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Ashley Tomlinson, Jeremy Richardson and Tobias Irrcher
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Reserve Bank of New Zealand
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Email: stocktake@rbnz.govt.nz

Dear Ashley, Jeremy and Tobias,

**Consultation Document: The Dashboard Approach to Quarterly Disclosure**

ASB Bank Limited ("ASB") welcomes the opportunity to submit to the RBNZ on the consultation document, "*The Dashboard Approach to Quarterly Disclosure*".

This submission answers the specific questions posed in the consultation document and sets out ASB's views on the proposed approaches. We support the RBNZ's focus on enhancing the effectiveness of the disclosure statement regime and reducing compliance costs where possible, and acknowledge the role of public disclosure in fostering market discipline. We believe that the Dashboard Approach as outlined in the consultation document will not deliver these outcomes and will inevitably cause market confusion. We contend that the Pillar 3 Approach will provide the right level of information without the operational problems of the Dashboard.

We acknowledge that ASB's submission could be made publically available by being published on the RBNZ's website. ASB does not request confidentiality on any part of this submission.

We have seen the submission of the New Zealand Bankers' Association on the Consultation Document, and support the points made therein.

If you have any queries in relation to this submission, please do not hesitate to contact me.

Yours sincerely

James Pearson
**Regulatory Affairs Manager**
**ASB Bank Limited**
[redacted]

## Key Messages

Following our review of the consultation document and careful consideration of both approaches, we do not support the Dashboard Approach in its current form, and instead strongly recommend the adoption of the Pillar 3 Approach. Our rationale is set out below:

*Dashboard Approach*

(a) The four-week submission deadline is problematic for two main reasons.

1. ASB is a material subsidiary of the Commonwealth Bank of Australia ("CBA") which is listed on the ASX. A key area of concern for us is that a four week submission deadline will result in the market disclosure of potentially price sensitive information in advance of CBA's formal profit announcements. This issue was raised by several banks and discussed extensively during the RBNZ workshops yet does not appear to have been addressed in the design of the Dashboard Approach.
2. A four-week submission deadline is also not a realistic timeframe in which to complete the appropriate due diligence processes that are critical to ensuring the veracity of the Dashboard information before its publication.

In our view, an eight-week deadline after quarter end would alleviate the above concerns. Whilst we acknowledge the RBNZ's preference for the timeliness of the data, we contend that there are disproportionate risks and costs relative to the benefits of publishing it early.

(b) Under the Dashboard Approach profit information will be released to the market twice within a matter of weeks at the half and full year. This will inevitably cause market confusion particularly for retail depositors whom the RBNZ are targeting with the Dashboard, thus undermining the RBNZ's objective of improving market discipline. In addition, the proposed process whereby banks can correct Dashboard data subsequent to publication is undesirable and likely to have unintended consequences such as loss of confidence in the Dashboard data, and potentially raise concerns around the robustness of banks' financial reporting processes.

(c) The publication of financial information without the relevant context in the form of detailed accounting policies and explanations of assumptions and areas where judgment has been exercised, could lead to the misuse and misinterpretation of data. The RBNZ have acknowledged the potential over-simplification of data given the complexity around assessing a bank's financial stability. The absence of meaningful context will exacerbate this issue. Furthermore, a side-by-side comparison of banks' key metrics could lead to inaccurate conclusions being drawn around comparability, given the banks' relative sizes and variability in accounting policies.

*Pillar 3 Approach*

ASB are strongly in favour of the Pillar 3 Approach as it represents the right balance of providing relevant information to the market without the unintended consequences and operational problems of the Dashboard Approach. In addition, the Pillar 3 Approach aligns closely with that of international jurisdictions and is likely to be more readily understood by users.

In the event that the RBNZ adopt this approach, we recommend that the publication deadline be extended from six to eight weeks. This will allow sufficient time for the data to be adequately analysed and reviewed before submission, thereby minimising any adverse consequences of publishing inaccurate data.

*Liquidity Metrics*

ASB are particularly concerned about the RBNZ's proposal to publish liquidity metrics (core funding and mismatch ratios), under either approach. These measures have not been accredited by the RBNZ and banks do not currently apply consistent calculation methodologies such that these ratios are not comparable across banks. The mismatch ratios in particular are a highly technical area and their calculations are not suited to comparability across different sized organisations. In our view, there is a significant risk that uninformed users could make inaccurate assessments of a bank's financial stability thereby introducing the risk of a run on a bank. We believe these unintended consequences far outweigh any perceived benefits of disclosing these ratios and strongly recommend that the RBNZ remove this requirement, regardless of the approach adopted.

## Specific Questions

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?***

   As noted above, our preferred option is the Pillar 3 Approach. However in the event that the Dashboard Approach is adopted, we recommend that it include the statements below. The need for this additional information highlights the deficiencies in the Dashboard Approach and its inherent risks.

   We recommend the inclusion of:
   - a statement that the data should be read in conjunction with the respective banks' full year disclosure statements which contain more detailed financial information including accounting policies and explanatory notes that provide context to the metrics presented in the Dashboard; and
   - a caveat on the limitations of comparability and over-simplification, and the importance of seeking professional advice before reaching conclusions or making economic decisions based on the information presented.

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?***

   We note that the proposed additional metric is different from what is currently required under the Orders in Council, however preparing the proposed metrics will not result in any additional costs. We do however question the usefulness of this information given the proposed exclusions of connected exposures, and certain central governments and bank counterparties.

3. ***Should LVR data be in the Dashboard?***

   We do not have any concerns with disclosing this information. However, for clarity we recommend that banks also disclose the basis on which the LVR information has been prepared.

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.***

   Our concerns about the Dashboard Approach are not related to cost, rather they relate to the four-week deadline and the associated impacts as outlined above, and the interpretation sensitivities.

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

   This question highlights a significant risk of the Dashboard Approach associated with publishing key metrics without meaningful context. If the Dashboard Approach is implemented, we recommend that the provision of qualitative explanations of material changes in Dashboard data be allowed. We submit that banks should have the flexibility to apply judgment as to when and how these explanations are disclosed.

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)?***

   We do not have any concerns with the use of the files types proposed. We are unable to comment on whether the database approach will enhance the accessibility of the information, as we are not aware of any evidence that supports this.

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?***

   We recommend that the RBNZ provide very clear explanations about the nature and purpose of the data, highlighting the importance of context, pre-requisite knowledge and independent analysis. In addition, the RBNZ should emphasise the risks of drawing inappropriate comparisons across banks given their inherent differences.

   We do not see any benefits to market discipline beyond that already provided by existing information contained in disclosure statements.

8. ***How much previous period data would you like to see in the Dashboard?***

   We do not have any concerns with presenting data from three prior quarters and two prior years.

   Given the different balance dates of the banks, we would like clarity on what level of calibration the RBNZ is likely to perform to ensure that certain financial performance metrics can be meaningfully compared across banks. If extensive calibration is necessary, we would like the opportunity to review the information prior to publication to ensure accuracy and consistency, particularly when there have been restatements of historical data.

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

   Our view is that all locally incorporated banks should be required to make the same disclosures.

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?***

    The absence of any specific liability regime for false and misleading disclosures under the Dashboard Approach will not affect the quality of the data provided. As explained in our submission during the Regulatory Stocktake consultation, we have a robust governance framework in place that ensures ongoing compliance with the Bank's internal and external obligations including those associated with our conditions of registration.

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?***

Our preference is that the RBNZ adopt an approach that will minimise the risk of errors and, should the Dashboard Approach be adopted, allow for review of the Dashboard data by banks in advance of publication.

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?***

We reiterate our comments on allowing a realistic timeframe in which to review the data before publication and that our preferred option is the Pillar 3 Approach. However in the event that the Dashboard Approach is adopted, we prefer that data on all banks become available on a set date at the end of each quarter to provide certainty to users as to when the data can be accessed.

13. ***Do you have any comments on the proposed mechanism for banks to correct data on the Dashboard?***

As set out in our key messages, the subsequent correction of published data is not a palatable solution and is likely to damage the reputation of banks and the regime's credibility, in addition to causing confusion amongst users. It is also unclear whose responsibility it is to inform users of the updates, particularly those who have already accessed the original data and relied on it to make certain financial decisions.

An obvious mitigant is to provide a realistic timeframe that allows banks to conduct the appropriate review and governance processes before submitting the data to the RBNZ, and also allow for review the Dashboard data before publishing. In our view, an eight-week deadline after quarter end would facilitate this.

We therefore do not agree with the proposed mechanism to correct data through the uploading of an updated version indicating where the corrections have been made. We contend that the need to have such a mechanism is an obvious indication that the underlying approach is flawed. Rather, a solution such as the Pillar 3 Approach with appropriate governance and audit oversight will ensure that the published data is final and complete, therefore not requiring a mechanism for correction (other than for the restatement of comparatives).

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?***

The information required under both the Dashboard and the Pillar 3 Approaches are predominantly prescribed metrics, prepared in accordance with RBNZ standards, or international accounting standards. Accordingly, there should be consistency in the manner in which these metrics are being prepared such that no further changes to definitions would be required. We do not support the use of statistical reporting definitions if this results in material inconsistencies between Dashboard data and information in the half and full year disclosure statements. We note that certain metrics such as net interest margin and the liquidity ratios are the exceptions and will require common definitions.

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?***

    As set out in our response to Question 13, an eight-week deadline after the end of each quarter is an adequate timeframe to allow for the appropriate review processes to be completed thus ensuring the accuracy of the data being published. This would include the review of the bank's financial statements by the external auditor at the half year, and audit at the full year. At the off-quarter, we would likely continue to have our external auditor conduct certain agreed upon procedures as part of the due diligence process.

    We do not anticipate any additional compliance costs associated with the above processes.

16. ***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?***

    As set out in our response to Question 14, we are not supportive of a divergence between Dashboard data and information in the disclosure statements. Most of the proposed metrics should not warrant a reconciliation given their prescriptive nature and the standards underpinning their preparation. If the RBNZ adopt the Dashboard Approach, we recommend that a clear definition for net interest margin be included in the Dashboard to give clarity to users as to how this metric is derived.

17. ***Do you agree with the proposed content of the off-quarter DS under Option B?***

    Other than the proposed liquidity ratios, we agree with the proposed content of the off-quarter DS under the Pillar 3 Approach.

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.***

    A publication deadline of eight weeks after quarter end date is realistic under the current proposal and also in the event that the s82 director sign-off requirement is removed. As discussed above, ample time is required to review the information before it is published to ensure it is accurate and can be relied on by the public.

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

    At this stage, we prefer the approach outlined in paragraph 139 to ensure the timely disclosure of breaches of conditions of registration. This approach preserves the status quo with quarterly public disclosure of confirmed breaches. The alternative option outlined in paragraphs 135 and 136 (which includes a new obligation for a bank to report privately to the RBNZ any breach or potential breach of a condition as soon as practicable after the bank becomes aware of it) correctly identifies that there may be practical and other issues that need to be considered prior to any implementation, via a consultative process.

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?***

    If the Basel change is confirmed, we do not have concerns with the proposal to reduce the frequency of publishing the terms and conditions of new capital instruments, to six months.

    Of the three options outlined, we prefer the third option with banks being required to submit templated details of any new issue to the RBNZ in a timely fashion, and subsequent publication of those details by the RBNZ. This would ensure that all capital instruments were reported on a consistent basis and that the information was held centrally.

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

    We support the proposed approach of creating a link on the G2 table to direct users to a separate webpage that provides a log of branches' breaches of condition of registration. This solution ensures timely disclosure of critical information.