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Subject: JOINT LARGE BANK SUBMISSION: PROPOSED CONDITIONS OF REGISTRATION EXPOSURE DRAFT FOR BS11: THE OUTSOURCING POLICY FOR REGISTERED BANKS
Date: Friday, 30 June 2017 6:04:29 p.m.
Attachments: [17-06-30 Large Bank Conditions of Registraton Submission.pdf](#)

Victoria and Cavan

I write on behalf of the five Large Banks - ANZ Bank New Zealand Limited, ASB Bank Limited, Bank of New Zealand, Kiwibank Limited and Westpac New Zealand Limited.

We refer to:

- the joint submission from ANZ Bank New Zealand Limited, ASB Bank Limited, Bank of New Zealand, and Westpac New Zealand Limited on the *Consultation paper: Exposure draft for BS11: the Outsourcing Policy for Registered Banks (Joint Submission)*; and
- the submission from Kiwibank Limited on the *Consultation paper: Exposure draft for BS11: the Outsourcing Policy for Registered Banks*, supporting the Joint Submission.

As was noted in the Joint Submission, we considered that the proposed Conditions of Registration included in Appendix I of the Exposure Draft could be refined, in particular to deal with the complexities of the transitional period under the revised policy. We thank you for the opportunity to make further submissions on this topic and the continued constructive engagement in respect of the Exposure Draft.

Submissions on the proposed Conditions of Registration in Appendix I

We have attached our proposed Conditions of Registration for Appendix I of the revised BS11 policy. This submission is made on behalf of all five Large Banks.

We have proposed these revised Conditions of Registration for three reasons.

1. Cross reference to full BS11 policy

Proposed Condition of Registration I.1 included in the Exposure Draft cross-refers to the full BS11 policy, and requires “*That the registered bank has the legal and practical ability to comply with the Reserve Bank of New Zealand document “Outsourcing Policy for Registered Banks” (BS11) dated [xx] 2017.*”

We consider that the reference to the “legal and practical ability to comply” with the full policy document is confusing and should be removed.

However, we also consider that incorporation of the full policy is not optimal. This is because the full policy document includes requirements for banks, statements about how the Reserve Bank will fulfil its functions in relation to the policy, and guidance. We consider it preferable for the relevant Condition of Registration to specifically refer to

the requirements for banks set out in the policy.

We also note that, in the Reserve Bank's 2015 Regulatory Stocktake consultation, the Reserve Bank stated that it would "*consider how conditions of registration are drafted in future to reduce the risk that genuinely trivial matters could result in technical breaches of conditions of registration.*"

In our view, where a Condition of Registration cross-refers to the full policy, there is more risk of technical breaches of the Condition arising as a result of trivial matters, than if the Condition refers specifically only to those requirements which are material and of genuine significance to the achievement of the objectives of the policy.

2. Additional Conditions in respect of the Compendium and Separation Plans

The proposed Conditions of Registration included in the Exposure Draft include a separate Condition in respect of each of the Compendium and Separation Plan requirements, along with the proposed Condition of Registration I.1. In our view, this approach could lead to confusion given the potential for overlap between the specific Conditions and Condition I.1.

We welcome the guidance note provided in the Exposure Draft in respect of the Condition relating to the Compendium. We have not included the guidance note in our attached proposal, as we believe that it would be better incorporated into the policy at paragraph 7.4(1) of the Proposed Exposure Draft in the Joint Submission.

3. Transitional period

In our view, under proposed Condition of Registration I.1, it is unclear what compliance requirements will apply during the five year transition period under the revised policy. In particular, it is unclear what requirements would apply to existing outsourcing arrangements before they transition to compliance with the new policy.

Accordingly, we have proposed a new Condition of Registration in respect of "Required Risk Mitigants", which clarifies:

- that existing outsourcing arrangements must continue to meet the requirements which previously applied under BS11 until such time as they are transitioned to compliance with the revised BS11; and
- the point at which existing outsourcing arrangements must comply with the revised BS11 policy.

We have also identified some limited potential changes to the Proposed Exposure Draft in the Joint Submission, as a result of the Large Banks' discussion on the Conditions of Registration. We will consider these early next week, with a view to raising any additional points by the end of the week.

The Reserve Bank's Exposure Draft included the Accountability conditions and we have reflected these unchanged in our attached proposed Appendix I to the Exposure Draft. However, their

relevance to outsourcing is not clear and they were not otherwise referred to in the Exposure Draft. We suggest that these are not included in Appendix I of the final policy. It may be appropriate to consider their inclusion with Governance material as the Banking Supervision Handbook is reviewed.

As previously noted, we would welcome the opportunity to discuss our proposed Conditions of Registration (and the Proposed Exposure Draft) with the Reserve Bank, should you require any clarification or further information in respect of our proposed approach.

Regards

Jonathan

Jonathan Pringle



It's time.



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