



Reserve Bank  
of New Zealand  
Te Pūtea Matua

# Assurance Reports on Bank Disclosure Statements

Consultation on changes to disclosure Orders in Council  
to simplify and modernise requirements for assurance  
reports

18 January 2022

CONSULTATION  
PAPER



## Who is this consultation aimed at?

The proposals we are consulting on will be mainly be relevant for auditors who are engaged to prepare assurance reports on registered banks' six-monthly disclosure statements, and to staff at banks who are involved in the preparation of those disclosure statements.

The proposals will also be of interest to anyone who reads bank disclosure statements, and is interested in the assurance reports to increase their confidence in the reliability of the information provided in disclosure statements.

## Submissions

The Reserve Bank of New Zealand – Te Pūtea Matua invites submissions on this Consultation Paper by 5.00pm on 15 March 2022.

Please note the disclosure on the publication of submissions below.

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## Publication of submissions:

All information in submissions will be made public unless you indicate you would like all or part of your submission to remain confidential. Respondents who would like part of their submission to remain confidential should provide both a confidential and public version of their submission. Apart from redactions of the information to be withheld (i.e. blacking out of text) the two versions should be identical. Respondents should ensure that redacted information is not able to be recovered electronically from the document (the redacted version will be published as received).

Respondents who request that all or part of their submission be treated as confidential should provide reasons why this information should be withheld if a request is made for it under the Official Information Act 1982 (OIA). These reasons should refer to section 105 of the Reserve Bank of New Zealand Act 1989, section 54 of the Non-Bank Deposit Takers Act, section 135 of the Insurance (Prudential) Supervision Act 2010 (as applicable); or the grounds for withholding information under the OIA. If an OIA request for redacted information is made, the Reserve Bank will make its own assessment of what must be released, taking into account the respondent's views.

The Reserve Bank may also publish an anonymised summary of the responses received in respect of this Consultation Paper.

# Contents

- 1 Introduction** \_\_\_\_\_ **3**
- 2 Background** \_\_\_\_\_ **3**
- 3 Problem Statement** \_\_\_\_\_ **5**
- 4 Proposed Solution** \_\_\_\_\_ **5**
  - 4.2 Redundant Material \_\_\_\_\_ 6
  - 4.3 Reducing Complexity \_\_\_\_\_ 6
  - 4.4 Revised Clause 7 \_\_\_\_\_ 7
  - 4.5 New Clauses 25A and 25B \_\_\_\_\_ 7
  - 4.6 Schedule 1: Old Clause 1 \_\_\_\_\_ 7
  - 4.7 Schedule 1: New Material Across Clauses \_\_\_\_\_ 8
  - 4.8 Schedule 1: New Clause 1 \_\_\_\_\_ 8
  - 4.9 Schedule 1: New Clause 2 \_\_\_\_\_ 8
  - 4.10 Schedule 1: New Clause 3 \_\_\_\_\_ 9
  - 4.11 Consequential Changes in Schedules 2 and 3 \_\_\_\_\_ 9
  - 4.12 Variants for Branch OIC \_\_\_\_\_ 9
- 5 Feedback on Impact of Changes** \_\_\_\_\_ **9**
- 6 How to Make a Submission** \_\_\_\_\_ **10**
- 7 Next steps** \_\_\_\_\_ **10**

## 1 Introduction

1.1.1 This consultation seeks views on proposed changes to the assurance reports required on registered banks' public disclosure statements. We have heard concerns that the current requirements result in assurance reports that are complex and hard to read. We are therefore consulting on changes to the Orders in Council that set the disclosure requirements and the associated assurance requirements. The changes are designed to rationalise the structure of the assurance reports and improve their readability. We are not intending to change the scope or nature of the assurance engagements required for bank disclosure statements.

## 2 Background

2.1.1 The Reserve Bank requires all registered banks to publish six-monthly disclosure statements. The requirements are imposed by two Orders in Council made under section 81 of the Reserve Bank of New Zealand Act 1989 ("RB Act"): the "local OIC", applying to banks incorporated in New Zealand, and the "branch OIC", applying to overseas incorporated registered banks operating as a branch in New Zealand<sup>1</sup>.

2.1.2 Disclosure statements include a range of financial and other information about the bank, including information on prudential compliance matters such as capital adequacy. In addition, the full-year disclosure statement must contain or be accompanied by the banking group's financial statements (as required in any case under the financial reporting obligations of the Financial Markets Conduct Act 2013 ("FMC Act")). And the half-year disclosure statement must contain or be accompanied by the banking group's interim financial statements prepared in accordance with NZ IAS 34<sup>2</sup>.

2.1.3 The OICs require every disclosure statement to be subject to a specified level, or to multiple levels, of assurance by an auditor. The text of the OICs consists of a main section covering the framework for publishing disclosure statements, including frequency, scope and acceptable means of publication, followed by a number of Schedules that set out the detailed content of disclosure statements by subject area. The main section of each OIC includes a clause specifying that the full-year disclosure statement must be accompanied by an "auditor's report", and the half-year disclosure statement by an "auditor's report or review statement". The detailed content of these reports and review statements is specified in Schedule 1 of the respective OIC.

2.1.4 A review statement sets out the findings of a limited assurance engagement, while an auditor's report reflects the outcome of a reasonable assurance engagement. (Although the OIC uses the term "review statement", the standard terminology is "review report".) The nature of the work required in either a limited or reasonable assurance engagement is specified in detail in the applicable auditing and assurance standards.

2.1.5 For the half-year disclosure statement, choosing between a limited or reasonable assurance engagement is left to the registered bank's discretion. However, banks have invariably opted for a review engagement in practice. The option of an auditor's report provides a ready-made framework if the Reserve Bank at some point wanted a higher level of assurance on a particular bank's half-year disclosure statement, in response to some concerns about the bank. Having this framework in place provides an alternative to the

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<sup>1</sup> Consolidated "working copies" of the Orders, incorporating amendments, are available at [rbnz.govt.nz/regulation-and-supervision/banks/banking-supervision-handbook](http://rbnz.govt.nz/regulation-and-supervision/banks/banking-supervision-handbook)

<sup>2</sup> New Zealand Equivalent to International Accounting Standard 34: Interim Financial Reporting

Reserve Bank having to separately commission an auditor's report in such a situation, using one of its other powers in the RB Act.

2.1.6 Although described as a single "report" or "statement", the current nature of the assurance opinions required for both full-year and half-year disclosure statements, and in both the local and branch OIC, means that in practice they are divided into three separate conclusions within one document. In the local OIC, the full-year requirement includes:

- an audit opinion on the financial statements. The nature of the required opinion is spelt out in detail in Schedule 1 of the OIC, although the components of this opinion are mostly taken from the required opinion that was formerly specified in the Financial Reporting Act 1993 (repealed in 2014);
- an audit opinion on selected OIC disclosures, which is also reasonable assurance in nature, but is expressed in a different way to the audit opinion on the financial statements, given that it is not part of the auditor's report required under the FMC Act; and
- a review (ie, limited assurance) opinion on the disclosure required by Schedules 9 and 11 (of the local OIC), relating to capital adequacy and regulatory liquidity.

2.1.7 These assurance requirements also apply to the half-year disclosure statement if a bank chooses the reasonable assurance option.

2.1.8 Otherwise, the half-year requirement is only for limited assurance reports, but is still split into three different opinions within one document:

- a review opinion on the interim financial statements;
- a review opinion on selected OIC half-year disclosures (but expressed with different wording from the opinion on the interim financial statements); and
- a review opinion on the half-year disclosure of capital adequacy and regulatory liquidity required by Schedules 9 and 11 of the local OIC. This takes the same form as the opinion on the full-year disclosure of these matters, but differs from both of the other parts of the half-year opinion.

2.1.9 The branch OIC requirements are very similar. Schedule 9 of the branch OIC requires disclosure relating to credit and market risk, and capital adequacy: this disclosure is subject to the same type of review opinion as applies to local banks' capital adequacy and liquidity disclosure (required by Schedule 9 and 11 of the local OIC, as noted above).

2.1.10 The current nature of these requirements dates broadly from 2008 when we implemented the Basel II approach to capital adequacy. This included (for the first time) the ability for some banks to use their own internal models, for estimating risk-weighted assets for credit risk and the capital requirements for operational risk. The changes made then were in order to:

- reflect the distinct nature of the audit opinion on financial statements, namely that it was mandated in financial reporting legislation; and
- reflect the difficulty of getting a reasonable assurance opinion on the details of modelled capital requirements for credit risk and operational risk.

- 2.1.11 In January 2015, the International Audit and Assurance Standards Board issued a new standard requiring auditors to report on 'Key Audit Matters' (KAMs) as part of the auditor's report on the financial statements. In line with the international standards, the New Zealand External Reporting Board (XRB) issued the New Zealand equivalent<sup>3</sup> (ISA (NZ) 701) in October 2015, for implementation by 15 December 2016. Early adoption was permitted. The KAMs section of the report is intended as an opportunity for auditors to communicate the matters of most significance in the audit, why those matters are considered of most significance, and how those matters were addressed.
- 2.1.12 The new section on KAMs often takes at least a full page and sometimes two, and has thus added further detail and length to the auditor's report. On average auditor's reports include between two and four KAMs.

### 3 Problem Statement

- 3.1.1 Around the end of 2016, the XRB and a few auditors of banks raised concerns with us about the length, complexity and therefore readability of auditor's reports on banks' disclosure statements. By that point, there were some examples available from banks that had adopted the KAM change early.
- 3.1.2 The problem was that the existing OIC requirements already resulted in one long document called "an auditor's report" covering a variety of opinions on different material, and the KAM changes had come on top of those. The length of the report can run to nine or ten pages in total, and with varying types of opinion can be very hard for any layperson to understand. The KAM changes were intended to add value to the previous "plain vanilla" audit reports, and have succeeded in doing so, but there is a risk that the KAMs are obscured among the other opinions required by the OIC.
- 3.1.3 We agreed with the XRB that it was desirable to review the OIC assurance requirements to look for ways to enhance the readability of the auditor's report on banks' disclosure statements.
- 3.1.4 Another problem we identified was that a number of subclauses in Clause 2 of Schedule 1 (in both OICs) seemed to be potentially redundant or out of date. These require various statements from the auditor in relation to the financial statements under a reasonable assurance report, such as "the work done by the auditor", "the scope and limitations of the audit", and so on. These mostly date back to when the disclosure requirements were first put in place, in 1996. We agreed that we should also review these requirements, to see which could be cut and which needed revising.

### 4 Proposed Solution

- 4.1.1 The accompanying redlined extracts from both OICs show the revisions we propose to make to the assurance requirements.
- 4.1.2 This consultation is also accompanied by drafts of the amendment Orders that would be needed to put the proposed revisions into effect. These drafts include the full clean text of the revised Schedule 1 for both the local OIC and the branch OIC, which may help readers see the intent of the red-lined changes more clearly.

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<sup>3</sup> International Standard on Auditing (New Zealand) 701: Communicating Key Audit Matters in the Independent Auditor's Report

4.1.3 The amendment Order for the local OIC also includes some very minor corrections to the text of the current Order in force. These are to correct typographical errors arising from the most recent previous amendment Order, which came into force at end-2021. (These are not included in the redlined extracts from the local OIC.)

## 4.2 Redundant Material

4.2.1 We discuss the solution to this issue first, as the solutions are relatively simple.

4.2.2 We have confirmed that the requirements for various forms of opinion specified in clauses 2(1)(a)-(f), and 2(1)(h), in Schedule 1 of both OICs, corresponded exactly to requirements in the Financial Reporting Act 1993, which has been repealed and replaced by the Financial Reporting Act 2013. These requirements of the repealed Act are now covered by ISA (NZ) 700 (Revised)<sup>4</sup>, rather than being specified directly in the primary financial reporting legislation. The XRB have provided us with analysis matching up the requirements in these clauses of Schedule 1 with matching or broadly equivalent requirements in ISA (NZ) 700.

4.2.3 On the basis that these subclauses are both out of date and duplicated in the applicable ISA (NZ), we propose to cut all of them from Schedule 1 in both OICs. This also aligns with our general desire (see below) for the audit opinion on the financial statements to be simply the opinion required by the FMC Act and the ISAs (NZ).

4.2.4 This leaves the statement required by subclause 2(1)(g) in both Schedules 1. This statement is not part of standard audit opinions, and relates to the whole of the disclosure statement, not just the financial statements it contains. We think there is continued value in requiring this statement on a bank's compliance with conditions of registration and guidelines issues under section 78(3).

4.2.5 However, we propose to narrow the scope of this statement from its current coverage of the entire content of the disclosure statement. First, we do not think it makes much sense to seek a view on whether the financial statements have been prepared in accordance with these compliance requirements. And secondly, we propose to exclude the capital adequacy and liquidity ratio disclosure from the scope of the opinion: we believe that the same problems arise with giving a reasonable assurance opinion on a bank's compliance with these minimum ratio requirements, as arise with doing so on the disclosure of the information itself.

## 4.3 Reducing Complexity

4.3.1 In preparing the proposed revisions, we have adopted a number of principles to try to make the assurance reports on disclosure statements clearer. As part of this, we have also tried to align the requirements better with standard practice for assurance reports: this seems a desirable objective in its own right. The principles are:

- We have tried to bring out the distinction between reasonable assurance and limited assurance reports, and be clear which parts of the required reports fall into which category.

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<sup>4</sup> International Standard on Auditing (New Zealand) 700 (Revised): Forming an Opinion and Reporting on Financial Statements

- We have aimed as far as possible to disentangle the auditor’s report on the financial statements required under the FMC Act from the other assurance reports required by the OICs.
- We have also aimed to make it clear that all required assurance reports are prepared in accordance with applicable auditing and assurance standards.

4.3.2 The following sections go through the proposed changes to the local OIC, as shown in the red-lined draft attached. Changes to the branch OIC are very similar, and are discussed briefly at the end of this section.

## 4.4 Revised Clause 7

4.4.1 The revisions to clause 7 are needed for consistency with all the following changes.

## 4.5 New Clauses 25A and 25B

4.5.1 Clauses 25A and 25B replace the current clause 20. Splitting the clause between the full-year and half-year statement allows the distinct treatment for half-year disclosure statements to be presented more clearly. We also think it creates a more logical order to move this material to fall within Subpart 2 “Content of disclosure statements”, and to come after the requirement that the disclosure statement must contain or be accompanied by financial statements.

4.5.2 We also propose to change the way that Schedule 1 hangs off the front material of the OICs, to align it with the approach used for all other Schedules. The standard approach is that the front material states that a disclosure statement must include the information prescribed in Schedule X, and Schedule X lists the required items of information. Currently, Schedule 1 does not follow this model, but instead includes instructions as “the auditor’s report must state that...”. The proposed clauses 25A and 25B adopt the standard approach.

4.5.3 Both clauses switch to using the general term “assurance report”, rather than referring specifically to an auditor’s report or a review statement.

4.5.4 In most instances for the half-year assurance report, all components of it are subject to limited assurance requirements, so we refer to the report as a whole as “a limited assurance report”. In all the other cases, the reports are combinations of limited assurance and reasonable assurance reports, so we have used the generic term “assurance reports”.

4.5.5 Apart from the required signature by the auditor, all of the details of what is required in assurance reports are left to Schedule 1.

## 4.6 Schedule 1: Old Clause 1

4.6.1 We propose to delete the current clause 1 “How this Schedule applies”. We have separated out the requirements for reasonable assurance reports on the half-year disclosure statement, if a bank opts for that approach, into the separate new clause 2. We think that this, combined with the new clause 25B, makes it sufficiently clear which assurance reports apply when, removing the need for the current clause 1. This approach also makes it simpler, in the new clauses 1 and 2, to specify which other disclosed information is subject to the reasonable assurance opinion: the lists of applicable OIC Schedules are now given in subclause 1(1)(c) for the full-year opinion, and subclause 2(1)(c) for the optional half-year opinion.



## 4.7 Schedule 1: New Material Across Clauses

- 4.7.1 In the proposed new Schedule 1, every reference to an assurance report, whether reasonable or limited assurance, will be qualified with the phrase “prepared in accordance with applicable auditing and assurance standards”. The aim of this is to anchor the nature of the required reports to the established assurance framework.
- 4.7.2 Currently, to describe the work done to provide a limited assurance opinion, the required statement wherever applicable in Schedule 1 is “that the information has been examined by the auditor”. But the term “examined” is not consistent with the limited assurance auditing standards. So we propose to replace this statement with the statement “that the auditor’s responsibility is to express a limited assurance conclusion”.

## 4.8 Schedule 1: New Clause 1

- 4.8.1 The new clause 1 is adapted from the current Schedule 1, clause 2, and splits the required assurance reports into the following two parts, to address the issue that part of the current single “auditor’s report” is limited assurance in nature:
- A reasonable assurance part, consisting of the auditor’s report on the financial statements, and a reasonable assurance report on the information required by specified Schedules. Although it would fit our objectives better if we could specify these as two distinct reports, we have had feedback that this is not realistic, given the extent to which banks often intermingle information forming part of the financial statements, with additional information required separately by the OIC.
  - A limited assurance part on the information on capital adequacy and regulatory liquidity requirements. We have simplified the way that the drafting distinguishes between the opinions for (i) banks that have been accredited to use internal models, and (ii) any other banks.
- 4.8.2 Subclause 1(1)(a) is drafted with the aim of deferring entirely to the FMC Act requirement for an auditor’s report on the banking group’s financial statements. This is to address the possible confusion in the current approach under which the Schedule 1 requirements duplicate or overlay the statutory audit report requirements.
- 4.8.3 Subclause 1(1)(b) specifies the required opinion on a bank’s compliance with conditions of registration and guidelines, revised as discussed above.

## 4.9 Schedule 1: New Clause 2

- 4.9.1 The proposed new Clause 2 applies broadly the same requirements as Clause 1, for the case where a bank opts for a reasonable assurance opinion on a half-year disclosure statement, with the necessary adjustments for differences in content between the full-year and half-year disclosure statement. The most significant difference arises because the required auditor’s report is on interim financial statements rather than financial statements: we have kept the existing required statement “whether or not, in the auditor’s opinion, the interim financial statements are prepared, in all material respects, in accordance with NZ IAS 34”.

## 4.10 Schedule 1: New Clause 3

- 4.10.1 In the proposed revised Clause 3, we have replaced the term “review statement” with “limited assurance report”. We have reorganised the wording to emphasise that the requirement is for a single limited assurance report. As part of this, the new subclause 3(2) sets out the full scope of the disclosed information covered by the report referred to in subclause 3(1): this includes the distinction between Schedule 11 for disclosure of capital adequacy and regulatory liquidity requirements by modelling banks, Schedule 9 for the same disclosure by non-modelling banks.
- 4.10.2 Subclause 3(1) specifies that the limited assurance report covers all of the information specified in subclause 3(2), while subclauses 3(1)(b), (c) and (d) specify the three different parts of the report in respect of the three subsets of the whole information required.

## 4.11 Consequential Changes in Schedules 2 and 3

- 4.11.1 In Schedule 2 clause 11 and Schedule 3 clause 7, we propose to change the implicit reference to an “auditor’s report” to the more generic “assurance report or reports”, consistent with the above. We propose to delete Schedule 2 clause 18 and Schedule 3 clause 13, as these requirements will be covered by clauses 25A and 25B in Subpart 2.

## 4.12 Variants for Branch OIC

- 4.12.1 Most of the above discussion of the changes proposed to the local OIC applies equally to the branch OIC. The following are the minor variations:
- Clauses 7, 20, 25A and 25B in the local OIC correspond to clauses 8, 21, 26A and 26B in the branch OIC.
  - The Schedules setting out the required items to be disclosed differ between the branch OIC and the local OIC, so the lists of Schedules setting the scope of various assurance reports required by Schedule 1 also differ between the branch OIC and the local OIC.
  - In the branch OIC, there is no equivalent of the local OIC distinction between banks accredited to use their own internal risk models for capital adequacy, and other banks. But the branch OIC does have a separate assurance opinion on the information on credit and market risk exposures and capital adequacy specified in Schedule 9 of the branch OIC – and this takes the same form as the separate assurance opinion, in the local OIC, on the information specified in Schedule 9 or 11 of the local OIC as applicable.
  - There are exactly corresponding consequential changes needed to Schedules 2 and 3, but the numbers of the affected clauses are different.

## 5 Feedback on Impact of Changes

- 5.1.1 Our intention is that the proposed changes will lead to assurance reports that are easier to navigate and more readable. This will be beneficial for anyone who reads assurance reports on registered bank disclosure statements. We expect that this readership is rather limited and mainly at the professional end of the spectrum of expertise.
- 5.1.2 **Question 1:** Do you agree that the changes will make assurance reports on disclosure statements easier to navigate and more readable? What types of reader do you expect to consider these reports?

- 5.1.3 We also expect the changes to reduce the ongoing burden for banks and their auditors in preparing and signing off assurance reports on disclosure statements. The superfluous sub-clauses that we propose to delete have large overlaps with requirements in audit standards but some are not exactly matching. Cutting these should remove a source of uncertainty and confusion. The general simplification of the way the requirements are expressed should also reduce banks' and their auditors' workload at the margin.
- 5.1.4 **Question 2:** Do you agree that the changes will reduce the cost of complying with the assurance requirements, for banks and their auditors?
- 5.1.5 We recognise that any change to specific mandatory requirements (other than direct cutting of the requirements) may impose some transitional costs, arising from the need to update existing processes and compliance manuals. However, we do not expect these to be significant, and believe that they will be outweighed by continuing savings in compliance costs subsequently.
- 5.1.6 **Question 3:** Do you agree that any transitional costs will be outweighed by the ongoing benefits thereafter?
- 5.1.7 We also welcome any other feedback on the proposals, including on the detailed drafting changes and on the draft Amendment Orders.

## 6 How to Make a Submission

- 6.1.1 We invite submissions on this Consultation Paper by 15 March 2022. Address submissions and enquiries to [jeremy.richardson@rbnz.govt.nz](mailto:jeremy.richardson@rbnz.govt.nz) with subject line: Consultation on Bank Disclosure Assurance Requirements January 2022.
- 6.1.2 Please note the disclosure on the publication of submissions detailed on page 1.

## 7 Next steps

- 7.1.1 The consultation closes on 15 March 2022. We will consider all feedback that we receive, and decide on next steps accordingly. If there is support for the proposals, we will need to recommend to the Minister of Finance that he advises the Governor General to make the two amending Orders in Council attached to this consultation, updated in line with any feedback we receive on their drafting.
- 7.1.2 Subject to that process, we aim to get the changes made in time to apply to disclosure statements with balance dates starting from 30 June 2022.