



Reserve Bank
of New Zealand
Te Pūtea Matua

Review of Policy for Branches of Overseas Banks

Consultation Paper, Implementation Considerations

7 November 2023

CONSULTATION
PAPER



Non-Technical Summary

Branches – What Are They?

An overseas bank wishing to operate as a registered bank in New Zealand can apply to register as either a locally-incorporated subsidiary, or as a branch of the overseas bank.

In some cases we allow an overseas bank to register both a subsidiary and a branch (this is referred to as 'dual registration').

The key difference between a locally-incorporated subsidiary and a branch is that the branch is part of a legal entity incorporated overseas. The branch operates its banking business in New Zealand (the 'host jurisdiction'), but the legal entity of which it forms part of is incorporated in another country (the 'home jurisdiction').

As a result, branches cannot be made subject to many of the requirements we impose on banks incorporated in New Zealand. We rely on a branch's compliance with regulation and supervision in its home jurisdiction.

Our Proposals

Following previous rounds of consultation we have published key policy decisions in the Branch Review, which include that dual-registered branches only conduct business with large wholesale customers. We received a large volume of feedback in response to our previous consultation paper about how we define large wholesale customers and the timeline for implementing the policy decisions.

This consultation paper outlines proposals for addressing some implementation considerations that have been raised through the Branch Review process. The first proposal only relates to dual-registered branches, while the second relates to all branches.

We propose:

- That a large wholesale customer be defined as such if it has either:
 - consolidated annual turnover of over \$50 million; or
 - net assets of over \$50 million.
- That the outcomes of the Branch Review will be implemented through either a Standard or conditions of licence issued under the Deposit Takers Act 2023 (DTA). Standards under the DTA are expected to commence in 2028.

Possible Impacts

Under the proposals outlined in this consultation paper, we expect that the business of dual-registered branches will be more delineated from their locally-incorporated subsidiaries than at present. This reduces the risk of "off-shoring" of services that are critical to the functioning of the New Zealand economy, while recognising the role that branches play in the provision of specialist financial services to large wholesale customers.

Relative to the proposals outlined in the second consultation paper, branches will be more able to serve what would be reasonably considered as large wholesale customers, by acknowledging that in some sectors of the economy businesses may be more likely to have higher assets and lower turnover.

We acknowledge that the proposed changes to the regulatory regime in New Zealand will have a substantial impact on some branches' operating models. We are therefore proposing to extend the implementation time, reflecting industry feedback. We are also proposing to align the implementation timeline with that of the DTA, which should represent a streamlining of the process for branches and the RBNZ as supervisor.

What's the Downside?

The proposed introduction of a large corporate and institutional customer threshold does represent some loss of flexibility for dual-registered branches relative to the status quo. However, we judge that this is offset by the increase in transparency, clarity and coherence in our regime for overseas deposit takers. We also note that these proposals offer dual-registered branches more flexibility than the proposals outlined in the second consultation paper.

What do you think?

Please refer to the consultation questions set out in Section 7 of this consultation paper.

You can send us your views by email to BranchPolicyReview@rbnz.govt.nz or in writing to:

Review of policy for branches of overseas banks,
Dynamic Policy
Prudential Policy Department
Reserve Bank of New Zealand
PO Box 2498
Wellington 6140

The deadline for submissions is 5pm on Tuesday 5 December 2023.

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1 Introduction

We are reviewing our policy in respect of branches¹ of overseas banks in New Zealand ('the Branch Review'). The Branch Review is relevant to both existing registered branches operating in New Zealand and to future applicants seeking registration.

Protecting and promoting the stability of the financial system is fundamental to promoting the prosperity and well-being of New Zealanders. To maintain a healthy and vibrant financial system we need Ngā Pekanga – our regulated entities, banks, insurers and non-bank deposit takers (NBDTs) – to be sound and innovative and have constructive working relationships with us.

Branches of overseas banks can be an important link between our economy and global financial markets. They provide valued services to New Zealand businesses and the wider economy. We recognise that our policy towards branches has developed over time, resulting in inconsistent outcomes for branches. As a result, our policy on branches can be difficult to interpret, which in itself can increase regulatory burden. The Branch Review seeks to address these issues, while also taking into account the unique challenges and risks that branches present to us, as kaitiaki of Aotearoa New Zealand's financial system.

The aim of the Branch Review is to create a simple, coherent, consistent and transparent policy framework for the regulation and supervision of branches that recognises the efficiency benefits they bring to our financial system and the economy, without imposing unnecessary impost on industry or our supervisory resources.

In October 2021, we published the [first consultation paper](#) of the Branch Review that set out the existing branch policy, the problem definition and assessment principles for the Branch Review, and some high-level policy questions and options.

In August 2022, we published the [second consultation paper](#) of the Branch Review that set out our proposed policy framework.

This third consultation paper refines our proposals in relation to the large corporate and institutional customer threshold, the means of implementing the key decisions and the timeline for implementation.

The proposals in Section 3 will only directly impact dual-registered branches and their customers, but may be of interest to all overseas banks operating (or considering operating) in New Zealand. Section 4 relates to the implementation of the Branch Review decisions and therefore impacts all registered branches and prospective new entrants.

¹ In this consultation paper we refer to a branch to mean that part of an overseas bank that operates in New Zealand, rather than a retail location where a bank makes services available. In this context, a branch is a part of a legal entity incorporated overseas, and can be contrasted with a bank that is incorporated in New Zealand.

2 Background

2.1 Definitions

An overseas bank wishing to operate as a registered bank in New Zealand can apply to register as either a locally-incorporated subsidiary, or as a branch of the overseas bank. In some cases we allow an overseas bank to register both a subsidiary and a branch (this is referred to as 'dual registration').

The key difference between a locally-incorporated subsidiary and a branch is that the branch is part of a legal entity incorporated overseas. The branch operates its banking business in New Zealand (the 'host jurisdiction') but the legal entity of which it forms part is incorporated in another country (the 'home jurisdiction'). As such, branches are not subject to many of the requirements we impose on banks incorporated in New Zealand to advance our objectives. We rely on a registered branch's compliance with the requirements that apply in its home jurisdiction.

Internationally and in New Zealand:

- Subsidiarisation, or local incorporation, tends to be associated with overseas banks with a focus on establishing and maintaining a retail funding base in the host jurisdiction, justifying the allocation of capital by the overseas bank to the subsidiary. It comes with greater costs relative to branching – in terms of establishment and ongoing regulatory costs as well as investment in local infrastructure and staffing – but also has benefits depending on the nature of the bank's business, and differences in the economic, tax and financial systems that exist in the home and host jurisdictions.
- Branching tends to be associated with large banking groups where there are efficiency and productivity gains from operating across jurisdictions. These are related to the sourcing and allocation of capital and liquidity across borders, the tax implications of those decisions, the regulatory treatment and costs in different jurisdictions, and efficiency gains from the centralisation of risk management and treasury functions within the overseas bank. Operating as a branch may be a cost effective way to provide specific services to certain types of customers (for example, trade finance to large exporters or global treasury and payment services to multi-national corporate and institutional clients).

However, home regulators and supervisors may not be incentivised to:

- apply a high level of scrutiny to a branch's operations in New Zealand;
- take into account the potential economic, fiscal and social impact of a default and/or failure by the branch in New Zealand; or
- notify us of problems at the entity, for fear it would motivate us to try to ring-fence the assets of the branch in New Zealand (which might destabilise the entity in its home jurisdiction).

These asymmetries or competing interests present challenges, in terms of information sharing, and ultimately in how confident we are in the effective regulation and supervision of our registered branches.

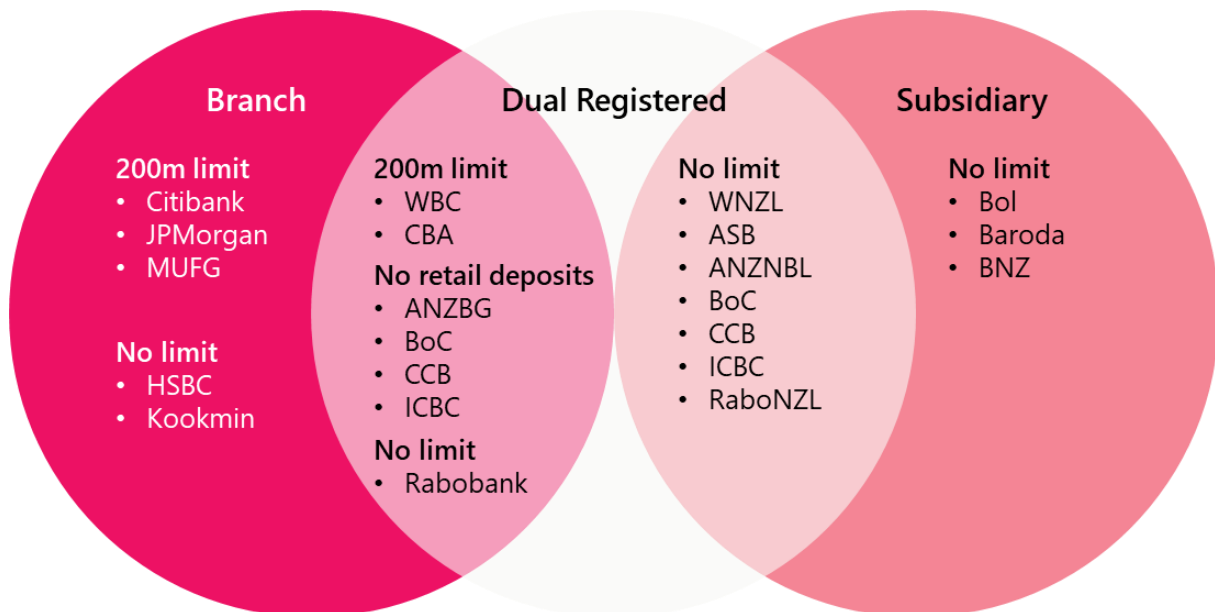
Overseas banks that wish to undertake limited wholesale business in New Zealand may be able to do so without applying for registration, if they are within scope of the current class authorisation.

This consultation paper does not relate to those activities or that class authorisation. For further information see the [New Zealand Gazette](#) and [our website](#).

2.2 New Zealand's Branch Landscape

Of our 27 registered banks, 22 are foreign-owned,² of which 12 are branches, with 5 stand-alone and 7 dual-registered. Branches represent less than 10% of the banking system's total assets. Retail deposits taken by branches represent a much smaller proportion of the retail deposits of the banking system.³

Figure 1: Foreign-owned registered banks (with retail deposit-taking limits)



2.3 Existing Branch Policy

At the outset of the Branch Review, the existing branch policy was such that a foreign-owned bank was required to incorporate locally (ie, not allowed to be registered as a branch) if it:

- had more than NZ\$15 billion in liabilities (net of internal group liabilities) or was expected to exceed this limit in the 5 years following registration; or
- had more than NZ\$200 million in retail deposits and either depositor preference applied in its home jurisdiction or it did not provide adequate disclosure; or

² The domestic banks are Heartland, Kiwibank, Southland Building Society, The Cooperative Bank and TSB.

³ Publicly available data on total branch assets may be found in banks' disclosure statements.

- was incorporated in a jurisdiction that has non-comparable supervisory arrangements and governance standards.

Our policy was to allow dual registration of a branch if the criteria above were met and the branch was not permitted to take retail deposits.

However, our policy on registering branches, and the conditions that should apply to them, developed over time. As a result, different branches were subject to different conditions of registration, which did not result in a level playing field.

2.4 Deposit Takers Act 2023

The Deposit Takers Act 2023 (DTA) received royal assent in July 2023. The DTA introduces a new regulatory regime for deposit takers in New Zealand.

Under the DTA, the Reserve Bank will regulate, supervise and set standards for all deposit takers within a single regulatory regime. Deposit takers comprise a range of entities including banks, building societies, credit unions and finance companies. These entities are currently regulated separately as banks and licensed NBDTs under separate regulatory regimes. The DTA is expected to be fully implemented in 2028, at which point deposit takers will be prudentially regulated under a set of standards.

There are no overseas-owned NBDTs currently registered in New Zealand and by extension the Reserve Bank does not have a policy relating to the regulation and supervision of NBDT branches. The proposed framework for regulating and supervising branches of overseas banks developed through the Branch Review will apply to all branches of overseas deposit takers licensed under the DTA.

2.5 Decisions so far in the Branch Review

Following the second consultation paper, the Reserve Bank's Board has taken a series of key decisions in the Branch Review. These decisions, and the proposals in this consultation paper, use the problem definition and assessment principles detailed in Appendix 1. The key decisions are outlined in more detail, along with appropriate analysis, in the RIS published alongside this consultation paper. In short:

- all branches in New Zealand will be restricted to engaging in wholesale business (that is with corporates, institutions and other wholesale investors), meaning they could not take retail deposits or offer products or services to retail customers;
- the maximum size of a branch will be limited to NZ\$15 billion in total assets; and
- we will continue to allow the dual registration of branches, provided:
 - the relevant subsidiary and branch are sufficiently separate, and any identified risks are mitigated by specific conditions; and
 - dual-registered branches only conduct business with large wholesale customers.

We intend to seek greater integration and engagement with branches' home authorities – to the extent possible – to improve our understanding of the risks faced by relevant overseas banks and their potential impact on our financial system.

The large corporate and institutional customer threshold was the most novel part of the proposals in the second consultation paper, in that it introduced an entirely new requirement for banks, rather than modifying an existing requirement or applying it to a broader range of entities. The primary motivation for proposing the large corporate and institutional customer threshold was to mitigate the risk that services that are critical to the NZ economy are “off-shored”. If this off-shoring happened, then a branch exit could lead to single-banked SMEs losing access to critical services. The intention of the previously proposed NZ\$50 million consolidated annual turnover definition was to identify the largest and most sophisticated businesses, who are most likely to be multi-banked.

3 Large Corporate and Institutional Customer Threshold

3.1 Rationale

The RIS outlines that Reserve Bank will continue to permit dual registration, subject to appropriate risk mitigants. Key concerns with allowing dual-registered branches are:

- the potential off-shoring of critical functions and services for the economy that are currently maintained in the locally-incorporated subsidiary (eg, FX and derivatives); and
- the possibility that these functions and services would become unavailable in the event of: disruption at the branch; a re-allocation of resources at the overseas bank; or a change in regulatory or supervisory approach in the bank's home jurisdiction (Principle 1).

3.2 Previous consultation and feedback

As a result, we proposed in the second consultation paper that dual-registered branches should be permitted to conduct business only with large corporate and institutional customers. We also proposed that this would be assessed on an ongoing basis.

The aim of this restriction was to:

- preserve the ability of the locally-incorporated subsidiary to provide products and services that may be important to small- to medium-sized wholesale customers that play an important role in our financial system and our economy – our assumption is that smaller entities are likely to have fewer banking relationships than large corporate and institutional entities; and
- mitigate the risk of regulatory arbitrage by requiring assets of customers below the threshold to be retained within the locally incorporated subsidiary.

We invited feedback on the proposed threshold. We were interested in particular in feedback on whether a NZ\$50 million consolidated turnover threshold was sufficiently high to achieve the intended aim of this proposal – whether the business retained within locally-incorporated subsidiaries as a result of this proposal would be of sufficient economic scale to justify the continued provision of the relevant products and services by the locally-incorporated subsidiaries.

We received a high volume of feedback on the definition of large corporate and institutional customers, which is detailed in the summary of submissions we have released alongside this document. The feedback we received from respondents was that the nature and type of institutional customers are quite diverse, with some having high turnover and others having lower turnover, but a large amount of assets.

Having considered this feedback, we agree that it is possible to refine the definition such that it achieves the policy goals as effectively as the previous definition, while reducing compliance costs for branches and negative impacts for their customers.

Feedback on this point took into account certain assumptions, including:

- the proposed NZ\$15 billion total asset threshold for local incorporation;
- the scale of the arbitrage opportunity that will exist for different dual-registered branches (which will depend on the capital and other regulatory requirements imposed on branches in their home jurisdiction, among other factors); and
- the different business models of existing registered branches and potential future applicants.

3.3 Application of Assessment Principles

Using the accepted assessment principles for the Branch Review (see Appendix 1), the revised definition of the large corporate and institutional customer threshold should:

- recognise the role of branches in the provision of financial services (Principle 3): dual-registered branches can offer access to the balance sheets and credit ratings of parent banks, which can be helpful in delivering large and/or sophisticated financial products. These services are particularly beneficial for large corporate and institutional customers;
- result in consistent outcomes (Principle 4): we do not want to exclude businesses from interacting with dual-registered branches on the basis of their sector and different models for organising their balance sheets (e.g., agriculture/food). We also note that for branches to be “supporting the economy in good times and bad”, we do not want to drive perverse outcomes from the fluctuations of businesses’ balance sheets in a stress event;
- be transparent (Principle 5) and practical to administer (Principle 6); and
- be proportionate (Principle 1) and result in no material adverse impacts on the separability of dual-registered banks (Principle 2).

3.4 Options

Metrics Used in threshold

We are now proposing that the large corporate and institutional customer threshold should allow businesses to qualify based on either their turnover or assets being above a threshold.

Respondents to the second consultation paper told us that the previous definition based only on turnover did not achieve the policy intent of capturing large corporate and institutional customers

as effectively as possible. We have therefore reconsidered the metrics used in the threshold and then the calibration of these metrics in the threshold.

Based on the consultation feedback, we identified that there were three options for selecting the metrics to be used in the threshold:

1. **Turnover only** – this is the option presented in the second consultation paper, and is the simplest (Principle 5) and most practical to administer (Principle 6), but has limitations for some sectors (including agriculture/food) and in a stress event (eg, large retail/hospitality businesses during the Covid-19 pandemic).
2. **Turnover or net assets** – this would allow businesses to qualify based on either their turnover or assets being above a threshold, which is consistent with how “large” investors are defined in the Financial Markets Conduct Act 2013 (“FMC Act”) (Principle 5), and it also better recognises the role branches play in the provision of financial services in good times and bad (Principle 3). **(Preferred Option).**
3. **A multi-pronged definition** – this would be similar to one proposal made by a respondent, but on balance we judge that this offers minimal benefits above Option 2 in terms of Principle 3, while being less transparent and practical to administer, and more bespoke for this regulation (Principles 5 and 6).

On balance, **we propose to use Option 2** to include a turnover or net assets test, defined on a similar basis as in the FMC Act. This would result in a broader definition of large corporate and institutional customers than was proposed in the second consultation paper. The refined definition is also more representative of what both the Reserve Bank and industry think of as large corporate and institutional customers. Option 2 offers benefits on Principle 3 over Option 1 without imposing significant costs under Principles 5 and 6. Option 3 imposes Principle 5 and 6 costs that outweigh the Principle 3 benefits, relative to Option 2. Dual-registered branches would be able to conduct business with a customer if they meet one or both of these tests.

Calibration of Threshold

We propose setting both the turnover and net assets thresholds at NZ\$50 million.

We conducted some analysis of the impact that setting the threshold at a different level would have on the number of businesses that would be able to interact with dual-registered branches, though there are some limitations in the data available on business balance sheets. We concluded that:

- Increasing the turnover threshold from NZ\$50 million to NZ\$100 million would roughly halve the number of eligible businesses, as would increasing it from NZ\$100 million to NZ\$200 million;
 - Based on analysis of data from 2022, businesses that would meet a NZ\$50 million threshold but not meet a NZ\$100 million threshold represent:
 - less than 10% of total income (and less than 20% of total income of all business with sales >NZ\$50 million); and

- less than 5% of total assets (and less than 10% of total assets of all business with sales >NZ\$50 million).
- the impact of a NZ\$200 million threshold relative to a NZ\$100 million threshold would be similar to the relationship between a NZ\$100 million threshold and a NZ\$50 million threshold described above⁴.
- one of the consulted banks has reported that adding a net asset threshold (NZ\$50 million) would approximately increase the number of eligible business by less than a factor of 2, relative to only having a turnover threshold; and
- for some businesses the magnitude of their net assets is greater than their annual turnover, however, this varies by sector. For instance, agriculture/food, primary industry and infrastructure businesses generally have a much lower ratio of turnover to assets and are therefore more likely to be newly eligible under this change.

On the basis of our analysis and consideration of the assessment principles, we propose setting both the turnover and net assets thresholds at NZ\$50 million. This is consistent with the approach taken in the FMC Act, in setting both thresholds at the same level and using an “or” test. The FMC Act defines “large” investors as those with turnover or net assets of over NZ\$5 million. The key motivation for introducing this threshold was to ensure that dual-registered branches only conduct business with customers that are likely to be multi-banked and would therefore less impacted by a branch exit than if the dual-registered branch was providing all of their banking services. We judge that the refined definition still satisfies this motivation while reducing the costs to branches and their customers.

Based on information supplied by consulted banks, we judge that most dual-registered branches already conduct the majority of businesses with customers that meet this definition. In cases where an existing customer of a dual-registered branch does not meet this definition, we judge that these services can be or are generally offered by the locally-incorporated subsidiary in the banking group. We therefore judge that any adverse impacts of this proposal on competition and financial inclusion would be marginal. We welcome feedback on this point in particular.

3.5 Other Considerations

Timing and Duration of the Threshold Assessment

In the second consultation paper, we proposed that the consolidated turnover of the customer should be assessed on an ongoing basis. Several respondents to the second consultation requested clarity on when the consolidated turnover of the customer should be assessed. One suggested that this should be assessed only at the client on-boarding stage. Another proposed that once a customer meets the turnover threshold, they should retain qualification for the greater of 5 years or until the committed maturity date of their lending facility.

One proposal was that the assessment should be made at the time a customer enters into a transaction with the branch. This would align with the policy intent as well as how the FMC Act definition is applied (at the time of an offer of financial products). In response to this feedback, we

⁴ Source: Own elaboration based on [2022 Annual Enterprise Survey \(provisional\)](#) – Stats NZ.

intend to add further guidance to clarify what we mean by “ongoing basis”, which is consistent with the FMC Act approach.

Paragraph 44 of Schedule 1 of the FMC Act allows a person to certify themselves as a wholesale investor for 2 years. It is also reasonable that customers remain certified until the committed maturity date of any transactions they enter into with a dual-registered branch. We propose to introduce guidance relating to the certification of large corporate and institutional customers through the development of a standard for the regulation and supervision of branches, which is expected to be implemented in 2028. We propose that this guidance will allow customers to remain certified for 2 years or until the maturity date of the last transaction made while the certificate was effective, whichever is longer. For clarity, this guidance will apply to both limbs of the definition (net assets and turnover).

NZ V Global Business

Given the purpose of the threshold is to protect businesses in a scenario where global capital flows are inhibited, we judge that the size of the business in New Zealand is a more relevant consideration than the size of the global business. However, we note that multiple submissions proposed that a customer’s financial information should be assessed at a global level, rather than based on their New Zealand assets and/or turnover.

We propose that the size of the business in New Zealand will be used for the threshold assessment.

3.6 Dual Registration Policy Proposal

In summary, the Regulatory Impact Statement published alongside this consultation paper communicates that we have decided to continue to allow dual registration subject to appropriate risk mitigants that include:

- dual-registered branches only being permitted to conduct business with large corporate and institutional customers;
- additional reporting requirements for dual-registered branches (see CP2 Section 4); and
- our proposed supervisory approach for assessing whether branches should face bespoke requirements (see CP2 Section 5) that would:
 - identify critical functions of the branch (and the New Zealand group); and
 - assess whether the home jurisdiction resolution plan is, in our view, likely to avoid significant disruption to the supply of those critical functions in New Zealand.

The third point would be an important feature of our initial and ongoing assessment of branches and is expected to dovetail with our resolution planning for branches in future, as contemplated by the DTA.

In this consultation paper, we propose a revision to the risk mitigants proposed in the second consultation paper such that:

- A large corporate and institutional customer be defined as such if it has either:

- Consolidated annual turnover of over \$50 million; or
- net assets of over \$50 million.

We judge that the marginal impacts of these proposals relative to those set out in the second consultation paper would be to reduce compliance costs for dual-registered branches, better recognise the role that branches play in the provision of large and/or sophisticated services to large wholesale businesses, and have negligible impact on the separability of dual-registered banking groups.

Our view remains that the supplementary proposal to introduce a large corporate and institutional customer threshold is proportionate to the risks to financial stability (Principle 1), would be transparent (Principle 5), and practical to administer (Principle 6). Additionally, we judge that this would maintain the efficiency benefits of branching (Principle 3) in terms of competition in wholesale markets, innovation and the availability of specialist services and products. We think there is merit in collecting feedback on the revised proposal now that the key decisions in the Branch Review have been communicated to stakeholders.

Q1 Do you have any comments on the choice of metrics in the refined large corporate and institutional customer definition?

Q2 Do you have any comments on the calibration of metrics in the refined large corporate and institutional customer definition?

4 Implementation Timeline and Transitional Arrangements

4.1 Overall Timeline

We recognise that the key decisions in the Branch Review may require material changes to the business models of some existing branches. They may also require the variation, removal and/or addition to prudential requirements for existing branches.⁵

In the second consultation paper, we proposed that the policy changes would be implemented through branches' conditions of registration under the BPSA. Having considered the submissions in response to that consultation paper, and noting that the DTA has now received royal assent, we are proposing an altered implementation timeline.

We propose that the policy changes are implemented through a Standard or conditions of licence issued under the DTA, with which all branches will have to comply. This Branch Standard will include substantively the same requirements as the exposure draft of the Banking Prudential Requirements that was included in the second consultation paper. There will be a public consultation on the exposure draft of the Branch Standard.

All branches will have to comply with the Branch Standard by the commencement date for the DTA Standards, which is currently expected to be in 2028. This change represents a streamlining of

⁵ The new requirements are outlined in the proposed Branch BPR and Conditions of Registration in Appendix 2.

the process for both RBNZ supervisors and regulated entities, relative to the previous proposals. It allows for a longer implementation timeline than contemplated in the second consultation paper.

4.2 Licensing Process

All overseas deposit takers that intend to continue operating as branches in New Zealand following the commencement of the DTA will have to undergo a licensing process. Our expectation at this stage is that the Branch Standard will not be one of the Core Standards described in clause 8 of Schedule 1 of the DTA. However, the licensing process for branches registered under the BPSA may include an assessment of their ability to comply with the outcomes of the Branch Review.

We do not propose to update our jurisdiction equivalence assessments as part of this process. If a registered branch is currently subject to a condition of registration that was imposed due to the non-equivalence of its home regime (e.g., a limit on the size of its total assets), the equivalent provision in our proposed additional conditions of registration can be expected to apply to the branch.

4.3 Depositor Compensation Scheme

The Depositor Compensation Scheme (DCS) is to be introduced in late 2024 and it is likely some branches will still hold retail deposits at this point. The regulation for individual deposit takers from the DCS is under development, and will be consulted with industry and finalised a few months before the DCS comes into place. The implications for any exempted deposit takers will need to be considered in more detail as the proposals for the DCS develop.

The threshold for determining wholesale customers could be considered as one of the criteria for assessing whether an entity might be exempted from the DCS. More details on these criteria are to be included in the upcoming consultation regarding DCS exemption regulation, which is expected to be released in early 2024.

Any applicants for branch registration during the transition period will be expected to demonstrate to us that they are able to comply with the proposed DTA Branch Standard.

Q3 Are the proposed transitional arrangements and timeline appropriate for implementing the proposals outlined in the paper?

5 Financial Policy Remit

The Financial Policy Remit issued by the Minister of Finance on 1 July 2022⁶ emphasises the desirability of a strong, efficient and inclusive financial system, with a low incidence of failure of regulated entities. It also signals that we should encourage a competitive financial system and consider climate change, financial inclusion, cyber resilience and supporting sustainable house prices. RBNZ's Board is required to have regard to the Financial Policy Remit when acting in relation to prudential strategic intentions and standards, as set out in section 49 of the RBNZ Act

⁶ [Our Financial Policy Remit - Reserve Bank of New Zealand - Te Pūtea Matua \(rbnz.govt.nz\)](https://www.rbnz.govt.nz/our-financial-policy-remit)

2021. The accompanying RIS refers to the Financial Policy Remit in light of the Board's duty to have regard to it when making policy decisions of this nature.

6 Consultation Process

The consultation period runs until 5pm on 5 December 2023. We expect to publish a summary of submissions alongside our final decisions on these implementation considerations in the first half of 2024.

We will facilitate workshops and other meetings during the consultation period, to discuss the issues presented in this paper, subject to demand. Please email us at BranchPolicyReview@rbnz.govt.nz if you would like to arrange a meeting.

7 Consultation Questions

Your feedback is important. This consultation provides you with the opportunity to give your views on, and any information relevant to, proposed changes to our policy regarding the registration, regulation and supervision of branches of overseas banks. The main text of this Consultation Paper includes some questions you may wish to respond to. A consolidated list of the questions is set out below. Comments do not need to be made in respect of all the questions. You may focus on those areas that are of most importance to you. Comments are welcome on any other matters you consider relevant to the review of policy for branches of overseas banks. Submissions that provide commentary and analysis in support of your views are particularly helpful, including the linkage to the objectives and principles of the legislation.

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 Banking (Prudential Supervision) 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, we will make our own assessment of what must be released taking into account the respondent's views.

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

7.1 Questions

- Q1** Do you have any comments on the choice of metrics in the refined large corporate and institutional customer definition?
- Q2** Do you have any comments on the calibration of metrics in the refined large corporate and institutional customer definition?
- Q3** Are the proposed transitional arrangements and timeline appropriate for implementing the proposals outlined in the paper?

7.2 Contact Details

All responses should be emailed to BranchPolicyReview@rbnz.govt.nz or sent to:

Review of policy for branches of overseas banks
Dynamic Policy
Prudential Policy Department
Reserve Bank of New Zealand
PO Box 2498
Wellington 6140

We welcome submissions until 5pm on Tuesday 5 December 2023.

8 Appendix 1 – Problem Definition and Assessment Principles

8.1 Problem Definition

In the early stages of the Branch Review, we identified three key issues relating to the regulation and supervision of branches of overseas banks that merited consideration:

- current policy was not applied consistently to our branch population;
- there were inherent limitations on our ability to apply regulatory standards to branches, with implications for our financial stability objective; and
- there were inherent conflicts of interest between home and host supervisors, again with implications for our financial stability objective.

8.2 Assessment Principles

The Branch Review has used six assessment principles to develop the set of policy recommendations outlined in this paper. These principles are consistent with the Reserve Bank's functions stated in the Reserve Bank of New Zealand Act 2021 (RBNZ Act). They are also consistent with the purposes and principles in the DTA. Refer to our analysis in section 3.2 of the Regulatory Impact Statement (RIS) for further information. As such, we expect the rationale for the proposed policy settings to be enduring. These are that branch policy should:

- Principle 1 be proportionate to the risks that branches present to financial stability, having regard to the inherent limitations in our ability to address risks at branches through prudential standards, and the inherent disadvantages we face as a host supervisor;
- Principle 2 recognise the need for a credible resolution strategy for branches and, in the case of dual-registered branches, the locally incorporated subsidiary in order to promote financial stability;
- Principle 3 recognise the role of branches in the provision of financial services; their value in supporting the economy in good times and bad; and their contribution to a diverse and resilient financial system that caters to the needs of corporates and households (including through competition and innovation); and thereby promote financial stability;
- Principle 4 result in consistent outcomes for branches in New Zealand, supporting a level playing field, while remaining flexible enough to apply supervisory adjustment;
- Principle 5 be transparent, and aligned with international standards where appropriate, to allow branches (and new applicants) to understand and meet requirements cost effectively; and
- Principle 6 be practical to administer and minimise unnecessary supervisory costs.

These principles were intentionally designed to be broad, to enable the Branch Review to be comprehensive. When thinking about a proportionate response to the risks posed by branches of overseas banks, our approach will be calibrated differently to our approach in respect of branches of overseas insurers, because the risks to financial stability are of a different nature.