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NBDT licence application update

This newsletter provides a brief update on the licensing process and feedback from the Reserve Bank on common issues associated with applications received to date.

As at 24 July, the Reserve Bank has received five licence applications. As part of our assessment process we have identified a number of areas where we consider that further guidance would assist licence applicants. The newsletter also covers the commonly asked questions we receive. References below to 'the Act' refer to the Non-bank Deposit Takers Act 2013.

Appropriateness of quantitative liquidity requirements in trust deeds

As part of the assessment process we have identified several instances where the quantitative liquidity requirements included in a trust deed do not appear to meet the standards required by the regulations.

Regulation 3 (2) of the Deposit Takers (Liquidity Requirements) Regulations 2010 (the "liquidity regulations") requires a trust deed to include at least one quantitative liquidity requirement. Regulation 3(3) states that every quantitative liquidity requirement included in a trust deed must—

- (a) take into account the liquidity of the deposit taker and, if the deposit taker is part of a borrowing group, the liquidity of the borrowing group; and
- (b) be appropriate to the deposit taker's business and, if the deposit taker is part of a borrowing group, to the borrowing group's business.

We issued guidelines on quantitative liquidity requirements that we refer to when considering whether quantitative liquidity requirements satisfy regulation 3(3) of the liquidity regulations. The guidelines are available here: http://www.rbnz.govt.nz/regulation_and_supervision/non-bank_deposit_takers/requirements/4212995.pdf

The Reserve Bank understands that a number of NBDTs only have a quantitative liquidity requirement to hold a particular percentage of total assets as liquid assets. The Reserve Bank considers that this metric is unlikely to be appropriate because it does not support the underlying reasons for having a liquidity requirement (i.e. to be able to continue to meet liabilities as they fall due).

Question 4.4 of the NBDT licence application form requires applicants to explain why their liquidity requirement is appropriate. Responses to this question should focus on the appropriateness of the liquidity requirement itself, rather than the outcome of the requirement in terms of the quantum of liquid assets that must be held.

The Bank's expects that, in most cases, an applicant's quantitative liquidity requirement would be based on the guidelines issued by the Bank. Where the applicant's quantitative

liquidity requirement does not do this, then we would expect applicants to explain, in response to question 4.4, why their quantitative liquidity requirement departs from the guidelines.

Risk management programmes

The Bank understands that some NBDTs use templates as a basis for their risk management programme ('RMP'). Templates can provide a good basis for developing a RMP. However, applicants should ensure that any template has been appropriately personalised for their business.

We have seen some instances where the RMP makes references to having systems and controls that do not actually appear to be in place or that do not appear to be necessary or appropriate for the applicant. We expect an applicant's RMP to be relevant to their business and to reflect the risk management processes that are actually applied in practice.

We have also identified that some RMP's do not contain procedures for trustee approval to amendments, as required by section 27(2)(d)(ii) of the Act.

Application forms

We have received some requests for NBDT licence application forms that can be completed electronically, rather than by hand. As a result, the Reserve Bank has published a version of the application form that can be completed electronically. This is available on the NBDT licensing web page: http://www.rbnz.govt.nz/regulation_and_supervision/non-bank_deposit_takers/licensing/5805315.pdf

Applicants may choose to complete either version of the application form. The electronic form must be completed on a computer, printed and then signed. The original pdf version can be completed by hand.

Suitability notices

The guidance note on suitability assessments under the Act (available here: http://www.rbnz.govt.nz/regulation_and_supervision/non-bank_deposit_takers/licensing/5647141.pdf) includes a request by the Reserve Bank for suitability notices to be accompanied by an up-to-date criminal check for the director / senior officer. In some cases this request also extends to overseas jurisdictions. Paragraph 66 of the guidance document provides further detail about this. Criminal record checks dated within the past six months are considered to be "up-to-date".

Financial Service Providers Register ('FSPR')

Entities registered as "deposit takers" on the FSPR have been automatically updated to be registered as a "Deposit taker (Non-bank deposit taker from 1 May 2014)". At the end of the transitional period (1 May 2015) this wording will be amended to "Non-bank deposit taker". These entities do not need to take any action to amend their activities on the FSPR.

Applicants that are not currently registered as a "Deposit taker (Non-bank deposit taker from 1 May 2014)" should apply to be a "Non-bank deposit taker" on the FSPR.