaches that have been reported to it. The publication mechanism would be different, as branches are not included in the Dashboard. We suggest that a link could be provided from the branch reporting table G2, to the same webpage providing a log of bank breaches of conditions.

158. If locally-incorporated banks continue to disclose breaches in their off-quarter disclosure statements as now (under Option B), then this mechanism for publishing any breach of a condition would apply only to branches.

Q21: Please provide any comments on the proposed approach to ensuring timely disclosure of breaches by branches.

Reserve Bank publication of branch data

159. The table G2 on the Reserve Bank's website that provides public data on individual bank branches (or on their New Zealand reporting groups) would continue, using the data published in their full-year and half-year disclosure statements. The proposed templated version of this data would be submitted to the Reserve Bank whatever option is chosen for the locally-incorporated banks. Because these banks have different financial year-ends (and therefore different reporting dates for full and half-year financial statements), like-for-like comparison in each period would no longer be possible.

160. Table G2 would continue to have semi-annual information on the overseas banking group of each branch. We view this as the most valuable information for investors in relation to branches, and this also, unavoidably, has the problem of different financial year ends of the relevant groups.

Conclusion

161. In considering potential changes to the disclosure statement regime our focus has been on ways that the regime could be altered to enhance its effectiveness in promoting market discipline, and reduce compliance costs where possible. The options canvassed in this consultation document are designed to contribute to these outcomes.

162. The following tables provide summary comparisons of the Dashboard and the Pillar 3 options, according to the factors we consider most important for market discipline. The tables list the pros (+) and cons (-) of the two approaches compared to the status quo. We do not include the status quo in the comparison, as the Stocktake consultation paper already compared the status quo with the Pillar 3 option, and in light of all the feedback that we received on that comparison, we have confirmed that the Pillar 3 option is preferred to the status quo. We also do no not include branches, as there is no difference between the Dashboard and the Pillar 3 option in terms of their impact either on branches or on the readers of branch disclosure statements.

Comparability across locally incorporated banks	
Option A (Dashboard)	Option B (Pillar 3)
(+) Same period comparisons of all banks will still be possible (+) Same data will be provided every quarter, improving comparability. (+) Data will be templated, drawn from prudential returns.	(-) Less information on which to compare a bank with an off-1/4 date against a bank with (eg) a half-year at the same date (+) Data will be templated, drawn from separate surveys submitted by the banks. (+) Capital adequacy and asset quality data are generally comparable across banks (in contrast to some income statement items under IFRS).

Accessibility	
Option A (Dashboard)	Option B (Pillar 3)
(+) Proposed changes will make it much easier for a casual visitor to the RBNZ website to find their way to the Dashboard (compared to finding the current Table G1).	(+) Improvements similar to some of those proposed under Option A would also be made under Option B, in particular the ease of finding Table G1.
(+) Once there, the two-level layout of the information will make it easier for the non-expert user to grasp the sense of the figures.	(-) The layout of Table G1 (as revised) means that the information will not be as amenable to being easily understood by the non-expert user as in the Dashboard.
(+) Explanatory material will also be much easier to find, via obvious links from the Dashboard.	
(+) More data would be available on the Dashboard than the current G1.	

Timeliness	
Option A (Dashboard)	Option B (Pillar 3)
(+) Publication lag will ideally be shorter than the current 2 month deadline for the off-quarter DS and this would apply every quarter. Tables on the RB website would be updated within 2 months (or possibly less), compared to 4 months at present.	(+) Off-1/4 information would be available on individual bank websites with a maximum two month delay (we are consulting on reducing this somewhat). The RBNZ website tables are only updated when all data is available, though, which currently means a lag of about 4 months. The proposal for a standard reporting template may make the uploading of data to the table more efficient, reducing the lag to say 3 ½ months.

Costs	
Option A (Dashboard)	Option B (Pillar 3)
(+ Cost Savings): Material saving from removal of current off-1/4 DS, including interim financial statements (based on NZ IAS 34) and full director sign-off requirements.	(+ Cost Savings): Reduced off-1/4 DS: DS will no longer include the financial statement components or the director sign-off on risk management, but will still have the director sign-off on CoR compliance, and that the information in the DS is complete and true and fair.
(- Cost Increases): The aim is that the marginal production cost on top of balance sheet and other prudential returns will be small given the “submit once” concept, but banks’ own quality assurance processes are likely to represent a marginal cost increase compared to the status quo.	(- Cost Increases): Banks will submit a standard spreadsheet with the data extracted from quarterly DSs, to streamline the RBNZ’s process for preparing the tables on the RBNZ website. The incremental cost of this is not expected to be significant, as the data is already signed-off.

163. As expected with any innovative concept, the Dashboard approach raises a number of design issues, but if these can be effectively addressed we consider that the Dashboard will go furthest towards meeting the objectives of enhancing market discipline while keeping compliance costs as low as possible. In particular, it should make a substantial contribution to improving the effectiveness of market discipline by making prudential disclosures by banks more comparable, accessible and timely.

164. We believe the Dashboard will broadly meet and, in many respects exceed, international standards for off-quarter capital and asset quality disclosure. We also believe the Dashboard will be a significant innovation in effective disclosure and market discipline. Because of the relatively small number of locally incorporated banks in the New Zealand system, it is possible to see all banks side by side, either all together or in peer groups. We believe this offers a greater opportunity to compare institutions and to bolster market discipline, one that would be more difficult in a larger market.

165. The Dashboard also has the potential to result in material efficiency gains for locally incorporated banks by allowing them to use material prepared for private reporting to the Bank as the basis of the information that they publically disclose. We recognise that the extent of these efficiency gains is substantially influenced by the nature of the sign-off or assurance process that this information is subject to once it is publically disclosed.

166. While it is not our preferred option, our alternative “Pillar 3” type approach would also deliver some benefits to banks in terms of compliance cost reduction, as less information overall would be included in off-quarter disclosure statements. However, we expect that disclosures made under this option would be subject to the same director attestation process as existing disclosure statements and its overall benefits may be smaller than those arising out of the Dashboard. We consider that this option is, at best, neutral in its effect on market discipline, as it still involves disclosure of the information that expert audiences have told us they are most concerned with, and would be combined with improvements to the existing comparative tables on our website.

167. Both options raise a number of consequential issues, for example, in terms of their impact on the public disclosure of breaches. We have aimed to find efficient ways of

dealing with these matters, although they would mean in some circumstances further changes to the current disclosure regime.

Next Steps

168. The closing date for submissions on the consultation document is 15 December 2016. We encourage submitters to provide free and frank feedback on the proposals, and would be happy to arrange meetings to discuss feedback that people or groups may have.

169. At present we anticipate final decisions on the proposals in this consultation document will be made in the first quarter of 2017, although if the Dashboard option is adopted, some minor or technical refinements to these decisions may be necessary to reflect the final outcome of our balance sheet redevelopment project. We may also consider conducting additional focus groups or other targeted efforts to fine-tune the Dashboard design.

170. Subject to the nature of our eventual policy decisions, we expect to begin implementing any changes arising out of this consultation document during the second quarter of 2017.

Appendix 1: Summary of Dashboard Information Required

The information under the "Detailed Report" column would be required from all locally incorporated banks, on a quarterly basis.

Content	High Level Summary	Detailed Report
Credit Ratings	Summary of Ratings	Summary of Ratings
Capital	Total Capital Ratio	Total Capital Ratio
		More detailed capital ratios (CET 1 and Tier 1)
	Comparisons to regulatory minimums (Buffer)	Comparisons to regulatory minimums (Buffer)
		Common Equity Tier 1 Capital ($), deductions ($), Net Common Equity Tier 1 ($), Total Additional Tier 1 ($), Total Tier 1 Capital ($), Tier 2 Capital ($)
		RWAs for credit risk, by portfolio (all banks)
		RWAs for market risk and operational risk (all banks)
		RWAs for equity exposures (IRB Banks)
Asset Quality	NPL as % of gross lending	NPL as % of gross lending
		NPL ($) (90 days past due + impaired assets)
		Gross Lending ($)
		Ind. provisions as % impaired assets
		Total credit risk exposure by type and portfolio
		By portfolio: impaired facilities, past due facilities, specific provisions, charges for specific provisions, write-offs
Profitability/ Financial Performance	Net profit as % of total assets	Net profit as % of total assets
		Net profit ($)
		Net profit as % of average equity
		Net interest income ($)
		Net Interest margin
Financial Position	Total Assets ($)	Total Assets ($)
		Total Liabilities ($)
Liquidity	One-Month Mismatch Ratio (%)	One-Month Mismatch Ratio (%)
		One-Week Mismatch Ratio (%)
		Core Funding Ratio (%)
	Comparisons to regulatory minimums	Comparisons to regulatory minimums

Appendix 2: High Level Comparison of Dashboard to Current Disclosure Requirements

Quarterly Dashboard Proposal	Current Off-Quarter Disclosure Requirements	Current Half-Year Disclosure Requirements	Current Full-Year Disclosure Requirements
High level summary financial performance and position, figures and ratios	Condensed financial statements as per IAS 34, including fair value of financial instruments, segment analysis.	Condensed financial statements as per IAS 34, including fair value of financial instruments, segment analysis. Additional information on risk concentration.	Full financial statements, including statement of accounting policies, remuneration disclosures, information regarding risk concentration, and numerous other notes to accounts, plus five-year summary financials.
Summary capital figures ($) ratios (%) and requirements, plus more granular risk weighted exposure information	Summary capital figures ($) ratios (%) and requirements	Summary capital figures ($) ratios (%) and requirements, plus more granular risk weighted exposure information	Summary capital figures ($) ratios (%) and requirements, plus more granular risk weighted exposure information
Slightly more detailed asset quality information, as per APS 330 requirements, including total gross credit risk exposure for each major portfolio.	Summary asset quality and provisions for credit impairment, for each major portfolio.	More detailed asset quality and provisions for credit impairment, including aging of past due assets, for each major portfolio.	More detailed asset quality and provisions for credit impairment, including aging of past due assets, for each major portfolio.
	Loans and advances, gross and net	Loans and advances, gross and net	Loans and advances, gross and net
Summary liquidity ratios (potentially Core Funding Ratio and One-Month or One-Week mismatch ratios)	Financial assets held for the purposes of managing liquidity risk. [Proposal to add summary liquidity ratios.]	Financial assets held for the purposes of managing liquidity risk. Contractual maturity analysis [Proposal to add summary liquidity ratios, and possibly supporting figures.]	Financial assets held for the purposes of managing liquidity risk. Contractual maturity analysis [Proposal to add summary liquidity ratios, and possibly supporting figures.]

Quarterly Dashboard Proposal	Current Off-Quarter Disclosure Requirements	Current Half-Year Disclosure Requirements	Current Full-Year Disclosure Requirements
		Interest rate sensitivity analysis	Interest rate sensitivity analysis
High level large exposure metric [details TBD]	Summary information on concentration of credit exposures to individual counterparties (no. of transactions >10% of equity)	Summary information on concentration of credit exposures to individual counterparties (no. of transactions >10% of equity)	Summary information on concentration of credit exposures to individual counterparties (no. of transactions >10% of equity)
N/A	Residential Mortgages by LVR	Residential Mortgages by LVR	Residential Mortgages by LVR
N/A			Detail on risk management policies
N/A			Connected exposures summary
N/A	Changes to guarantee agreements, directors, conditions of registration, changes in involvement in securitisation, insurance business etc.	Changes to guarantee agreements, directors, conditions of registration, changes in involvement in securitisation, insurance business etc.	Descriptions of guarantee agreements, directors, conditions of registration, involvement in securitisation, insurance business etc.
N/A	Director attestations regarding risk management, conditions of registration and connected exposures	Director attestations regarding risk management, conditions of registration and connected exposures	Director attestations regarding risk management, conditions of registration and connected exposures Director bios, committees, conflict of interest policy

Appendix 3: Sample Dashboard

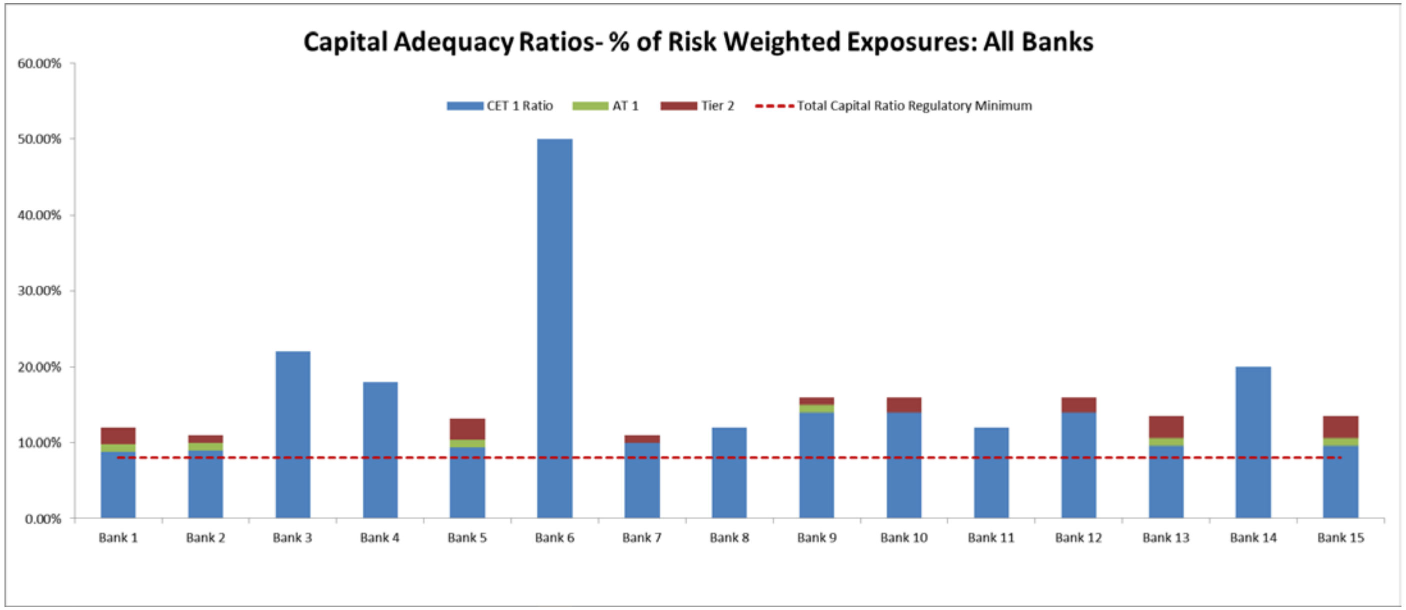
High Level Summary (html of .pdf)

Fictitious data, as of 30 September 2015

Hyperlinks to explanations and definitions of terms

Hyperlinks to Bank websites

	Category of Bank			Major banks					Other domestic banks					Other foreign subsidiary banks		
		<Insert Logo>	<Insert Logo>	<Insert Logo>	<Insert Logo>	<Insert Logo>	<Insert Logo>	<Insert Logo>	<Insert Logo>	<Insert Logo>	<Insert Logo>	<Insert Logo>	<Insert Logo>	<Insert Logo>	<Insert Logo>	<Insert Logo>
		Bank 1	Bank 2	Bank 3	Bank 4	Bank 5	Bank 6	Bank 7	Bank 8	Bank 9	Bank 10	Bank 11	Bank 12	Bank 13	Bank 14	Bank 15
External Rating(s)	S&P Rating	A+	AA-	A		AA-	BBB	BBB-		A-				AA-		AA-
	Moody's Rating	Aa3	Aa3		A	Aa3					Baa3		Baa3			
	Fitch Rating			AA-	A				BBB			BBB			A	
Capital	Total Capital Adequacy Ratio	12.00%	11.00%	22.00%	18.00%	13.20%	50.00%	11.00%	12.00%	16.00%	16.00%	12.00%	16.00%	13.50%	20.00%	13.50%
Profitability	Net profit as % of total assets	1.00%	0.80%	-0.40%	1.50%	0.70%	0.60%	-1.10%	-1.20%	1.10%	1.40%	-1.20%	1.40%	0.90%	1.50%	0.90%
Asset Quality	NPL as % of gross lending	0.50%	0.40%	0.20%	1.00%	0.45%	1.80%	0.60%	0.65%	0.60%	2.00%	0.65%	2.00%	0.30%	1.00%	0.30%
Liquidity	One-Month Mismatch Ratio (%)	5.00%	3.00%	4.00%	6.00%	3.50%	8.00%	7.00%	10.00%	12.00%	6.00%	5.00%	7.00%	5.00%	4.50%	2.80%
Total Assets	Total Assets (in millions)	$75,000	$100,000	$60,000	$50,000	$120,000	$25,000	$20,000	$15,000	$20,000	$5,000	$5,000	$5,000	$5,000	$5,000	$10,000



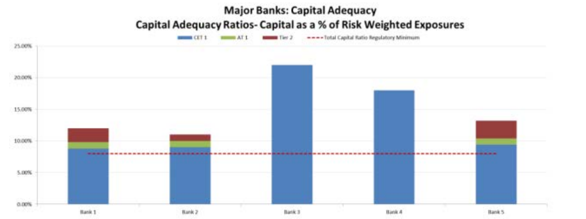
High Level Summary, plus sample tables and charts (for a single category of banks)

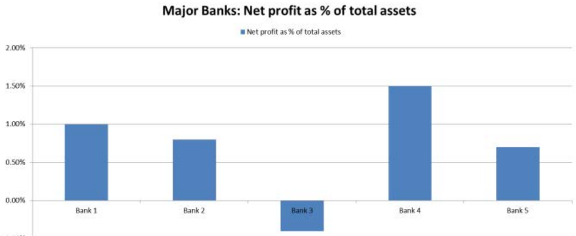
Fictitious data, as of 30 September 2015

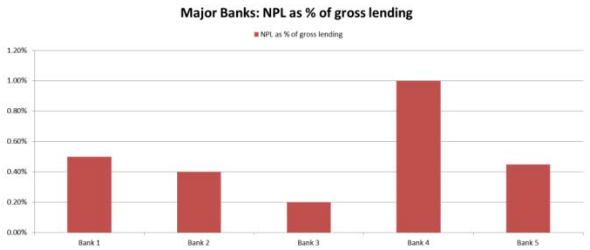
Hyperlinks to explanations and definitions of terms

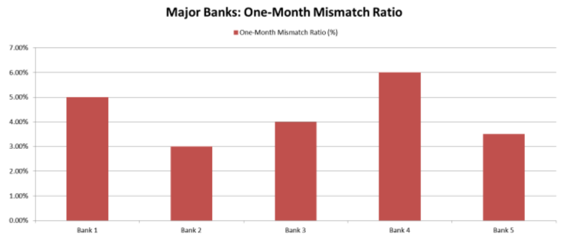
Hyperlinks to Bank websites

	Category of Bank			**Major banks**		
		<Insert Logo>	<Insert Logo>	<Insert Logo>	<Insert Logo>	<Insert Logo>
		Bank 1	Bank 2	Bank 3	Bank 4	Bank 5
External Rating(s)	S&P Rating	A+	AA-	A		AA-
	Moody's Rating	Aa3	Aa3		A	Aa3
	Fitch Rating			AA-	A	
Capital	Total Capital Adequacy Ratio	12.00%	11.00%	22.00%	18.00%	13.20%
Profitability	Net profit as % of total assets	1.00%	0.80%	-0.40%	1.50%	0.70%
Asset Quality	NPL as % of gross lending	0.50%	0.40%	0.20%	1.00%	0.45%
Liquidity	One-Month Mismatch Ratio (%)	5.00%	3.00%	4.00%	6.00%	3.50%
Total Assets	Total Assets (in millions)	$75,000	$100,000	$60,000	$50,000	$120,000









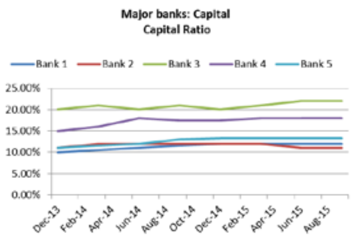
Detailed Report

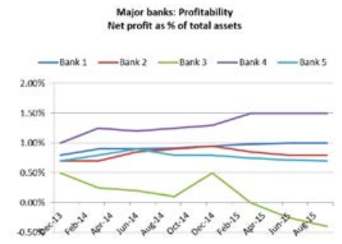
Fictitious data, as of 30 September 2015

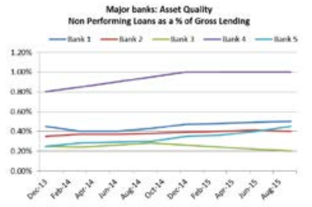
Hyperlinks to explanations and definitions of terms
Potential ability to expand to prior periods
Hyperlinks to Bank websites
Ability to expand/collapse

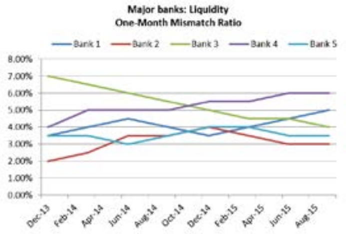
Category of Bank				Major banks					Other domestic banks					Other foreign subsidiary banks		
		<Insert Logo>	<Insert Logo>	<Insert Logo>	<Insert Logo>	<Insert Logo>	<Insert Logo>	<Insert Logo>	<Insert Logo>	<Insert Logo>	<Insert Logo>	<Insert Logo>	<Insert Logo>	<Insert Logo>	<Insert Logo>	<Insert Logo>
		Bank 1	Bank 2	Bank 3	Bank 4	Bank 5	Bank 6	Bank 7	Bank 8	Bank 9	Bank 10	Bank 11	Bank 12	Bank 13	Bank 14	Bank 15
External Rating(s)	S&P Rating	A+	AA-	A		AA-	BBB	BBB-		A-				AA-		AA-
	Moody's Rating	Aa3	Aa3		A	Aa3					Baa3		Baa3			
	Fitch Rating			AA-	A				BBB			BBB			A	
Capital	Total Capital Adequacy Ratio	12.00%	11.00%	22.00%	18.00%	13.20%	50.00%	11.00%	12.00%	16.00%	16.00%	12.00%	16.00%	13.50%	20.00%	13.50%
Profitability	Net profit as % of total assets	1.00%	0.80%	-0.40%	1.50%	0.70%	0.60%	-1.10%	-1.20%	1.10%	1.40%	-1.20%	1.40%	0.90%	1.50%	0.90%
Asset Quality	NPL as % of gross lending	0.50%	0.40%	0.20%	1.00%	0.45%	1.80%	0.60%	0.65%	0.60%	2.00%	0.65%	2.00%	0.30%	1.00%	0.30%
Liquidity	One-Month Mismatch Ratio (%)	5.00%	3.00%	4.00%	6.00%	3.50%	8.00%	7.00%	10.00%	12.00%	6.00%	5.00%	7.00%	5.00%	4.50%	2.80%
Total Assets	Total Assets (in millions)	$75,000	$100,000	$60,000	$50,000	$120,000	$25,000	$20,000	$15,000	$20,000	$5,000	$5,000	$5,000	$5,000	$5,000	$10,000

Detailed Report, plus a few sample tables and charts (using time series data)









Appendix 4: Extract from APRA prudential standard APS 330 "Public Disclosure"

Attachment C

Risk exposures and assessment (all ADIs)

1. A locally incorporated ADI must make the disclosures required in this Attachment to the extent applicable to that ADI.

Table 3: Capital adequacy

(a)	Capital requirements (in terms of risk-weighted assets) for: • credit risk (excluding securitisation) by portfolio[14]; and • securitisation.
(b)	Capital requirements (in terms of risk-weighted assets) for equity exposures in the IRB approach (simple risk-weighted method).
(c)	Capital requirements (in terms of risk-weighted assets) for market risk.
(d)	Capital requirements (in terms of risk-weighted assets) for operational risk.
(e)	Capital requirements (in terms of risk-weighted assets) for interest rate risk in the banking book (IRRBB) (IRB/AMA approved Australian- owned ADIs only).
(f)	Common Equity Tier 1, Tier 1 and Total Capital ratio for the consolidated banking group.

Table 4: Credit risk[15]

(a)	Total gross credit risk exposures, plus average gross exposure over the period, broken down by: • major types of credit exposure[16];and, • separately, by portfolio [17] .
(b)	By portfolio[18]: • amount of impaired facilities and past due facilities, provided separately; • specific provisions; and • charges for specific provisions and write-offs during the period.
(c)	The general reserve for credit losses.

Table 5: Securitisation exposures[19]

(a)	Summary of current period's securitisation activity, including the total amount of exposures securitised (by exposure type) and recognised gain or loss on sale by exposure type.
(b)	Aggregate amount of: • on-balance sheet securitization exposures retained or purchased broken down by exposure type; and • off-balance sheet securitisation exposures broken down by exposure type.

14 For standardised portfolios: claims secured by residential mortgage; other retail; corporate; bank; government; and all other; and for IRB portfolios: corporate; sovereign; bank; residential mortgage; qualifying revolving retail; other retail; and all other.

15 Table 4 does not include equities or securitisation exposures.

16 This breakdown could be in line with normal accounting rules (e.g. loans; commitments and other non-market off-balance sheet exposures; debt securities; and over-the-counter derivatives).

17 Refer to footnote 16.

18 Refer to footnote 16.

19 Securitisation exposures include but are not restricted to, securities, liquidity facilities, protection provided to securitisation positions, other commitments and credit enhancements such as cash collateral and other subordinated assets. Refer to *Prudential Standard APS 120 Securitisation* (APS 120).

Appendix 5: Approaches of other regulators

US: In the US, the Federal Financial Institutions Examination Council (FFIEC) makes data from the Uniform Bank Performance Report (UBPR) available in an inter-agency Central Data Repository (CDR). While the target users for the data are bank supervisors (who typically represent a range of different agencies, given the dynamics of the US regulatory system), the data is also available online to the public. Individual institutional data is available on a quarterly basis and can also be compared to customizable peer groups. Users can create customizable reports or can download data in bulk.

Australia: In Australia, APRA has recently conducted extensive work related to the publication of statistics in the insurance and superannuation sectors. A summary of APRA's statistical publications is available on its website. For the general insurance sector, APRA currently publishes a mix of quarterly (aggregate) and semi-annual (institution specific) statistics. APRA's publications also include introductory commentaries and summaries of developments in the various sectors. For superannuation, APRA recently consulted on the publication of annual superannuation statistics and the confidentiality of superannuation data. APRA currently publishes quarterly aggregates as well as "MySuper Statistics," which reports fund specific information on the sector. For many of its major statistical publications, APRA presents basic information in a .pdf format, more detailed information in Excel, and the full data set in a downloadable database.

For the banking sector, APRA currently publishes sector aggregates, broken down into categories of banks. The quarterly report provides data on financial performance, financial position, capital adequacy, asset quality, and key financial performance ratios. APRA does not currently present bank-specific information, drawn from Pillar 3 disclosures, on its website. APRA does, however, publish Monthly Banking Statistics, which contain selected information on the banking business of individual banks within the domestic market. The report contains high-level breakdowns of the domestic assets and liabilities of each bank, as well as more detail on loans & advances to, and deposits by, different sectors of the economy. It is published within one month of the reporting date.

Basel: Following the GFC, the Basel Committee on Banking Supervision revised its Pillar 3 standards aimed at improving the comparability and consistency of bank information to enable market participants to better assess a bank's overall capital adequacy and risk profile. In early 2015, Basel issued a new set of standards based on five key requirements including that they be clear, comprehensive, meaningful to users, consistent over time and comparable across banks. Basel's new standards placed additional emphasis on templated reporting, and also required a fairly detailed reconciliation between the regulatory data required for Pillar 3 and line items in financial statements. Basel recently released a new consultation, which includes a full set of templates that it is proposing; including a summary table it also calls a "Dashboard." Two of these templates, including Template KM1: Key Metrics (the Dashboard) are included in Appendix 6. This consultation closed 10 June of 2016 and, if implemented, the new templates would be part of Basel Pillar 3 from end-2017.

Appendix 6: Relevant Basel Pillar 3 Disclosure Requirements

[Yellow highlighted rows are not relevant under existing RBNZ capital adequacy framework.]

(1) Template OV1: Overview of RWA

[This has been agreed, and forms part of Pillar 3 from end-2016.]

Purpose: Provide an overview of total RWA forming the denominator of the risk-based capital requirements. Further breakdowns of RWAs are presented in subsequent parts.

Scope of application: The template is mandatory for all banks.

Content: Risk-weighted assets and capital requirements under Pillar 1.

Frequency: Quarterly.

Format: Fixed.

Accompanying narrative: Banks are expected to identify and explain the drivers behind differences in reporting periods T and T-1 where these differences are significant.

When minimum capital requirements in column (c) do not correspond to 8% of RWA in column (a), banks must explain the adjustments made.

		a	b	c
		RWA		Minimum capital requirements
		T	T-1	T
1	Credit risk (excluding counterparty credit risk) (CCR)			
2	Of which standardised approach (SA)			
3	Of which internal rating-based (IRB) approach			
4	Counterparty credit risk			
5	Of which standardised approach for counterparty credit risk (SA-CCR)			
6	Of which internal model method (IMM)			
7	Equity positions in banking book under market-based approach			
8	Equity investments in funds – look-through approach			
9	Equity investments in funds – mandate-based approach			
10	Equity investments in funds – fall-back approach			
11	Settlement risk			
12	Securitisation exposures in banking book			
13	Of which IRB ratings-based approach (RBA)			
14	Of which IRB Supervisory Formula Approach (SFA)			
15	Of which SA/simplified supervisory formula approach (SSFA)			
16	Market risk			
17	Of which standardised approach (SA)			
18	Of which internal model approaches (IMM)			
19	Operational risk			
20	Of which Basic Indicator Approach			

		a	b	c
		RWA		Minimum capital requirements
		T	T-1	T
21	Of which Standardised Approach			
22	Of which Advanced Measurement Approach			
23	Amounts below the thresholds for deduction (subject to 250% risk weight)			
24	Floor adjustment			
25	Total (1+4+7+8+9+10+11+12+16+19+23+24)			

[For detailed definitions, see source document. "T-1" refers to previous quarter.]

(2) Template KM1: Key metrics (at consolidated group level)

[Currently being consulted on. If agreed, will be part of Basel Pillar 3 from end-2017]

Purpose: The Dashboard provides an overview of a bank's prudential regulatory situation.
Scope of application: The template is mandatory for all banks.
Content: Regulatory key metrics. Banks are required to disclose each metric's value using the corresponding standard's specifications for the reporting period-end (designated by T in the template below) as well as the four previous quarter-end figures (T-1 to T-4).[27]
Frequency: Quarterly.
Format: Fixed. If banks wish to add rows to provide additional regulatory or financial metrics, they must provide definitions for these metrics and a full explanation of how the metrics are calculated (including the scope of consolidation and the regulatory capital used if relevant). The additional metrics must not replace the metrics in this disclosure requirement.
Accompanying narrative: Banks are expected to supplement the template with a narrative commentary to explain any significant change in each metric's value compared with previous quarters, including the key drivers of such changes (e.g. whether the changes are due to evolutions in the regulatory framework, group structure or business model).

		a	b	c	d	e
		T	T-1	T-2	T-3	T-4
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1)					
2	Tier 1					
3	Total capital					
	Risk-weighted assets (amounts)					
4	Total risk-weighted assets (RWA)					
	Risk-based capital ratios as a percentage of RWA					
5	Common Equity Tier 1 ratio (%)					
6	Tier 1 ratio (%)					
7	Total capital ratio (%)					
	Additional CET1 buffers requirements as a percentage of RWA					
8	Capital conservation buffer requirement (2.5% from 2019) (%)					
9	Countercyclical buffer requirement (%)					

		a	b	c	d	e
		T	T-1	T-2	T-3	T-4
10	Bank GSIB and/or DSIB additional requirements (%)					
11	Total of bank CET1 specific buffer requirements (%)					
12	CET1 available to meet buffers after meeting the bank's minimum					
	Basel III leverage ratio					
13	Total Basel III leverage ratio exposure measure					
14	Basel III leverage ratio (%) (row 2/row 13)					
	Liquidity Coverage Ratio					
15	Total HQLA					
16	Total Net Cash Outflow					
17	LCR ratio (%)					

[27] When a metric for a new standard is reported for the first time, retrospective data for previous data points are not required to be disclosed.

	Net Stable Funding Ratio					
18	Total Available Stable Funding					
19	Total Required Stable Funding					
20	NSFR ratio (%)					

Instructions

CET1 available to meet buffers after meeting the bank's minimum capital requirements: measures the CET1 available after meeting the bank's minimum capital requirement and, if applicable, after meeting TLAC requirement.

Total Basel III leverage ratio exposure measure: according to specifications set out in part 6 on leverage ratio. The amounts may reflect end-of-period or averages depending on local implementation.

Total HQLA: total adjusted value according to specifications set out in part 7 on liquidity, using simple averages of daily observations over the previous quarter (i.e. the average calculated over a period of, typically, 90 days).

Total Net Cash Outflow: total adjusted value according to specifications set out in part 7 on liquidity, using simple averages of daily observations over the previous quarter (ie the average calculated over a period of, typically, 90 days).

Appendix 7: Proposed content of reduced off-quarter disclosure statement (Option B)

(1) Non-financial data

Conditions of registration: (a) if any change has occurred in the bank's conditions of registration over the most recent quarter that does not reflect a general change to the standard conditions applying to a class of banks to which this bank belongs, a description of the change and the date from which it applied; (b) if the bank has not complied with all conditions of registration over the most recent quarter, a description of the nature and extent of each case of non-compliance. (Compare: Local OIC, Schedule 3, clause 1.)

(Only if the current Basel proposals are NOT confirmed –) **terms and conditions of new capital instruments**: to be provided if any new issue has been made in the latest quarter, identical to the current requirement in clause 2A of Schedule 10 of the Local OIC.

Details of current credit rating: (The same as in the current Local OIC, Schedule 3, clause 2).

Director's statement: statement that the disclosure statement contains all the information that is required by the Order, and that it is not false or misleading. (Compare: Local OIC, Schedule 3, subclause 4(1).) This implements the s82 director signature requirement. Also, a statement (as at present) on whether or not the bank has complied with all conditions of registration that applied over the period.

(2) Capital adequacy

Proposed requirement	Comparison: current Local OIC	Comparison: APRA APS 330 Attachment C
Standardised banks: RWAs for on-balance sheet credit risks by portfolio (residential mortgages, corporate, banks, other)	Adapted from Schedule 10, clause 3: RWAs, not capital requirements, and the exposure classes are spelt out.	Table 3(a): RWAs for credit risk (broken down into securitisation and other), by portfolio: residential mortgages, other retail, corporate, bank, government, other.
Standardised banks: RWAs for off-balance sheet credit exposures (total)	Adapted from Schedule 10, clause 3. As above.	
IRB banks: total RWAs for each exposure class (residential mortgages, other retail, corporate, sovereign, bank)	Adapted from Schedule 12, clause 3: QRRE no longer applies, and the exposure classes are spelt out. Changed to RWAs.	Table 3(a): RWAs for credit risk (broken down into securitisation and other), by portfolio: residential mortgages, QRRE, other retail, corporate, bank, sovereign, other.
IRB banks only: credit risk RWAs for equity exposures	See Schedule 12, subclause 4(2)(b). Changed to RWAs	Table 3(b)
IRB banks only: credit risk RWAs for specialised lending subject to slotting approach	See Schedule 12, subclause 4(2)(a). Changed to RWAs.	Not explicit, although banks publish this in practice

Proposed requirement	Comparison: current Local OIC	Comparison: APRA APS 330 Attachment C
RWA equivalent for market risk	See Schedule 10, clause 3, and Schedule 12, clause 6. Changed to RWAs.	Table 3(c)
RWA equivalent for operational risk	See Schedule 10, clause 3, and Schedule 12, clause 6. Changed to RWAs.	Table 3(d)
CET1, Tier 1 and total capital ratios, alongside minimum requirements for each	See Schedule 10, clause 1 and Schedule 12, clause 1	Table 3(f) (but not with the required minimum ratios)
Buffer ratio, alongside minimum requirement	See Schedule 10, clause 1 and Schedule 12, clause 1	Not covered.
IRB banks only: information on the scalar and on any capital requirement for a supervisory adjustment	See Schedule 12, clause 5	Not covered (although some banks give an explanation of the scalar in practice).

Notes:

We propose to <u>switch from disclosure of the capital requirement for each risk, to the total RWAs (or equivalent) for each risk</u>. This is for consistency with Basel and APRA (and is still consistent with current full-year and half-year disclosure, since they show both).

Standardised: we do not require as detailed a portfolio breakdown as APRA. "Other retail" is not distinguished for risk-weighting purposes. This might be a desirable change to make, but for consistency we would have to make the same change in our full-year and half-year disclosures as well.

Standardised: we do not require a breakdown of off-balance sheet exposures by portfolio in any of our current disclosures (in line with the way the capital requirements are set out in BS2A). We propose to keep the same approach, as otherwise the change would have to be made in full and half-year disclosures as well. (For IRB banks, the disclosure is more consistent with the APRA approach, and these are the banks for which it matters most.)

APRA's Attachment C requires disclosure of the capital requirement for interest rate risk in the banking book (IRRBB) for IRB banks, and a breakdown of credit risk into securitisation and other exposures. In the Reserve Bank's capital adequacy framework, IRRBB is part of the capital requirement for market risk, and we do not have separate securitisation capital requirements (in effect, securitised assets remain within on-balance sheet risk-weighted assets).

Both APRA and Basel require the disclosure to show both the current and the previous quarter figures for all of the above. We do not currently require this for off-quarter disclosure statements: <u>we propose to change this to match APRA and Basel, as this provides a useful immediate source of comparison.</u>

<u>(3) Credit risk</u>

Proposed requirement	Comparison: Current local OIC	Comparison: APRA APS 330 Attachment C
Total gross credit exposures, by portfolio (the same portfolios as for capital adequacy).	Not explicitly required: the required interim financial statements include eg a breakdown of net loans and advances by broad counterparty type.	See Table 4(a).
By portfolio: impaired assets (before provisions), total individual credit impairment allowances, total collective credit impairment allowances, assets that are at least 90 day past due but not impaired. (IFRS 9 variant: loss allowance is broken down into (i) loss allowances measured at lifetime expected credit losses, associated with financial assets that are credit-impaired at the reporting date; (ii) all other loss allowances.)	Same as Schedule 8, clause 2. (IFRS 9 variant: based on Schedule 8, clause 2A, but the new proposal is a less granular version of the loss allowances.)	See Table 4(b) and 4(c). (IFRS 9 not addressed).
By portfolio: charges for individual provisions, collective provisions, and net write-offs over the period. (IFRS 9 variant: net charge for changes in (i) loss allowances measured at lifetime expected credit losses, associated with financial assets that are credit-impaired at the reporting date; and (ii) all other loss allowances; and for net write-offs.)	Same as Schedule 8, clause 3. (IFRS 9 variant: the new proposal is a less granular version of loan loss charges set out in Schedule 8, clause 3A.)	See Table 4(b) (third bullet). (IFRS 9 not referred to in APS 330.)

APRA also requires breakdown by type of instrument (e.g. loans; debt securities; non-market related off-balance sheet exposures; OTC derivatives), by portfolio; and requires average balances over the quarter. We do not propose to require this, as this breakdown by both portfolio and type of instrument is not required in full and half-year disclosure statements.

APRA's "general reserve for credit losses" relates to a supervisory requirement that has no equivalent in the New Zealand approach. Our disclosure draws on the accounting concepts of individual and collective impairment provisions, which is consistent with the full and half-year disclosure.

Basel Pillar 3 does not require any off-quarter disclosure of asset quality (except indirectly, via the analysis of IRB banks' risk-weight changes).

(4) Other financial data

Regulatory liquidity ratios.

LVR breakdown – a New Zealand-specific item we propose to keep.

Appendix 8: Consolidated Questions

Question	Content
1	Do you have any comments on the proposed content of the Dashboard? Is there any additional information you would like to see in the Dashboard? What would be the benefits of this information?
2	What would be the benefits and costs of including some sort of metric of large exposures in the Dashboard? Do you have any comments regarding the proposed metrics? Can you suggest another metric you think would better capture this information?
3	Should LVR data be in the Dashboard?
4	What are the marginal costs to banks associated with providing the information we propose to include in the Dashboard? Please include only the marginal costs, beyond the costs associated with producing the proposed private prudential reports covering these items.
5	Should we enable, or even require, qualitative explanations of any of the Dashboard figures, if material changes have taken place?
6	Do you have any comments on the file types proposed for each type of user? Do you think a "database" approach would enhance accessibility of the information? Is there any other format that might enhance the accessibility of the data (for any profile of users)?
7	What, beyond publication, should the Bank do to enhance understanding of the data it publishes? How valuable/what are the benefits of this work in terms of market discipline, or in other areas?
8	How much previous period data would you like to see in the Dashboard?
9	Do you agree with our conclusion that all locally incorporated banks should be required to make disclosures on the Dashboard?
10	Do you agree with the Dashboard being implemented through the Bank publishing information that is privately reported to it under sections 36 and 93? Do you consider that this will create adequate incentives to ensure the quality of the data?
11	Do you have any comments on the options of the Reserve Bank transferring uploaded data across to the Dashboard, or the system automatically transferring uploaded data across to the Dashboard?
12	Do you think that data should be posted on the Dashboard as soon as it is uploaded by individual banks, or that data on all banks should become available on the Dashboard at a set date at the end of each quarter?
13	Do you have any comments on the proposed mechanism for banks to correct data on the Dashboard?
14	Do you agree with the approach of using the definitions in statistical reporting on the Dashboard? If not, do you have a view on what approach should be taken to designing definitions for this purpose?
15	What mechanism for ensuring the quality of the data do you prefer, what are the compliance costs associated with each option, and what would be the implications of each option for how long after the end of each quarter the data could be published?
16	Do you agree with our approach to reconciling disclosure made in the Dashboard with full and half-year disclosure statements? Are there other

Question	Content
	aspects of this issue we should be considering?
17	Do you agree with the proposed content of the off-quarter DS under Option B?
18	Please give your views on what is a realistic publication deadline, both under the current proposal, and in the event that the s82 director sign-off requirement is removed at some point.
19	Please provide any comments on the proposed approach to ensuring timely disclosure of breaches by locally-incorporated banks.
20	If the Basel change is confirmed, do you have any concerns about this updating happening only six-monthly? Otherwise, which of the three options for off-quarter updating do you prefer and why? Can you suggest any other mechanism to achieve sufficiently timely publication of terms of new capital issues?
21	Please provide any comments on the proposed approach to ensuring timely disclosure of breaches by branches.