



# **Follow-up Consultation: Updates to registered bank disclosure statements arising from Stocktake**

**November 2017**

**The Reserve Bank invites submissions on this follow-up consultation by 5pm on Friday 12 January 2018.**

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.

## **Introduction**

Disclosure statement requirements for registered banks are imposed by Orders in Council (OICs) made under section 81 of the Reserve Bank of New Zealand Act 1989 (“the Act”). There are currently two OICs in force, namely the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (“the local OIC”), and the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (“the branch OIC”).

The Reserve Bank carried out the Regulatory Stocktake over 2014-15, which among other things reviewed the current registered bank disclosure regime. A particular question was whether the benefits of requiring banks to publish off-quarter disclosure statements continued to justify the costs for banks. The conclusions of the Stocktake were published in December 2015 (see [stocktake feedback statement](#)). The main decision on disclosure was that for locally-incorporated banks, some form of quarterly disclosure should be retained, but that the possibility of an alternative “Dashboard” approach should be explored, to replace off-quarter disclosure statements required by OICs made under section 81 of the Act. It was also concluded that branches of overseas banks should no longer have to provide any form of off-quarter disclosure. A number of other minor improvements to the disclosure requirements were also agreed.

Following further development of the Dashboard approach, including a consultation paper, the Reserve Bank has recently confirmed that the Dashboard approach will go ahead (see [Dashboard approach to quarterly disclosure](#)), and implementation work is under way. The Dashboard aims to improve the timeliness, accessibility and comparability of information on banks’ financial and prudential condition, by providing interested parties with an electronic form of reporting that provides a timely side-by-side comparison of banks based on key metrics. This reporting will be done on a quarterly basis and hosted on the Reserve Bank’s website, and the data will be drawn from reporting forms that banks already have to submit to the Reserve Bank, rather than being published separately under the section 81 disclosure regime.

The purpose of this consultation is to seek feedback on proposed changes to both the local OIC and the branch OIC that the Reserve Bank intends to recommend to the Minister. The key, time-critical change is to remove the requirement for locally-incorporated banks to publish off-quarter disclosure statements, to take effect from the same date that quarterly data on those banks starts to be published on the Dashboard.

Other changes proposed include the removal of off-quarter disclosure by branches, some of the other changes previously confirmed in the Stocktake feedback statement, and a small number of changes to better align the information that banks will continue to publish at full and half year with the quarterly Dashboard information. Further changes of both of these types will be made in due course, as time and resources permit.

Red-lined copies of both the OICs have been published with this consultation document to show the detail of the proposed changes. The next section describes each of the changes and the rationale for them. The section after that sets out the next steps after the consultation closes.

## **Summary of proposed changes to bank disclosure Orders in Council**

The proposed changes are shown by red-lining the current Reserve Bank “working copies” of the two OICs.

These working copies already incorporate amendments previously made to each of the Principal Orders. There have been three amending orders to each of the two Principal Orders since they were made in February 2014. The red-lining only shows the proposed new changes to the Principal Orders.

The red-lined changes, once consulted on and agreed, would need to be implemented by two new Amending Orders, one for the local OIC and one for the branch OIC. The Reserve Bank will recommend to the Minister that the necessary Amending Orders be made.

Where we propose to delete a whole clause or Schedule from one of the OICs, in the revised working copy the clause or Schedule title and number will be retained, but the text will be replaced with “[*Repealed*]”. On the other hand, where any subclause within a clause is deleted, other subclauses within the same clause are renumbered and no marker is kept for the deleted subclause.

The following summarises the purposes of the proposed changes that are shown with red-lining, divided into those changes that apply equally to the local and branch OICs, those that only apply to the local OIC, and those that only apply to the branch OIC.

#### *Proposed changes to both local and branch OICs*

Changes have been made throughout both OICs to remove the requirement to publish off-quarter disclosure statements, and to remove all other references to off-quarter disclosure. The nature of these changes should be self-explanatory. As confirmed in the Stocktake, branch disclosure will in future consist only of full-year and half-year disclosure statements. Branches will not be included in the Dashboard (with the partial exception of some “New Zealand geography” information for the dual-registered subsidiaries).

The requirement to publish a maturity analysis of assets has been removed, as consulted on and agreed in the Stocktake. (In both the local and branch OIC, see changes to “Additional information on liquidity risk”, in clause 4 of Schedule 4 and in clause 6 of Schedule 5).

Banks are required to include their credit rating(s) in their disclosure statements. This requirement has been revised so that instead of referring to the somewhat ambiguous “current rating”, it now clarifies that this is the rating that is in force on the date when the directors sign the disclosure statement. This is as consulted on in the Stocktake. (If instead the credit rating at the balance date was disclosed, any change in that rating before the signing date would normally need to be disclosed in any case, as a material subsequent event.) In the local OIC, see Schedule 2, clause 14 and Schedule 3, clause 10, and in the branch OIC, see Schedule 2, clause 16 and Schedule 3, clause 12.

The following technical changes are marked, to reflect the current position in legislation and financial reporting standards:

- the definition of “fair value” is now by reference to NZ IFRS 13 rather than NZ IAS 32, since NZ IFRS 13 provides the principle source for the definition in financial reporting standards. (A definition of NZ IFRS 13 also needs to be added as a result.)
- the requirements for full year financial statements is changed to refer only to the Financial Markets Conduct Act 2013 (since that Act sets out all the requirements applying to FMC reporting entities), not also to the Financial Reporting Act 2013. The reference to differential reporting regimes has been removed since that does not apply to any FMC reporting entity.

These technical changes were not consulted on in the Stocktake, but the need for them has been brought to our attention recently.

Q1: Do you have any comments on the proposed drafting changes to the Orders in Council to implement these disclosure changes for both locally-incorporated banks and overseas branches?

Changes to local OIC only

A requirement to disclose regulatory liquidity ratios has been added to the local OIC. This is to align with the liquidity ratios that will be included in the Dashboard, so it comprises average figures for the one-week and one-month mismatch ratios and for the core funding ratios. For consistency, we propose that in its half-year disclosure statement, a bank will publish the averages of daily figures over the first quarter and over the second quarter of the bank's financial year respectively, and in the full-year disclosure statement, averages over the third and fourth quarter. (These requirements have been added to the existing "additional information on liquidity risk" – see local OIC, Schedule 4, clause 4, and Schedule 5, clause 6.)

Q2: Do you have any comments either on the nature of the proposed disclosure of regulatory liquidity ratios, or on the drafting changes to the local Order in Council to implement the proposed new disclosure?

The Dashboard will include some summary metrics on concentrated credit exposures. The version of these for the initial roll-out has been developed in discussion with banks, and includes a few changes in the coverage and measurement of concentrated credit exposures. We therefore propose to make a few make corresponding changes to the local OIC, to maintain as far as possible a consistent approach between the Dashboard and the full and half year DSs:

- We propose to use Common Equity Tier 1 capital as the denominator for the concentration measures, rather than equity. In our view, using CET1 provides better risk measures: it is a more suitable measure of the banking group's resources available to absorb losses, as it incorporates the regulatory adjustments that are deemed appropriate for assessing capital adequacy. The necessary changes can be seen red-lined in Schedule 13 of the local OIC, clauses 3, 4 and 5. The definition of Common Equity Tier 1 in clause 4 of the local OIC ("Interpretation") also needs to be updated as shown, so that it automatically refers to the definition applying to standardised or IRB banks as applicable (there is at least one difference between the two versions of the definition).
- We propose to clarify that the exclusion for any highly-rated exposure to the central government of a country is intended to apply also to the central bank of that country. This is consistent with their treatment in the capital adequacy framework. (See change to Schedule 13, clause 2.)
- We propose also to extend the exclusion for sovereigns to certain supranational organisations and quasi-sovereign entities. The rating threshold for the exclusion will be the same as for sovereigns. The purpose of excluding these is the same as for sovereigns, namely that the exposures are typically highly-rated and in the form of readily marketable securities, so that including them does not help identify the real risk of loss from concentrated exposures. Pinning down precise definitions of

supranationals and quasi-sovereigns is challenging. We therefore propose to define each of the two terms by both (1) cross-referring to a specific list of entities, and (2) providing a general description of the term, to act as a constraint on the entities that may be added to the list. The list would be an administrative list maintained by the Reserve Bank on its website to help third parties interpret the disclosure requirement, and would be accessible from the same place on the website where the working copies of the OICs are kept. The current version of the intended list is included in the Reserve Bank document “Procedures and definitions for completion of the quarterly Large Exposures and Connected Exposures prudential satellite templates”, which provides the reporting instructions and definitions for the new large exposures reporting form (see the Annex to this document). The Reserve Bank would ensure that a single list is maintained for both purposes, so that the information published on concentrated credit exposures would be on a consistent basis between the OIC disclosures and the Dashboard. We think that providing a specific list is the best way to avoid definitional uncertainty. The changes needed in the local OIC are to add definitions of “supranational” and “quasi-sovereign agency” to the interpretation section (clause 4), and to add the new subclause 2(d) shown in red-lining to Schedule 13.

- We propose that all exposures to banks should be included, without any credit rating cut-off. This is in line with the approach developed for the Dashboard, and reflects the greater recognition since the GFC of the importance of contagion risk, even for highly-rated interbank exposures. This is done by deleting the current subclause 2(d) to Schedule 13. For consistency with the existing breakdown of non-bank large exposures by credit rating, we propose that there should be a new separate bucket for the number of bank exposures in the “A- or better” range (this is the range which is not currently disclosed). This is reflected in the new inserted subclauses 3(2)(a) and 4(2)(a) in Schedule 13.
- Finally, we propose to clarify that for the purpose of this large exposures disclosure, “bank” refers to not just New Zealand-registered banks, but also all equivalent entities overseas. This is done by adding a new definition of “bank” to clause 4 (“interpretation”). The terms “overseas bank” and “registered bank” used in this definition are both defined in the Act, so do not need to be explicitly defined in the OIC.

Q3: Do you have any comments on the proposed changes to the disclosure of concentrated credit exposures, whether on the content of the changes or in the way the changes are drafted in the local Order in Council?

Under the internal models approach to capital adequacy, the Reserve Bank has never considered either an application for accreditation to use the Foundation Internal Ratings Based (FIRB) approach to credit risk modelling, or an application to use a Qualifying Revolving Retail Exposure (QRRE) model. The Reserve Bank therefore confirmed<sup>1</sup> in 2015 that it would no longer make either approach available. Accordingly, we propose to remove references in the local OIC to both approaches. (See Schedule 11, clauses 3 and 7, and Schedule 17, clauses 8 and 10.) (The FIRB and QRRE material will also be removed in due course from the Reserve Bank document BS2B, “Capital Adequacy Framework (Internal models based approach)”, as part of the Handbook Restructuring exercise.)

<sup>1</sup> See [response to submissions reverse mortgages qrre firb](#).

Q4: Do you have any comments on the proposed drafting changes to remove the references to FIRB and QRRE?

*Changes to branch OIC only*

We propose to remove the disclosure by branches of concentrated credit exposures to individual counterparties. This is as consulted on in the Stocktake consultation paper, and confirmed in the Feedback Statement. The red-lining shows Schedule 10 deleted.

We propose a technical correction to the breakdown of mortgage lending by loan-to-value-ratio (LVR), which the branch OIC requires to be disclosed for lending across the whole of the branch's New Zealand financial reporting group. When an overseas bank is dual-registered with both a branch and a subsidiary registered in New Zealand, this LVR breakdown is required in the disclosure statements of both the subsidiary and the branch. The branch's DS will include all mortgage lending in the subsidiary as well as any in the branch. The change is intended to ensure that the LVR breakdown is disclosed using the same methodology for both the branch and subsidiary of a dual-registered bank. This deals with the current problem that a dual-registered internal modelling bank is required to publish the LVR breakdown on both an IRB and a standardised basis, which is likely to be confusing for readers.

Q5: Do you have any comments on the proposed drafting changes to the branch Order in Council to implement these disclosure changes for branches only?

**Process and next steps**

The comments period closes on 12 January 2018. We welcome comments raising any concerns about the drafting of the proposed changes. We want to be sure that the changes succeed in implementing the policy decisions that lie behind them. As noted, most of the proposed changes reflect policy decisions previously taken.

The Dashboard is planned to take effect from the 31 March 2018 reporting date. It is important that the changes proposed here take effect by the same date, as otherwise any locally-incorporated bank with an off-quarter at end-March will have to publish an off-quarter disclosure statement at the same time as the new Dashboard information for that date will also be available.

To meet that date, the amending Orders will need to be published in the Gazette by the end of February, and the Reserve Bank's recommendation to the Minister and supporting papers will need to be ready for the Cabinet order-making process by the end of January. Those papers will include a Regulatory Impact Statement (RIS), which will assess the combined impact of the changes in disclosure proposed here (which are mainly reductions), and the new more timely, comparable and automated disclosure being brought in by the Dashboard.

If this timetable is met, the Reserve Bank will publish revised working copies of the OICs on its website at the end of March, incorporating the attached red-lined changes. This is subject to any refinements in light of comments received on these proposed changes, to the Minister accepting the final recommendations, and to the implementation timetable for the Dashboard itself being met. If the Dashboard go-live date is delayed for any reason, the commencement date of the Amending Order for the local OIC would be deferred also, but the changes to the branch OIC could still go ahead on the planned date.

### **Future changes to disclosure OICs**

The changes proposed here do not preclude further worthwhile changes to the disclosure OICs being made as soon as feasible, subject to competing demands on Reserve Bank resources, and some changes being dependent on progress in other areas.

We are committed to implementing in due course all of the changes, or considering the potential changes, that were confirmed in the Stocktake feedback statement. Some of the changes were agreed in principle but need further analysis to see how they should be implemented. Others were raised as possible changes, subject to further work.

We have heard from several banks that they would prefer as much consistency as possible between figures presented via the Dashboard and figures published in their continuing full and half year disclosure statements. We agree that this is a desirable aim, to reduce the scope for confusion among users, and to minimise the need for any reconciliations between the two to be included in disclosure statements.

A few of the changes above are to contribute to consistency with the Dashboard. Further changes that may be desirable to this end include revising the borrower categories into which loans are broken down for the disclosure of asset quality. This change (among others) would need further analysis and consultation, and would also likely benefit from some experience with the live Dashboard.

## ANNEX

[Appendix 2 from draft definitions for Large Exposures reporting template]

### **Sovereign Abroad**

A supranational entity is formed by two or more central governments to promote economic development for the member countries. Quasi-sovereign institutions include national or state government-level issuers other than the sovereign national government. Please classify supranational and quasi sovereign entities as 'Non-resident - Sovereign abroad' in the Industry classification column in the Large credit exposures templates. The list below, which includes supranational and quasi-sovereign issuers of Kauri bond debt in New Zealand, is not complete or exhaustive. Updates will be made where changes are observed.

#### ***Supranationals***

African Development Bank  
 Asian Development Bank  
 CAF Development Bank of Latin America  
 Bank for International Settlements  
 Caribbean Development Bank  
 Council of Europe Development Bank  
 EUROFIMA  
 European Bank for Reconstruction and Development  
 European Central Bank  
 European Community  
 European Investment Bank  
 European Investment Fund  
 Inter-American Development Bank  
 International Bank for Reconstruction And Development (World Bank)  
 International Finance Corporation  
 International Finance Facility for Immunisation  
 International Monetary Fund  
 Islamic Development Bank  
 Nordic Investment Bank

#### ***Quasi-sovereign agencies***

BNG Bank  
 Export Development Canada  
 Export-Import Bank of Korea  
 FMS Wertmanagement  
 KfW Bankengruppe  
 Kommunalbanken Norway  
 Kommuninvest  
 Landeskreditbank Baden-Wuerttemberg - Foerderbank (L-Bank)  
 Landwirtschaftliche Rentenbank  
 Municipality Finance PLC (Kuntarahoitus OYJ)  
 N.V. Bank Nederlandse Gemeenten  
 Korea Development Bank  
 NRW.BANK  
 NWB Bank  
 Oesterreichische Kontrollbank  
 Queensland Treasury Corporation  
 Swedish Export Credit Corporation