



Rabobank New Zealand Ltd

Postal Address PO Box 38 396
Wellington 5045

Office Address Level 23
157 Lambton Quay
Wellington 6011

Internet www.rabobank.co.nz

Ms Victoria Learmonth
Prudential Supervision Department
Reserve Bank of New Zealand
PO Box 2498
WELLINGTON 6140

11 August 2016

Dear Ms Learmonth

**RABOBANK NEW ZEALAND LIMITED SUBMISSION ON CONSULTATION PAPER:
REVISED POLICY PROPOSALS FOR REVIEW OF OUTSOURCING POLICY FOR
REGISTERED BANKS DATED 23 MAY 2016 (“Consultation Paper”)**

Rabobank New Zealand Limited appreciates the consideration that the Reserve Bank of New Zealand (RBNZ) has given to its submissions on the outsourcing policy. It is also grateful for the opportunity to participate in the ongoing consultation process.

In particular, Rabobank NZ welcomes the decision, as reflected in the Consultation Paper, to retain the existing threshold of \$10 billion of liabilities (net of amounts due to related parties) before a bank will become subject to the outsourcing policy.

As Rabobank NZ understands it, the effect of this change (to the initially-proposed lower threshold of \$1 billion) is that the status quo remains – in other words, except where below-threshold banks are specifically included, Rabobank NZ will not be caught by RBNZ's outsourcing policy. This addresses the principal concerns raised by Rabobank NZ in its original submission in relation to the potentially significant adverse impact of the proposed outsourcing policy on its business in New Zealand.

While Rabobank NZ still believes that the \$15 billion threshold at which banks are required to locally incorporate is the more appropriate threshold, it had raised that more as a matter of principle than because of any current impact on Rabobank NZ.

Rabobank NZ supports the development of a separate policy in relation to business continuity planning. It accepts that business continuity planning should apply to all banks. However, in developing the policy Rabobank NZ urges RBNZ to follow international precedent. If policies are consistent, this can significantly reduce the costs of compliance for banks such as Rabobank NZ that operate in multiple markets.

Rabobank NZ still has concerns about RBNZ's approach of combining the outsourcing policy and its requirements for a separation plan (which effectively is a recovery and resolution policy). However, as the revised outsourcing policy will not apply to Rabobank NZ, it has no further comments to make.

Rabobank NZ does, however, have some concerns about RBNZ's proposal in paragraphs 110 – 112 of the Consultation Paper. Based on Rabobank NZ's understanding of paragraph 110, it will be required to include the contractual terms specified in paragraph 112 in all of its outsourcing arrangements, notwithstanding that the balance of the outsourcing policy will not apply to it.

The contractual terms specified in paragraph 112 are:

- (a) there will be continuing access on normal commercial terms to services when the bank enters statutory management;
- (b) for parallel rights where arrangements are made through a parent or related party to ensure continuing access to the service where the bank is separated from its parent; and
- (c) an ability for RBNZ to have access to documentation and information relating to the outsourcing agreement.

While Rabobank NZ would be happy to ensure the provisions referred to in paragraphs 112(a) and (c) are included in contracts which it negotiates directly, it does not believe it will be feasible for separate parallel rights for Rabobank NZ to be able to be included in Rabobank group global contracts. Rabobank NZ believes paragraph 112(b) should be confined to banks that are required to have a separation plan.

Rabobank NZ obtains services through its parent (or related parties of its parent) from third party suppliers who are often large global providers. In addition, Rabobank group's New Zealand business represents [REDACTED] of the group's on balance sheet assets (such that the New Zealand component of global contracts is often [REDACTED] of the contract value) and the contracts will generally be negotiated in Europe between parties unfamiliar with New Zealand. In these circumstances, we believe there are significant practical impediments to the inclusion of New Zealand specific terms in global contracts. Rabobank NZ believes that, in relation to global contracts, RBNZ should in practice be sufficiently comfortable to rely on the commercial incentives of the parent to preserve value in the whole group and ensure such contracts meet international best practice imposed on the parent by its home regulator.

Rabobank NZ would like to discuss this matter of parallel rights further as part of the bilateral discussions which RBNZ is proposing. It is potentially a significant compliance risk for Rabobank NZ given it largely lacks control to deliver any such required outcome.

Finally, Rabobank NZ notes that RBNZ is proposing to allow a 5 year transition plan to enable banks affected by the outsourcing policy to achieve compliance. Rabobank NZ supports this change. While this does not affect Rabobank NZ now, it would like clarification whether this 5 year transition period would be accepted if at any stage a bank became subject to the outsourcing policy (e.g. because it exceeded the \$10 billion threshold). Are you able to you provide such clarification?

Rabobank NZ's responses to the specific questions posed in the Consultation Paper are set out in the Appendix.

Yours sincerely,



Daryl Johnson
CEO, Rabobank New Zealand

APPENDIX

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| Q1: | <p>Do you agree that the modifications to outcomes (a) to (e) provide clarification Rabobank NZ believes that the modifications do not provide sufficient clarification. It reiterates its earlier view that there should be separate policies dealing with:</p> <p>(a) third party outsourcing; and (b) recovery and resolution through, for example, separation plans.</p> <p>RBNZ has acknowledged that the current outcomes approach has led to widely different interpretations between banks. Rabobank NZ does not believe that the change or outcomes will materially reduce this risk of inconsistent application of the policy. It also believes that the approach is inconsistent with international practice – based on its experience (noting the policy will not apply to Rabobank NZ and so makes this comment as a matter of principle and not because it is affected by the proposed changes).</p> |
| Q2 | <p>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.</p> <p>Rabobank NZ is satisfied that the list of services is adequate. Rabobank has no comment on whether trade finance and letters of credit should be included given this is not the focus of its business in New Zealand.</p> |
| Q3 | <p>Are there any other services that should be included in the above lists, but have not yet been captured?</p> <p>Rabobank NZ agrees with the changes which have been made to the list. It does, however, stress the importance of ongoing monitoring of this list to ensure that any future new services are addressed.</p> |
| Q4 | <p>Do you agree that having robust back-up arrangements would be able to meet the objectives of the outsourcing policy?</p> <p>In general, Rabobank does believe that robust backup arrangements can meet the objectives.</p> <p>However, Rabobank NZ believes that there needs to be flexibility to take a graduated and proportionate approach to the backup arrangements taking into account the kind of factors mentioned in Rabobank NZ's initial submission (e.g. scope of operations of the bank, credit rating of the relevant bank, the range of jurisdictions in which the bank operates and the places in which its infrastructure is held (and relationships with regulators in these jurisdictions)). Rabobank NZ is grateful that RBNZ has recognised that some banks (such as Rabobank NZ) have agency arrangements for SWIFT capability and that it is appropriate and reasonable for them to rely on those agency arrangements, presumably including the "backup" arrangements in respect of them.</p> |
| Q5 | <p>Does your bank already have back-up capability for all key systems?</p> <p>Yes where sufficient risk is carried. Controls have been appropriately matched to mitigate any ceasing of services.</p> |

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| Q6 | <p>If yes, would your arrangements meet the requirements outlined above? If not, what would the costs be of upgrading your systems?</p> <p>N/A</p> |
| Q7 | <p>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?</p> <p>N/A</p> |
| Q8 | <p>Are there any features that are not on the list above that should be added?</p> <p>No, but we reiterate the need for flexibility in the policy for the policy to be applied in a graduated and proportionate way.</p> |
| Q9 | <p>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.</p> <p>None – on the basis that the policy will not require Rabobank NZ to do so.</p> |
| Q10 | <p>Please provide comment on whether the draft condition of registration would work as envisaged?</p> <p>N/A – on the basis Rabobank NZ will not be required to have a compendium and the condition will not apply to it.</p> |
| Q11 | <p>Do you agree that the revisions to the proposed policy would reduce the potential complexities of complying with the new policy?</p> <p>N/A</p> |
| Q12 | <p>Do you agree with the new proposed transitional period?</p> <p>We have no concerns with a 5 year transition period. However, Rabobank believes that, if a bank that currently is below the BS11 outsourcing requirements reaches a level of \$10bn (net external) liabilities, it should also have a 5 year transition period to achieve compliance from the time it reaches the threshold and this should be addressed in the policy.</p> |
| Q13 | <p>Please provide your estimate of the costs and benefits of the revised policy options, taking account of the extended transitional path to compliance.</p> <p>This is currently unclear but will be dependent on the BCP requirements and the range of contracts that it may have to renegotiate to insert the three required provisions (and whether RBNZ accepts that Rabobank NZ should not have an obligation to negotiate separate New Zealand provisions in global contracts, given it is not required to have a separation plan).</p> |