12 August 2016

JOINT BANK SUBMISSION: REVISED POLICY PROPOSALS FOR THE REVIEW OF THE OUTSOURCING POLICY FOR REGISTERED BANKS

We welcome the opportunity to submit on the *Consultation paper: Revised policy proposals for the review of the outsourcing policy for registered banks* (the Consultation Paper).

This is a joint submission made collectively by ANZ Bank New Zealand Limited, ASB Bank Limited, Bank of New Zealand and Westpac New Zealand Limited (collectively "we" or "the banks"), being four of the five large banks currently in scope for the proposed revised BS11 outsourcing policy (i.e. locally incorporated banks whose liabilities exceed $10 billion, net of amounts due to related parties).

Each contributor to this submission has also made its own independent submission. In addition, we have seen the submission of the New Zealand Bankers' Association and collectively endorse the points therein. To assist the Reserve Bank's consideration of our submission, Geof Mortlock of Mortlock Consultants Limited was commissioned to comment on international principles on bank resolution and the treatment of critical shared services, and to provide commentary on the Consultation Paper (the Mortlock Paper). A copy of the Mortlock Paper is attached to this submission. The Mortlock Paper sets out our preferred approach to the outsourcing policy review. We strongly encourage consideration of this material at a policy level prior to finalising any position.

To the extent that our preferred approach is not accepted, we have also answered the questions posed in the Consultation Paper and make some other general comments on the policy as proposed to make it operationally practicable.

In view of the wider trans-Tasman bank resolution planning issues that the outsourcing proposals entail, and the important responsibilities of the Minister of Finance and Treasury in bank resolution, we have copied this submission to the Treasury and the Minister.

We would welcome further engagement with the Reserve Bank of New Zealand (RBNZ) on the revised policy and would also support a discussion of wider trans-Tasman resolution planning issues with the RBNZ and Treasury jointly.

Kind regards

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Executive Summary

PART I

Part I of this submission outlines our preferred approach to the outsourcing policy review. Details and further information can be found in the Mortlock Paper attached to this submission. This part of the submission makes the following key points:

1. The revised outsourcing policy needs to 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 per se 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.
2. The RBNZ should separately articulate resolution objectives that it will apply to all of its resolution-related policies which should guide the resolution-related elements of outsourcing requirements (as applied to the large banks and realistically to any bank required to be prepositioned for Open Bank Resolution).
3. A comprehensive and coordinated trans-Tasman approach to resolution planning should be undertaken to ensure that appropriate crisis management responses are identified. Importantly, we believe that a trans-Tasman approach to resolution planning should include both Single Point of Entry (SPE) resolution, in which the group is kept intact, and Multiple Points of Entry (MPE) resolution, in which separation of the New Zealand subsidiaries could be considered. The objective should be to achieve the form of resolution that best meets financial stability objectives in both Australia and New Zealand, while minimising taxpayer risk in both countries, compliance costs and adverse efficiency outcomes.
4. We submit that the outsourcing proposals should be placed on hold until a sensible trans-Tasman resolution approach has been progressed by the Australian and New Zealand authorities, with the involvement of the Treasury departments in both countries. Deferral of the outsourcing arrangements would also enable important lessons to be drawn from the forthcoming International Monetary Fund (IMF) Financial Sector Assessment Program (FSAP) mission, which will doubtless provide important insights into the trans-Tasman resolution arrangements.

PART II

If the suggestions outlined in Part I and the Mortlock Paper are not accepted, we consider that <u>at a minimum</u> the changes set out in Part II of this submission must be implemented to make the policy as proposed in the Consultation Paper operationally practicable. To this effect we make the following comments:

1. The banks support the retained outcomes-focus of the revised policy, and suggest only minor technical amendments to the scope of some outcomes.
2. The scope of the definition of basic banking services needs to reflect the nature of services that would be fundamental for the continued operation of a local, domestic bank post-separation. Foreign currency accounts, trade finance and letters of credit should not be included in this definition.
3. Given the broad definition of outsourcing and lack of a materiality threshold, it is essential that the white list adequately captures all functions which either are not considered outsourcing or are not related to the outcomes of the BS11 policy. In particular, the white list must address the treatment of software in order to prevent the non-objection process becoming unnecessarily burdensome.
4. We agree with the need to have robust back-up capabilities for certain functions. However, clarity is needed as to what will constitute an 'integral function', and an indication of what might be expected in order to achieve both robustness and sustainability of integral functions should be included. We have proposed amendments to provide this clarity.

5. In order to ensure the efficient operation of the revised policy, engagement with the RBNZ at the appropriate stage of the outsourcing process will be important.
6. A more practical approach is required in relation to the entry of functions into the compendium of outsourced functions to ensure that inadvertent non-compliance is avoided if there are to be new conditions of registration relating to the compendium process.
7. Despite welcome changes in the transitional timeframe, in the banks' view the revisions to the proposed policies are as, if not more, complex (in the context of a lack of certainty as to what is in scope) than the proposals contained in the original consultation paper in August 2015, and a pragmatic approach to implementation will be needed.
8. If the RBNZ does not accept the recommendation in Part I, to put the outsourcing proposals on hold until a sensible trans-Tasman resolution planning arrangements have been agreed with the Australian resolution authorities, and with respective Treasury involvement, then we request that a revised set of proposals be released for a further round of consultation. It would be unacceptable for the RBNZ to issue a final exposure draft of the outsourcing policy without a further round of consultation, given the complexity of the issues and the potential costs involved.

PART I

Part I outlines our preferred approach to the outsourcing policy review, and is supplemented in detail by the attached Mortlock Paper.

The banks fully support the RBNZ's objectives of seeking to ensure bank resolution occurs in a manner that maintains the stability of the financial system, maintains continuity of critical functions, minimises taxpayer risk and minimises moral hazard. The RBNZ's policy proposals for a revised BS11 policy appear however to be focussed on achieving these objectives via a single mechanism, that is, by ensuring a New Zealand subsidiary can immediately and permanently separate from their Australian parent with minimal disruption. Other options (involving keeping the group intact) are available, which we submit are preferable for the stability of the New Zealand financial system, the New Zealand taxpayer, and the efficiency and cost structures of the banking system, and should be pursued in a closely coordinated resolution planning process with the Australian authorities, and with the close involvement of the New Zealand Treasury.

The banks submit that the RBNZ objectives would be better served via enhanced trans-Tasman resolution planning and collaboration between RBNZ, New Zealand Treasury, Australian Prudential Regulation Authority (APRA), the Australian Treasury and the banks. Parties should seek to secure a mechanism that would ensure the continuity of critical shared services and functions in a crisis event and plan for a number of resolution options. This planning should include both SPE (i.e. keeping the group intact and recapitalising at the parent level) and MPE (i.e. separating entities in a group and recapitalising at individual entity level) resolution options. In the latter case, the focus should be on policies that facilitate continuity of critical shared services, with scope for separability, rather than requiring effective separation in advance.

Planning for an unexpected and immediate separation as per the current consultation is particularly problematic as it creates costs far in excess of those that would be needed to meet a sensible set of resolution planning arrangements, is high risk and is very disruptive. Ultimately it is unlikely to be the best option for New Zealand. Separation will almost certainly involve a higher amount of recapitalisation to make a stand-alone bank viable (with potentially greater contingent liabilities and/or funding costs for the taxpayer), will entail greater risk of market disruption, and will create a significant risk of contagion to other banks. As such, separation should be considered as a last resort and occur in a coordinated, controlled and supported manner, at an appropriate time.

In addition, the banks consider that the RBNZ's proposals appear out of step with resolution planning for critical shared services of major jurisdictions globally, such as the UK and USA. They also fall short of meeting internationally accepted cross-border collaboration recommendations such as those made by the Financial Stability Board (FSB) in its *Key Attributes of Effective Resolution Regimes for Financial Institutions* (Key Attributes). The Key Attributes explicitly advocate that systemically significant banks with cross-border operations should have resolution plans that are developed collaboratively between the home and host authorities via Crisis Management Groups. In jurisdictions such as the UK, EU and USA, critical shared services provided by parent entities or other entities in a parent group are not generally required to be in-sourced in a subsidiary or subject to the kind of back-up arrangements being proposed by the RBNZ. Rather, continuity of critical shared services is achieved through other means, such as robust legal documentation, prohibition on termination on the grounds of entry into resolution and a group structure which provides for robust governance, funding and risk management of entities that provide critical shared services.

The IMF FSAP of New Zealand this year is likely to assess and comment on the risks associated with a primary focus on separation and the absence of effective trans-Tasman coordination. It seems likely that the IMF will recommend a closely coordinated approach to cross-border resolution between New Zealand and Australia, in line with the Key Attributes and prevailing best practice. We therefore suggest that the

outsourcing proposals be paused until the outcome of the FSAP is known and until a coordinated trans-Tasman approach can be established.

Since 2006 there have been a number of attempts to address the continuation of the provision of services that have been outsourced by New Zealand banks to their Australian parents or related entities. These include the Trans-Tasman Cooperation provisions in the Reserve Bank of New Zealand Act 1989, Australia's Banking Act 1959, the Australian Prudential Regulation Authority Act 1998 and the Memorandum of Cooperation on trans-Tasman Bank Distress Management (MoC) entered into in 2010 between the member agencies of the Australian Council of Financial Regulators (Australian Treasury, APRA, RBA and ASIC) and the New Zealand agencies responsible for responding to financial system distress (NZ Treasury and RBNZ). The Trans-Tasman Cooperation provisions and the MoC envisage any distress situations, and outsourcing in particular, affecting any Trans-Tasman banking group will be dealt with in a consultative and coordinated way, in a manner that avoids, where practicable, instability in the financial systems of Australia and New Zealand. The MoC specifically contemplates that the Australian and New Zealand authorities will work together in the development of cross-border resolution plans.

Although it seems that there is a clear intention that outsourcing arrangements not be disrupted by a financial distress event affecting an Australian parent, the language of the Trans-Tasman Cooperation provisions and the MoC do not contain any specific binding provisions that would ensure (beyond all doubt) that outsourced services would continue to be provided notwithstanding a financial distress event affecting an Australian parent.

The lack of specific certainty is frustrating. However, there is currently another opportunity to address cooperation on trans-Tasman bank distress management. In December 2014, the Final Report of Australia's Financial System Inquiry recommended that work be completed on the processes for strengthening crisis management (see Recommendation 5). This recommendation was accepted by the Australian government in October 2015. APRA and the Australian Treasury are currently working on regulatory settings that will provide regulators with clear powers in the event of the failure of a prudentially regulated financial entity. We submit that this provides the New Zealand Treasury, RBNZ and the New Zealand banks with an opportunity to make submissions that the regulator's crisis management toolkit in Australia should include a provision that obliges APRA and a statutory manager appointed by APRA to ensure that services that have been outsourced by a New Zealand subsidiary to its Australian parent or related entity will continue to be supplied within the terms of the service level agreement in the event of the financial distress of the parent or related entity. The details of such an arrangement would appropriately be addressed in cross-border resolution plans developed jointly by the New Zealand and Australian authorities.

PART II

As noted above, to the extent that the content of the Mortlock Paper and our submission in Part I is not considered a palatable approach by the RBNZ, we consider that at a minimum the changes below are implemented to make the policy as proposed in the Consultation Paper operationally practicable.

Comments as to costs will be addressed in banks' individual submissions where possible.

Objectives and outcomes

Q1: Do you agree that the modifications to outcomes (a) to (e) provide clarification?

Generally, yes. Banks support the redrafted BS11 outcomes (a) to (e) proposed in paragraph 47 of the Consultation Paper. We submit it is crucial that the policy is approached in a manner that ensures banks retain the ability to deliver outcomes in a prudent, effective, and efficient manner. The outcomes focused approach is the correct approach, but should be viewed through a lens of functions which are critical to a statutory manager's ability to discharge their obligations following a separation or crisis event.

Outcome (d)

The banks suggests that outcome (d) is amended as follows below, to reflect that 'basic banking services' will be defined in the policy and does not include all credit lines (see our response to Question 2):

> "The bank is able to provide basic banking services to existing customers, including but not limited to, liquidity ~~(both access to deposits and to credit lines)~~ and account activity reporting, first value day after the day of failure and thereafter."

In relation to this definition, we query the intended scope of "account reporting activity". If this is to be included in outcome (d), we suggest a definition be included in the policy. We interpret account reporting activity to mean account transaction history (e.g. the display of debits and credits, and payee/payor details).

To avoid these definitional issues, the banks submit an alternative approach would be for the outcome to just directly cross-reference the definition of basic banking services in a separate section of the policy as follows:

> "The bank is able to provide basic banking services (as defined at section X of the [banking standard]) to existing customers, first value day after the day of failure and thereafter."

Outcome (a)

We query the inclusion of "other time critical obligations" in outcome (a). As we understand it, daily settlement is intended to include the following components:

- *clearing*: the time a payment/transaction that results in a payment enters a system in preparation for settlement, i.e. within a bank;
- *settlement*: the exchange of value between two parties (i.e. within a bank, or between banks); and
- *payment*: customers' ability to issue payment instructions to the bank. The bank must be able to receive these instructions in order to facilitate the transaction through the clearing and settlement phases.

Banks consider this to be a comprehensive view of daily settlement obligations, and submit that the reference to "other time critical obligations" be removed.

Definition of basic banking services

Q2: Have we included the right services and scope? Are there any other services that should be included in the proposed list of basic banking services, such as trade finance and letters of credit? If appropriate, please provide the value/volume information on these services that are currently outstanding for your bank.

Generally, yes. However, the banks note that the service offering would be a significantly different proposition post-separation from a parent than prior to separation. Our view is that the post-separation bank would be more akin to the operations of a smaller, domestic-focused bank, rather than a full service financial institution. It is important to recognise in the policy that business as usual will look very different for a post-separation bank by recognising that some degree of customer attrition will occur from the pre-separation bank. This will be especially relevant in the institutional and corporate space, as these customers are more likely to move on to another bank with global full service capability. Such attrition will be largely beyond the control of the separated bank.

To clarify the banks' position, banks view the definition of 'basic banking services' as relevant to a separation plan. That is, it covers the services that the bank must be in a position to continue to offer indefinitely to existing customers (and potentially new customers) post separation from the parent entity. Therefore we submit that the following should not form part of the services and scope that constitutes basic banking (discussed further below):

- Foreign currency transactional and savings accounts and term deposits ("foreign currency accounts"); and
- Trade finance and letters of credit ("trade products").

Foreign currency accounts

Banks do not consider continuing to offer foreign currency accounts after separation as a key 'basic banking service'. Banks acknowledge they would need to continue to manage these products after separation for existing customers.

We consider 'foreign currency accounts' to be foreign currency transactional accounts (i.e. FX account used for day to day transactions), foreign savings accounts (i.e. on-call funds in an account that earns interest/bonus interest for money that is in that account) and foreign currency term deposits (i.e. funds locked for a set term that earn interest over that term e.g. FX version of 30 day NZD Term Deposit).

We do not consider these to be 'basic banking services' on an ongoing basis because:

- Although these accounts are currently available from banks, they are not a part of banks' core service offering and are not actively promoted by banks to retail customer segments. The volume of foreign currency accounts taken up at New Zealand banks is low compared to international trends. Our industry estimate is that these amount to less than [redacted] of total NZD accounts on issue, and approximately [redacted] all NZD term deposits. On this basis, we do not consider that these can appropriately be considered a basic banking service.
- The end to end offering of a foreign currency product is complex and does not sit within the concept of a 'basic banking service'.

Trade Finance and Letters of Credit

The banks do not support the inclusion of trade finance or letters of credit in the definition of basic banking services. The banks would not necessarily offer such facilities on an ongoing basis to existing or new customers post-separation. Whether to continue to offer these products is a decision that should be left to the management of the new standalone New Zealand entity (or a statutory manager if applicable),

rather than being made mandatory under the definition of 'basic banking services'. We understand that the RBNZ's intention is for trade finance and letters of credit to be carried on for existing customers only and the banks accept that they must be in a position to continue to manage (e.g. close out) the positions of existing customers who have trade finance and letters of credit facilities pre-approved or outstanding. We submit that this needs to be clearly articulated in the final policy.

SWIFT Traffic Watch shows for the past 12 months that the total market for Letters of Credit is [redacted] Of the [redacted] Letters of Credit:

- a total market volume of [redacted] for Import Letters of Credit with approximately [redacted] in the market using this; and
- a total market volume of [redacted] or Export Letters of Credit with approximately [redacted] in the market using this.

The total number of customers [redacted] using Import/Export Letters of Credit is a small percentage in comparison to the general population and number of businesses in New Zealand. Relative to total industry activity, we consider that Import/Export Letters of Credit are not a material product in the market.

We estimate that in the market there are [redacted] who have Trade Finance Loans totalling approximately [redacted]. This represents a very small percentage from both a balance sheet value and number of customers basis. Our experience is also that many customers choose to use NZD working capital facilities rather than Trade Finance Loan facilities which we consider evidences that there are alternative solutions to Trade Finance Loans. In addition to the large banks, there are other registered banks that can and have been providing Trade Finance to customers, namely HSBC, Citibank, JP Morgan Chase, ICBC and more. On the basis that there are a small number of customers, alternative solutions and providers for trade finance we accordingly submit that trade products should not be in scope of 'basic banking services'.

Cash in the definition of basic banking service

Finally, to both future proof the definition and to reflect that banks can provide cash either over the counter in branch or via ATMs, the banks suggest that the reference to the provision of cash should be made more generic. Alternately, the reference to ATMs should clarify which services the ATM needs to retain (e.g. ongoing access to $NZD cash) as smart ATMs have a far greater capability than simply the withdrawal of cash.

Functions that are generally not captured by the outsourcing policy ("white list")

Q3: Are there any other services that should be included in the above lists, but have not yet been captured?

Materiality

As previously submitted, the best approach to excluding functions which are not relevant to the RBNZ's regulatory outcomes is a clearly articulated materiality threshold for outsourced functions. A materiality threshold would ensure that outsourcings which are clearly outside the scope of the BS11 policy would not require a short form application for non-objection from the RBNZ, avoiding the unnecessary consumption of time and resources from both banks and the RBNZ.

On the basis that the RBNZ continues to retain a very broad definition of outsourcing and rules out the possibility of an explicit materiality threshold, the white list becomes fundamental as the means of avoiding a regulatory gridlock. The draft white list requires considerable work to ensure that the

application and non-objection process is not required for out of scope functions, discussed in more detail below.

White list

We submit there are three categories of function which should be captured through a combination of the definition of outsourcing and the white list. These are:

1. Functions which are not outsourcing;
2. Outsourced functions which are not relevant for BS11 purposes; and
3. Outsourced functions that require a short form application for BS11 purposes.

1. Functions which are not outsourcing

As noted at paragraph 73 of the Consultation Paper, a number of the functions on the draft white list "should never be expected to be included in the definition of outsourcing" but have been included for completeness. We consider that this conflates the definition of outsourcing and confuses the issue. A refinement to the outsourcing definition would help to remove these superfluous functions.

The proposed outsourcing definition is very broad with no link to the provision of financial services or the financial stability of a bank. We submit that outsourcing should be tied more specifically to the fundamental business activities of a bank (i.e. the business of carrying on a bank), rather than a general reference to activities that could be undertaken by a bank. Obvious functions that are clearly not fundamental business activities of a bank include uniforms, general office products and catering services, amongst others.

Further comfort can be taken from the condition of banks' registration that they not engage in non-financial activities that in aggregate are material relative to its total activities, which restricts banks from engaging in such non-financial activities anyway (and noting further that there is unlikely to ever be a financial incentive to do so).

We also submit that a payments switch is not something that is a fundamental banking activity, and should not be captured by the outsourcing policy even though in theory, it is something that a bank could do. For example, a bank could invest in building a switch that processes card payments. However, given a card switch is expensive and technically difficult, it is highly unlikely that it would. The fact that no bank in New Zealand has operated its own switch since the 1980s (and in that instance it was on a limited bilateral basis) should provide comfort that this is not within the normal operations of a bank in New Zealand. Therefore, banks rely on appropriate specialised external providers for this function (currently either Paymark Limited or Verifone NZ). The cards eco-system background and the way in which it operates is also an important factor to consider. Banks consider that a card scheme is also not something that is a fundamental banking activity, as there are robust and efficient operating models best suited to the New Zealand payments eco-system which is seamlessly connected to the global card switches Visa and MasterCard.

In the banks' view, we purchase payments switching and card schemes services from these providers because they have specialist capability in their respective fields, maintaining global best practice in terms of operational resiliency and efficiency, and at a reasonable cost. A centralised service such as this brings efficiency and commonality for all, and banks are not in a position to match such offerings without bringing greater, risk cost and unintended consequences to global financial systems. Associated contractual terms and conditions, systems upgrades, rules and standards raise the bar to a level that a single bank could not compete with.

Finally, banks are not qualified and do not have the capability, to run a multilateral clearing and settlement system. Continuous Linked Settlement (CLS), for example, which is global by nature, multilaterally nets the settlement of 18 currencies. It is not conceivable how any NZ bank, would replicate

this service to a level that would provide ongoing stability or continuity of any sort. Therefore, if the same logic is applied and CLS services are an accepted white list service then there are a range of other service providers who also fit this category. For example; banks believe RBNZ's Exchange Settlement Account System (ESAS) is a service, along with NZClear, which banks would not be in a position to provide. RBNZ's ability to provide real-time gross settlement clearing and settlement services, within ESAS, brings robust expertise, centralised insight and benefit to the NZ financial system. Accordingly, banks believe the efficiency and risk profile associated with the current provider far outweighs any thought of using an alternative provider, let alone consider bringing such functionality in house. This provision of this service, can be applied equally in the context of all global markets and central banks and is not considered to be outsourced, even though it is material to the outcomes of the policy.

We have updated the white list on the above basis. Appendix 1 sets out our suggested changes and gives examples of each type of whitelisted function.

2. Outsourced functions which are not relevant for BS11 purposes

Given the apparent limited RBNZ appetite for a materiality clause, it is important that the white list acts as an effective gate to prevent an inefficient application process. To this end we have included a number of new items on the white list and refined and elaborated on others (see Appendix 1). The addition of software and other white list changes to capture client funds management and insurance functions are detailed further below.

Software

The key omission from the draft white list is a category to capture software utilised by a bank in its operation. Given the varying ownership, licensing, use and customisation possibilities in this space, there are a range of structures which should be considered. This is a fast developing area, so any definition needs to be flexible enough to be open to emerging technologies. The only likely effective method of defining software for the purposes of BS11 is via the software's ownership/licensing structure, rather than by its content or function, given the apparent limited appetite for a materiality clause. To this end, the provision of software can be categorised as follows:

Type of Ownership/Licensing	Features
1. Proprietary Software	100% NZ bank-owned
2. Software licensed in perpetuity (un-customised)	Licensed "Off the shelf" Provider has no termination rights in crisis event
3. Software licensed in perpetuity (customised)	Licensed Has customised "add-on" or other alteration Provider has no termination rights in crisis event
4. Licensed software (un-customised)	Licensed "Off the shelf" Provider could have termination rights in crisis event
5. Licensed software (customised)	Licensed Has customised "add-on" or other alteration Provider could have termination rights in crisis event

We consider that category 1 above (proprietary software) is not an outsourced function, as it is software that a bank may have produced itself or purchased, and owns outright with no risk of termination in a crisis event. Categories 2 and 3 are similar in that they are licensed in perpetuity without termination rights, and are equally immovable in a crisis event. We envisage categories 4 and 5 will require a short form application to the RBNZ for non-objection under the new BS11 policy (unless there are certain mitigating factors, outlined in points 2, 4, and 5 below).

There will be a range of factors which may mitigate the risk of a particular software provision structure outlined above. These include where the software is hosted (i.e. in which jurisdiction), who the licensor of the software is (i.e. parent or otherwise), a bank's capacity to service the software in-house, the ease of transition to another provider in the event of a software or provider failure, and the extent of back-up arrangements.

Given the vast number of software licenses that a bank might have, we submit that BS11 should pre-empt a number of the arrangements that would require a short form application, and provide the RBNZ comfort that these arrangements will be adequately accounted for in a crisis event.

Therefore, for the purpose of a definition for the white list, we propose the following categories of software should be added to the white list:

1. Proprietary software or software licensed in perpetuity with no termination rights that is hosted on bank[1] systems, and there is no reliance on a third party for support or maintenance (other than for routine standard support offering from the software vendor);
2. Licensed software (term or subscription) that is hosted on the bank's systems, is licensed to the bank directly, there is no reliance on a third party for support or maintenance (other than for routine standard support offering from the software vendor), the provider does not have termination rights in a crisis event, and either:
    a. could be transitioned to an alternate provider; or
    b. has escrow arrangements for source code.
3. Use of cloud services to the extent it exclusively relates to one or more white listed functions;
4. Licensed software to the extent it exclusively relates to one or more white listed functions;
5. Support or maintenance of either proprietary or licenced software to the extent it exclusively relates to one or more white listed functions.

In our view, this list accurately distinguishes the types of software provision structures that are either out of scope for BS11, or provide comfort that sufficient backup capabilities have been factored into the licensing structure to mitigate any outsourcing risk.

Cloud

The banks understand that RBNZ's position on the use of cloud services is that these should be assessed as outsourcing, in accordance with the BS11 policy. The banks note that this approach, including some of the treatments that would be required under the RBNZ's proposed outsourcing policy, is significantly out of step with international precedent, including recently released guidelines from the Monetary Authority of Singapore (MAS). These guidelines clearly set out that cloud is permissible provided appropriate protections applicable to any kind of outsourcing arrangements are in place[2]. In addition, these guidelines clarify that MAS does not require prior notification of cloud services outsourcing. Notification requirements only apply where there is an adverse development, such as a prolonged service failure or a cybersecurity incident, and the bank must notify MAS as soon as possible. To alleviate the burden of the current outsourcing policy proposed by RBNZ, the banks therefore believe there is a reasonable case to include 'cloud services related exclusively to white listed functions' as noted above.

However, the banks do believe that RBNZ could go further, given that applying robust and sustainable arrangements to cloud services contracted via the banks' parents is unnecessary duplication and does not serve to achieve the benefits associated with the use of cloud. Therefore, the banks submit that the RBNZ's new outsourcing policy should include specific guidelines related to the use of cloud services,

[1] Note that for the purpose of these definitions, we consider "bank" to refer to the New Zealand subsidiary bank only. Software provided under license (or otherwise) by a parent bank would be required to be treated in the same manner as third party software providers.

[2] Monetary Authority of Singapore, Guidelines on Outsourcing, 27 July 2016 http://www.mas.gov.sg/~/media/MAS/Regulations%20and%20Financial%20Stability/Regulatory%20and%20Supervisory%20Framework/Risk%20Management/Outsourcing%20Guidelines%20Jul%202016.pdf

setting out explicitly what is required of banks. We submit that the approach taken by MAS should provide sufficient guidance for RBNZ to determine an appropriate policy position in relation to banks' use of cloud services.

Funds Management and Insurance Functions and Discretionary Investment Management Services

The major banks source insurance and managed funds products from multiple providers for their customers. These will typically include a combination of related party entities and third party providers.

All of the major banks have separate entities established to develop and manage life insurance and managed fund offerings. These entities will all be licensed under either the Insurance (Prudential Supervision) Act or the Financial Markets Conduct Act (FMCA) (and in the case of managed funds subject to their own oversight of outsourcing under the licensing regime). Without these licenses, we note that registered banks are not legally able to provide these services and would therefore be caught by that provision of the white list. All the major banks are required under the Capital Adequacy framework to make disclosure that insurance and managed fund products are not issued, underwritten or guaranteed by the registered bank. Such disclosures make it clear that these are not core banking products, and not part of the basic banking services definition.

We note that discrete investment advisory services which are client-related (including functions which relate solely to the provision of Discretionary Investment Management Services as defined in section 392 of the FMCA), whether they ultimately relate to an investment decision or not, will not fall within the definition of a basic banking service and should therefore be factored into the white list.

We have made suggestions for additions to the white list in Appendix 1 to reflect these changes.

3. Outsourced functions that require a short form application for BS11 purposes

We understand the RBNZ will update the white list on an ongoing basis as certain functions are determined to be not relevant to BS11. We submit that the details of the practical operation of the white list should be addressed in the final policy. In particular, the timeframes for updating should be specified, and we submit a publicly available page should be available on the RBNZ website to provide a flexible forum to maintain the living white list. We consider that when a function has been determined as non-BS11, that function should be added to the white list within 20 working days to provide certainty for banks that the white list as published can be relied upon.

Prohibited functions and the appropriateness and robustness of back-up capability

Q4: Do you agree that having robust back-up arrangements would be able to meet the objectives of the outsourcing policy?

Yes, although further clarity on what constitutes an 'integral function' is necessary, in order for banks to fully identify and quantify the impact of the proposals as to what constitutes a 'robust and sustainable back up arrangement', and to identify systems and applications affected by this proposal. This will be especially relevant in relation to retrospective application of the revised BS11 policy to existing outsourced functions that are considered 'integral'.

Key requirements to achieve a 'robust and sustainable arrangement' as listed at paragraph 82 of the Consultation Paper, supported by banks are:

- That there is no permanent loss of transactions;
- The contingency arrangement is sustainable;
- Testing (generally, but not as proposed in the consultation paper); and
- Audit is conducted.

Note, we understand that the requirement that 'there is no capability to lose transactions' relates to loss on a permanent basis, i.e. that they are not recoverable within a reasonable timeframe. We acknowledge that the RBNZ's concern here is that the bank is able to meet the required outcome deliverables, however we consider that some allowance needs to be made for the practical realities of deploying contingency arrangements in a crisis scenario which requires a certain degree of operational flexibility. Provided the bank is able to meet the required outcomes within the requisite timeframes, it should also be recognised that a *de minimus* degree of disruption is realistic in a crisis but that this will not hinder financial stability nor materially impact a bank's financial position.

The banks do not support the following requirements, however and suggest amendments to make these requirements both practical and appropriate:

- <u>That the switch over would take no longer than 60 minutes.</u>
  The switch over time required will be relative to the criticality and complexity of the system. In general, banks believe that an appropriate timeframe for the switch over to occur is the first value day after the day of failure as this approach provides flexibility to ensure both the alternative system is operational at the time the bank must begin to operate on a stand-alone basis and allows the bank to set the order in which functions must be switched to appropriately. However, we recognise the need to tie recovery time to the outcomes of both this policy and the BS17 Open Bank Resolution policy. On this basis, banks believe that each system should be able to be switched to in a timeframe that reflects the criticality of the contingency arrangements delivery against the BS11 and OBR outcomes (assessed on a case by case basis).

  Each assessment should consider the role that the particular function would play in a crisis event, and have switch-over timeframes built around that. For example, the general ledger function is run on a batch basis following the close of business. It would be unnecessary to require the general ledger (GL) to be fully stood-up within 60 minutes. This function should require a backup which allows a statutory manager applying OBR to know the bank's material financial position in order to determine what haircut is to be applied overnight, and to have an operational GL in time for start of business the next day. Based on bilateral discussions, we understand that some degree of scalability in this respect is the intention of the policy, but this needs to be clearly articulated in the final policy.

- <u>External audit is conducted every 2 years</u>
  The banks submit that the audit should be conducted by internal audit not external audit. This is because external auditors focus on auditing financial matters, not operational matters. The functioning of the 'robust and sustainable' arrangement and the separation plan is an operational matter akin to BCP (which would not be audited by external audit). Additionally, an appropriate timeframe for this audit to occur is every 4 years, rather than 2. Internal audit is conducted within an accepted BCP review cycle, being at least every four years. A 2 year requirement would add significantly to compliance costs in having to pay for this to be done for each integral function's 'robust and sustainable' arrangement.

- <u>Testing is conducted a monthly basis where the backup arrangement involves swap over between primary and secondary systems</u>
  Monthly testing is impractical for large complex systems, and introduces significant and unnecessary operational and technology risks. Further, we note that annual testing of crisis management arrangements is considered the global standard.[3] We consider annual testing of robust and sustainable arrangements would be sufficient. These functions must also be able to be tested in a quarantined "test" environment, rather than in a real time live environment, as per the generally accepted standards for contingency arrangement testing. There are significant

[3] For example, APRA Prudential Standard CPS 232 (Business Continuity Management) required that the regulated institution "must review and test its BCP at least annually, or more frequently if there are material changes to business operations, to ensure that the BCP can meet the BCM objectives."

risks and functional and contractual deterrents that mean the requirement to live test all systems is commercially unworkable. However, the function can be simulated in a test environment which is a representation replicated environment of a live environment. If the RBNZ has reason to believe that testing in a test environment will prove inadequate, the banks would welcome the opportunity to understand the rationale for this view and to discuss this further.

- That the 'robust and sustainable' arrangement cannot be provided by a related party if the system is outsourced
  A carve out for related parties under the control of the registered bank should be made explicit in this requirement, rather than referring generally to 'related party' which would capture parents, subsidiaries and other related party models. Banks consider this approach is inconsistent with the requirement that a bank has direct ownership and control over the standby system. There are many 'related party' ownership models (joint venture, majority shareholder, co-operative etc.) that banks could use to ensure they have direct ownership and control of a 'robust and sustainable' arrangement but that does not result in the outcome that all systems or back up arrangements for a system must be outsourced to a third party. This restriction as posed would preclude banks from determining what model best suited the situation and achieved the required outcomes. Provided the ownership and control test is met, we consider that banks should be free to determine what ownership model they pursue in individual cases.

Banks therefore suggest that the final requirements for a 'robust and sustainable arrangement' are defined as follows:

- That there is no permanent loss of transactions;
- The arrangement is sustainable (defined as being fully functional from the time of 'switch over' (see fourth bullet point) and thereafter);
- Internal audit is conducted every 4 years ;
- That the 'switch over' is completed by the first value day after the day of failure or as soon as is reasonably practicable to ensure that the outcomes can be met by the first value day after the day of failure and thereafter;
- Testing is conducted annually using a test environment; and
- The 'robust and sustainable' arrangement cannot be provided by the parent if the system is outsourced to the parent

Q5: Does your bank already have back-up capability for all key systems?

Banks will respond individually to this question.

Q6: If yes, would your arrangements meet the requirements outlined above? If not, what would the costs be of upgrading your systems?

Banks will respond individually to this question.

Q7: If your bank does not have back-up capability for the general ledger and/or SWIFT capability what would the cost be to develop this capability?

Banks will respond individually to this question.

Q8: Are there any features that are not on the list above that should be added?

No.

Engagement process

Q9: How many outsourcing proposals do you anticipate filing annually? Please note that this engagement process would not capture existing outsourcing arrangements that are covered by the transitional path to compliance, it would only cover new outsourcing proposals.

The banks believe that both they and the RBNZ will become more efficient in processing notifications as they gain experience with the process and there is greater certainty in anticipating the RBNZ's interpretations and requirements. This will ensure that over time the types of arrangements that require more detailed applications will become clearer to the banks, while the non-material functions can be confirmed as out of scope and added to the white list. However, there will always be novel proposals and an iterative process in these situations is inevitable. We note that up front, there is likely to be significant inefficiencies in this process and anything that can be done at this stage to minimise these should be considered.

If prior notification is going to be required under the policy, it is important that the notification process does not frustrate or delay contractual negotiations with suppliers. The banks should be able to seek non-objection from the RBNZ at an appropriate stage in the contractual negotiation process so that any RBNZ requirements can be taken onto account before negotiations are finally concluded. We recognise the RBNZ concern that seeking non-objection too early in the process could mean details may not be finalised and could change significantly after non-objection is obtained. We consider that the appropriate point in time for application is when the bank has a clear intention to proceed with the outsourcing arrangement, has a proposal in place and high level internal approval subject to RBNZ non-objection, but is still in negotiation with the supplier. Such a proposal could include (as necessary) relevant internal risk stakeholder approval, legal and practical control considerations, and an articulation of possible business continuity planning proposals. At the point of application, the RBNZ would therefore have comfort that the bank had turned its mind to such arrangements, but leave room for the commercial details and legal negotiations to be agreed between the parties. The RBNZ could then approve an application subject to the agreed legal and practical controls being included. Suppliers will be extremely frustrated if they believe that they have negotiated the contract into its final form, only to be told that a bank seeks to re-open negotiations because of unanticipated conditions being imposed by the regulator. Therefore, we submit that the policy should be clarified to specifically allow for applications to be made with internal approval that is subject to RBNZ non-objection.

The proposed 20 working day timeframe for RBNZ to consider notifications of outsourcing arrangements represents quite a long period in the context of the commercial negotiation of the majority of these agreements. Therefore, it is important that the RBNZ is adequately resourced, including with personnel with relevant technical knowledge and skill, to consider notifications within the proposed 20 working day timeframe. Failure to do so could result in material disruption to the banks' commercial negotiations with third parties and delays may result in material increases to budgeted project costs and delays in getting new projects and services to market. The banks note that the RBNZ has given assurances that it is already adequately resourced.

Compendium

Q10: Please provide comment on whether the draft condition of registration would work as envisaged?

Banks do not consider the keeping of a compendium of outsourced functions to be of equivalent regulatory status as our capital ratio requirements, and continue to be of the view that this does not warrant the creation of a new condition of registration. We understand that RBNZ consider this requirement to be central to the new BS11 policy and we acknowledge the RBNZ's efforts in trying to address the banks' concerns by amending the original proposals regarding the compendium requirement. However, we consider that the revised proposals give rise to new issues and should be considered further, as outlined below.

Requirement that compendium be updated within 5 working days

The five working day timeframe for the compendium to be updated is regarded as impractical and is likely to give rise to inadvertent non-compliance. Although controls will be put in place to ensure that contracts are entered into the compendium as soon as practicable after execution by all parties, sufficient time must be allowed for this to occur. In large organisations where dozens, and in some cases, hundreds of arrangements may be entered into over the course of a year (especially noting comments above on the lack of a materiality threshold), it is not practical for all of these arrangements to be entered into a compendium within 5 working days. Although the RBNZ has amended its proposals so that it now requires that a bank have "appropriate processes" in place, it is not clear what the situation would be if a bank discovers that all but a few of its contracts, or even one contract, have not made it on to the compendium within the required time. In these situations is it expected that the directors would be able to attest that the bank had appropriate processes in place? We understand that the RBNZ does not intend this to be considered a breach of the condition, but this should be made clear in the policy.

The proposed timeframe is also inconsistent with the RBNZ's Regulatory Stocktake 2015 policy decision in relation to the future approach for drafting conditions of registration. That review found that conditions of registration should drafted in such a manner to reduce the risk that genuinely trivial matters result in technical breaches. We consider the proposed draft condition introduces elements that result in purely technical breaches.

Further to this, it is not clear why such a brief period is regarded as necessary, particularly as the RBNZ would have had pre-notification of all relevant arrangements. The risk of a bank not complying with the timeframe requirement seems disproportionate to any risk to the financial system of a contract not making it to the compendium within the specified time. If this requirement is necessary, we propose as an alternative that the timeframe be extended to 20 working days.

We also have a more minor drafting point. It should be clear that the specified time period only applies once a bank is aware that the arrangements have been entered into. Where a bank has signed a contract and is waiting for the other party to sign, it may be that "the arrangements have been entered into" before the other party has sent the bank a copy of the signed contract.

Requirement for quarterly review of the compendium by the bank's internal audit function

The RBNZ is also proposing that a bank's processes must include a "quarterly review of the compendium by the bank's internal audit function to ensure it is up to date".

We submit that this requirement is a disproportionate use of internal audit resources and a disproportionate regulatory response. The requirement does not appear to reflect the risk associated with the obligation. Again, the RBNZ will have been notified of the proposed outsourcing arrangements in advance of the contract being entered into.

When considering the totality of the conditions of registration with which banks must currently comply, it is not clear why the RBNZ considers that the compendium requirement warrants this heightened scrutiny. The requirement would appear to be of little or no benefit to New Zealand's financial system stability and will divert valuable internal audit resources from other tasks.

Directors' attestations are a fundamental plank in the RBNZ's supervisory regime. They provide an assurance that a bank is complying with all its conditions of registration. We do not consider the existing director attestation process to be inadequate in any respect, either for the existing conditions of registration nor the proposed new compendium condition. We regard the extra level of assurance that would be provided by an internal audit review of the maintenance of that compendium as being unnecessary and out of alignment with the sign-off process for compliance with other conditions of registration.

On the transitional path

Q11: Do you agree that the revisions to the proposed policy would reduce the potential complexities of complying with the new policy?

No. In the banks' view, the revisions to the proposed policies are potentially more complex than the proposals contained in the original consultation paper in August 2015. This is largely because:

- Very few changes, if any, were made to critical policy components between the August consultation paper and this consultation. This includes, for example, the definition of outsourcing, the lack of inclusion of a materiality threshold and the regulator engagement process (see our responses to questions three and nine above).
- Clarification as to the impact of other proposed policy components, such as the outcomes and compendium condition of registration, and the granularity and regularity of the wording and requirements, raises new concerns (see our response to questions one and ten above).
- If the white list is not amended to reflect our comments in question three above, the volume of outsourcing requests tabled with the RBNZ for consideration will be of a significant magnitude, with banks forced to seek non-objection for immaterial business-as-usual contracts
- The introduction of the requirement to have 'robust and sustainable' arrangements as posed by the RBNZ in the Consultation Paper in place for 'integral functions' will require banks to run a direct replica (either in New Zealand or via a third party) of an integral function that is outsourced to the parent. This approach will still be extremely costly for banks and will introduce a substantial lost opportunity cost to the detriment of NZ customers as forward looking technological innovation and technology upgrade projects will be subordinated to the BS11 'robust and sustainable' arrangement compliance project. Additionally, several of the requirements proposed are significantly onerous in themselves, for example, the monthly 'live' environment testing (see our response to question four above).

Q12: Do you agree with the new proposed transitional period?

Yes, to the extent that the suggestions made in this submission are reflected in the exposure draft. Banks welcome the revised transitional timeframe proposed by the RBNZ. However, depending on what the final requirements for 'robust and sustainable' arrangements are and what the 'integral' functions are that must meet these requirements, the banks suggest that it would be appropriate for RBNZ to retain discretion to provide a longer transitional timeframe should that be necessary for a particular function.

In the context of potential competition between banks for scarce IT resources, IT contract specialists, and finance, risk and payment specialists required to execute these sorts of arrangements it may be that more time is required for certain functions or by particular banks. Despite best endeavours to become compliant, some circumstances (such as a delay in a large technology build) may require flexibility in terms of the transitional compliance timeframes.

Q13: Please provide your estimate of the costs and benefits of the revised policy options, taking account of the extended transitional path to compliance.

Banks will respond individually to this question.

Other comments

Opportunity cost that would be forgone in investing in innovation and new technology

We accept that there is a case for outsourcing to be regulated. However, the revised outsourcing policy needs to recognise that outsourcing of any activity is legitimate if risks can be managed appropriately. It will hamper the ability of banks to be innovative and more efficient if they cannot take advantage of

changing technologies and increasing specialisation by providers. The policy should therefore be flexible and enabling rather than restrictive. If banks cannot take advantage of emerging disruptive technologies there is a risk that unregulated providers will be able to do so, thereby exposing the financial system to greater risk than if a registered bank provided that service.

The revised policy needs to be future proof. More and more activity is being outsourced to new ecosystems in different locations and multiple jurisdictions. There is a risk that the revised policy might become a barrier to innovation, efficiency and risk mitigation, if it prevents banks from taking advantage of emerging opportunities. Information security against denial of service attacks represents a current example of where outsourcing is reducing a more immediate and probable risk.

Each year the banks invest substantial amounts in technical innovation and building the resilience of the services they offer to their customers. This is necessary to meet customer demands and counter emerging risks, including anti-money laundering, counter terrorism and cyber security. Complying with the proposed revised policy is likely to require a substantial increase in the banks' capital investment and operational costs. Despite the changes in the Consultation Paper from the 2015 consultation, there will still be significant cost in executing 'robust and sustainable' arrangements for integral bank functions. We consider the cost of this policy to be disproportionate to the risk it seeks to address. We also consider that such a stringent requirement to obtain non-objection from the RBNZ for so many functions is likely to inhibit banks' ability to respond to market changes in an agile way, lessening our ability to compete with each other in the way that we do currently, to the benefit of the New Zealand financial system.

There is also a risk that there will be intensive competition for limited technical and specialist resource if all the banks are attempting to implement their paths to compliance at the same time. This could prejudice the ability of the banks to meet the path to compliance timeframes proposed by the Consultation Paper as well as the ability of the banks to roll out other technology projects.

What might constitute a trigger event for invoking a separation plan?

The Consultation Paper provides no guidance as to what might constitute a trigger event for invoking a separation plan. The banks submit that the policy should make clear that the trigger for invoking a separation plan requires an imminent and highly probable threat by a parent bank or its statutory manager/administrator to discontinue the supply of services that materially impact the ability of the New Zealand subsidiary to provide basic banking services or meet the other required outcomes under the proposed revised policy.

This will be an important factor in the banks' planning process. The fact that an Australian parent is in statutory management/administration will not automatically lead to services being denied to a New Zealand subsidiary. In many instances the Australian parent will have a co-dependency on the same systems and infrastructure for its own local and trans-Tasman customers and ongoing operations and, therefore, they will be kept running by the Australian parent bank's statutory manager/administrator. This removes any practical incentive on the parent bank to discontinue the provision of the outsourced services to the NZ subsidiary.

As the services will be provided under a robust arms' length commercial supply contract between the entities there will be both an enforceable legal obligation and a commercial incentive on a parent company's statutory manager/administrator to continue to provide the services.

The banks consider that there is no rational foreseeable reason for a parent's statutory manager/ administrator to discontinue the supply of services to a New Zealand subsidiary, with the exception of the Australian parent itself ceasing its operations, which we consider to be a very remote possibility. Even if the parent bank were to fail and be placed into statutory management by APRA, we think there are compelling economic and reputation reasons why the Australian authorities would direct the statutory

manager to continue to provide critical shared services to the New Zealand subsidiary and other parts of the group. Given the risks involved in invoking a separation plan (i.e. that it assumes a 'no return' basis to parent bank outsourced services on a business-as-usual basis), it should be a last resort.

APPENDIX 1 – REVISED WHITE LIST

Revised White List in Mark-Up against the Consultation Paper

1. Telecommunication services, equipment and public utilities (including predictive dialler and automated voice recording services);
2. Discrete advisory services (e.g. legal opinions, ~~certain~~ client-related investment advisory services ~~that do not result directly in investment decisions~~); *[We consider that even if an outsourced investment advisory service does result in an investment decision, this is not considered a basic banking service and therefore outside the scope of BS11. Important part is treasury investment advisory, which the "client-related" proviso maintains]*
3. Share, domestic note and bond registry and management services;
4. Securities trading agent/provider;
5. Independent audit reviews;
6. Independent consulting;
7. Sales, promotional and direct marketing products and activities;
8. Sponsorship, brand or promotional arrangements;
9. Fleet leasing services;
10. Rental property leases;
11. Temporary help and contract personnel;
12. Generic or specialised recruitment and training services, and other incidental human resources-related activities;
13. Repair, support and maintenance of fixed assets (whether owned or leased);
14. General business utility services;
15. Security system, premises access and guarding services;
16. Market information and data services (e.g. Moody's, Bloomberg, Standard and Poor's, Fitch, Reuters or equivalent), including market research and analysis services;
17. Title search and security/collateral registration services;
18. Real estate appraisal and valuation services;
19. Reference and background check services;
20. Debt collection;
21. Production of ~~plastic credit cards~~ payments-related collateral (e.g. plastic cards, cheques);
22. Products and services that the registered bank is not legally able to provide; *[note this includes insurance products]*
23. Custodial services
24. Sales and distribution arrangements such as mortgage brokers, financial planners and other commission-based arrangements;
25. Reinsurance contracts;
26. Software (as defined below)
    a. Proprietary software or software licensed in perpetuity with no termination rights that is hosted on bank systems, and there is no reliance on a third party for support or maintenance (other than for routine standard support offering from the software vendor);
    b. Licensed software (term or subscription) that is hosted on the bank's systems, is licensed to the bank directly, there is no reliance on a third party for support or maintenance (other than for routine standard support offering from the software vendor), the provider does not have termination rights in a crisis event, and either:
        i. could be transitioned to an alternate provider; or
        ii. has escrow arrangements for source code.
    c. Use of cloud services to the extent it exclusively relates to one or more white listed functions;

    d. Licensed software to the extent it exclusively relates to one or more white listed functions;
    e. Support or maintenance of either proprietary or licenced software to the extent it exclusively relates to one or more white listed functions.
27. Fraud and forensic detection and monitoring services
28. Agency and trustee arrangements for treasury programmes and syndicated loan facilities
29. Wealth and insurance functions
30. Data mining, customer surveying and rewards programmes
31. Data matching services, including personal information matching, valuation data and credit reporting
32. Storage of static data (including customer data), excluding transactional processing
33. Clearing and settlement arrangements between members or participants of clearing and settlement systems
34. Credit card scheme providers
35. Document storage, scanning, archiving, destruction and deeds management services
36. Internet and network security services, including penetration testing
37. Corporate insurance
38. Compliance and operational risk management systems
39. Sanctions filtering systems
40. Accountancy and payroll bureaux services facilitated by banks on behalf of the service providers
41. Payment and e-commerce switches
42. ~~Supply and service of leased telecommunication equipment for phone line and internet~~;*[supply covered in 1, service covered in 11]*
43. ~~Predictive dialler and automated voice recording services~~; *[now caught by 1]*
44. ~~Printing services for marketing materials~~; *[now caught by 6]*
45. ~~Specialised recruitment;~~ *[caught by revised 10]*
46. ~~Specialised training~~*[caught by revised 10]*
47. ~~Interior finishing and furnishing and remodelling services;~~ *[caught by revised 11]*
48. ~~Property and facility maintenance services.~~ *[caught by revised 11]*
49. ~~Corporate uniforms;~~ *[not a fundamental business activity of a bank]*
50. ~~Postal and courier services;~~ *[not a fundamental business activity of a bank]*
51. ~~Travel related activities and services, e.g. accommodation and transport. agency and transportation services;~~ *[not a fundamental business activity of a bank]*
52. ~~Catering services;~~ *[not a fundamental business activity of a bank]*
53. ~~Accommodation services;~~ *[not a fundamental business activity of a bank]*
54. ~~Event management services and facilities;~~ *[not a fundamental business activity of a bank]*
55. ~~Meeting facilities;~~ *[not a fundamental business activity of a bank]*
56. ~~General office products and consumables;~~ *[not a fundamental business activity of a bank]*
57. ~~Furniture, fittings and furnishing;~~ *[not a fundamental business activity of a bank]*
58. ~~Commercial and office building construction services~~; *[not a fundamental business activity of a bank]*

Revised White List with Examples

	White list function	Examples (explanatory not exhaustive)
1	Telecommunication services, equipment and public utilities (including predictive dialler and automated voice recording services)	Vodafone, Spark, Genesis Energy, Fair Isaac and Nice Systems
2	Discrete advisory services (e.g. legal opinions, client-related investment advisory services)	Legal opinions, client-related investment advisory services
3	Share, domestic note and bond registry and management services;	Computershare, LINK
4	Securities trading agent/provider	Citi, Macquaries, JBWere
5	Independent audit reviews	KPMG, Deloitte, PwC, EY
6	Independent consulting	KPMG, Deloitte, PwC, EY, Chapman Tripp, Bell Gully, Russell McVeagh, Minter Ellison Rudd Watts
7	Sales, promotional and direct marketing products and activities	Saatchi & Saatchi, Touchpoint, Fulcrum
8	Sponsorship, brand or promotional arrangements	Ambulances, helicopters, sports teams
9	Fleet leasing services	Self-explanatory
10	Rental property leases	Self-explanatory
11	Temporary help and contract personnel	Self-explanatory
12	Generic or specialised recruitment and training services, and other incidental human resources-related activities	Self-explanatory
13	Repair, support and maintenance of fixed assets (whether owned or leased)	Property, hardware and IT equipment, and facility maintenance services Interior finishing and furnishing and remodelling services
14	General business utility services	Corporate uniforms Catering services General office products and consumables Postal and courier services
15	Security system, premises access and guarding services, including ATM alarms	Secom Guardall, AlarmNZ
16	Market information and data services (e.g. Moody's, Bloomberg, Standard and Poor's, Fitch, Reuters or equivalent),including market research and analysis services	Moody's, Bloomberg, Standard and Poor's, Fitch, Reuters or equivalent
17	Title search and security/collateral registration services	LINZ, CoreLogic, Law firms

18	Real estate appraisal and valuation services		QV
19	Reference and background check services		Ministry of Justice Criminal Record Check Veda
20	Debt collection		Self-explanatory
21	Production of payments-related collateral (e.g. plastic cards, cheques)		ABNote
22	Products and services that the registered bank is not legally able to provide		Insurance products
23	Custodial services		Self-explanatory
24	Sales and distribution arrangements such as mortgage brokers, financial planners and other commission-based arrangements		Mortgage brokers, financial planners and other commission-based arrangements
25	Reinsurance contracts		Self-explanatory
26	Software		
	(a)	Proprietary software or software licensed in perpetuity with no termination rights that is hosted on bank systems, and there is no reliance on a third party for support or maintenance (other than for routine standard support offering from the software vendor)	N / A
	(b)	Licensed software (term or subscription) that is hosted on the bank's systems, is licensed to the bank directly, there is no reliance on a third party for support or maintenance (other than for routine standard support offering from the software vendor), the provider does not have termination rights in a crisis event, and either: i. could be transitioned to an alternate provider; or ii. has escrow arrangements for source code.	
	(c)	Use of cloud services to the extent it exclusively relates to one or more white listed functions	
	(d)	Licensed software to the extent it exclusively relates to one or more white listed functions	
	(e)	Support or maintenance of either proprietary or licenced software to the extent it exclusively relates to one or more white listed functions.	
27	Fraud and forensic detection and monitoring services		PwC, The Forensic Group Limited, ACI
28	Agency and trustee arrangements for treasury programmes and syndicated loan facilities		NZGT, Trustees Executors', any lead bank as facility and/or security agent for syndicated loan facilities
29	Wealth and Insurance-related functions		Customer management tools for the provision of financial advice for wealth and insurance products Registry systems for wealth products Investment administration services for wealth

		products Discretionary Investment Management Services (as defined in section 392 of the Financial Markets Conduct Act 2013)
30	Data mining, customer surveying and rewards programmes	Colmar Brunton, Datamine, Datazoo, FlyBuys NZ, Hotpoints, AirNZ Airpoints, Marketview, Loyalty NZ
31	Data matching services, including personal information matching, valuation data and credit reporting	Veda, CoreLogic, Dun & Bradstreet
32	Storage of static data (including customer data), excluding transactional processing	Recall, HP, IBM, Datacom, Salesforce
33	Clearing and settlement arrangements between members or participants of clearing and settlement systems	SWIFT, NZClear, NZX CHO
34	Credit card scheme providers	VISA, Mastercard
35	Document storage, scanning, archiving, destruction and deeds management services	Iron Mountain New Zealand, SpeedScan
36	Internet and network security services, including penetration testing	Datacom, Kordia, Vodafone, IBM, Lateral Security
37	Corporate insurance	Marsh
38	Compliance and operational risk management systems	Risk Insite, IBM Open Pages
39	Sanctions filtering systems	BAE Systems - NetReveal
40	Accountancy and payroll bureaux services facilitated by banks on behalf of the service providers	Xero, MYOB, Datacom
41	Payment and e-commerce switches	Paymark, Verifone, Payment Express, Paystation

Revised White List – Clean

1. Telecommunication services, equipment and public utilities (including predictive dialler and automated voice recording services)
2. Discrete advisory services (e.g. legal opinions, client-related investment advisory services)
3. Share, domestic note and bond registry and management services;
4. Securities trading agent/provider
5. Independent audit reviews
6. Independent consulting
7. Sales, promotional and direct marketing products and activities
8. Sponsorship, brand or promotional arrangements
9. Fleet leasing services
10. Rental property leases
11. Temporary help and contract personnel
12. Generic or specialised recruitment and training services, and other incidental human resources-related activities
13. Repair, support and maintenance of fixed assets (whether owned or leased)
14. General business utility services
15. Security system, premises access and guarding services
16. Market information and data services (e.g. Moody's, Bloomberg, Standard and Poor's, Fitch, Reuters or equivalent), including market research and analysis services
17. Title search and security/collateral registration services
18. Real estate appraisal and valuation services
19. Reference and background check services
20. Debt collection
21. Production of payments-related collateral (e.g. plastic cards, cheques)
22. Products and services that the registered bank is not legally able to provide
23. Custodial services
24. Sales and distribution arrangements such as mortgage brokers, financial planners and other commission-based arrangements
25. Reinsurance contracts
26. Software
    a. Proprietary software or software licensed in perpetuity with no termination rights that is hosted on bank systems, and there is no reliance on a third party for support or maintenance (other than for routine standard support offering from the software vendor)
    b. Licensed software (term or subscription) that is hosted on the bank's systems, is licensed to the bank directly, there is no reliance on a third party for support or maintenance (other than for routine standard support offering from the software vendor), the provider does not have termination rights in a crisis event, and either:
        i. could be transitioned to an alternate provider; or
        ii. has escrow arrangements for source code.
    c. Use of cloud services to the extent it exclusively relates to one or more white listed functions
    d. Licensed software to the extent it exclusively relates to one or more white listed functions
    e. Support or maintenance of either proprietary or licenced software to the extent it exclusively relates to one or more white listed functions.
27. Fraud and forensic detection and monitoring services
28. Agency and trustee arrangements for treasury programmes and syndicated loan facilities
29. Wealth and Insurance functions
30. Data mining, customer surveying and rewards programmes
31. Data matching services, including personal information matching, valuation data and credit reporting
32. Storage of static data (including customer data), excluding transactional processing
33. Clearing and settlement arrangements between members or participants of clearing and settlement systems
34. Credit card scheme providers

35. Document storage, scanning, archiving, destruction and deeds management services
36. Internet and network security services, including penetration testing
37. Corporate insurance
38. Compliance and operational risk management systems
39. Sanctions filtering systems
40. Accountancy and payroll bureaux services facilitated by banks on behalf of the service providers
41. Payment and e-commerce switches