

22 November 2016

Grant Spencer
Deputy Governor
Reserve Bank of New Zealand
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Wellington, 6140

Gabriel Makhoulf
Secretary and Chief Executive
The Treasury
1 The Terrace
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Dear Grant and Gabriel

THE REVIEW OF THE OUTSOURCING POLICY FOR REGISTERED BANKS

ASB wishes to reiterate the concerns outlined in the joint bank submission in relation to the Reserve Bank review of the BS11 outsourcing policy dated 12 August 2016.

We have seen the letter from David Hisco, Anthony Healy and David McLean to you dated 18 November 2016.

We remain of the view that any revision to the outsourcing policy should recognise that outsourcing of any activity is legitimate if risks can be managed appropriately, and be flexible and enabling rather than restrictive. The policy objectives for outsourcing should be clearly identified, and focused on ensuring the sound risk management of outsourcing arrangements for banks and the capacity to maintain critical banking services and functions.

We consider that the proposed approach does not strike the right balance in this regard, and that further work is required to ensure that this policy does not impose significant establishment and additional ongoing operational compliance costs that are not proportionate to the remoteness of the risks concerning RBNZ, and which could be addressed effectively through means other than wholesale restrictions or extensive back-up requirements for the sourcing of services.

Further, we note the real difficulty in providing accurate and comparable cost estimates of the implementation of the draft BS11 policy. It is difficult to provide an accurate dollar figure estimate of cost without certainty as to which functions are considered critical, which functions should be included in a parental separation plan, and what the

transition order and timing requirements would be for each of these functions upon parental separation. Despite this lack of certainty, we consider that this would be a material cost both in terms of outright expense and focus for our organisation. If RBNZ considers it would be useful, we would be happy to participate in a costing exercise against an agreed framework to provide more background for the RBNZ in its decision-making process.

On this basis, and in light of the upcoming release of the International Monetary Fund's Financial Sector Assessment Programme Report, we would support delaying the finalisation of any policy decision to allow for further engagement and robust discussion on these issues.

Yours sincerely

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Barbara Chapman
Managing Director and Chief Executive Officer
ASB Bank Limited

Copy to: Karen Scott-Howman, Chief Executive, New Zealand Bankers' Association