RESERVE BANK

OF NEW ZEALAND

TE PŪTEA MATUA

Summary of submissions on the Consultation Document: The Dashboard Approach to Quarterly Disclosures

February 2017

PART ONE: BACKGROUND

1. This paper summarises and discusses submissions received on the Reserve Bank's recent consultation document *The Dashboard Approach to Quarterly Disclosures* (the consultation document).

2. The consultation document was a follow-up to the Reserve Bank's Regulatory Stocktake, which was completed in 2015. The objective of the Stocktake was to improve the clarity, consistency and efficiency of prudential requirements applying to banks. A key focus of the Stocktake was the content and frequency of disclosures by banks, particularly the requirement for banks to prepare off-quarter disclosure statements. Initially, this focus on disclosure was mainly concerned with removing unnecessary costs, but when it was found that compliance costs were not unreasonable and there was appetite for quarterly disclosure amongst the wider stakeholder community, greater focus was placed on ways of enhancing market discipline.

3. Considering the role of market discipline and feedback from the stocktake consultations, a key conclusion of the stocktake was that it would not be appropriate to remove the requirement for locally incorporated banks to publish some form of off-quarter information. In this respect, the Stocktake also concluded that six-monthly information on the financial situation of locally incorporated banks is not sufficiently frequent to provide adequate market discipline. However, the Stocktake also noted that the current content and presentation of off-quarter disclosure statements may not support market discipline as effectively as possible.

4. For locally incorporated banks, the consultation document presented two options to improve the effectiveness of banks' disclosures.

5. Option A, the Dashboard concept, was the Bank's strongly preferred option. This would involve the Reserve Bank hosting on its website a Dashboard of data reported by individual locally incorporated banks. The Dashboard would facilitate accessibility and comparability by presenting a side-by-side comparison of all banks in a single place. The content of the Dashboard would be largely drawn from private reporting[1] that banks provide the Reserve Bank for other purposes, which may potentially lead to some efficiencies for banks.

6. Option B would be to narrow the existing content of off-quarter disclosure statements down to capital and asset quality disclosure while simultaneously adding disclosure of summary liquidity metrics. Option B would meet the requirements for off-quarter disclosure in Pillar 3 of the Basel framework. Option B may provide some cost saving to banks from the reduced content but is unlikely to improve market discipline from the status quo since less information would be disclosed. However, any adverse effects on market discipline would be mitigated by focusing on the content that users have indicated is most useful, such as including liquidity metrics, and making certain improvements to the summary tables of bank related data published on the Bank's website.

7. The intention is for either Option A or B to replace the current off-quarter disclosure requirements. The consultation did not include the option of retaining the status quo since the Stocktake consultation already concluded that the Pillar 3 option (Option B) was preferred to the status quo. Under either Option A or Option B locally incorporated banks would also still be required to prepare the current yearly and half-yearly disclosure statements.

[1] The private reporting proposed for inclusion in the Dashboard would be assembled from a number of separate data collections that banks provide to the Reserve Bank for prudential and statistical purposes unrelated to the Dashboard.

8. Another conclusion of the Stocktake was that the requirement for off-quarter disclosures statements should be removed altogether for branches of overseas incorporated banks.

9. The consultation document also considered various consequential matters arising out of these potential changes to disclosure requirements, including options for ensuring that breaches by both locally incorporated banks and branches continue to be publicly disclosed at least at the end of each quarter (as at present) and possibly sooner.

10. We note that there are diverse stakeholders who make use of banks' disclosure statements. Some of these stakeholders, like retail depositors, are more challenging to engage with directly for various reasons. For example, they may not be aware of our work in this area or necessarily appreciate the relevance of some bank disclosures. One aim of the Dashboard is to make the public disclosures by banks more accessible and usable by more stakeholder groups, including retail depositors.

11. In advance of the deadline for submissions on the consultation document, Reserve Bank staff conducted some outreach to promote the dashboard. This outreach was targeted at all stakeholders but special focus was placed on retail depositors. Reserve Bank staff held an on-the-record meeting with journalists in Auckland on 24 November 2016 to discuss the Dashboard concept and consultation document. Reserve Bank staff also met with the Commission for Financial Capability (CFFC), who engage directly with the New Zealand public on a wide range of financial matters and aim to lift the financial capability of all New Zealanders. The CFFC is very supportive of the Dashboard concept and helped promote the Dashboard consultation. Reserve Bank staff also met with the New Zealand Bankers' Association (NZBA) and separately with an academic. Finally, Reserve Bank staff contacted a number of rating agencies, accounting firms and institutional investors with an offer to discuss the Dashboard consultation.

12. In total, 18 submissions were received. Ten submissions were from or on behalf of banks. Eight submissions were from other parties, which included private individuals and academics. We did not receive any submissions from rating agencies, accounting firms, institutional investors or journalists. Appendix A provides a list of all submissions received as part of the Dashboard consultation.

13. The Dashboard is the first consultation subject to the Bank's new policy to publish all submissions, unless individual submitters request that all or part of their submission be withheld. Submissions can be accessed on the Reserve Bank's website.

PART TWO: HIGH LEVEL SUMMARY OF SUBMISSIONS

14. All submitters were supportive of the Reserve Bank's objective to improve the effectiveness of public disclosures by banks. Banks were mostly in favour of adopting Option B (Pillar 3), while other submitters supported the Dashboard option, which was also the Reserve Bank's preferred option. Two banks were more supportive of the Dashboard option, while raising many of the same issues as banks who did not support the Dashboard option.

15. The main issues raised by banks concerning the Dashboard option were the timing of information being published on the Dashboard, the control and ownership of the published data, the comparability of data across banks, and the proposed inclusion of short-term liquidity metrics. It appears that concerns about timing and the control and ownership of data relate mainly to the financial statement information rather than prudential information such as capital and asset quality. Banks' concerns with the Dashboard options were mostly not relevant for Option B, which would retain the

same timing and publication mechanisms that are currently in place for disclosure statements.

16. A general sentiment of banks was that the Dashboard concept of publishing individual bank data from private reporting would lead to additional scrutiny of private reporting (from banks themselves and the Reserve Bank) due to there being more serious consequences of errors in the data - e.g. misinterpretations and loss of confidence in the data. Simultaneously, a number of banks argued that additional scrutiny on their part would not lead to quality improvements in their private reporting.

17. Banks were largely comfortable with the proposed content of the Dashboard but raised concerns about the proposed inclusion of short-term liquidity metrics, in particular mismatch ratios, which can be volatile and could lead to misinterpretation of the data. This concern about short-term liquidity measures is also relevant for Option B which proposes to include the same liquidity metrics as in the Dashboard option. Banks also suggested the inclusion of some addition financial information that could provide useful context to users (including to banks themselves). This suggests that banks see a potential benefit, for benchmarking purposes, from the Dashboard information that may not otherwise be available, complete or credible.

18. In general, banks were fairly consistent on the types of issues raised but in some cases differed in their positions on certain issues. Banks did not expect Option A (the Dashboard) to yield meaningful efficiency gains through the reuse of private reporting as the content for the Dashboard. However, for the most part, banks also do not expect the Dashboard to lead to increases in compliance cost. In some cases, it was not clear whether banks had taken into account the reduction in costs related to the removal of the current off-quarter disclosure statements.

19. Although the status quo of retaining the current off-quarter disclosure statements was not included as an option in the consultation paper, some banks preferred the status quo over Option A or B. These banks suggested that certain improvements to the presentation and timing of the G1 data tables (which provide quarterly data summarising banks' disclosure statements) on the Reserve Bank's website would largely meet the Reserve Bank's objectives for the Dashboard without the need for banks to adjust to new off-quarterly disclosure requirements like those proposed in either Option A or B.

20. Regardless of the option ultimately selected, banks requested further engagement with the Reserve Bank, such as a workshop, to work through the issues raised in their submissions.

21. Other submitters focused largely on the content of the Dashboard rather than operational elements. A key message from these other submitters was the importance of providing the necessary information and context for retail investors and other users to effectively monitor the stability and performance of banks. More details on certain prudential measures and additional financial information were suggested for inclusion in the Dashboard.

22. Banks and other submitters noted the challenge of catering to non-expert users, in particular retail depositors. Submitters indicated that special care would be needed to prepare explanatory information that will enable non-expert users to make effective use of the Dashboard.

PART THREE: KEY ISSUES AND THE RESERVE BANK'S RESPONSES

Key issues regarding Option A (the Dashboard)

23. As noted above, banks were largely opposed to the Dashboard option, while other submitters supported the Dashboard option. This section provides a more detailed description of the feedback received on the Dashboard. This feedback is grouped into 7 broad themes:
    a. Timing of publication
    b. Control and ownership of data publication
    c. Comparability issues
    d. Content
    e. Educating users
    f. Compliance costs
    g. Implementation timeframe

Timing of publication

24. Based on commentary from banks, concerns about publication timing and the control and ownership of data publication seem to be related. The strong desire expressed by banks to retain control and ownership of published data is linked to concerns about the risk of errors being introduced through the data being handled by a third party prior to publication, potential conflicts with other public disclosures, and concerns about director accountability for any errors in public disclosures. These issues, in turn, are triggered to a large extent by the proposed one month publication timeframe for the Dashboard, which compares to two months for current off-quarter and six-monthly disclosure statements and three months for full year disclosure statements.

25. <u>Risk of errors:</u> Some banks noted a shorter publication timeframe for the Dashboard compared to other public disclosures (such as six-monthly and annual disclosure statements and the release of financial statements more generally) could lead to the need for regular data corrections to published Dashboard content, which could undermine confidence in the Dashboard. More frequent reconciliation with full year and six-monthly disclosure statements may also be required. While banks support including a mechanism in the Dashboard to correct errors, the potential need to correct errors frequently was viewed negatively. Banks noted that the increased risk of published data errors will mean increased internal scrutiny of private reporting is required, which could blunt potential efficiency gains from the reuse of private reporting. However, additional scrutiny of private reporting may yield improvements in the quality of private reporting, which is an anticipated benefit of the Dashboard concept (although some banks did not expect that scrutinising their private reporting more closely would lead to quality improvements).

26. <u>Conflict with other public disclosure requirements:</u> Banks noted that some of the proposed Dashboard content (i.e. market sensitive information) would likely trigger NZX and ASX continuous disclosure requirements for some banks, which is not desirable because it creates the need to publish this information on one or both stock exchanges before, or at the same time as the information is published on the Dashboard. It was argued that this might require new processes to be put in place, which could create unnecessary costs and inefficiencies.

27. <u>Director accountability:</u> Banks noted that the release of individual bank information on the Dashboard prior to approval by directors raises the question of compliance with director duties or other statutory obligations. As with the risk of errors, concerns about director liability in this case would likely lead banks to increase internal scrutiny of private reporting.

28. Banks suggested a publication timeframe of 6-8 weeks, rather than the proposed one month, would be required to assure sufficiently robust reporting that will minimise the need for subsequent revisions to published figures and allow for coordination with other public disclosures.

29. Submissions from academics noted the importance of timely bank disclosures and suggest that a one month timeframe is appropriate.

Control and ownership of data publication

30. A number of banks, mainly those who seek offshore funding, argue that it is important for them to retain control of content and ownership of all public disclosures, as is currently the case. In addition to the issues noted in paragraphs 25-27 (i.e. risk of error, conflicts with other disclosures and concerns about director accountability), meeting the needs of off-shore investors and other parties is another reason why some banks do not support the reuse of private reporting to populate the Dashboard. In the absence of director attestations, certain investors may require additional reporting from banks to provide them with confidence in the accuracy and credibility of the Dashboard numbers, which would limit any potential efficiency gains from reusing private reporting to populate the Dashboard (by creating the need to provide information additional to what is included in the Dashboard).

31. In the event that the Reserve Bank chooses to proceed with the Dashboard option, some banks suggested that Dashboard content could be submitted separately from private reporting and some banks requested the ability to review their dashboard content prior to publication. These suggestions would provide banks with the ability to better control the quality of data and minimise the risk of errors being published.

32. Some banks noted that the removal of off-quarter disclosure statements may have consequential implications for Financial Markets Conduct Act disclosure requirements, which cross-refer to disclosure statements in some places.

Comparability issues

33. A number of banks suggested that there are inherent difficulties in comparing banks on the proposed Dashboard metrics. Differences in banks' legal structure, relative size and the variability of accounting practices are some of the factors that would make comparison efforts challenging. This is especially relevant for dual registered banks, where branches of overseas banks are operating alongside locally incorporated banks. In these situations, some banks suggest New Zealand geographic results as the appropriate basis of measurement rather than just the locally incorporated entity. Capital adequacy methodologies will also differ for banks using different approaches to measure credit risk.

34. Possible mitigants suggested by banks to the issues of comparability include providing peer comparison groups, providing appropriate disclaimers on the use of Dashboard data and providing a mechanism for banks to provide qualitative information to contextualise the Dashboard content. However, some banks expressed scepticism that the Dashboard could be designed in a way that allowed banks to provide the type of context that is currently provided in their disclosure statements.

35. Other submitters recognised the challenges of comparing banks but noted that side-by-side comparisons are needed to help judge the relative risk of banks.

Content

36. Liquidity metrics: Most banks noted concern about including short-term liquidity metrics, especially mismatch ratios, in the Dashboard. The concern is that these liquidity metrics can be volatile and that this may lead to misinterpretation of the data. Most banks also noted that the proposed liquidity metrics may not be directly comparable across banks due to differences in bank sizes and the lack of prescriptive guidelines on how the measures are calculated, especially for the mismatch ratios. Some banks suggested that the inclusion of liquidity metrics in the Dashboard should be coordinated with the Reserve Bank’s upcoming review of its liquidity policy (BS13). There is some support among banks to report period highs, lows and averages rather than period end figures, which would help address the noted concerns around the volatility of some liquidity metrics. Some banks recommended excluding liquidity metrics entirely from the Dashboard, while other banks suggested that liquidity comparisons be trialled for some time to determine whether there are inconsistencies or issues that need to be resolved. One submitter noted that liquidity metrics are an important tool to assess the stability of banks.

37. LVR and large exposure metrics: Banks had mixed views on the inclusion of LVR and large exposure measures in the Dashboard, whereas other submitters were supportive of including both types of information.

38. Aside from liquidity metrics, LVR and large exposures, banks and other submitters made a number of specific suggestions regarding the content of the Dashboard. For the most part, banks and other submitters advocate increasing the content of the dashboard to provide additional context and help improve the usefulness of the data. The suggested additional content relates to both financial and prudential content. This suggests that banks and other submitters see a potential benefit in the Dashboard to provide benchmark information that is not otherwise available, complete or credible.

Educating users

39. A number of submitters noted the importance of educating users and increasing their awareness of the importance of bank disclosures, especially in the New Zealand context of no deposit insurance and the Open Bank Resolution (OBR) policy. Retail depositors are an important target group for Dashboard disclosures and some submitters suggested targeting this group through intermediaries such as business journalists and analysts. Aside from educating users, it was noted that clear definitions and other explanatory materials will help all users to better understand and make effective use of bank disclosures.

Compliance costs

40. Banks did not expect Option A (the Dashboard) to yield meaningful efficiency gains through the reuse of private reporting (as the content for the Dashboard) since concerns about the risk of errors and director accountability for public disclosures will likely lead banks to add additional internal scrutiny to elements of their private reporting. Also, for banks that seek off-shore funding, certain investors and other parties may require additional reporting to provide confidence in the accuracy and credibility of dashboard numbers. However, for the most part, banks also do not expect the Dashboard to lead to increases in compliance cost. As noted earlier, in some cases it was not clear whether banks had taken into account the reduction in costs related to the removal of the current off-quarter disclosure statements.

Implementation timeframe

41. Some banks noted that the Dashboard’s dependence on the completion of the Reserve Bank’s balance sheet redevelopment project could impact the Dashboard’s expected implementation date.

Key issues regarding Option B (Pillar 3)

42. Most banks prefer Option B (Pillar 3) to the Dashboard option but noted the same concerns about the proposed inclusion of liquidity metrics that were raised for the Dashboard option. Note that the same liquidity measures are proposed for inclusion in the Dashboard and Option B.

43. Banks prefer Option B because it preserves the publication timing and control and ownership of data of the current off-quarter disclosure statements. This means that banks can retain their existing processes pertaining to attestations to compliance with conditions of registration and disclosing breaches, which is viewed as a benefit. Also, Option B will not conflict with other public disclosures such as NZX or ASX continuous disclosure requirements. Banks also suggest that Option B is better aligned with equivalent jurisdictions (especially Australia) and would therefore be more readily understood by users.

44. Banks suggested that an alternative name than 'Pillar 3' should be considered if option B is selected, to recognise that this option still differs in some respects from the Pillar 3 disclosure applying in Australia.

Retaining the status quo with minor improvements

45. Some banks suggested that certain improvements to the presentation and publication timing of the G1 data tables (which provide quarterly data summarising banks disclosure statements) on the Reserve Bank's website would largely meet the Reserve Banks objectives for the Dashboard without the need for banks to adjust to new off-quarter disclosure requirements like those proposed in either Option A or B. The suggested improvements include presenting the G1 tables in a more accessible location on the website and for banks to provide the information in the G1 tables in template format to the Reserve Bank at the same time that disclosure statements are published, which would remove the need for manual extraction of the data and therefore would enable earlier publication.

Consequential issues from the decision to remove off-quarter disclosures for branches

46. Some banks would prefer to maintain the approach of publishing breaches themselves, while some banks would prefer the Reserve Bank to publish breaches on its website. Other submitters suggested that a central repository was more useful for users to access and monitor information on breaches and capital issuances.

47. One bank noted the importance of consistency in how breaches are reported both for branches and for locally incorporated banks.

48. Some banks requested clarity on the definition of minor and technical breaches.

PART FOUR: PRELIMINARY CONCLUSIONS AND NEXT STEPS

49. After carefully reviewing all feedback, the Reserve Bank considers that the concerns raised about the Dashboard option are important but not irresolvable, and the Dashboard remains the Bank's preferred option to enhance market discipline by increasing the effectiveness of banks' public disclosures. To this end, we propose to explore a variety of potential amendments to the Dashboard proposal to help address some of the issues raised by submitters. In particular:

- Timing of publication on the Dashboard: We propose to give further thought to the deadline for publishing information on the Dashboard. In this respect we note that a 6-8 week deadline for publishing information on the Dashboard may:
  - Address potential issues around director liability and quality control of the data (by providing additional time for banks to run the information through their internal processes); and
  - Address the issues raised around continuous disclosure by providing banks with more time to publish this information on the NZX or ASX before it is published on the Dashboard.

  We also note that an alternative approach may be to have a two-stage process where the data on the Dashboard is first published in preliminary form after one month before being confirmed as finalised after 6-8 weeks. This is an approach used in the US, where the process is well managed and accepted by users.

- Control of information on the Dashboard: We propose to consider whether alternative mechanisms might provide banks with more direct control of the data published on the Dashboard (for example, banks suggested they have the opportunity to check the data before it is published).

- The ability to provide additional context to information on the Dashboard: We propose to look at possible mechanisms for banks to provide additional content to the information provided on the Dashboard (for example, by providing the option for banks to publish a separate commentary document alongside the other information in the Dashboard).

- Approach to publication of liquidity information: We consider that disclosure of liquidity information is essential to allow users to effectively evaluate the financial stability of their banks. We will give further consideration to whether the potential risks associated with disclosure of period-end mismatch ratios could be addressed through the publication of averages and highest and lowest ratios over the reporting period, either in lieu or together with period-end mismatch ratios.

50. Other matters, such as some of the issues raised around comparability, will also be considered in more detail.

51. In regards to the concerns raised by banks around the risk of errors being published from the reuse of private reporting, the Reserve Bank notes its expectation that such private reporting is of sufficient quality and reliability for its intended purpose. At the same time, the reuse of private reporting for public disclosures is expected to provide incentives for banks to increase the quality and reliability of their private reporting, which is a desirable outcome. Also, independently from the Dashboard initiative, the Reserve Bank has invested significantly in recent years to improve the quality and completeness of a significant portion of the private reporting that would provide content for the Dashboard. This includes, for example, the balance sheet redevelopment project and the development of related prudential 'satellite' data collections covering topics like capital adequacy and large credit exposures.

52. Feedback from some banks has indicated that efficiency gains from the reuse of private reporting (a design element of the Dashboard option) may be limited or possibly that costs could increase moderately in some cases. While possible efficiency gains from the reuse of private reporting may be more uncertain than expected, the Reserve Bank notes that the main focus of the Dashboard option is on enhancing market discipline through more effective disclosure (although compliance costs, and ensuring that the benefits of disclosure requirements outweigh the costs remain important considerations). Aside from possible cost implications for banks, more effective disclosures can also be expected to reduce costs for users who wish to compare the relative stability of banks by making disclosures more accessible and comparable. It is also worth noting that the earlier decision coming from the

Regulatory Stocktake to remove off-quarter disclosures for branches of overseas banks improves the overall efficiency of the Reserve Bank's disclosure regime solely by reducing compliance costs for branches.

53. A number of submitters, including banks and private citizens, have argued that many retail depositors may not have the ability or interest to assess the financial stability and prudential soundness of a bank. The Reserve Bank is aware of the challenges in targeting a very diverse user group like retail depositors on financial stability issues but is also interested in promoting additional market discipline from retail depositors because they provide a large portion of bank funding. The main focus of the Dashboard concept is to enhance market discipline by improving the accessibility, comparability and timeliness of bank disclosure. These improvements can be expected to encourage more widespread analysis of bank disclosures by all users, including retail depositors.[2] Also, retail depositors can be expected to benefit indirectly from improved disclosures (via the Dashboard) through additional and/or improved analysis by market commentators and intermediaries.

54. To further support the market discipline benefits of more effective bank disclosure, the Reserve Bank plans to engage with retail depositors to help raise public awareness and understanding of financial stability issues as part of the implementation of the Dashboard.

55. The Reserve Bank would like to thank submitters for their detailed and constructive feedback on the consultation document. In the coming months, we plan to hold workshops with banks and hold further discussions with other interested stakeholders to discuss possible refinements to the dashboard concept and the specific issues noted in paragraph 49.

56. The plan to further engage with stakeholders to refine the dashboard concept will mean that the implementation timeline outlined in the Dashboard consultation document will need to be extended somewhat. Currently, we expect to announce our final policy decision in mid-2017 and expect implementation of any changes some months after that. Depending on the nature of the final policy decision, it may be appropriate to take a phased approach to implementation, possibly including a trial period. The extended timeline for the Dashboard initiative means that there is less dependence on the timing of the balance sheet redevelopment project, which is progressing as expected and independently from the Dashboard initiative.

[2] As a web-based platform, the Dashboard will enable the Reserve Bank to better track the usage of disclosure data to see trends over time and help us monitor how bank disclosures are being used.

Appendix A: List of all Dashboard consultation submissions

1. Aaron Taitoko
2. ANZ
3. ASB
4. Banking Ombudsman Scheme
5. Bank of Baroda
6. BNZ
7. Co-op Bank
8. David Tripe
9. Earl Cleveland
10. HSBC
11. Keith Muir
12. Kiwibank
13. Martien Lubberink and David Tripe (joint submission)
14. Murray Jackson
15. NZBA
16. Paul Kelway
17. SBS Bank
18. Westpac