



Registration of covered bond programmes:

Process and information requirements

Prudential Supervision Department

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A: INTRODUCTION

- 1 The Reserve Bank of New Zealand Act 1989 ('the Act') sets out a number of requirements relating to covered bonds issued or guaranteed by New Zealand registered banks.
- 2 The Act requires that the Reserve Bank maintain a public register of the covered bond programmes of registered banks. Registered banks may not issue covered bonds except under a registered covered bond programme. The Act allows for the registration of covered bond programmes in existence prior to the passage of the Reserve Bank of New Zealand (Covered Bonds) Amendment Act 2013 and provides transitional arrangements in relation to those programmes.
- 3 The Act sets out the requirements for registration and the on-going requirements in relation to registered programmes. These are set out in Part B of this document. This document should not be seen as a substitute for legal advice.
- 4 The Act requires that the Reserve Bank specify the process for registration and the information required to be provided in order for a programme to be registered. Part C of this document sets out this process, and Part D sets out the information requirements.
- 5 Section 139D(2)(b) of the Act provides that the Reserve Bank may designate registered covered bond programmes to a particular class of covered bond programme. As no such classes have been specified, this document does not refer to the requirements in relation to asset classes.

B: REGISTRATION AND ON-GOING REQUIREMENTS

- 6 Section 139F of the Act provides that the Reserve Bank must not register a covered bond programme unless it is satisfied that a number of requirements are met. In summary, these are that:
- (a) The cover pool assets are, or will be, owned by an identified covered bond special purpose vehicle ('SPV') that is a company within section 2(1) of the Companies Act 1993;
 - (b) A cover pool monitor has been appointed under the covered bond programme. The cover pool monitor must be:
 - (i) independent of the registered bank; and
 - (ii) either a licensed auditor under the Auditor Regulation Act 2011 or a registered audit firm under that Act; and
 - (iii) required under its contract of appointment to provide reports consistent with the requirements of section 139I(1)(c) of the Act.
 - (c) A register of cover pool assets will be maintained;
 - (d) The covered bond programme specifies, or refers to documents that specify, procedures and internal controls that ensure the up-to-date and accurate keeping of the register of cover pool assets;
 - (e) The covered bond programme specifies a test, or tests, to determine whether the value of cover pool assets is at least equal to the principal amount outstanding on the covered bonds;
 - (f) The covered bond programme provides for the SPV to perform certain obligations if monies become due and payable by the SPV; and
 - (g) The registered bank is in compliance with any requirements relating to covered bonds imposed by condition of registration.
- 7 The Reserve Bank may impose additional registration requirements by way of regulation. If the Reserve Bank were to do so, the registered bank would need to ensure it complied with these new requirements in respect of already registered programmes.

- 8 Section 139H of the Act imposes on-going requirements on the registered bank. The registered bank must:
- (a) Ensure that the test or tests to determine whether the value of the cover pool assets is at least equal to the principal amount outstanding on the covered bonds are carried out at least annually and the Reserve Bank is notified of any test failure;
 - (b) Ensure that a register of cover pool assets is maintained and that, in doing so, the registered bank follows the procedures and internal controls noted in paragraph 6(d) above;
 - (c) Notify the Reserve Bank of:
 - (i) every covered bond issued; and
 - (ii) material changes to the registered covered bond programme that would likely result in the registered covered bond programme failing to comply with the registration requirements;
 - (d) Provide the Reserve Bank with any further information it requests in relation to the covered bond programme;
 - (e) Ensure that:
 - (i) it complies with the registration requirements;
 - (ii) the report of the cover pool monitor is provided to any bond and security trustee; and
 - (iii) the report of the cover pool monitor is provided to the Reserve Bank in specified instances.
- 9 The registered bank's on-going obligations terminate if any amount becomes due and payable by the covered bond SPV under the covered bond programme. If this occurs, the SPV must provide the Reserve Bank with any information it requests in relation to the covered bond programme.
- 10 If a registered bank fails to comply with the on-going obligations, the Reserve Bank may issue a notice to the registered bank requiring the bank to take corrective action.
- 11 In addition to the provisions of the Act relating to covered bonds, banks may be subject to a condition of registration that limits the amount of assets encumbered in favour of covered bond holders.

C: PROCESS FOR REGISTRATION

- 12 A registered bank may apply to register a programme of covered bonds at any time. An application for registration should be accompanied by a fee of \$2,500 (including GST).
- 13 An application for registration should contain all the information specified below. Applications should be addressed to:
- Senior Manager Supervision
Prudential Supervision Department
Reserve Bank of New Zealand
PO Box 2498
Wellington 6140
- 14 The Reserve Bank will have 60 working days, from the time of receipt of all the information required by the Reserve Bank, to consider an application for registration. Should the Reserve Bank intend to reject an application for registration, the Reserve Bank shall provide the registered bank with a notice of that proposed decision, and the reasons for it, and shall give the registered bank a further 10 working days to provide further information. The Reserve Bank will consider any further information submitted in support of the application and give its final decision within a further 5 working days. A registered bank may request an extension to these timeframes.

D: INFORMATION REQUIREMENTS

Registration

- 15 The following information must be provided when making an application for registration. The Reserve Bank expects applicants to provide copies of the relevant contracts and documents but to also provide the information below in summary form or to provide references to the relevant sections of programme documentation.
- (a) The name of the registered bank applying for registration of a programme;
 - (b) The name of any other entity that may issue covered bonds under the programme, if different from the registered bank;
 - (c) The name and company number of the SPV holding the cover pool assets;
 - (d) The name of the cover pool monitor and confirmation that the person acting as cover pool monitor is not an employee of the registered bank, or otherwise not independent of the bank, and is either licensed as an auditor,

or is a registered audit firm and the person acting as cover pool monitor will be supervised by, or be, a licensed auditor. A person will be considered to be a licensed auditor, or a registered audit firm, if that person or firm holds either a full licence or registration or, prior to 30 April 2014, a transitional license or registration. Provision of the person's or firm's unique identifier as recorded on the register of licensed auditors and registered audit firms, and confirmation that that person or firm holds either a full or transitional license or registration will be sufficient evidence under this requirement;

- (e) A summary of the terms of the cover pool monitor agreement, or the agreement with references provided, relevant to meeting the requirements of section 139I(1)(c) of the Act;
- (f) The names of the security and bond trustees;
- (g) A document evidencing that a register of cover pool assets will be maintained and the procedures and internal controls the registered bank will follow to ensure an up-to-date and accurate register of cover pool assets will be maintained. These procedures and internal controls may be specified in a document outside of the main programme documentation;
- (h) The test, or tests, specified in the covered bond programme to determine that the value of cover pool assets is at least equal to the principal amount outstanding on the bonds (the bank may provide the reference to the page of any document supplied where these tests are located);
- (i) A summary of the terms of contract, or the contract with references provided, requiring the SPV to perform the requirements of section 139H(1)(a) and (b)(i) in the event monies become due and payable by it;
- (j) The total value of cover pool assets in relation to that programme, in absolute terms and relative to the asset base of the registered bank (as disclosed in the registered bank's latest Disclosure Statement);
- (k) The name and total allowable size of the programme under which the covered bonds are to be issued;
- (l) For existing covered bond programmes: the issuer, international securities identification number (ISIN), currency, foreign currency face value and

NZD value at issue¹, issue date and maturity date (including any possible extension of the maturity date) for each issue already undertaken; and

- (m) The name and contact details of the person to whom questions should be directed.
- 16 The registered bank must provide a description of the structure of the covered bond programme, preferably in the form of a diagram representing the parties' obligations. A description provided in another document, such as a prospectus, would be acceptable.
- 17 Section 105 of the Act (confidentiality of information) applies to information supplied to the Reserve Bank as a part of the registration process.

On-going notification requirements

- 18 As set out in paragraphs 8(a) and 8(c) of this document, a registered bank is required to notify the Reserve Bank of certain matters in relation to registered covered bond programmes. Additionally, the Reserve Bank may request further information in relation to covered bond programmes. Notifications and information should be provided to:

Senior Manager Supervision
Prudential Supervision Department
Reserve Bank of New Zealand
PO Box 2498
Wellington 6140

- 19 Notification of the issue of a series or tranche of covered bond (as required under section 139H(1)(c)(i)) should be provided to the Reserve Bank within 10 working days of the actual issue date of the series or tranche. In this regard, the following information must be provided in relation to any covered bonds issued under the registered programme:
- (a) The ISIN;
 - (b) Face value of issue in currency of issue and NZD value at the issue date;
 - (c) Currency of issue;
 - (d) Issue date;
 - (e) Maturity date (and any possible extension of this date); and

¹ For the purposes of this document, where an amount needs to be converted to NZD values, the registered bank should choose an appropriate exchange rate. The trade date may be used as the issue date.

- (f) Total value of cover pool relative to the asset base of the bank (as disclosed in the registered bank's latest Disclosure Statements).
- 20 The registered bank must notify the Reserve Bank if the ISIN for the bond changes.
- 21 A registered bank should notify the Reserve Bank of any material changes to the registered covered bond programme that would be likely to result in the registered covered bond programme failing to comply with the registration requirements. This should be done prior to making any such changes.