

16Nov2022

Prudential Policy Department
Reserve Bank of New Zealand
PO Box 2498
Wellington 6140

BranchPolicyReview@rbnz.govt.nz

SUBJECT:

**Review of policy for branches of overseas banks, Dynamic Policy
Consultation Responses – from China Construction Bank New Zealand (CCB NZ)**

Also copied to:

s9(2)(a)

Reserve Bank of New Zealand
Level 13, Tower Two, 205-209 Queen St, Auckland 1010
PO Box 5240, Victoria St West, Auckland 1142

Dear Policy Team:

As requested, CCB NZ provides the following responses for the questions listed in the <<Review of Policy for Branch of Overseas Banks>>;

[Q1]	Do you have any comments on the proposed primary policy settings?	<p>Proposal - that all branches in New Zealand 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</p> <p>Response - Agreed</p> <p>Proposal - to limit the maximum size of a branch to NZ\$15 billion in total assets</p> <p>Response – We do not expect the NZ\$15 billion asset threshold to constrain our existing branch in the short term. We consider the costs of compliance with an asset threshold relative to a net liability threshold to be immaterial and accordingly are supportive of the proposed limiting of total branch assets to a maximum of NZ\$15 billion. We are similarly supportive of the proposal for the local incorporation</p>
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threshold to be reviewed at least once every 5 years, and that it may be amended, depending on the RBNZ's assessment of the risks and benefits to the financial system as a result of the implementation of the Review of Policy for Branches of Overseas Banks, and the RBNZ financial stability and prudential objectives.

Proposal - to 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 of registration; and
- dual-registered branches only conduct business with large wholesale customers – those with consolidated turnover greater than NZ\$50 million.

Response - CCB NZ Branch loans and advances currently has a mix of Corporate loans of large (institutional) (>NZ\$50 million turnover) and medium sized clients (NZ\$1 – 50 million turnover). These loans have been recorded and allocated based on existing FMC and RBNZ turnover definitions for the Bank Balance Sheet survey. Restricting branches to conducting business with large wholesale investors only will mean migrating existing customers from the Branch to Subsidiary which will require carrying materially more capital to meet Regulatory requirements.

Here, CCB NZ is seeking clarification on the following in regards to the above 50 Mil NZD test:

1. Time of effective; will there be a “grand-father” rule covering all existing Branch wholesale clients at the time of full policy implementation (1APR2026)? For banking groups such as CCB NZ with 31 December balance dates, we also question whether full policy implementation can be from 1 July 2026? This will enable alignment with the disclosure statement dates.

2. Will the 50Mil NZD turn over test ONLY be applied at the time of client on-boarding stage? Or the frequency of re-assessment?
As the clients business will run thru up and down, we believe it will make sense that the 50 Mil NZD turn over should ONLY be tested and checked at the client on-boarding stage.

If there is a frequency of re-assessment, then there is a possibility that the client might have to be migrated to the Sub due to his/her business volume at that time; which in worst case will affect the operation of the Sub, .e. change in Capital ratio and liquidity risk management (CFR).

3. How should we deal with overseas wholesale clients which don't meet the NZD 50 Mil turn over requirement?

		<p>Currently the Branch is providing services to not only NZ local customers, but also to overseas clients (and in particular CCB mainland China domestic clients), and this is one of the purposes of CCB NZ's presence in New Zealand. We believe the 50 Mio NZD (which is the equivalent of CNY over 200 Mil) turn over rule should ONLY apply to NZ domiciled (registered) clients.</p>
<p>Q2</p>	<p>Do you have any comments on the proposed changes to reporting, governance and disclosure?</p>	<p>Proposal - to require disclosure of balance sheet data by all branches on a solo and consolidated New Zealand group basis</p> <p>Response – CCB acknowledges the potential for improved transparency that would come from branch reporting on a solo and consolidated New Zealand group basis. We are therefore supportive of this proposal and as data is readily available, we anticipate minimal issues in the reporting thereof.</p> <p>Signing of Disclosure Statements</p> <p>We note also the potential for changes in signing protocols as they may impact the branch. Pending further policy work, we are happy to get the disclosure statement signed off by any director, officer, or employee of the NZ incorporated registered bank.</p> <p>However, CCB Head office directors and also local directors including EY auditors and Companies office will need to be informed of the proposed changes if this policy is implemented; and we believe the time of Branch GDS submission should be in-line with the Sub's GDS submission.</p> <p>Notification of Home Jurisdiction Changes</p> <p>Proposal - that branches be required in their Conditions of Registration to notify the RBNZ of any material changes to the home regulation and supervision of the overseas bank. Examples could include changes to capital, liquidity, governance or resolution requirements or how connected exposures are treated by the home regulator. If branches were to retain the ability to take retail deposits, this notification requirement would apply to the introduction, or material changes to the terms, of any depositor compensation, insurance or depositor preference regulation, laws or administration in the home jurisdiction.</p> <p>The determination of what constitutes a material change will be a slightly subjective judgement, but should be considered in the context of its potential effect on the creditors of the branch in New Zealand and the broader implications for financial stability in New Zealand. This proposal will support the effective operation of the proposed supervisory approach. More detail on the proposed changes can be found in the draft Conditions of Registration in Appendix 2.</p> <p>Response – we have no issues with this proposal in principle, but do question whether what constitutes a material change will be just a slightly subjective judgement.</p>

		<p>We would suggest that it could be somewhat more definitive rather than judgmental. In order that the potential benefits of sourcing such information are realized, we question how active the RBNZ will be in itself continuing to seek such information from home jurisdiction or other relevant supervisors? Has the sourcing of such information from credit rating agencies been considered?</p> <p>This would enable benchmarking of data received and assist with validating what could be considered a material change. Internal processes will necessarily need to be setup with various CCB HO departments for on-going monitoring of any changes to home regulation.</p>
<p>Q3</p>	<p>Do you have any comments on the proposed supervisory approach?</p>	<p>Supervisory Approach - we acknowledge the RBNZ's intent to provide more clarity on their supervisory approach: how they assess whether or not the home jurisdiction of the branch has equivalent regulatory and supervisory standards; and what conditions of registration or supervisory measures might be applied to branches to mitigate the risks associated with non-equivalence. We note that many global supervisors seek to ensure that firms can be effectively supervised and that the stability of the respective financial systems are stated imperatives.</p> <p>Are there opportunities to co-operate and information share with other equivalent regime regulators who may have dealings with the same home state regulators as the RBNZ but who, because of their relative size as financial centres, can obtain further information on the home state regulations?</p> <p>We note the proposal for the RBNZ to update their equivalence assessment for each jurisdiction that has a branch registered in New Zealand at least once every 5 years. Whilst we appreciate the recognition that the equivalence status of regimes may change, we also note the proposal that branches notify the RBNZ of any material changes in home regulation and supervision of the overseas bank. This raises the question of what possible material changes in home regulation and supervision could lead to an updating of the equivalence assessment.</p> <p>Proposal - currently, the RBNZ assesses a prospective branch against the registration requirements set out in the Act at the same time that they perform the initial jurisdiction assessment, prior to registration as a bank. The RBNZ proposes to conduct a subsequent institution assessment for each registered branch at least once every 5 years.</p> <p>Response – CCB NZ in principle agrees with the above Home-Equivalency Test; however, given the impact to our current operation and our on-going interest in expanding the asset limitation (Branch to the Sub), we have the following requests for further clarification and suggestion:</p> <p>1. The frequency of Home-Equivalency test; proposed 5 years; CCB NZ suggests to shorten the frequency to be every 2 years.</p>

	<p>Reason: RBNZ has already made request for Branches to report or update material jurisdiction changes from home regulator, which can greatly help RBNZ continuing assess the equivalency situation; therefore, we believe 5 years might seem to be too long; thus suggest to shorten it to be 2 years.</p> <p>2. Given the apparent significance of a non-equivalent assessment, CCB NZ URGES to have a more clear and transparent access to how the Home-Equivalency assessment is conducted. Currently, the result of home-equivalency test is given to each Financial institution under the tested region. To be more fair, CCB NZL would suggest RBNZ :</p> <p>2.1 – Scorecard approach based Home-Equivalency Test; and the contents of the Scorecard can be made publicly available;</p> <p>2.2 – Rough Assessment Matrix or key points on how the Home-Equivalence test was conducted</p> <p>2.3 – CCB NZL urges to have an assessment reporting (or information sharing) session once the Home-Equivalence test is done on our home regulator; Chinese Banks will be happy to feed the info to our home regulator and keep being a friendly bridge between NZ and China Regulators.</p> <p>3. CCB NZL urges to relax the current 1:1 ratio into 1: N, depending on RBNZ’s assessment (on Risk and Compliance framework) to that particular institution. The Branch will inherit the benefit from Parent company on Capital strength and funding advantage to help local economy. Or CCB NZL proposes to further clarify that all off-shore (non NZ based) assets WILL NOT be part of the 1:1 limit calculation.</p> <p>4. CCB NZL would also like to seek clarification on when will the next Home – Equivalence test be conducted?</p> <p>Proposal – the RBNZ proposes to consider proportionality in both the narrow sense of determining whether additional risk mitigants should be added to a branch’s conditions of registration, and in the broader context of determining the intensity of their supervisory approach for a branch.</p> <p>The RBNZ proposes that there should be some differentiation for branches with less than NZ\$5 billion in total assets, in terms of whether additional conditions are applied. This metric would be consistent with the proposal to move to an asset based local incorporation threshold, and should therefore not introduce further compliance costs. This would mean that smaller branches with less than NZ\$5 billion in total assets would face a less intensive supervisory approach, where the RBNZ would only impose the standard branch conditions, or standard dual-registered branch conditions, as relevant.</p> <p>Response – Will need to be collectively discussed with peer banks if they prefer to be guided by Branch BP Requirements. Note here that research</p>
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	<p>suggests that retail banking activities tend to have a greater impact on financial stability than wholesale activities.</p> <p>Proposal – should the RBNZ identify that the branch is not appropriately managing liquidity risk, they may require branches to ring-fence certain liquid assets on the balance sheet of the New Zealand branch. The RBNZ’s separate review of liquidity policy will be considering whether liquidity requirements should be applied to branches.</p> <p>Response – CCB acknowledges the potential supervisory benefits from having additional branch liquidity requirements. However, given this would arise where the branch is deemed to not be appropriately managing liquidity risk, it is imperative that the RBNZ’s delivery of such an assessment is made with absolute clarity on what would be required to demonstrate. Since the Branch Liquidity is supported (with no limits) by the parent company, we believe the above Branch Liquidity management should be analyzed in full with the Parent support (provided to RBNZ with evidence).</p> <p>Proposal – should the RBNZ find that the overseas bank’s risk management processes are not proportionate to the risks the branch poses to financial stability in New Zealand, they may take the view that it is appropriate for the branch to be required to have an audit committee, in line with the requirement for locally-incorporated banks. This would require the committee to have at least three members, all of whom must be non-executive. The majority of the members of such a committee, including its chairperson, would have to be independent. The responsibilities of the committee would include ensuring:</p> <ul style="list-style-type: none"> • the integrity of the branch’s financial controls, reporting systems, and internal standards; and • the branch’s compliance with its conditions of registration, disclosure and financial reporting requirements, and all other applicable legal and regulatory requirements (eg, the Financial Markets Conduct Act 2013). <p>Response – CCB notes the benefits of audit committees. However, we would ask for transparency over any determination that the overseas bank’s risk management processes are not proportionate to the risks the branch poses to financial stability in New Zealand. As previously noted, the absence of any retail activity out of the branch should necessarily reduce the risk that the branch poses to financial stability in New Zealand. Furthermore, the Branch is taking benefits of capital and liquidity from parent company, having more than necessary committees will only increase the cost of operation with little benefits.</p> <p>Proposal – should the RBNZ judge that a branch presents risks to financial stability through unsatisfactory governance arrangements or resolution planning, market discipline may offer some mitigation. This can be achieved by requiring increased disclosure from the branch, for</p>
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		<p>example a dual- registered branch publishing a full branch disclosure statement on a solo basis.</p> <p>Response – as with our response to the proposal that it may be appropriate in certain circumstances for a branch to have an audit committee, CCB would ask for transparency over what may be judged to be unsatisfactory governance arrangements or resolution planning. Notwithstanding, a branch disclosure statement could be prepared but noting the not insignificant resourcing required to do so.</p>
Q4	Do you have any comments on the impact analysis approach?	<p>Feedback request – provide specific details on:</p> <ul style="list-style-type: none"> • The category of the impact. In particular, we would like feedback on the impacts on efficiency and compliance costs of the entire package. • The magnitude of the impact. For quantifiable impacts, please provide evidence; and for unquantifiable impacts, please provide a detailed explanation. • Timing of the impact. This includes whether the impact is long-term, one-off, or transitional. • Who the affected parties are. <p>Detail analysis and assessment will need to be undertaken to understand impact on CCB NZL business resulting from proposed change.</p> <p>However, from all the information provided, we understand that the cost of compliance and change of operation will definitely increase; we would analyze if the cost will only be ONE-OFF or a more continuous cost in our operation.</p>
Q5	Do you have any additional evidence on the impacts of the policy proposal that would assist our cost-benefit analysis?	Once the above clarification seeking points can be made clear to us, we will conduct a full scale analysis and assessment to understand impact on CCB business resulting from proposed change.
Q6	Should we have regard to any other considerations from a macroeconomic perspective?	<p>Not at this time;</p> <p>However, if the restrictions on Branch operations is getting tougher and tougher, one would start question the rationale on why Branch should exist to operate.</p>
Q7	Do you have any feedback on how we have had regard to the Financial Policy Remit in developing our policy proposals?	Not at this time
Q8	Are the proposed transitional arrangements and timeline appropriate for implementing the	Proposal – the RBNZ proposes that branches will be allowed three years from the publication of the final policy settings in Q1 2023 to be fully compliant with the proposed Branch BPR and Conditions of Registration (see Appendix 2). This would mean a deadline for full implementation of

<p>proposals outlined in the paper?</p>	<p>1 April 2026. As noted earlier, full compliance by 1 July 2026 for those banks with a 31 December balance date would align with the half year GDS date.</p> <p>The changes to branch reporting are expected to have a much smaller impact on branch operating models and will therefore be implemented in 2023.</p> <p>We have no issues in reporting branch balance sheets and disclosure statements. With reference to the proposal for the RBNZ to conduct subsequent institution assessments every 5 years, more guidance on the assessment framework would help determine the magnitude of work processes involved to ensure compliance with proposed Branch BPR and Conditions of Registration. Until such guidance is provided, the time to commit to implementation cannot be provided with certainty.</p>
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We hope the above responses can better demonstrate our dedication to solve this issue in a prudent manner, and minimize all potential impact to our investors. CCBNZL will stretch all resources to be in compliant with all local regulatory requirements.

The key contact persons for this matter are:

s9(2)(a)





16 November 2022

Confidential

By email: BranchPolicyReview@rbnz.govt.nz

Submission on the consultation paper: Review of policy for branches of overseas banks

Thank you for the opportunity to respond to the review of policy for branches of overseas banks, released on 24 August 2022 (the **Consultation Paper**).

ANZ Bank New Zealand Limited (**ANZB**) is a registered bank in New Zealand. It is a locally incorporated subsidiary of the Australian incorporated entity, Australia and New Zealand Banking Group Limited (**ANZBGL**) which operates a registered branch in New Zealand, (the **ANZBGL NZ Branch**).

Each of ANZBGL, ANZB and the ANZBGL NZ Branch (together, **ANZ**) remain supportive of the review. ANZ believe the review will deliver a level playing field for branches operating in New Zealand and wholesale customers will benefit from access to alternative funding sources and increased access to bespoke products and expertise.

ANZ's responses to various questions set out in the Consultation Paper are set out in Appendix I.

Publication of submission

ANZ consents to the publication of this submission, with certain aspects withheld to protect the privacy of natural persons or on the grounds of commercial sensitivity, under the RBNZ's publication of submissions policy.

Contact for submission

We welcome the opportunity to discuss our submission with Reserve Bank officials. Please contact [REDACTED].

Yours sincerely,

[REDACTED]

ANZ Bank New Zealand Limited

And

[REDACTED]

Australia and New Zealand Banking Group Limited

ANZ BANK NEW ZEALAND LIMITED



Australia and New Zealand Banking Group Limited New Zealand Branch

Appendix I

1. Do you have any comments on the proposed primary policy settings?

ANZ is generally supportive of the primary policy settings (the **Settings**), particularly the approach to retail deposits and limiting branches to transacting with wholesale customers. These Settings will simplify and align the universe of branches operating in New Zealand. To enable the Settings to be operationalised and proportionate to the risks that branches present to financial stability ANZ does recommend that certain changes set out below should be considered. These details include the definition of "large corporate and institutional customer" as it applies to a dual registered bank and the calculation of the net asset threshold for local incorporation.

ANZ also comments on certain other aspects of the proposed Banking Prudential Requirements (**BPRs**).

Dual registration

ANZ considers there are significant challenges with limiting the definition of "large corporate and institutional customers" to customers with an annual consolidated turnover of greater than NZ\$50mn (the **Annual Turnover Threshold**) for the reasons set out below.

- (A) The definition has been proposed to align with a large customer as defined in the RBNZ Bank Balance Sheet Survey (**BSS**) on the basis that this information is already provided to the RBNZ. However, the BSS offers some flexibility in the definition of a large customer by including the following, "banks are asked to use a level of reasonableness and judgment when trying to manage these splits in practice" and "some flexibility around the provision of the boundaries is acceptable". [REDACTED]
- [REDACTED] Therefore, the limited definition of "large corporate and institutional customers" only partially aligns with the BSS definition. [REDACTED]
- [REDACTED]
- (B) A customer's business may not meet the Annual Turnover Threshold for its New Zealand operations, but it may be part of a larger multi-national group of companies whereby the group's consolidated turnover meets the Annual Turnover Threshold. Larger multi-national organisations are well suited to transact with a branch, but may be unable to do so if an Annual Turnover Threshold is introduced based on an individual entity consolidated turnover threshold.
- (C) Businesses can be large, sophisticated and in need of complex, bespoke banking arrangements but may not meet the Annual Turnover Threshold. For example, a large infrastructure project would have significant assets but low turnover.
- (D) For certain large customers, for example deposit only customers, ANZ may not hold sufficient information to determine if a customer meets the Annual Turnover Threshold. It does not seem reasonable to exclude these customers from being able to transact with a branch on this basis.

- (E) As the Annual Turnover Threshold is proposed to be an ongoing test with no ability to opt in it is not clear to ANZ what would need to occur if a customer no longer met the Annual Turnover Threshold after a loan had already been extended to them by the branch. For example, if a customer met the Annual Turnover Threshold at the time a five-year loan is established in the branch but after three years the customer's turnover fell below the Annual Turnover Threshold, perhaps due to an economic downturn or a business being restructured, there is no path that would enable a branch to continue to be compliant with the proposed branch BPRs and also provide a good customer outcome (i.e. to return to compliance with its Conditions of Registration the branch would need to immediately exit the banking relationship, which would likely be to the detriment of the customer).

ANZ proposes a "large corporate and institutional customer" for dual registered banks be defined as:

- (a) a bank;
- (b) a customer with annual consolidated turnover of greater than NZ\$50mn;
- (c) a customer with net assets greater than NZ\$50mn including assets managed on behalf of others;¹
- (d) a customer entering transactions with the branch greater than NZ\$100mn; or
- (e) a customer that is part of a multi-national group where the consolidated group meets the requirement of paragraphs (a), (b) or (c) above.

ANZ believes this expanded definition is simple to implement and more readily operationalised; lowers the risk of inadvertent non-compliance with the branch BPRs; and captures an appropriately broad range of large and sophisticated customers. It would also provide better customer and risk management outcomes and is aligned to the consultation's assessment principles.

ANZ submits that the test for a "large corporate and institutional customer" should only be assessed at the time a customer enters into a transaction with the branch. After a customer relationship is established, the branch should not be required to continue to test the criteria as this could result in the branch being non-compliant with its prudential requirements and the branch may be compelled to exit the customer relationship.

Threshold for local incorporation

ANZ is comfortable with an asset threshold for branches, rather than a net liability threshold, and recognises the RBNZ's proposed \$15bn quantum for the threshold (the **Proposed Asset Threshold**). However, ANZ requests that if derivatives are to be included in the calculation of the Proposed Asset Threshold they are captured on a net asset basis, rather than on a gross basis. This approach would more accurately capture the risk to financial stability of derivatives in a branch (refer Assessment Principle 1) by recognising

¹ The \$50mn net asset threshold and annual consolidated turnover threshold are both ten times the threshold included in the Financial Markets Conduct Act 2013

offsetting derivative liabilities and collateral exchanged. Collateral is typically exchanged daily with central derivative clearing houses, banks and other financial institutions (those likely to be the counterparties of a branch under the Settings) to reduce exposures to those entities. Including derivatives on a net basis would also significantly reduce the risk of inadvertent non-compliance with a branch's Conditions of Registration by reducing the volatility in the overall reported asset threshold.

ANZ also wishes to make the following comments for the RBNZ to consider when determining whether the quantum of the Proposed Asset Threshold is appropriate:

- (A) As ANZ noted in its response to the first consultation of this review, registered bank assets have doubled since 2007 when the \$15bn net liability threshold was first introduced. With the increase in bank regulation over this period, both in New Zealand and globally, ANZ does not consider that the risk of branches to financial stability in New Zealand has materially increased.
- (B) A notable feature of loans to customers that a branch will be able to transact with under the Settings is that they typically operate as revolving facilities rather than fully drawn loans. A material portion of the Proposed Asset Threshold would therefore likely consist of undrawn loans, severely limiting the economic scale of a branch. [REDACTED]
[REDACTED] Should the RBNZ not agree to ANZ's request that derivatives be measured as a net exposure, the volatile nature of derivative portfolios reported on a gross basis means a considerable portion of the Proposed Asset Threshold would need to be kept as unutilised headroom and even then an extreme market event could still result in non-compliance. [REDACTED]
[REDACTED]
- (C) ANZ considers the risk of total offshoring of interest rate and FX products to be extremely low. To effectively manage interest rate and foreign currency risk generated from the bank balance sheet a subsidiary requires interest rate and FX capability. System and staff capability will be maintained in the bank subsidiary to meet this need.
- (D) Derivatives are a global product where the risk to New Zealand's financial stability is unlikely to be triggered or heightened if those derivatives are issued from a branch or a bank subsidiary.
- (E) [REDACTED]
[REDACTED] If certain products are not offered, customer's may choose to transact different products with different entities. [REDACTED]
[REDACTED] This is sub-optimal from a customer perspective as they would need to transact with two different entities, and from a bank perspective as the derivative offers a natural hedge to the loan, reducing the net exposure to the customer (but not the gross exposure).

Comments on Proposed Banking Prudential Requirements

Guidance under paragraph 15: ANZ notes the RBNZ's key concern with allowing dual registered branches, namely the potential offshoring of critical functions and services for the (New Zealand) economy. However, ANZ finds the guidance "The Reserve Bank would expect wholesale business to be limited to simple balance sheet activities, and for any market-making activity to be conducted out of the New Zealand subsidiary. The definition of large corporate and institutional customers aligns with the definition of large non-financial businesses in the Balance Sheet Survey," unnecessary and unhelpful and suggests this guidance is removed. This is because:

- (A) a simple balance sheet activity is not defined in the BPRs and could be interpreted in many different ways. Therefore, this statement creates ambiguity rather than clarity for what is a relatively straightforward BPR requirement;
- (B) the definition of large corporate and institutional customers does not align to the BSS definition as stated (discussed above); and
- (C) the guidance has largely existed in BS1 and it is not clear that it has been applied and therefore ANZ questions how much value this guidance provides.

2. Do you have any comments on the proposed changes to reporting, governance and disclosure?

ANZ supports the RBNZ's preferred approach of required reporting of balance sheet data by all branches on a solo and consolidated basis. ANZ already submits ANZBGL NZ Branch income statement and balance sheet information to the RBNZ on a solo basis quarterly and a consolidated basis monthly, so the proposal is not a significant change. ANZ agrees with RBNZ that the costs of requiring full branch solo financial statements are likely to outweigh the benefits, and that this would also create an inconsistency with the financial reporting requirements under the Financial Markets Conduct Act 2013. Should public disclosure of branch solo information be considered necessary, we recommend expanding the RBNZ's Bank Financial Strength Dashboard to include branch solo information rather than requiring full branch solo financial statements.

ANZ notes the guidance provided in the consultation paper on what should be considered when determining whether a change to home regulation and supervision of the overseas bank is material. Namely, a change should be "considered in the context of its potential effect on the creditors of the branch in New Zealand and the broader implications for financial stability in New Zealand." ANZ requests the RBNZ incorporate this helpful guidance in the final proposals.

3. Do you have any comments on the proposed supervisory approach?

ANZ has no comments on the proposed supervisory approach.

4. Do you have any comments on the impact analysis approach?

ANZ considers that, although the proposed policy package offers a net benefit relative to "do nothing" against Assessment Principles 1 and 3, those net benefits could be increased if

the suggested amendments to the Proposed Asset Threshold and Annual Turnover Threshold in question 1 above are adopted.

If the Settings are too restrictive, the benefits to stakeholders across New Zealand of the policy proposals are likely to be very limited.

5. Do you have any additional evidence on the impacts of the policy proposals that would assist our cost-benefit analysis?

ANZ supports the RBNZ’s view that the benefits of the policy proposals are net positive.

The following table considers the impact to the current ANZBGL NZ Branch.

Category of impact	Impact	Magnitude of impact	Timing of impact	Affected parties
Financial stability	Limited due to current restrictive Conditions of Registration. Greater delineation with ANZB will require further consideration	Limited	Once branch proposals implemented	ANZBGL NZ Branch and ANZB
Efficiency	Positive. Increase in efficiency due to level playing field and ability to offer products to large wholesale customers	Significant positive	Once branch proposals implemented	ANZBGL NZ Branch and wholesale customers
Compliance costs	Transitional costs including: staff, property, and legal costs	Limited costs associated with transitioning current structure to be compliant with proposals. Any potential growth in business will be considered once the final policy is known	Once branch proposals implemented	ANZBGL NZ Branch and potentially ANZB

6. Should we have regard to any other considerations from a macroeconomic perspective?

ANZ has no comments on this question.

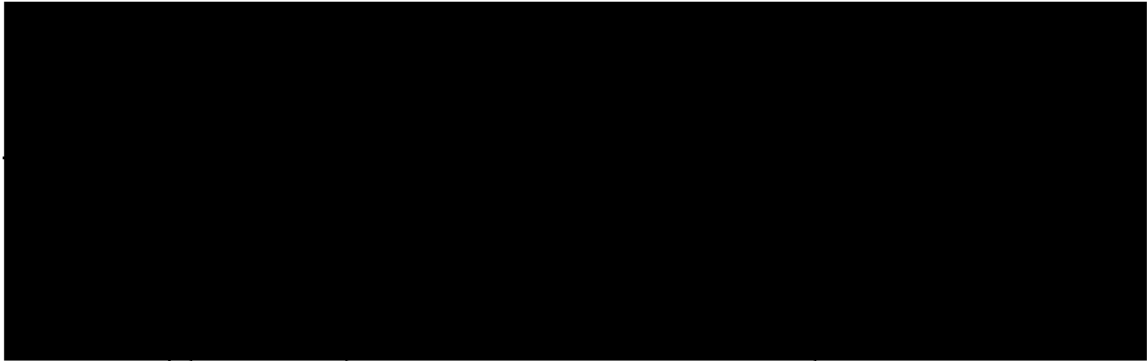
7. Do you have any feedback on how we have had regard to the Financial Policy Remit in developing our policy proposals?

ANZ has no feedback on this question.

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

The proposals will require material changes to the current business of ANZBGL NZ Branch. ANZ has the following comments on the transition:

(A)



- (B) Additional Tier 1 – As previously highlighted to the RBNZ, ANZBGL NZ Branch currently holds a capital note (**AT1 Capital Note**) issued by ANZB that is considered a transitional Additional Tier 1 under the RBNZ revised capital rules and has an optional repayment date in June 2026 (after the final implementation date of the proposals). Repayment is subject to the RBNZ’s approval. ANZBGL NZ Branch has funded the AT1 Capital Note on similar terms and conditions with an advance from ANZBGL London branch. Presumably, as the counterparty is ANZB, this is not a concern under the proposals but please advise if this is not the case.

² The current business of the ANZBGL NZ Branch includes: holding up to \$350mn of home loans originated by ANZB; two capital notes issued by ANZB; issuing a capital note *in Australian dollars*; and an advance from ANZBGL London branch.

Review of Policy for Branches of Overseas Banks NAB & BNZ response

November 2022

Response prepared together with



Introduction

- 1.1** Bank of New Zealand (BNZ) and its ultimate parent, National Australia Bank Limited (NABL), have jointly prepared this response to the Reserve Bank of New Zealand's Review of Policy for Branches of Overseas Banks.
- 1.2** Firstly, BNZ and NABL (together, NAB) want to acknowledge the high quality of RBNZ's consultation paper and commend RBNZ on the breadth of the assessment principles used to develop RBNZ's policy proposals. We would also like to thank RBNZ for the opportunity to provide feedback on this consultation.
- 1.3** Our feedback to this consultation is developed on four key foundations:
 - **Protect** New Zealand retail and small and medium enterprise (SME) customers by ensuring banks serving these customers are within RBNZ's supervision.
 - Uphold the intent of the RBNZ's capital review framework to **develop a well capitalised, resilient New Zealand financial system** that can function through severe stress scenarios.
 - Establish a **level playing field** for all banks operating in New Zealand.
 - Preserve New Zealand banking **competitiveness** for global businesses.
- 1.4** We broadly agree with RBNZ's policy proposals with some amendments and clarification sought. Of note, we:
 - Support a NZ\$15bn total asset size as appropriate to balance New Zealand system capital adequacy and foster global competitiveness;
 - Seek clarity on repercussions of a short-term breach of the asset cap and expected timeframe for remediation, noting the financial stability risks of a binary non-compliance outcome;
 - Recommend increasing the turnover threshold from >\$50m to >\$100m to limit the branch access to truly large corporate/institutional customers only;
 - Believe there should be no differentiation in requirements between dual and single-registered branches; and
 - Recommend disallowing securitisation activity in the branch given the underlying exposures are mortgages and other retail assets.

Restrictions and Qualification Criteria for Branch Activities

- 1.5** NAB agrees with RBNZ's assessment that a **NZ\$15bn total asset threshold for local incorporation** will balance the risks to financial stability and the need for transparency, while being practical and fostering competition in wholesale markets. However, NAB has concerns that a definitive asset cap can be overly restrictive in times of stress and recommends consideration of potential options to mitigate associated risks.
- 1.6** In other jurisdictions where similar total asset caps exist for branches, surpassing these size thresholds often results in more prudential oversight and requirements, rather than a binary outcome of non-compliance. NAB seeks clarification from RBNZ on the **calculation and operational guidelines surrounding the branch total**

asset size limit, specifically:

- Any potential carve-outs to the total asset measure;
- Consistent calculation of total assets ensuring consistency in approach for any netting applied;
- Repercussions of a short-term breach in the total asset cap; and
- Expected timeframes for remediation.

1.7 While we agree that the total asset threshold should not be reviewed too frequently to avoid unnecessary complexity, it is important that this asset cap recognises growth over time in the financial system. To this aim, NAB recommends a **periodic review (at least every 5 years) of the asset threshold** for continued appropriateness.

1.8 We agree that **branch activity should be restricted to large corporate and institutional** customers based on turnover. However, we believe **branches should be allowed some exposure to financial institutions for hedging activity**, primarily related to customer risk management strategies.

- For example, the branch may lend a foreign currency loan to a corporate customer. Consequently, the branch may require exposure to a financial institution counterparty to hedge this currency risk.

1.9 NAB proposes increasing the turnover **threshold from >\$50m to >\$100m** to ensure medium-sized enterprises continue to be serviced via locally incorporated banks.

- Given large corporate and institutional customers typically have their own treasury functions and are multi-banked, they are better placed to determine the risk in dealing with a branch rather than a locally incorporated institution.
- The increased threshold to >\$100m strikes the right balance between being globally competitive yet retaining New Zealand SME exposures with locally incorporated banks; which are better capitalised and operate within RBNZ's capital adequacy requirements and supervisory framework.
- Our recommended turnover threshold increase will still allow large institutional customers (who in some instances will already be accessing funding in international markets), to continue to access funding via New Zealand branches. This also reduces the risk that these customers fully source funding from offshore markets and diminish the full-service offering currently provided by New Zealand-domiciled institutions.

1.10 NAB seeks clarification from RBNZ on the **calculation of the turnover threshold**. This includes guidelines on the level of consolidation permitted to calculate the turnover threshold and the process if qualifying customers in the branch fall below the required turnover threshold.

- We believe that the **turnover threshold should be calculated at a global consolidated group**. This will encourage large multinational companies to invest in New Zealand, facilitated by access to competitive funding to establish and grow their New Zealand operations.
- Also, 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. This will provide certainty of funding to customers, while also mitigating operational complexities and undesired customer outcomes. This also facilitates an orderly refinancing of the debt.

- We believe that requiring a customer to move their banking relationship at a time when their turnover decreases materially will induce further financial risk and instability to New Zealand large corporates, which is not consistent with principle three of the consultation paper, to support kiwi businesses and the economy through various economic cycles.

A level playing field and consistent set of requirements for all branches

1.11 We note RBNZ's proposal that dual registered banks should only be permitted to conduct business with corporate and institutional customers who are over the proposed turnover threshold. We also note this restriction is currently proposed to not apply to branch-only banks.

1.12 By having different requirements applied to branches dependent upon their bank registration status, RBNZ is creating an uneven playing field. NAB believes that any restrictions on branches should **apply to all banks, not just dual registered banks.**

- The unintended consequences of having differing requirements can create regulatory arbitrage in the New Zealand system, and unfairly incentivise a concentration of high net worth customers and SMEs to be banked by single registered branches.
- For many **SMEs** in New Zealand the boundary between **business banking and personal banking can be intertwined.** For example, a family home is often a source of collateral for loans or equity injections into SME business.
- NAB's view is that deposits and lending to SMEs should be held in locally incorporated banks for the same reasons RBNZ has already articulated when restricting branches to Wholesale activity.
- The intent of the branch structure is to provide globally competitive banking services to **large corporates and institutions.** To achieve this, our settings need to consistently reflect this for all branches.

1.13 We propose that lending restrictions apply **to all branches equally, whether single or dual registered,** in order to create a level playing field. This will promote New Zealand financial stability by ensuring all SME and retail customer banking activities are subject to RBNZ capital requirements set for locally incorporated banks.

1.14 We also believe a **restriction** should exist for term lending/bond investments to **financial institutions** including lending via special purpose (securitisation) structures. Securitisation can create a "loop-hole" to repackage retail exposures in the branch creating an opportunity for banks to structure around restrictions.

- In a stress event, mortgages in the securitisation trusts may be novated to the branch, with these retail customer loans directly on the balance sheet. The branch would not have the retail customer, risk management and compliance processes and capabilities in place to manage these

exposures, causing potential further harm to New Zealand's financial stability.

- During such an event, the RBNZ will also have reduced oversight of these branch operations and reduced ability to require the retention of capital within the New Zealand system in time of stress, compared to a locally incorporated bank where the RBNZ can place restrictions on dividend payments and hybrid capital redemptions.
- An example would be if Finance Company X Ltd borrows cheaper funding via a branch and then lends to New Zealand retail customers for home loans or unsecured lending. While the branch exposure may be to a financial institution (or corporate/trust), the ultimate lending is made to New Zealand retail customers without the same level of capital as would be required if the retail customers borrowed directly from a New Zealand incorporated bank.

Other Non-lending Activities

- 1.15** Subject to the customer turnover threshold, **branches should be allowed to take deposits of any size from large corporates and financial institutions.** These customers can be expected to understand the risks involved and will have their own treasury policies and experts to support decision making. This would also foster competition in New Zealand for deposit investments.
- 1.16** NAB recommends RBNZ consider restricting allowable activity within branches to those activities directly related to the branch's portfolio risk management and hedging activities, noting this is a sub-optimal outcome from a level playing field and customer perspective. In addition, the branch should be able to provide hedging activities for those customers with debt issuances. This is needed to maintain a minimum level of competitiveness with Overseas Authorised Banks (OABs).

Next Steps

- 1.17** To avoid any vagueness and loopholes, we recommend that the final outcomes of the branch consultation are **included and prescribed in the branch conditions of registrations**, rather than just provided as a guidance document.
- 1.18** OABs can also operate in New Zealand under individual authorisations and permissions. Many of the issues and principles surrounding the usage of a branch structure also apply to these banks. NAB requests RBNZ to **review its supervisory approach to OABs** post finalisation of the branch consultation.
- Branches managing to a NZ\$15bn asset cap would mean there is limited capacity for markets activity if lending is also present in the branch, given the potential mark-to-market volatility associated with derivatives and the necessary buffers that would need to be maintained.
 - With only limited markets activities in branches, customer flows could move to OABs who could price sharper due to their lower capital requirements. Ultimately this will lead to NZ banks being uncompetitive against OABs and a hollowing out of New Zealand markets capability to overseas institutions.

- We also recommend smaller limits and transparent controls on activities undertaken by OABs, to protect the New Zealand markets business operating under RBNZ capital rules.

1.19 Should RBNZ have any questions in relation to this submission, please contact s9(2)(a)
s9(2)(a).

s9(2)(a)




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Christian Hawkesby
Deputy Governor / General Manager Financial Stability
The Reserve Bank of New Zealand
2 The Terrace
Wellington
6140

14-11-2022

By email: BranchPolicyReview@rbnz.govt.nz

Cc: s9(2)(a)

Dear Christian,

Re: Second Consultation Paper Policy Review for Branches of Overseas Banks

We refer to your letter dated 24-08-2022 regarding the above and accordingly provide our submission based on the consultation questions set out in your second consultation paper.

Whilst we are generally supportive of the policy proposal, we highlight specific unintended consequences which may increase risks to locally incorporated subsidiaries, contrary to the RBNZ's financial stability objective of protecting and promoting the stability and resilience of New Zealand's financial system. In particular, the proposed 1:1 asset ratio and the consolidated turnover wholesale business test could negatively impact liquidity, capital adequacy, core funding ratio and liability dependency ratio management of locally incorporated subsidiaries. To reduce this risk, we propose a 1:3 asset ratio to provide flexibility and support in terms of risk mitigation tools available for locally incorporated subsidiaries; and a clearer definition of wholesale business for the purposes of clarity for the regulator and banks.

We have provided an executive summary in the attached table as well as solutions to mitigate risks where unintended consequences have been identified. We also provide detailed commentary and supporting information for the RBNZ's Policy team's consideration per Appendices 1 and 2.

We trust that this will assist the RBNZ's financial stability objective of protecting and promoting the stability and resilience of New Zealand's financial system and we look forward to the RBNZ's response in due course.

s9(2)(a)

Bank of China Limited, Auckland Branch



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EXECUTIVE SUMMARY RBNZ Consultation Questions and Responses

<p>Q1</p>	<p>Do you have any comments on the proposed primary policy settings?</p> <ol style="list-style-type: none"> 1. NZ\$15 billion asset threshold for local incorporation 2. No retail deposits for branches (only wholesale business) 3. Wholesale business with a consolidated turnover greater than NZ\$50 million 4. Greater regulatory and supervisory integration 	<ol style="list-style-type: none"> 1. Agree 2. Agree 3. Agree, but problematic if not clearly defined, (e.g. fluctuating turnover and/or asset rich cashflow poor businesses such as property developments) <p>SOLUTION (Q1.3):</p> <p>Recommend clear assessment timeframe for turnover (i.e. assessment once, at the time of onboarding a customer based on latest available financial information); and</p> <ul style="list-style-type: none"> • either defined exceptions (e.g. for “asset rich/cash flow poor” wholesale customers to avoid unintended consequences (Refer to Unintended Consequences Appendix 1); or • the wholesale restriction should be limited to deposits and not to lending. (i.e. “protection” only required for deposits not for loans) <ol style="list-style-type: none"> 4. Agree, per IMF Detailed Assessment of Observance Basel Core Principles for Effective Banking Supervision Findings 2017 Re EC2 (Page 42). Bank of China would also be pleased to facilitate closer regulatory engagement between the RBNZ and China Banking and Insurance Commission (CBIRC) to support greater regulatory and supervisory integration.
<p>Q2</p>	<p>Do you have any comments on the proposed changes to reporting, governance and</p>	<p>Option 2 (RBNZ Preference) – Agree balance sheet data by all branches on a solo and consolidated New Zealand group basis.</p>



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	<p>disclosure? Reporting and disclosure options for branches: Option 1: do nothing. Option 2: require reporting of balance sheet data by all branches on a solo and consolidated New Zealand group basis. (RBNZ preferred option) Option 3: require disclosure of balance sheet data by all branches on a solo and consolidated New Zealand group basis. Option 4: require dual-registered branches to publish full financial statements, and stand-alone branches to disclose on both a solo and group basis, where relevant. Disclosures - RBNZ proposal that the Branch BPR note that RBNZ will undertake further policy work and standards regarding dual registered branch's disclosure statement signoff</p>	<p>Disclosures – Agree</p>
<p>Q3</p>	<p>Do you have any comments on the proposed supervisory approach?</p>	<ul style="list-style-type: none">• Supervisory approach for branches is not aligned to other commonwealth countries (Australia, Singapore, South Africa, Canada) nor other large international regulated financial centres such as USA, UK and the European Union. In particular, the RBNZ's application of "non-equivalence" assessment does not appear consistent with other international bank regulators (Refer to Appendix 2).



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Singapore, Germany and France do not require locally incorporated subsidiaries and for countries which do have subsidiaries there is no asset restriction.

Examples of BOC Branches and Host Regulatory Licencing Authority

Bank of China Limited Branches	Licencing Regulatory Authority
Sydney Branch	Australian Prudential Regulation Authority (APRA)
Singapore Branch	Monetary Authority of Singapore (MAS)
London Branch	Prudential Regulation Authority (PRA)
New York Branch	OCC/Federal Reserve/NYC Banking Commission
Paris Branch	European Central Bank (ECB)/European Banking Author
Frankfurt Branch	European Central Bank (ECB)/European Banking Author
Milan Branch	European Central Bank (ECB)/European Banking Author
Luxembourg Branch	European Central Bank (ECB)/European Banking Author
Johannesburg Branch	South African Reserve Bank (SARB)
Toronto Branch	Office of the Superintendent of Financial Institutions
Seoul Branch	The Financial Services Commission (FSC)
Tokyo Branch	Financial Services Agency (FSA)

SOLUTION (Q3):

Supervisory approach to branches could align more closely with other commonwealth countries and international equivalence assessment standards ([For example BoE PRA](#) and [APRA Guideline sec 2.1](#)).

The China Banking and Insurance Regulatory Commission regulates the largest 4 banks in the world, all 4 Chinese banks are also listed on the Hong



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		<p>Kong and Shanghai Stock Exchanges which are internationally recognised, therefore the application of “non-equivalence” should be considered for revision. Bank of China would also be pleased to facilitate closer regulatory engagement between the RBNZ and China Banking and Insurance Regulatory Commission (CBIRC) to support greater regulatory and supervisory integration.</p>
<p>Q4</p>	<p>Do you have any comments on the impact analysis approach?</p> <p>P1. Applying a total asset limit and restricting dual-registered branches to large corporate/institutional business limits.</p> <p>P2. Credible resolution strategy for branches and dual registered banks, improved reporting and disclosure, and governance requirements.</p> <p>P3 Maintains and potentially enhances efficiency benefits in wholesale markets. Potentially limited reduction in competition and diversity in retail banking.</p> <p>P4 Consistent outcomes for branches for “level playing field” - A new standard set of conditions of registration will be imposed to</p>	<p>P1 Increased risk to financial system and reduced flexibility for risk management of locally incorporated subsidiaries if 1:1 asset ratio is imposed. This limits the risk mitigation tools available for locally incorporated subsidiaries including restricting liquidity/ capital adequacy/CFR/LDR risk mitigation (Refer to Unintended Consequences Appendix 1).</p> <p>SOLUTION (Q4 P1 Asset Size)</p> <ul style="list-style-type: none"> Recommend 1:3 Subsidiary/Branch Asset size to provide flexibility and reduce subsidiaries’ risk. <p>Wholesale Business Classification: Restricting dual-registered branches to large corporate/institutional business may be problematic if not clearly defined (i.e. fluctuating turnover and asset rich cashflow poor businesses).</p>



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<p>branches, together with any additional, proportionate risk mitigants.</p> <p>P5. be transparent, and aligned with international standards</p> <p>P6. be practical to administer and minimise unnecessary supervisory costs.</p>	<p>SOLUTION (Q4 P1 Wholesale Business Classification)</p> <ul style="list-style-type: none">• Recommend clear assessment timeframe for turnover (i.e. assessment once, at the time of onboarding a customer based on latest available financial information); and<ul style="list-style-type: none">○ either defined exceptions (e.g. for “asset rich/cash flow poor” wholesale customers to avoid unintended consequences (Refer to Unintended Consequences Appendix 1); or○ the wholesale restriction should be limited to deposits and not to lending. (i.e. “protection” only required for deposits not for loans) this would avoid unintended consequences (Refer to Appendix 1) <p>P2. Agree</p> <p>P3. Agree</p> <p>P4 Proposal policy for 1:1 asset restriction increases risk (unintended consequences) and wholesale business definition and threshold require refinement/amendments to avoid unintended consequences.</p> <p>SOLUTION (Q4 P4)</p> <ul style="list-style-type: none">• Solutions per Q1, Q3 and Q4 Recommend 1:3 Subsidiary/Branch Asset size to provide flexibility and reduce subsidiaries’ risk.• Wholesale Business Classification - Recommend clear assessment timeframe for turnover (e.g. once, at the initiation stage of onboarding the customer based on latest available financial information); and
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- either defined exceptions (e.g. for “asset rich/cash flow poor” wholesale customers; or
- the wholesale restriction should be limited to deposits and not lending. (i.e. “protection” only required for deposits not for loans) this would avoid unintended consequences (Refer to Unintended Consequences Appendix 1)

P5. Supervisory approach for branches does not appear to be aligned to international standards other commonwealth countries (Australia, Singapore, South Africa, Canada) as well as other large regulated financial centres such as USA, UK and Europe in terms of RBNZ’s application of “non-equivalence” assessments.

SOLUTION (Q4 P5)

- Solutions per Q1, Q3, Q4 and P4 Recommend 1:3 Subsidiary/Branch Asset size to provide flexibility and reduce subsidiaries’ risk.
- P6. Agree, provided unintended consequences of policy proposals (asset size and wholesale definition/threshold) are addressed (Refer to solutions for Q1, Q3 and Q4 P4 (Turnover assessment timeframe once, at the initiation stage of onboarding the customer based on latest available financial information); and either defined exceptions (e.g. for “asset rich/cash flow poor” wholesale customers; or the wholesale restriction should be limited to deposits and not lending.



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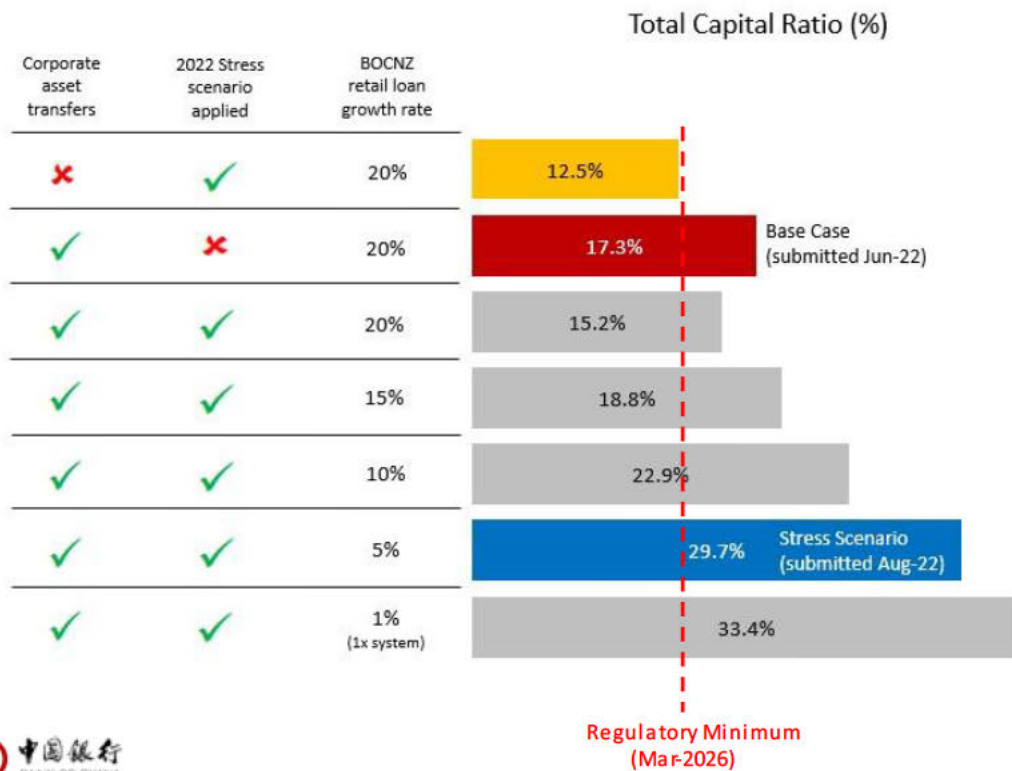
Q5	Do you have any additional evidence on the impacts of the policy proposal that would assist our cost-benefit analysis?	Yes - Economic impacts – <ul style="list-style-type: none">• <\$50m “Wholesale” Asset transfers to the subsidiary from the branch (Refer to Unintended Consequences Appendix 1) conflicts with NZ’s current economic downturn and potential recession.• <\$50m “Wholesale” Asset transfers combined with the 1:1 Asset restriction would put at risk any lending support the banking group could provide and increase the subsidiary’s risk.
Q6	Should we have regard to any other considerations from a macroeconomic perspective?	Yes – Recent market commentary suggests that the NZ economy is at risk of entering a recession in 1-2 years as monetary policy continues to tighten and reduce credit availability. Over the proposed 3-year transition period, the economy may become recessionary, a time when the RBNZ would want to encourage banks to lend and support the economy. s105(2)(b) s105(2)(b)
Q7	Do you have any feedback on how we have had regard to the Financial Policy Remit in developing our policy proposals?	Yes – further consideration of unintended consequences of the subsidiary/branch asset ratio and wholesale classification which may increase risk, contrary to protecting and promoting financial stability.
Q8	Are the proposed transitional arrangements and timeline appropriate for implementing the proposals outlined in the paper?	Yes, with the exception of <\$50m “Wholesale” Asset transfers and the 1:1 Asset restriction, the proposed transitional arrangements and timeline are appropriate.

Appendix 1: Unintended Consequences

1. Asset Ratio - Locally Incorporated Subsidiary Liquidity, Capital Adequacy, Core Funding and Liability Dependency Ratio Impacts

The 1:1 asset ratio restriction may increase risk to locally incorporated subsidiaries. The restriction reduces the ability of a subsidiary to transfer non-retail assets/loans to support the subsidiary's Liquidity, Capital Adequacy and Core Funding Ratio in stressed scenarios. The RBNZ's recent solvency stress test scenario evidenced that liquidity and capital adequacy can be managed with the support of the Branch (Refer to Sensitivity Analysis chart below). The unintended consequence of this policy is restrictive in terms of Liquidity, Capital Adequacy and Core Funding Ratio solutions for the subsidiary.

Sensitivity Analysis– Retail Loan Growth Capital Ratio Sensitivity



- Restriction could increase the risks to the sub and limit the ability of the branch to support the sub (e.g. asset transfers in the event of liquidity constraints to support the sub).
- A higher asset ratio provides greater flexibility for a branch to support the subsidiary when capital/funding is constrained or at times of market stress.

Solution: 1:3 Subsidiary Branch asset size



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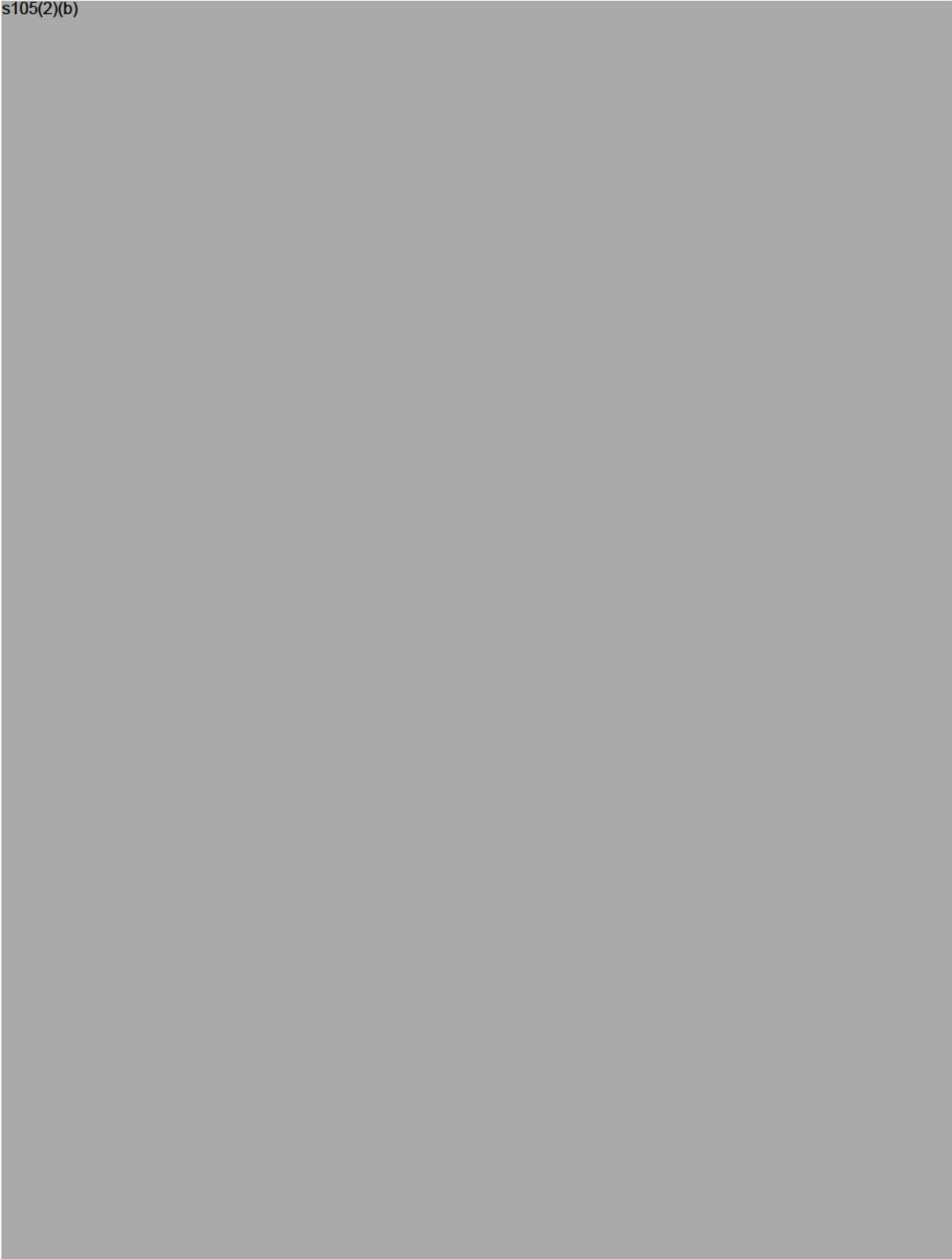
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2. Large Wholesale Customer Classification

Material impact on Balance Sheet, Risk Limits & Profitability

The current rules as proposed would result in the following adjustment (pro forma) to the Subsidiary and Branch balance sheets (as at 30 September 2022):

s105(2)(b)





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s105(2)(b)

The large wholesale customer policy classification unintended consequences are threefold:

- **Some businesses are asset rich but revenue poor** (e.g. property construction/development/investment or other businesses requiring significant fixed assets to conduct their businesses). Such businesses should not be classified as SME clients.
- **Business turnover may fluctuate year on year** requiring clients to be transferred between subsidiary and branch if the turnover fluctuates above and below the proposed policy threshold.
- **Potential distortion of sub/branch risk profile** (e.g. concentrated to smaller commercial businesses and certain industries) once all or most large wholesale clients are booked under a Branch.

Solution:

- **Recommend threshold classification is applied once at loan origination (This will provide certainty and simplify the classification process for clients, the regulator and the regulated); and**
 - **Policy exclusion for asset rich/revenue poor businesses (Property construction/development/investment or other businesses requiring significant fixed assets to conduct their businesses); and/or**

- **the wholesale restriction should be limited to deposits and not lending. (i.e. “protection” only required for deposits not for loans) this would avoid unintended consequences.**

3. Asset Restructure Timing May Conflict with NZ Economic Recession

Recent market commentary suggests that the NZ economy is at risk of entering a recession in 1-2 years as monetary policy continues to tighten and reduce credit availability. Over the proposed 3-year transition period, the economy may in fact be in a recession which is a time when the RBNZ would want to encourage banks to lend and support the economy. Significant asset transfers required to be undertaken over the transition period by Bank of China NZ would put at risk any lending support the banking group could provide i.e. our ability to undertake a significant balance sheet restructure while also growing lending to support the NZ economy is questionable.

4. Equivalence Assessments

4.1 China Banking and Insurance Regulatory Commission

The [CBIRC](#) regulates the four largest banks in the world. In terms of equivalence assessments, the RBNZ has acknowledged greater integration is required between home and host supervisors to help to support effective supervision of branches. The [IMF](#) 2017 report EC2 finding also noted the need to advance arrangements with China). The Bank of China would be happy to facilitate meetings and enhance communications between the RBNZ and the China Banking and Insurance Regulatory Commission. This would assist to strengthen host and home regulators oversight of the Branch operations.

4.2 Commonwealth and International Financial Centres

Singapore and other Commonwealth countries such as Australia and South Africa as well as large financial centres do not have equivalent dual licence restrictions.

- Bank of China established its first branch in [Australia in 1942](#), 80 years ago.
- Bank of China London Branch was established in [1929](#) (93 years ago)
- Bank of China New York Branch was established in [1912](#) (110 years ago)
- Bank of China Johannesburg Branch was established in [2000](#) (22 years ago)
- Paris Branch was established in [1986](#)
- Frankfurt Branch [1989](#)



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- Toronto Branch [1993](#)
- Abu Dhabi Branch [2014](#)
- Tokyo Branch [1986](#)
- Seoul Branch [1994](#)
- Sydney Branch [1946](#)
- Luxembourg Branch [1979](#)

All the above jurisdiction regulators (including APRA, MAS, SARB, PRA, ECB and FED) have authorised Bank of China branches without asset size restrictions. As previously highlighted, it is important to consider policy in terms of large global banks such as Bank of China Limited which is subject to robust governance and regulatory oversight as a listed entity on the Hong Kong and Shanghai stock exchanges with internationally recognised transparency requirements, as well as being subject to robust regulation and supervisory oversight from the China Banking and Insurance Regulatory Commission.

5. Review Periods

Bank of China Auckland Branch (BOCAK) has operated in New Zealand for almost 5 years in a stable, prudent manner, the RBNZ may consider reviewing the "equivalence" status in respect of the CBIRC home regulator, home regulation and home regulatory oversight in the near future.

APPENDIX 2: Additional Reference Material

1. [APRA Guideline Overseas Banks Operating in Australia](#)

Dual operation of overseas banks

Where an overseas bank simultaneously holds a licence to operate as a foreign ADI and is the parent of a locally-incorporated subsidiary ADI, each operation is required to conduct its business in Australia in a way which recognises, and makes clear to others, its separate legal status and authorisation.

The **branch and the subsidiary ADI** will need to have:

- separate books of accounts;
- separate statistical (including prudential) reporting to APRA;
- separate internal control systems for monitoring and managing risks (including systems for controlling credit risk, liquidity risk, market risk and operational risk);
- as part of the control systems, separate systems of delegations (although these could comprise the same people in some cases);
- separate individuals responsible for the proper management and prudent operation of the branch and the subsidiary ADI respectively (i.e. the branch senior manager and the subsidiary ADI CEO should not be the same person);
- processes to ensure customers understand which entity they are dealing with and the implications for their interests when staff are undertaking dual roles for both the branch and the subsidiary ADI.

Foreign authorised deposit-taking institution

An **overseas bank** which wishes to conduct banking business and provide services **to wholesale clients in Australia may do so as a foreign authorised deposit-taking institution (ADI) and establish an Australian branch.** An Australian branch of a foreign ADI forms part of the same legal entity as its head office. A foreign ADI is not subject to capital requirements from APRA, but will need to meet other local regulatory requirements applicable for its Australian business. See Chapters 2 - 4 for more information on the licensing and supervision of foreign ADIs by APRA. There are no restrictions on the use of the word 'bank' by a foreign ADI once they are authorised by APRA.

Locally-incorporated subsidiary ADI An overseas bank which wishes to conduct banking business and **provide services to retail clients in Australia** will need to establish a locally-incorporated subsidiary ADI. A locally incorporated subsidiary ADI is a separate legal entity from its overseas parent and will need to meet local capital requirements and all local regulatory requirements on a stand-alone basis. This includes having local governance arrangements, such as a local board. Please refer to the information paper ADIs: New entrants – a pathway to Sustainability and

the guidelines Licensing: Locally-Incorporated ADIs for the requirements and the licensing process for establishing a locally-incorporated ADI. There are no restrictions on the use of the word 'bank' by an ADI.

2. [The PRA's approach to branch and subsidiary supervision SS5/21 - International banks:](#)

For **firms that operate through a UK branch**, the branch forms part of a legal entity incorporated outside the UK. It follows that its operations are necessarily dependent on those of the legal entity as a whole. It will be **subject to prudential regulation by its home state supervisory authority** according to where it is based. Unlike UK subsidiaries, the **PRA applies a different set of rules to such firms, recognising that while PRA authorisation applies to the whole firm, it is appropriate to rely on the home state supervisor for certain aspects of supervision**. The expectations that the PRA has for information relevant to the PRA's objectives will therefore also vary in this regard.

The **Financial Conduct Authority (FCA)** is the conduct **regulator for all banks** and investment firms operating in the UK. Therefore, for such firms, whether operating as subsidiaries or through branches in the UK, the **FCA's threshold conditions and conduct of business rules apply**, including in areas such as anti-money laundering. **Authorisation can be granted only where both the FCA and the PRA are satisfied that their respective requirements have been met**. The FCA will independently assess applicants against its own requirements and objectives.

General expectations for effective supervision

For firms that are part of international groups carrying on banking business in the UK, the PRA first assesses the general factors that must be in place for effective supervision to be possible, and then assesses the factors specific to each international bank and any group of which it is a member.

The general factors the PRA considers are:

- (a) **whether the home jurisdiction's prudential supervision regime is sufficiently equivalent to the UK regime;**
- (b) whether there is **sufficient supervisory co-operation with the home state supervisor;** and
- (c) the **efficacy of the arrangements for resolution. Consistent with the expectations set out in the PRA's Fundamental Rule 8 and the Bank of England's (the Bank) Resolvability Assessment Framework** where relevant, these

arrangements will be assessed in consultation with the Bank as the UK resolution authority.

3.4 a) Equivalence

The **PRA assesses the degree to which the home jurisdiction's prudential supervision regime is equivalent**, taking account of the following characteristics of the home state supervisor (this is not an exhaustive list):

- its regulatory framework;
- powers;
- general approach to the supervision of individual firms and the consolidated group;
- information sharing;
- confidentiality; and
- the competence and independence of supervision.

3.5 The **PRA will make an overall assessment of whether the home state supervisor is sufficiently equivalent, and whether its regime is consistent with the UK regulatory framework** in delivering appropriate outcomes that meet the PRA's objectives.

The PRA's supervisory **equivalence assessments are reviewed periodically**. The **frequency of review is determined by the number, size, and systemic importance of the firms** from a home state. The assessments of the home state supervisor focus on the degree to which the home state supervisor's regime is compliant with the Basel principles in terms of supervisory approach, tools, and practices. In performing the assessments, the PRA will base its analysis on the **Basel capital and group supervision standards, the Basel Committee's Regulatory Consistency Assessment Programme reviews**,¹² the International Monetary Fund's Financial Sector Assessment Programme reviews,¹³ and the Financial Stability Board's (FSB) peer reviews¹⁴ where appropriate, supplemented by other sources as necessary. The PRA will also take account of its own experiences in its interactions with the home state supervisors. It will also be important for the PRA to factor in any conduct concerns that the FCA may raise concerning a jurisdiction.

Equivalence

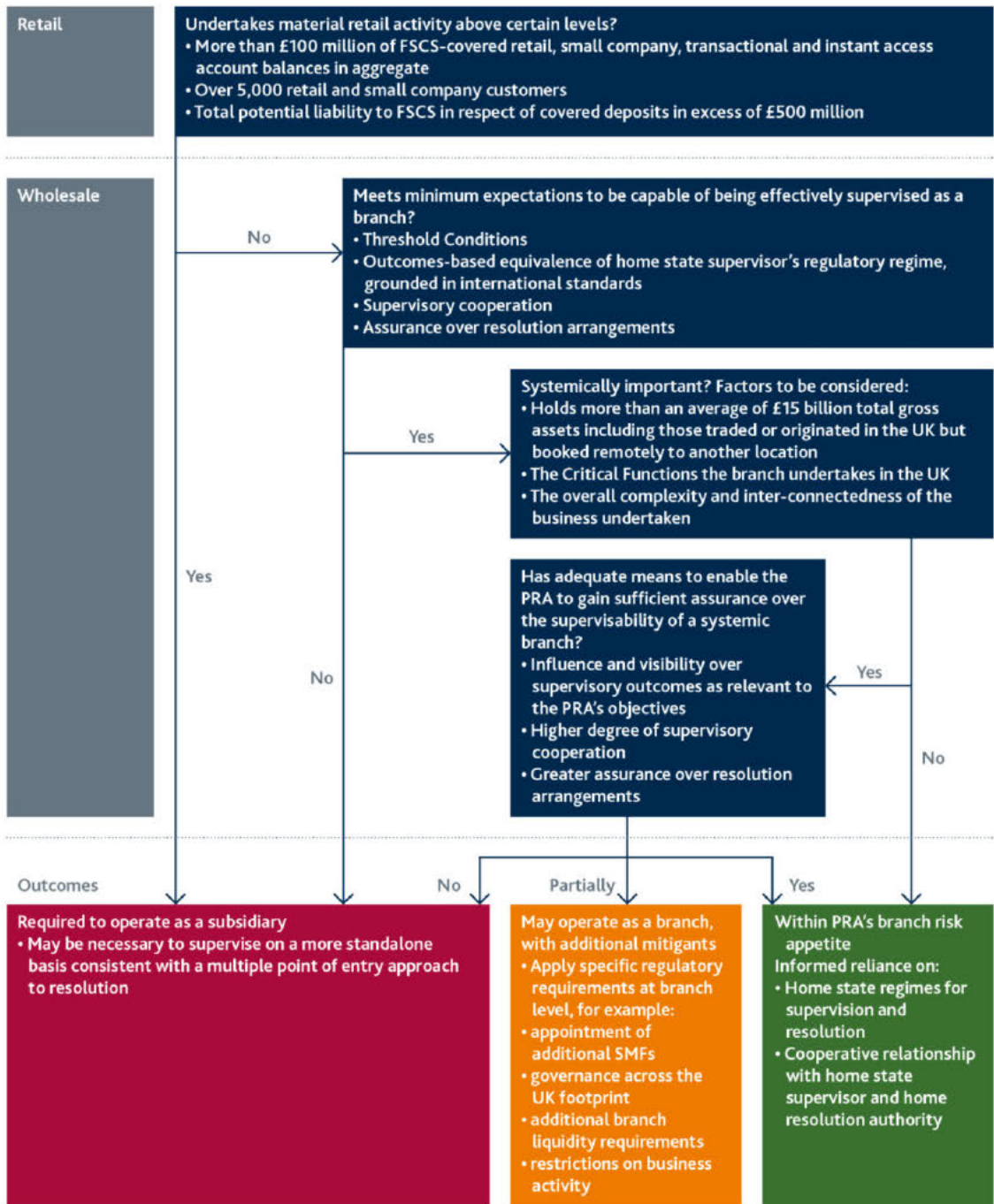
6.5 The PRA's approach to assessing supervisory equivalence for UK branches is the same as for UK subsidiaries of foreign groups (Refer to chart below).



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3. [IMF Country Report No. 17/120 NEW ZEALAND FINANCIAL SECTOR ASSESSMENT PROGRAM](#)

Other arrangements with foreign supervisors:

The RBNZ and the U.K.'s supervisory authority (the Prudential Regulation Authority, formerly Financial Services Authority) have entered into an MoU, that establishes an arrangement for sharing supervisory information, to assist with the supervision of banking and insurance organizations that operate both in New Zealand and the U.K. The Netherlands: the RBNZ is a member of the General Supervisory College on Rabobank and participated in meetings hosted by De Nederlandsche Bank (DNB) in Amsterdam in 2011 and also in 2013. The RBNZ also requested the lead supervisor for Rabobank in the ECB to share the outcomes of the recent supervisory college meeting held in 2015. The RBNZ is a member of EMEAP, the Executives' Meeting of East Asia-Pacific Central Banks (see www.emeap.org). In line with the RBNZ's obligations under EMEAP and the agreed framework for crisis management and resolution, the RBNZ will share information and alert foreign supervisory authorities in the event that conditions increase the likelihood of failure of a bank domiciled in New Zealand, and that could potentially have adverse consequences in an EMEAP jurisdiction or the region as a whole. The procedure to alert other EMEAP authorities is not intended to be applied mechanistically, and discretion in assessing the severity of the problem is expected.

4. **Monetary Policy of Singapore - Licensing and Authorisation for Banking Business**

Financial institutions (FIs) wishing to conduct banking business in Singapore must meet MAS' admission criteria and receive written authorisation from MAS to set up a wholesale bank or merchant bank in Singapore.

Admission Criteria

MAS takes the following factors into consideration when assessing an FI's application to conduct banking business:

- **Financial soundness, track record, world ranking and reputation of the FI, parent company and major shareholders.**
- **Strength of home country supervision, including the willingness and ability of the home supervisory authority to cooperate with MAS, and its framework for cross-border cooperation.**
- **Written consent from the home country supervisory authority for the establishment of a banking operation in Singapore.**
- **Well-thought strategy for banking and financial services in Singapore, and sound business plans to ensure sustained economic viability. Robust risk management systems and processes that are commensurate with the FI's size and proposed business**



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5. South African Prudential Authority – Bank Licensing in the Republic of South Africa

Supervision by home supervisor

Only institutions which has been established in a country other than the Republic - which lawfully conducts in such other country a business similar to the business of a bank - may with the prior written authorisation of the PA conduct the business of a bank by means of a branch or a subsidiary in the Republic. The afore-mentioned applicants must satisfy the PA that the responsible consolidating supervisor of the foreign institution:

- has authorised the proposed establishment of a branch or subsidiary in the Republic;
- accepts, is committed to and complies with the proposals, guidelines and pronouncements of the Basel Committee on Banking Supervision (Basel Core Principles) and is not legally impeded from doing so;
- accepts its responsibilities in terms of the Basel Core Principles as the consolidated supervisor;
- as far as may be reasonably possible, ensures that the members of the board and the executive management of the foreign institution at all times consist of fit and proper persons;
- is satisfied with the standard of risk management maintained by the foreign institution; and
- is committed to keeping the bank supervisory authorities in the Republic informed of any material information regarding the financial soundness of the foreign institution and its branch/subsidiary.

The PA may **also take into consideration the existence of a Memorandum of Understanding (MoU) entered into between the PA and the relevant home supervisor.**

The business operations of a branch/subsidiary shall furthermore be covered and **supported by a valid letter of comfort and undertaking issued by the relevant foreign institution**, in which letter of comfort and undertaking such foreign institution duly:

- confirms its understanding and acceptance of the ultimate objective of the maintenance of financially sound branches/subsidiaries in the interests of an efficiently functioning overall financial system in the Republic;
- undertakes to ensure that the management of the branch/subsidiary at all times consists of individuals considered fit and proper to fulfil their respective responsibilities and tasks;



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- undertakes, within reasonable standards, to strive towards enhancing the standards of risk management being applied in respect of the business of the branch/subsidiary by its management;
- confirms its acceptance of and its responsibility for the operations of the branch/subsidiary;
- undertakes to safeguard the financial soundness and stability, including the maintenance of the branch capital, of the branch/subsidiary; and
- confirms its understanding and acceptance of, and its adherence to the Basel Core Principles and other legislation governing the conduct of the business of a bank in the Republic.

6. Canada - Office of the Superintendent of Financial Institutions Canada (OSFI)

Minimum Entry Information

a) a **statement from the applicant's home country supervisor(s)** (or from the home country supervisor(s) of the banking group of which the applicant is a member) **consenting** to the establishment of the FBB;

b) a **statement from the home country supervisor that it does not object to OSFI visiting** the applicant to discuss the foreign bank's operations and/or its FBB operations; and

c) **where the home country is not a signatory to the WTO Agreement, confirmation of reciprocity arrangements**, which are acceptable to the Minister. Once this information is received, OSFI's practice is to provide the applicant's home country supervisor(s) with a Questionnaire encompassing the home bank and the home regulatory regime. OSFI will also conduct visits, as required, with both the home bank and the home country supervisors. Effective August 1, 2001, OSFI will recover from new applicants out of pocket costs related to home country and home bank visits.

8.0 CONDITIONS AND REQUIREMENTS FOR COMMENCEMENT AND CARRYING ON OF BUSINESS IN CANADA

a) In the case of a full-service branch, the FBB will generally not be permitted to accept "retail" deposits, defined for this purpose as amounts less than \$150,000. Certain exceptions or "carve-outs" to this requirement are included in the Prescribed Deposits (Authorized Foreign Banks) Regulations. Notwithstanding these "carve-outs", the deposits in a full-service branch are not eligible for CDIC

insurance. Lending branches are prohibited from accepting deposits or otherwise borrowing money except from financial institutions;

b) FBBs are subject to the Notices of Deposit Restrictions (Authorized Foreign Banks) Regulations. Full-service branches are required to provide written notice to individuals opening an account and to post notices in their branches that deposits with the branch are not insured by CDIC. Lending branches are required to post notices in their branches that they do not accept deposits from the public and that they are not members of CDIC. A full-service branch must also provide written notice that OSFI is responsible for supervising the FBB in Canada and is not the primary regulator of the foreign bank. The expectation of OSFI is that the required notice will, in addition to English and/or French, be produced and made available in the language of the home jurisdiction of the foreign bank;

c) a full-service branch will be subject to an examination by OSFI at least once a year. Under section 613 of the Bank Act, the Superintendent has the discretion to establish the frequency of examination of lending branches;

d) a full-service branch is generally required to maintain assets on deposit equal to at least five per cent of branch liabilities or \$5 million, whichever is greater. These must be deposited with a Canadian financial institution approved by the Superintendent. A lending branch will be required to maintain assets on deposit equal to \$100,000. The deposits must consist of cash or acceptable securities, free of any encumbrances. See OSFI's Guideline A-10 - Capital Equivalency Deposit for further details. Subsequent to the commencement of operations, the Superintendent may consider it necessary to impose more stringent asset maintenance requirements on the FBB. This power will be used to safeguard the FBB's depositors and creditors by ordering that the FBB maintain additional eligible assets, in Canada, qualified as a specified percentage of the FBB's liabilities.

e) OSFI regulatory limits normally expressed as a percentage of regulatory capital, will apply to the FBB based on the applicant's regulatory capital and not the deposit referred to above, unless otherwise specified;

f) a foreign bank must appoint a principal officer to head the FBB, and that principal officer must reside in Canada. The principal officer will be OSFI's official contact with the FBB. Where a foreign bank operates a Schedule II bank, a full-service branch and a representative office in Canada, the ability exists to share management;

g) the principal officer is responsible for maintaining adequate records at the FBB, in English or French, with sufficient detail to identify the FBB's business in Canada and to enable OSFI to conduct an examination of the FBB;



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h) an FBB will be subject to an annual audit by an external auditor meeting the qualifications outlined in section 585 of the Bank Act in accordance with generally accepted Canadian accounting principles. Pursuant to subsection 594(1) of the Bank Act, the FBB's auditor will be required to report to the principal officer in writing (with a copy to the Superintendent, as per subsection 595(2) of the Bank Act) that the annual return was prepared in accordance with generally accepted Canadian accounting principles and presents fairly the financial position of the business in Canada of the authorized foreign bank; and

in accordance with section 600 of the Bank Act, the authorized foreign bank will be required to file any and all information that the Superintendent may require at the time and in the form specified. The form of financial reporting is further described in the Manual of Reporting Forms and Instructions for Deposit Taking Institutions, which is available from OSFI on request.

7. USA

Branch licence applications requires permission from at least two regulatory authorities.¹ Extensive information about the bank's the business plan, senior management team, finances, capital adequacy, risk management infrastructure, and other relevant factors must be provided to the appropriate authorities.

An applicant must first receive approval for a federal or state charter. (The Office of the Comptroller of the Currency (OCC) has exclusive authority to issue a federal or "national bank" charter, while any state (and the District of Columbia, Guam, Puerto Rico, and the Virgin Islands) may issue a state charter).

Before granting a charter, the OCC or state must be able to determine that the applicant bank has a reasonable chance for success and will operate in a safe and sound manner.

The IBA prohibits a foreign bank from establishing any branch in the United States that accepts domestic retail deposits of less than the FDIC's "standard maximum deposit insurance amount" (SMDIA), unless (1) the branch is an insured branch as defined in section 3(s) of the Federal Deposit Insurance Act or (2) the OCC determines by order or regulation that the branch is not engaged in domestic retail deposit activities requiring deposit insurance protection, taking account of the size and nature of depositors and deposit accounts.

[Decision Criteria](#)

¹ Branches of foreign banking organizations are licensed by the state banking authorities or the Office of the Comptroller of the Currency (OCC), although certain grandfathered branches may be insured by the Federal Deposit Insurance Corporation (FDIC). Agencies are licensed by the state banking authorities.



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In an initial or additional establishment, the OCC generally considers:

- the financial and managerial resources and future prospects of the applicant foreign bank and the proposed federal branch or agency.
- whether the foreign bank has provided the OCC with information to adequately assess the application and assurances that all information on the operations and activities of the foreign bank and any of its affiliates the OCC deems necessary to enforce compliance with the IBA and other applicable federal banking statutes will be made available to the OCC.
- whether the foreign bank and its U.S. affiliates are in compliance with applicable U.S. laws.
- the convenience and needs of the community to be served.
- the effect of the proposed branch or agency on competition in U.S. domestic and foreign commerce.
- **whether the foreign bank is subject to CCS² by its home country supervisor** or whether the FRB has determined that the home country supervisor is working actively toward CCS.
 - Note: In deciding whether a foreign bank is subject to CCS, the FRB determines **whether the foreign bank's home country supervisor receives sufficient information on the worldwide operations of the foreign bank**. The information must **allow the home country supervisor to assess the foreign bank's overall financial condition and compliance with laws and regulations**. **If the FRB concludes that a foreign bank is not subject to CCS, the FRB and the OCC may approve an application by the foreign bank** if the home country supervisor is actively working to establish arrangements for CCS and all other factors in the application are consistent with approvals.
- **whether the foreign bank's home country supervisor approved or consented** to the establishment of the federal branch or agency.

The OCC also considers whether adequate controls for the detection of money laundering are in place at the foreign bank.

8. European Union Equivalence Assessment Links

- [Third country equivalence and international cooperation ECA](#)
- [Questionnaire on the Assessment of the Equivalence with European regulatory and supervisory framework ECA](#)

² The Board of Governors of the Federal Reserve System (FRB) conducts a Comprehensive Consolidated Supervision (CCS) review when a foreign bank first seeks to establish a presence in the United States



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- [EBA Updates Methodology to Assess Third-Country Equivalence](#)
 - [EBA methodology for the assessment of regulatory and supervisory equivalence of third countries - 1st step](#)
 - [EBA methodology for the assessment of regulatory and supervisory equivalence of third countries - 2nd step](#)
- [EBA Equivalence of Confidentiality Regimes – China CBIRC Equivalent](#)



By email: BranchPolicyReview@rbnz.govt.nz

9/11/2022

Dear Review Team

Review of policy for branches of overseas banks – consultation paper 24 August 22

Commonwealth Bank of Australia (New Zealand Branch) (“CBA NZ”) welcomes the opportunity to provide feedback to the Reserve Bank of New Zealand (“RBNZ”) on the consultation paper, released 24 August 2022, relating to the review of policy for overseas bank branches.

CBA NZ regards the consultation paper as well written, covering the key issues relating to policy for branches of overseas bank branches. This letter responds to the RBNZ’s request for feedback on the proposed changes to the policy regarding the registration, regulation and supervision of branches of overseas banks.

CBA NZ has reviewed the consultation paper and is supportive of the proposals within the paper, hence will provide feedback in response to three specific points:

1. Clarity on the definition outlined in the consultation paper of one of the risk mitigants “greater operational separation between branch and subsidiary”; and
2. Expansion of the definition of wholesale investors and clients for Dual Registered Banks; and
3. Clarification on the branch reporting requirements for disclosure statements

In our feedback in February 2022 we stated that overseas bank branches add real value to NZ consumers and businesses. They enable the access of global facilities, international markets and the use of specialist industry knowledge on a global scale. The RBNZ concurred with our view and we believe the new conditions of registration are appropriate for the operation of overseas bank branches in NZ. This includes restricting branches to servicing wholesale clients and moving to a NZD15 billion asset threshold.

The two key points that CBA NZ wishes to provide feedback on are:

1. Definition of the risk mitigant “greater operational separation between branch and subsidiary”

On page 17 of the consultation paper risk mitigants are outlined to allow for dual registered branches, a concept which we support. One of the risk mitigants is “greater operational separation between branch and subsidiary”. To ensure that branches comply with the requirements of operational separation could the RBNZ provide an outline on their expectations to meet this requirement?

2. Definition of wholesale investors and clients for dual registered banks

The proposed definition of wholesale investors and clients (pages 15 and 18) for dual registered banks is a “corporate and institutional customer with an annual consolidated turnover greater than NZ\$50 million”. CBA NZ recommends that the RBNZ consider expanding the definition for both wholesale investors and clients. CBA NZ’s suggestion is the definition of wholesale clients for dual registered branches be based on a NZ\$50 million turnover or total asset measurement.

CBA NZ believes this dual approach is preferable as it removes the volatility that a pure turnover test brings. For example during the Covid pandemic there were significant corporates that were unable to operate due to government restrictions, hence the turnover significantly dropped. Including an “or Total Assets” test allows a branch to continue to support a client or investor in the most trying of times without potentially breaching conditions of registration. It also mirrors, other than quantum, the Financial Market Conduct Act definition which could minimise confusion on definition interpretation

3. Content of Reporting and Disclosure

The RBNZ's preferred option on “Content of Reporting and Disclosure”, page 22 section 4.2, is to “require reporting of balance sheet data by all branches on a solo and consolidated basis”. Would the RBNZ clarify the reporting frequency and requirements? CBA NZ’s interpretation is that the additional information required is a balance sheet for a branch on a standalone and consolidated basis at the half and full year.

Does this obligation remove the requirement for full disclosure statements on a consolidated basis at half and full year, i.e. just consolidated branch and subsidiary balance sheet reporting rather than combined full financial statements, noting a subsidiary will complete a full disclosure statement?

Did the RBNZ considered the removing the requirement for monthly reporting by branches from a monthly cycle to a quarterly or half yearly cycle?

In conclusion, we believe our suggested amendment of the definition of wholesale clients to include total assets as a measure will enhance the proposed overall conditions of registration for overseas bank branches. Providing expansion on the requirements for the operational separation and reporting will ensure clarity of the obligations of branches.

CBA NZ views the RBNZ consultation paper’s broad recommendations will achieve the RBNZ’s original intent of creating a simple, coherent and transparent policy framework for branches of overseas banks.

If you require any further information in relation to this response, please do not hesitate to contact me via email s9(2)(a). CBA NZ is also open to meet with the RBNZ to discuss our letter or answer other points.

Yours faithfully

s9(2)(a)




HSBC
HSBC Tower
Level 21, 188 Quay Street
Auckland 1010
P. O. Box 5947, Victoria Street
Auckland 1141
New Zealand

T. 0800 028 088
Swift. HSBCNZ2A
www.hsbc.co.nz

16 November 2022
Review of policy for branches of overseas banks
Dynamic Policy
Prudential Policy Department
Reserve Bank of New Zealand
PO Box 2498
Wellington 6140

by email: BranchPolicyReview@rbnz.govt.nz

Dear Policy Team

Review of Policy for Branches of Overseas Banks

Thank you for the opportunity to make submissions on the Review of Policy for Branches of Overseas Banks (the Proposals).

HSBC, in summary, remains of the view that status quo is the most effective and appropriate solution to maintain a strong, healthy, diverse and vibrant financial system. As outlined in our comprehensive March 2022 submission, HSBC believes the Reserve Bank has the necessary framework and policies in place to effectively manage all branches. HSBC believes that a strong financial system includes a wide variety of market participants that bring competition and support the diverse needs of the community.

To reiterate on our March 2022 submission, the key rationale for remaining with the status quo is as follows:

- **clear and simple policy framework:** current policy framework is not overly complex to administer or implement and the provisions set out in the Reserve Bank Act are entirely appropriate to manage the different branches in New Zealand as is historically demonstrated;
- **flexible proportionate framework:** the current framework allows the RBNZ to have a proportionate, tailored and flexible approach to look through the different jurisdictions of those branches as well as the other obligations imposed on those banks (e.g. Global Systemically Important Banks);
- **limited benefits to locally incorporate if offering Retail products and services:** research provided in this consultation by RBNZ supports not viewing foreign bank behaviour as a homogenous group. Enforcing uniformity of branches

to locally incorporate, should they want to offer Retail products and service, would risk creating a situation where few identifiable benefits to financial stability are achieved while losing the current benefits that overseas bank branches bring to New Zealand. Those benefits include healthy competition and choice for consumers;

- **overseas branches an important global link:** branches of overseas banks are an important link between the NZ economy and the global financial system. The current framework allows overseas branches to continue deploying innovative products and solutions for both retail and business customers, whilst allowing for healthy competition. Any change to this, that leads any bank branch to withdraw or retreat its current footprint would invariably lead to a degradation of any financial offering in the marketplace;
- **customer choice:** customers currently have a wide variety of options in how they choose their financial products and services. Bank branches have demonstrated they can offer both unique and cheaper products than other competitors in the market, therefore there is a very tangible benefit to customers in remaining with status quo policy framework; and
- **customer needs:** some customers may have specific needs due to their cultural heritage or international connections. Customers select the bank branches for a range of reasons, including international banking services, bespoke service range, competitive rates, personalised service, language capability etc. Removing the opportunity for retail customers to select their bank of choice would have an adverse effect on branch customers, including all retail customers who would have to relocate their banking relationships if branches were required to close;

Maintaining the status quo is appropriate as it stimulates competition and promotes a more diverse array of offerings to New Zealand consumers. It creates a more international approach to doing business in what is currently a banking industry dominated by the Australasian banks.

Should the Reserve Bank remain of the view that branch policy is to change, there is a range of possible variations that the Reserve Bank could consider. Possible changes include:

- **increase the transition period:** extend from the proposed three years to five years to ensure a smooth transition for both branches and their customers, some of whom hold fixed term deposits/mortgages of up to 5 years;
- **increase the threshold for additional oversight for wholesale business:** the proposed threshold of NZD5 billion for additional oversight by the Reserve Bank could be increased to two thirds of the proposed branch asset limit without incurring any greater financial stability risk. This increase would also allow these small branches to plan and manage the cost of additional supervision and would be fairer and more proportional in nature;
- **grandfather the 'no limit' branches:** the existing 'no limit' branches' status should be grandfathered, to recognise those branches' contributions to the New Zealand banking sector and the benefits they bring to existing customer relationships;

- **allow retail deposit taking up to a limit:** allowing branches to take a small amount of retail deposits (e.g. up to NZD5 billion, which is approximately 1% of all New Zealand banking deposits), to prevent undue customer harm to those already banking with branches in New Zealand;
- **use the DCS threshold:** adopting a NZD100,000 threshold for the definition of retail deposits, to align principally with the threshold introduced for protection under the Depositor Compensation Scheme (DCS); and
- **restrict deposit taking only:** allowing other services outside of deposit-taking to continue, as they present little risk to financial stability.

HSBC would welcome more clarity in the final updated Policy to address areas in the current Consultation Paper that were sometimes difficult to understand, most notably:

- **update impact analysis:** the impact analysis in the consultation paper does not appear to detail or weight key considerations such as customer impact; the relative magnitude of the impacts or relative importance of the principles; and quantification of regulatory and other costs likely arising from the Proposals;
- **materiality definition:** there are references in the Consultation Paper that suggest retail deposits taken by branches are immaterial, but then treats them as if they are material by seeking to introduce changes based on their financial stability effects;
- **conduct and customer needs:** the Consultation Paper appears silent on how customers would be supported who may not be offered their current bespoke products and services at some time in the future and suffer detriment as a result;
- **limiting of retail activity:** the Consultation Paper identifies the primary reason for restricting retail activity by branches is to mitigate risks to financial stability with little supporting evidence to show how the removal of the provision of retail products and services through branches would materially reduce the risk of instability or worsen consumer confidence;
- **overlap between policy review and Deposit Compensation Scheme:** the consultation paper notes that the policy review and the introduction of the Deposit Compensation Scheme (DCS) under the Deposit Takers Bill are separate but interrelated questions. The Reserve Bank may want to consider that the reforms contained in the Deposit Takers Bill could also be used to alleviate the perceived issues around financial stability;
- **wholesale investor definition:** proposed wholesale investor definition may be difficult to administer in practice when there are already other wholesale investor tests in the market overseen by different regulators e.g. the FMCA 'wholesale investor' (relating to offers of financial products), the FMCA 'wholesale client' (relating to financial advice or client money and property services) and the 'wholesale client' definition in the Financial Service Providers (Registration and Dispute Resolution) Act 2008 (FSPA) (relating to provision of financial service). The wholesale investor test was designed to be applied at a certain point in time; it would be impractical for branches to have to monitor a customer's status to ensure

that they remain within the wholesale definition for the entire term of the relationship with the branch.

We are also of the view that the analysis does not fully evaluate and quantify the regulatory costs arising from the Proposals. We would also suggest that the Reserve Bank may wish to consider a more proportionate approach to the reporting process, considering the size and nature of the business conducted in a branch.

Finally, we would also request that the Reserve Bank engage HSBC in bilateral discussions in advance of any public announcement of the intended policy so that we can plan accordingly for employee and customer communication, to be disseminated promptly after the public announcement.

HSBC has welcomed the opportunity to provide its submission on the consultation paper for the proposed policy. HSBC supports the Reserve Bank's aim to maintain a strong and sound financial system whilst ensuring New Zealand personal and business customers continue to be offered the widest and most diverse range of financial products and services to suit their needs.

HSBC thanks the Reserve Bank of New Zealand for considering the comments in this submission.

Yours sincerely

s9(2)(a)


A large grey rectangular redaction box covers the signature area, obscuring the name and any handwritten notes.

16 November 2022

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

Dear Reserve Bank

Introduction

- 1 Kookmin Bank Auckland Branch (*Kookmin*) welcomes the opportunity to make submissions on the *Review of Policy for Branches of Overseas Banks* (the *Policy*).
- 2 Kookmin has been operating as a branch in New Zealand for 25 years since its registration in 1997. Over this period, Kookmin has provided customers in New Zealand with exceptional customer service through its offering of a range of banking services and products. In particular, Kookmin has placed a focus on servicing the Korean community in New Zealand, including immigrants from Korea and recently other Asian communities.
- 3 Kookmin’s submission on the Policy can be summarised as follows:
 - 3.1 s105(2)(b) 
 - 3.2 However, the considerable costs of operating as a subsidiary, not to mention the transition costs, would likely make incorporation an uneconomic proposition for Kookmin. Without prejudicing its ultimate decision, Kookmin would therefore be likely to close its New Zealand operations if the Policy is implemented.
 - 3.3 Kookmin does not believe that outcome would be in the best interests on New Zealanders or the financial stability of New Zealand’s banking system, which has relatively few retail banks operating in New Zealand.
 - 3.4 **Wholesale banking restrictions would incentivise closing foreign bank branches in New Zealand:** Branches could conduct their current wholesale banking business more cost-efficiently from offshore under the Overseas Banks Class Authorisation (Class Notice), if their activities are limited to wholesale banking activities.

- 3.5 The Class Notice permits overseas banks providing wholesale banking activities in New Zealand, using the name 'bank', but requires only a short annual confirmation. Offshore banks do not need to meet the considerable compliance costs of maintaining a New Zealand banking licence and the costs of any local infrastructure, which licensed branches have to meet. And yet overseas banks can currently provide at least the same level of banking services as proposed for the 12 licenced retail banks which are operating as branches.
- 3.6 Any rational overseas bank would then be incentivised by the introduction of the Policy to operate from offshore and not establish a branch in New Zealand – that outcome cannot be in New Zealand's best interests.
- 3.7 **Transition and ongoing incorporation costs would make incorporation unreal for smaller banks:** As the policy document observes, incorporation of a New Zealand subsidiary would bring considerable extra costs to a branch's New Zealand operations and require it to incur significant costs of holding capital. The additional costs would be a barrier to entry, which is not fully acknowledged or accounted for in the Policy. [§105\(2\)\(b\)](#)
[REDACTED]
[REDACTED]
[REDACTED]
- 3.8 The Reserve Bank should not assume that any branch would behave other than rationally when faced with the Policy changes, and so should anticipate branch closures would result if the Policy is implemented.
- 3.9 **The Policy's impact counterfactual should have been the departure of all branches:** Accordingly, the relevant counterfactual for determining the Policy's impact should have been the loss of Kookmin to the New Zealand local market, potential loss of the other 4 foreign bank branches which are in a similar position to Kookmin, creating a harder entry point to establish a local bank in New Zealand, increasing dependency on the Australian banks and reducing the financial systems' diversity (a significant risk mitigant in times of crisis) for the sake of a theoretical (but not real) financial stability improvement through driving away branches, a marginal consistency improvement, a marginal increase in transparency and potentially improving the Reserve Bank's ease of business.
- 3.10 Kookmin requests that the Reserve Bank evaluates the impacts of the Policy proposals on an interactive, rather than static, basis, and not ignore the likely rational reactions of participants to the Policy proposals and the incentives it would bring to shift banking business away from New Zealand.
- 3.11 **The Policy would cause considerable harm to the New Zealand financial system:** Kookmin's exit from the New Zealand market would cause serious harm to its existing and future customers in New Zealand. In particular, Kookmin provides an integral service to Korean immigrants to New Zealand, who are more comfortable continuing to bank with a brand they recognise and trust from their home country.

- 3.12 More broadly, Kookmin's exit from New Zealand, and the exit of any other foreign owned bank branches, due to increased protectionist policies like the Policy, would send a very bad signal to the rest of the world, particularly at present following recent lockdowns, that New Zealand is 'closed for business' and withdrawing from its free trade principles.
- 3.13 The Policy underestimates the impact of the departure of foreign owned banks from New Zealand by failing to recognise fully the diversity benefits of having a number of small foreign bank branches in New Zealand, particularly those whose connections are highly beneficial for trading purposes.
- 3.14 **The Policy paper overstates the benefits of incorporation and does not recognise sufficiently the financial stability benefits of having branches:** Kookmin does not agree with the assumption that incorporation provides significantly increased financial stability benefits compared to those available through branches.
- 3.15 The Reserve Bank can impose a full range of regulatory obligations on branches through their Conditions of Registration and other regulatory requirements. The Reserve Bank does not need to require incorporation in order to regulate foreign bank branches (to the extent necessary).
- 3.16 The Policy (Principle 1) asserts there are "inherent limitations in [the Reserve Bank's] ability to address risks at branches through prudential standards", without specifying what these limitations are. New Zealand law has jurisdiction to regulate and pass laws over all persons present in New Zealand, including branches. Accordingly, the Policy should specify the "inherent limitations" it is referring to and explore how they can be addressed (to the extent needed) to ensure financial stability, with minimal disruption.
- 3.17 Kookmin submits that the Policy's indications of the Reserve Bank's powerlessness are overstated. Any limitations could be addressed without requiring incorporation.
- 3.18 Incorporation is not a panacea for financial stability in times of a crisis. In the GFC, the Reserve Bank had significant concerns about the threatened home country preferential behaviours of the Australian banks when operating their New Zealand subsidiaries. These threats illustrate that the form of the registered bank (branch v subsidiary) does not decide whether there could be a threat to New Zealand's financial stability in practice.
- 3.19 **Other factors should also be considered when determining the preferred choice:** The Policy's problem definition should be solely to take any steps necessary to address any real financial stability issues raised by allowing foreign banks to operate in New Zealand, and the assessment principles should seek to ensure the minimum disruption to achieve that goal. By making consistency, transparency and practicality assessment principles, they have been elevated to a primary status which they do not deserve – their importance should be secondary at best.

- 3.20 Greater weight should be given in the Policy to the diversity branches bring, the financial strength of the international banks relative to their New Zealand subsidiaries, the benefit of foreign bank prudential requirements, the need to encourage more foreign banks operating in New Zealand and other highly relevant evaluative factors. Some of these are described further in Schedule 1.
- 3.21 As stated, the Policy definition underlying the current Review is flawed, and has led to the Reserve Bank's disproportionate preferred responses. In reality:
- (a) any inconsistencies in the current policy are immaterial when compared to the dramatic adverse effects to the banking system which the Policy would cause;
 - (b) the inherent limitations on the Reserve Bank regulating branches are overstated (as explained above); and
 - (c) the conflicts of interests of home and host supervisors are overstated for countries with no home country preference (such as Korea). Where there is no home country preference, the home country supervisor would be incentivised to ensure their local banks honour their obligations to all their depositors, including those in New Zealand, and so there is a unity of interest, not a conflict.
- 4 **Submission: Adopt the status quo:** Accordingly, Kookmin asks that the Reserve Bank reverses its rejection of the status quo option in the Policy (at least in respect of existing branches, but preferably generally), and if necessary the Reserve Bank addresses **any** real concerns with the financial stability of the New Zealand banking market arising from having foreign bank branches operating in New Zealand by adopting targeted, proportionate and balanced requirements through its Conditions to Registration and considerable other regulatory powers.
- 5 **Alternative submissions:** If the Reserve Bank is unwilling to maintain the status quo, Kookmin makes the following submissions:
- 5.1 **Why would the Reserve Bank over complicate the exclusion threshold?** Any restriction on foreign bank branches taking retail deposits justified by the introduction of the Deposit Takers Bill, should apply a NZ\$100,000 threshold. It is simple, easily understood, and transparently consistent with the deposit compensation threshold. By contrast, the wholesale customer test has multiple thresholds and is confusing. It is not applied universally in practice in a banking context ("wholesale client" is used in the financial advice and client money contexts), and is designed for deposit takers only.
 - 5.2 In the alternative, the current BS1 definitional threshold for retail activities of NZ\$250,000 should be adopted, ahead of the wholesale investor test.
 - 5.3 **The restrictions should apply to deposits only:** If the introduction of the Deposit Takers Bill is motivating the Policy, or even if it is a broader concern

about financial stability of the banking system, the justifications all seem to arise solely from a need to protect retail deposits. It follows, that if the Reserve Bank is seeking to achieve its Policy objectives with the minimal harm, the Policy should be limited to restricting foreign bank branches undertaking retail deposit-taking activities. Retail lending and other banking services should not be impeded.

- 5.4 Lending has different considerations. In time of a crisis, mortgage and other lending could not be withdrawn by the foreign bank prior to maturity. Any defaults in a crisis would need to be addressed through usual default processes, which would take time and can be managed. New Zealand consumers would be protected through a range of laws that provide consumer borrowers protections, including the Credit Contracts and Consumer Finance Act 2003 (CCCFA). It is therefore not uncommon to treat bank lending differently for prudential purposes; for example the Non-bank Deposit Takers Act 2013 does not regulate pure lenders.
- 5.5 If lending is allowed to continue for these reasons or otherwise, Borrowers should be allowed to operate deposit accounts to meet bank conditions that their salary be paid into accounts held with the lender. Financial stability impacts of such deposit accounts would be trivial as the borrower would still be in a net debt position and able to set off deposit balances against their indebtedness if a crisis occurs.
- 5.6 **Conditions to Registration and other requirements should be reduced for wholesale banks:** If Kookmin was to continue as a branch solely for wholesale banking purposes under the Policy, the disclosure and other bank licence prudential supervision responsibilities should be reduced; for example it should not be necessary for six-monthly disclosure statements. Kookmin submits the Conditions of Registration should be no more than annual in such cases, and brought into line with the Class Notice.
- 5.7 **Existing foreign branches' bank operations should be grandfathered, without harm to financial stability, or at the least the transitional period needs to be lengthened:** For the reasons given above as to why the status quo should be preferred, Kookmin submits that the existing foreign bank branches' operations should be grandfathered, so the new Policy only applies to new applicants. The existing branches have incurred the establishment costs of a branch under the business model permitted by the existing regime. Removing that model, principally for consistency, would send a poor signal to the international community about the risks of investment in New Zealand.
- 5.8 The transitional period in the consultation paper should be extended from three to at least five years, with a further period permitted for run off of existing business if the foreign bank branch elects to exit the New Zealand retail banking market. A five year period represents a more reasonable amount of time for branches to digest the full implications of the Policy and decide on, and then implement, an appropriate course of action. Some

deposits or lending would have a longer duration, and so allowance needs to be made for them in run off as well.

5.9 **Incorporation through an Act of Parliament should be offered:** When Westpac Banking Corporation transitioned from a branch to a subsidiary in 2006, the Westpac New Zealand Act was passed to assist with vesting designated assets and liabilities in the new subsidiary. Alternative mechanisms to effect the conversion were considered inferior. If a foreign bank branch is to incorporate in New Zealand, the Reserve Bank should offer to assist through engaging a private Act of Parliament to vest the branches' assets and liabilities in the subsidiary, and the timeframes should accommodate this process.

6 Kookmin elaborates and expands on the points made above in Schedules 1 and 2 to this letter.

Concluding comments

7 The Policy, as it is currently proposed, would likely force Kookmin and other licensed bank branches to exit from the New Zealand market. As discussed, this would cause major harm to New Zealand retail customers, both on a specific and aggregate level.

8 The harms and risks of branches discussed in the consultation paper do not justify the unintended consequences and the customer detriment which is likely to arise if licensed bank branches cannot provide retail banking services, especially in light of the Reserve Bank's conclusion that, because of their limited scale, the contributions of branches to retail customers in New Zealand is immaterial.

9 Kookmin therefore encourages the Reserve Bank to maintain the status quo. In the alternative, Kookmin proposes a range of options to the Policy which may mitigate some of the Policy's material impacts.

10 Thank you for the opportunity to make these submissions, and for taking them into account.

11 Kookmin would welcome the opportunity to discuss the submissions with you.

SCHEDULE 1: WHY THE STATUS QUO SHOULD BE PREFERRED

1 Kookmin elaborates on some of its reasons why the status quo should be the chosen option below.

Facts About Kookmin

2 Kookmin is a branch of Kookmin Bank established in 1963 under the Citizens National Bank Act in the Republic of Korea.

3 Kookmin is not subject to a home country preference in Korea; and so it does not carry the same degree of financial stability threat in times of a crisis as other registered banks whose home country rules impose a home country bias, even those registered banks which are locally incorporated in New Zealand.

4 Kookmin Bank is prudentially regulated by the Korea Reserve Bank Act (Korea) and supervised by the Financial Supervisory Service of Korea. Its prudent regulation is designed to ensure Kookmin Bank should not fail in times of crisis.

5 Kookmin Bank has ratings of Moody's Aa3, Standard and Poor's A+ and Finch A; indicating Kookmin Bank is very stable.

6 s105(2)(b) [Redacted]

7 s105(2)(b) [Redacted]

8 s105(2)(b) [Redacted]

9 By virtue of being a branch, Kookmin Bank Auckland Branch was not required to hold any regulatory capital. This would change if Kookmin was to incorporate in New Zealand and introduce significant costs of capital to its business, which would be difficult to justify as part of its business model.

Kookmin incorporation costs

10 The proposed restrictions in the Policy would greatly limit Kookmin's ability to provide services to its New Zealand customers. A high proportion of its New Zealand banking activities involve retail customers. As a result, Kookmin would face a difficult choice under the Policy, whether it is best to operate in a severely restricted

manner, incorporate locally in New Zealand and incur the significant costs of incorporation and the ongoing costs of maintaining the required capital in New Zealand and meeting the bank licence compliance requirements, or exit the market altogether.

- 11 Kookmin submits that local incorporation is an unduly burdensome option. The relatively small size of Kookmin's New Zealand customer base and business operations when compared to its international activities would mean that it is very unlikely that incorporation would be considered a worthwhile option.
- 12 Further, Kookmin is of the view that it is difficult to justify local incorporation on the basis that a New Zealand regulator needs to have prudential oversight of Kookmin's banking activities. Kookmin feels that it is already sufficiently regulated in its home jurisdiction and as a branch in New Zealand. Kookmin is not of a scale that would threaten New Zealand's financial stability. If Kookmin did incorporate, the additional overlay of supervision would be unnecessary, costly and wrongly implies that the regulation in the home jurisdiction is insufficient.

Customer harm in New Zealand from Kookmin exiting the market

- 13 There would be serious harm created to customers in the New Zealand banking sector if Kookmin exited the New Zealand market. As discussed earlier, Kookmin provides its services to a wide range of customers in New Zealand; including many in the Korean community, especially recent immigrants from Korea looking to access banking services in New Zealand.

Particular harm to Korean community

- 14 Korean customers are comfortable using Kookmin over other registered New Zealand banks for a variety of reasons. Often immigrants have banked with the Kookmin group in Korea and are both familiar with and trusting of the brand as a result. They take comfort in being able to access banking services from a name they know and have banked with before.
- 15 This relationship is particularly important for those immigrants who may come to New Zealand and feel isolated from the wider banking sector because of language and cultural barriers. Kookmin provides a more welcoming service for these customers by being able to provide services to them in their native language.
- 16 Kookmin also provides a range of banking services that are particularly valuable to the Korean community and would be lost if Kookmin exited New Zealand. These services include:
 - 16.1 *Easier customer due diligence processing:* Kookmin customers are able to use Korean government issued documents as verification of a customer's address in Korea as part of the customer on boarding process. This makes the on boarding process much simpler for these individuals, who would otherwise face difficulties at other banks using their Korean forms of identification.
 - 16.2 *Overseas remittance:* Kookmin provides international wire transfer services to customers in a more efficient and cost effective way when compared with

similar services offered by local banks. Kookmin converts currency directly to Korean won, rather than converting to USD as an intermediary currency. This is particularly important for Korean immigrants who regularly send money back to their families in Korea. These individuals rely on this service as a means of remitting part of their income to family members back home. The service is also significant for families in Korea who send funds to family members studying in New Zealand.

- 16.3 *Foreign currency exchange:* Kookmin provides an exchange service for the Korean won, which is of crucial importance for Korean immigrants to New Zealand. It is unclear how customers would have access to a similar service through local banks, if Kookmin were to exit the market.
- 16.4 *Customer support:* Kookmin offers support for individuals who conduct business with the Kookmin parent in Korea but have subsequently immigrated to New Zealand. Many individuals who had dealings with Kookmin in Korea are provided with support when beginning a relationship with Kookmin in New Zealand.
- 17 In the event of Kookmin's exit from the market, it is unclear who would provide these services and whether they would be offered to the same high standard. In light of this, Kookmin particularly notes the direct conflict between the harm created and principle 3 of the Policy's consultation paper. The Policy is intended to recognise the role of branches and their contribution to a *diverse and resilient* financial system. Kookmin submits that the removal of the above services would greatly reduce the diversity of the New Zealand banking sector by disproportionately impacting the Korean community.
- 18 This customer harm becomes more pernicious when we consider that many of these individuals would be considered vulnerable customers. They are reluctant to engage with the banking sector due to language and cultural factors, and Kookmin provides them with a familiar brand they recognise and trust. To force Kookmin to exit would greatly harm these individuals who are the most in need of protection.
- Broader harm to the retail banking sector*
- 19 There is also the broader harm to New Zealand banking customers if Kookmin exited the New Zealand market. Kookmin provides healthy competition to New Zealand's banking sector through both its retail and commercial lending offerings.
- 20 In particular, Kookmin has become well established in the market for offering construction companies with a competitive and efficient lending service. Kookmin offers a fast internal loan approval process, which has assisted newly-established construction companies with their required funding needs.
- 21 Kookmin also provides retail customers with a wide range of banking services. The loss of Kookmin's services would reduce competition and consumer choice. Further, it would increase the New Zealand banking market's exposure and reliance on the Australian-owned banks who already dominate the market.

- 22 In light of the above harms to New Zealand banking customers, both general and specific, Kookmin submits that the status quo should be maintained.

Other factors

Foreign Bank branch retail investor activities are immaterial

- 23 The logic underlying the Policy is internally inconsistent, because the Policy acknowledges throughout that the role of branches in retail banking business is immaterial. However, if the contribution of these branches is immaterial, then there is no financial stability rationale justifying creating the harm described above to customers in New Zealand's retail banking sector.

Foreign Bank branches provide valuable diversity

- 24 The Policy does not identify that financial crises can come in many forms and affect different regions and countries differently. Having foreign bank branches from a number of jurisdictions can provide a significant degree of protection through diversity. With a free-flow of capital, foreign banks can move funds seamlessly into New Zealand, more easily through branches, when needed. Presently New Zealand's banking system is under exposed to non-Australian banks. Accordingly, the Reserve Bank should be seeking to find economically rational ways to encourage more foreign banks to establish in New Zealand; not to dissuade them. As said earlier, disallowing branches would create a barrier to entry for foreign banks.

Foreign Bank branches have scale and other advantages

- 25 Insufficient weight is given under the Policy to the strength of foreign bank branches compared to what would be far smaller local subsidiaries. Home country supervision also imposes significant protections against foreign bank insolvency, which mitigates financial stability risks. In their home country, foreign banks are too big to fail and so are subject to considerable home country scrutiny and additional prudential protections. These protections would not apply to a New Zealand subsidiary.
- 26 The threat of a default to an overseas bank operating as a branch would also be more significant to the foreign bank than if the default was by a New Zealand subsidiary. If the foreign bank itself defaults through its New Zealand branch that would trigger cross default clauses and affect the foreign bank's solvency, whereas a default by a New Zealand subsidiary would not have such significant implications for a foreign bank because a subsidiary is another legal entity. Accordingly, a foreign bank regulator would not be as incentivised to protect a New Zealand subsidiary, to the same degree as the foreign bank regulator does a branch.

New Zealand needs more foreign banks; not fewer

- 27 As mentioned, the Policy places too much importance on consistency, transparency and practicality. These are secondary benefits of lesser importance. Because there are only a few banks operating in New Zealand, there can be flexibility to cater for each bank's particular circumstances, without creating complexity or meaningful disadvantages. New Zealand has only 27 banks, 22 are foreign owned and 12 are operated as branches. If dual registered banks are considered as a single bank,

there are fewer; 20 total and 15 foreign-owned. The current policy is not complex and can be managed practically, so these secondary objectives should be outweighed by the more significant factors raised in this submission.

SCHEDULE 2: ALTERNATIVE SUBMISSIONS

- 1 In the alternative, should the status quo cease, Kookmin submits the following responses to the proposed policy questions in the consultation paper.

Retail deposit definition should align with the DCS threshold
- 2 Kookmin opposes the Reserve Bank's proposal to restrict branches to undertaking business with 'wholesale investors', as that term is defined in the Financial Markets Conduct Act 2013 (*FMCA*).
- 3 If branches are to be prevented from taking retail deposits, a NZ\$100,000 threshold for determining retail deposits would be the most suitable. The current BS1 outstanding balance test methodology could be used, with a lower outstanding balance threshold of NZ\$100,000 to align with the threshold for protected deposits under the proposed depositor compensation scheme (*DCS*).
- 4 If the DCS threshold is not used then it would suggest that the DCS thresholds are inadequate and too low to address the financial stability impacts the DCS is meant to address.
- 5 There is no reason why foreign bank branches cannot participate in the DCS if other licensed banks are to do so. Accordingly, it is not apparent why the introduction of the DCS should prompt suggestions of prohibiting foreign bank branches taking retail deposits.
- 6 Depositors would not require further protection. Kookmin is already subject to a considerable amount of prudential regulation in its home jurisdiction of Korea. This includes a customer protection of up to 50,000,000 Korean won per depositor, which equals around NZ\$60,686 (converted to NZD on 11 November 2022), and would extend to New Zealand depositors.
- 7 The NZ\$100,000 threshold also represents the least invasive approach in terms of reducing customer harm. As noted earlier in the submission, Kookmin's exiting the New Zealand market would cause severe harm to the diversity and competitiveness of New Zealand's banking sector. Similar consequences arise with an unnecessarily high prohibition threshold. The higher the threshold is placed for retail deposits, the greater the restriction on Kookmin's ability to service customers in New Zealand.

Retail deposit threshold should adopt BS1 if the \$100k threshold is rejected
- 8 If the NZ\$100,000 threshold is not to be adopted, the current BS1 definition of NZ\$250,000 is preferred ahead of the *FMCA* 'wholesale investor' definition.
- 9 The NZ\$250,000 BS1 threshold is similar to the approach taken by the Australian Prudential Regulation Authority (*APRA*) in Australia in relation to foreign Authorised

Deposit-Taking Institutions (*ADIs*). APRA's policy is that foreign ADI's are not permitted to accept initial deposits (and other funds) from individuals and non-corporate institutions of less than NZ\$250,000. Beyond this, no other specific restrictions are placed on the sources of funding or on the use of funds by the foreign ADIs. To increase the threshold to the wholesale investor test would be more stringent than the position in Australia.

The FMCA 'wholesale investor' definition is inappropriate for use as a threshold for branches engaging in banking activities

- 10 The proposed restriction on branches to undertake business with only 'wholesale investors' is inconsistent with the principles of other protections, and application of the 'wholesale investor' test would be difficult to apply in practice.
- 11 As illustrated above, the messaging from the Reserve Bank through the introduction of the DCS is that all deposits up to NZ\$100,000 are deemed needing of protection. If the 'wholesale investor' definition test is to be used, and the NZ\$750,000 threshold and the other 'wholesale investor' criteria applied for branches, it gives the impression that deposits above NZ\$100,000 are in need of an additional layer of protection which is not provided by the DCS. It is unclear why the Reserve Bank deems it necessary to make such an increase to the threshold amount for branches when both the DCS and BS1 are currently suitable measures intended to protect depositors – consistency would not be achieved by such a decision, just more confusion.
- 12 The combined effect of the policies is to suggest that those who bank with branches and have deposits in the NZ\$100,000 - NZ\$750,000 bracket are deemed worthy of different treatment from those who bank with incorporated banks and have deposits in this bracket. The messaging behind this approach is inconsistent and difficult to grasp.
- 13 Further, the 'wholesale investor' test under the FMCA is a significantly more difficult test to apply and administer in practice, given its different categories and complex criteria. It therefore does not satisfy principles 5 and 6 of the Policy. Adopting the 'wholesale investor' test would add a further level of complexity, reduce transparency and be challenging to supervise and administer.
- 14 Applying the wholesale investor definition is a cumbersome exercise. The definition contains a number of different limbs, each of which requires some investigation to conclude whether a particular individual or entity meets the definition. In particular, there can be significant effort involved when trying to conclude whether an individual meets the 'investment activity criteria' or is 'large' under the FMCA.
- 15 Further, the 'wholesale investor' test is ill-equipped to deal with wider banking services beyond deposit taking. The test was designed for investment and deposits. The Policy proposes to extend its use to a threshold for conducting all forms of business that a branch would undertake with a customer. This was not what the 'wholesale investor' test was designed for. There is no guidance in the Policy as to how this test would work with respect to other banking services, such as lending.

- 16 Moreover, the logic from the consultation paper that it is burdensome to monitor customer accounts for compliance with the BS1 standard would apply more so to use of the 'wholesale investor' test. Whatever test is used, it needs to apply at the outset only, as ongoing monitoring would be burdensome. While the 'wholesale investor' test was designed to be measured at a certain point in time (such as when the deposit or investment is made), the test does not fit logically with other banking services provided on an ongoing basis. The Policy has clearly not addressed these practical difficulties as there is no discussion on how the wholesale test would be applied.
 - 17 Reliance on the eligible investor limb also creates an additional layer of bureaucracy and cost, because the investor must provide a certificate in the prescribed form, and this must be checked and kept on file by the branch. In addition, often those who meet one of the 'wholesale investor' definition limbs would provide a safe harbour certificate confirming they do so. These 'safe harbour' certificates would be desirable but impose further administration on branches which could be avoided if a similar and more self-evident test is adopted.
 - 18 The above practical difficulties of both applying and documenting the 'wholesale investor' certification would fail the simplification and cost-reduction objectives in principles 5 and 6, particularly when judged relative to the ease of applying a straightforward monetary threshold, such as NZ\$100,000 or the current BS1 NZ\$250,000.
 - 19 Kookmin acknowledges the Reserve Bank's arguments in the Policy that the current BS1 threshold is difficult to administer due to the requirement to monitor customer balances on an ongoing basis. However, Kookmin submits that this is a much lower burden when compared to the practical difficulties above relating to the 'wholesale investor' test. In particular, Kookmin considers that from a practical perspective it is much easier to apply a straightforward threshold across a number of accounts than it is to have to apply the different limbs of the 'wholesale investor' test to all depositors.
- No reason to restrict products other than deposits**
- 20 Financial stability considerations tend to focus principally on deposit taking. For example, the Deposit Takers Bill will require retail deposit takers to be licensed but generally will not regulate non-bank lenders.
 - 21 The main risk that the Policy appears to be addressing is the loss of a customer's savings in the event of a bank insolvency. This same risk does not apply to other products, and in particular to loan products. The main outcome of insolvency is just that the loan product is no longer available for new borrowings. The Reserve Bank does not identify the loss of the ability to draw new loans as an inherent financial stability concern, as the consultation paper acknowledges that the Policy would have this impact immediately if overseas branches exited the market.
 - 22 The Policy justifies this broader application of the restrictions under the principles, by claiming the restrictions on the broader category of activities would further mitigate risks to financial stability. However, there is no clear risk or concern

identified that the Policy addresses by preventing branches providing services other than deposits to retail customers.

- 23 Ultimately, the consultation paper provides no clear reason as to why the restrictions on branches must extend to all retail activities.
- 24 Further, there are other customer protections for other banking products, such as the CCCFA for lending.
- 25 Kookmin further submits that it should be able to take deposits from individuals where the amount Kookmin is taking is smaller than the amount Kookmin is lending. There is no reasonable basis in the Policy which demonstrates the risk matched deposits pose to financial stability. In this particular case, more is owed by the customer to Kookmin than is currently deposited, so there is no clear harm identified in a worst case scenario of insolvency, because these amounts should net off.

Extend the transitional period from three to five years

- 26 As mentioned earlier, Kookmin submits that the transitional period should be at least five years. Three years is an unreasonably short period to allow branches to fully consider the Policy and decide on an appropriate course of action. In addition, branches should be offered transitional assistance through legislation to vest assets and liabilities in a newly incorporated subsidiary for those registered bank branches who decide to proceed to incorporate.

Review of Policy for Branches of
Overseas Banks
November 2022

Payments NZ Limited submission

16 November 2022

Introduction

Payments NZ Limited (Payments NZ) governs the New Zealand payment system, including the settlement before interchange system (SBI), which enables participants in our bulk electronic clearing system (BECS) and consumer electronic clearing system (CECS) to settle retail payments and, once this has occurred, exchange the payment information with other participants. From the perspective of Payments NZ, we have a particular interest in the proposals set out in the Reserve Bank's consultation on the review of policy for branches of overseas banks relating to the ability of branches to take retail deposits and to participate in our retail clearing systems – BECS and CECS.

Payments NZ acknowledges the issues set out in the consultation document relating to the Reserve Bank's oversight of registered branches operating in New Zealand and the challenges which the Reserve Bank faces in ensuring that Te Pūkanga – its regulated entities, including registered banks – are sound and efficient. In particular, we note the Reserve Bank's concerns in relation to managing risks with branches (particularly if a branch were to fail) and the costs and issues involved if the Depositor Compensation Scheme were to apply to branches. However, this needs to be weighed with the negative impact on competition, efficiency and innovation which could result from the policy and we would like to better understand the impact of the policy in this regard. We also note that, while the proposed policy is for registered branches of overseas banks, under the recently introduced Deposit Takers Bill there will no longer be separate registrations for banks and non-bank depositor takers and so, presumably, the policy will, in time, apply to all deposit takers. This could affect the ability of innovators (like neo banks and fintechs) to access the payment system by requiring them to incur the full costs associated with local incorporation and all the regulation which will accompany that.

Interoperable, innovative, safe, open and efficient payment systems

Payments NZ promotes interoperable, innovative, safe, open and efficient payments systems. One of our key objectives is to encourage and facilitate new entities becoming participants in clearing systems based on fair and reasonable public access criteria. Payments NZ access rules do not restrict access to locally incorporated financial institutions and we currently have participants in our retail payment systems who are branches of overseas banks.

Payments NZ's access rules are objective, fair and risk-based, without imposing any unwarranted barriers to access. In determining appropriate requirements, a risk-based approach has been adopted which acknowledges that financial and operational failure pose significant risk to the payment system, but liquidity/credit risk can be mitigated through the requirement to have adequate support from a third party.

The access rules require an applicant to satisfy one overarching access criterion, namely that an applicant will not, if it becomes a participant in a clearing system:

- adversely affect the integrity or reputation of the clearing system; or
- introduce significant risk into the clearing system.

The rules specify prudential, operational risk management, and operational requirements in relation to clearing systems and provide that an applicant can satisfy the access criterion by demonstrating it complies with these requirements. It is noted that the prudential requirements largely reflect those matters which the Reserve Bank takes into consideration when regulating banks, non-bank deposit takers and insurers. While Payments NZ can rely on assessments

which the Reserve Bank undertakes as part of its role as regulator, Payments NZ rules do not require an applicant to be a regulated entity and the independent directors, who determine applications to participate, can seek a report from a qualified person as to whether an applicant meets the access requirements.

The process of determining whether an applicant satisfies the access criterion is holistic. While the procedures specify certain requirements which must be met (e.g. an applicant must have adequate risk management policies and systems), other matters require the independent directors to undertake an assessment (e.g. whether the jurisdiction of incorporation is likely to introduce risk).

It is noted, however, that all applicants must have an Exchange Settlement Account System (ESAS) account with the Reserve Bank. The Reserve Bank is currently undertaking a review of its access criteria for ESAS accounts. The Reserve Bank website notes that: “the review is designed to ensure that the access policy and criteria are appropriate for promoting the development of a payments system which:

- is efficient, open and flexible;
- has a high level of integrity;
- is robust in the face of financial crises”.

The Reserve Bank has indicated that, following the review, ESAS accounts could be more readily available to a broader range of institutions, such as non-bank payment services providers (subject to maintaining the integrity and robustness of the ESAS system). Payments NZ would like to understand whether there will be a requirement for all ESAS account holders who wish to participate in SBI to be locally incorporated (i.e. will this extend to other non-bank payment service providers) or will there be different requirements.

Impact on open access, competition and innovation

The establishment of Payments NZ in 2010 opened up direct access to the payment system to non-banks for the first time and, through improved transparency and governance arrangements, ensures that New Zealand’s payment system complies with the relevant Principles for Financial Market Infrastructures issued by the Committee on Payments and Market Infrastructure and the International Organization of Securities Commission. Over the years, we have continued to develop and refine our access requirements to ensure that the right balance is found between competition, innovation, efficiency and safety, so that access to the payment system benefits all stakeholders.

The consultation document acknowledges that the proposal to require all branches to locally incorporate could have a negative effect on competition in retail banking. However, the Reserve Bank notes that: “there is little or no evidence that branches provide material price-based competition to locally-incorporated retail banks.”

The Reserve Bank notes that the role of branches in retail banking is “immaterial” and that it is unlikely that allowing branches to take retail deposits (subject to thresholds) would encourage new entrants. In light of this, we would like to better understand the Reserve Bank’s concerns in relation to branches, given that they do not pose a systemic risk to the financial system. We also note that, while branches are part of a legal entity incorporated overseas (and therefore not subject to many of the requirements imposed on banks incorporated in New Zealand), there are

a number of existing restrictions and thresholds which apply to their operation in New Zealand. These, together with the requirements that apply in their home jurisdictions, have ensured that branches do not introduce systemic risk and have been able to effectively participate in New Zealand's payment system, including BECS and CECS governed by Payments NZ.

In relation to the Reserve Bank's view that the thresholds for retail deposits would not create sufficient economies of scale to allow overseas banks (including challenger banks) to "engage in material price-based competition with incumbent banks", we would like to understand whether the Reserve Bank has given consideration to the potential innovation which overseas banks could bring to the New Zealand market and the impact of this on competition. We are concerned that the need for overseas challenger/neo banks to locally incorporate may result in these banks not participating in the New Zealand payment system, which could slow down or limit innovations being brought to market in New Zealand.

Impact on cross-border transactions

The Reserve Bank also acknowledges the loss of efficiency in terms of cross border services offered to retail customers. We would like to better understand the long-term impacts on efficiency, particularly in relation to the role of payments in the South Pacific. There may be opportunities for some of these smaller markets (with insufficient banking activities to sustain their own systems) to participate in the New Zealand payment system. We would like to understand whether the Reserve Bank sees a role for branches in offering retail services to customers for this purpose – provided that the customer is aware of the different outcomes that could occur as a result of the branch being incorporated in another jurisdiction.

Conclusion

In developing a more consistent and transparent regime in relation to the Reserve Bank's policy for branches, Payments NZ believes that further consideration should be given to the impact of the proposal to restrict branches from taking retail deposits or offering products or services to retail customers. From the perspective of Payments NZ, we are concerned about the effect which this could have on access, competition, efficiency and innovation in the payment system. In particular we would like to better understand how this will integrate with the Reserve Bank's review of ESAS, which seeks to deliver an efficient, open and flexible payment system, and the impact of the recently introduced Deposit Takers Bill which will no longer separate registrations for banks and non-bank depositor takers.

As the range of organisations who may wish to participate in the New Zealand payment system expands, a requirement to locally incorporate may result in some financial institutions choosing not to operate in New Zealand. The challenge, remains as always, finding the right balance between competition and openness and protecting the integrity and stability of the system.

s9(2)(a)



s9(2)(a)

Reserve Bank of New Zealand
2 The Terrace
PO Box 2498
Wellington 6140

14th November 2022

For the attention of The Branch Policy Review Team

Dear Sir,

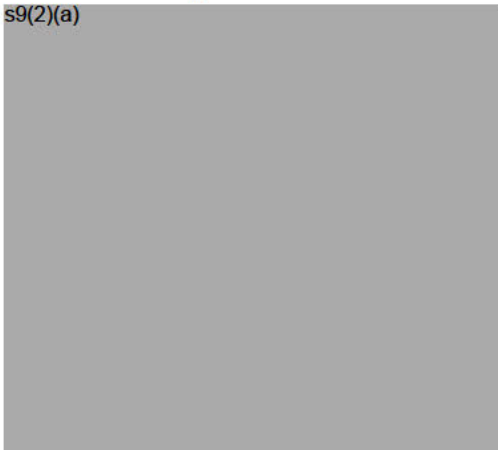
REVIEW OF POLICY FOR BRANCHES OF OVERSEAS BANKS

Please find herewith my second submission pertaining to your consultation on the review of policy for Branches of overseas banks in New Zealand.

Please do not hesitate to contact me should you require any further information and/or clarification on my submission.

Yours faithfully

s9(2)(a)



Second Submission on Review of Policy for Branches of Overseas Banks in New Zealand

Introduction

1. My name is s9(2)(a) and I have lived in New Zealand for a little of 16 years having emigrated here from the United Kingdom. I have also lived and worked in Singapore and Hong Kong over the period 1992 – 2004.
2. This is my second submission on this topic and as previously is made in a personal capacity.
3. There has been no change in the period intervening since my first submission dated the first of March 2022. s9(2)(a)
4. I am a personal customer of HSBC and hold one fixed interest investment with the China Construction Bank (New Zealand), hence my interest in this process.
5. Other than the relationships detailed in paragraph 4 above I have no interests in any of the Branches this consultation exercise covers.
6. As before I would welcome the opportunity to enter into further discussions with the RBNZ on this submission and take this opportunity to thank you for the invitation to participate in the webinar held on the 31st August 2022.
7. In my first submission I requested that the RBNZ in this next consultation phase specifically addresses the matter of retail customers, such as myself who have quietly enjoyed positive retail banking from the Branches for many years; in my family's instance as stated above HSBC.
8. It is with disappointment that I note that your proposal is to restrict branches from taking retail deposits or offer any services to retail customers.
9. If the proposal to restrict branches from offering retail services remains unaltered and HSBC decide to withdraw from this market would have a profound effect on me personally, requiring me to completely re-structure my banking relationship(s) in New Zealand and incur significant additional expense. I therefore take issue with the statement the BNZ make "that the nature and aggregate scale of these retail services across the branch population is limited."
10. To elaborate further on the issue of additional expense ass advised in my first submission I am able to make fee free international transfers between my HSBC accounts held in a number of other jurisdictions. Coincidentally today there was an article¹ published on www.interest.co.nz that provided a summary of international service fees that the major banks here in New Zealand charge. Below for ease is an extract from the table:

¹ <https://www.interest.co.nz/banking/118402/third-series-articles-bank-fees-matt-skinner-looks-international-service-fees-major>

International service fees	<u>ANZ</u>	<u>ASB</u>	<u>BNZ</u>	<u>Kiwibank</u>	<u>Westpac</u>
Outward payment (staff)	\$28	\$30	\$25	\$25	\$30
Outward payment (online)	\$9	\$15	\$5	\$20	Westpac One or Business Online Banking \$10, otherwise \$20
Inward payment (to bank)	\$15	\$15	\$10	\$12	\$15
Inward payment (to other bank)	\$15	\$25	\$15	N/a	\$25

11. The potential withdrawal of HSBC from the retail banking could result in my incurring additional charges for services that all currently fee free. As I mentioned in the webinar this is at variance with the purpose to "...enable [the] economic wellbeing and prosperity of all New Zealanders"
12. If the proposal stands the only organisations which stand to prosper are large Australian headquartered banks as they will further entrench their dominant market position (which you indicated currently hold 85% of the New Zealand market)
13. This strikes me as a rather perverse outcome with the risk that there would be little incentive for foreign banks to introduce innovative products to the New Zealand market, the HSBC Premier product being an example.
14. I am also having difficulty understanding the systemic risk the foreign branches pose generally to New Zealand, given the small relative scale of their operations, for retail customers the soon to introduced deposit guarantee scheme, which if I understand the remarks at the webinar will include the branches in the transition period will provide an additional layer of risk reduction/mitigation.

Conclusions

15. I would like to thank the RBNZ for providing the opportunity to participate in this second consultation exercise.
16. The position of the RBNZ is somewhat contradictory in that it accepts the small size the branches have of the local market and the proceeds to concern itself with the risk they could pose.
17. It would be manifestly unfair, to retail customers, such as myself who have quietly enjoyed their banking relationships with the Branches for the RBNZ to disrupt these.

14 November 2022

Review of Policy for Branches of Overseas Banks
Prudential Policy Department
Reserve Bank of New Zealand
Wellington 6140

By email to: BranchPolicyReview@rbnz.govt.nz

Dear Sir/ Madam

Response to Policy for Branches of Overseas Banks – Second Consultation

As a retail customer of HSBC for more than 25 years, I am very concerned about the proposal to preclude HSBC from offering retail services. I have read and support the HSBC submission of 20 October 2021 in response to the first consultation paper.

The media is currently replete with criticism of the “excessive” profits being earned, particularly by the 4 major Australian owned banks which collectively monopolise the New Zealand retail banking market. These banks reputedly earn greater ROI from the New Zealand market and charge New Zealand retail customers higher prices than are charged for the equivalent services in Australia.

Against this backdrop is puzzling to see RBNZ proposals to reduce competition in the New Zealand retail banking market. Although the focus is on deposit taking, the proposal and the effect is to eliminate current levels of competition in all retail banking services.

Over the last 25 years, I have personally monitored home lending rates. HSBC has consistently offered among the lowest rates available. As a frequent business and leisure traveller and as a modest retail investor, I have also had the benefit of the international dimensions of HSBC retail services in the UK and Australia. These services are not easily available from any New Zealand registered bank.

It is clearly tempting for RBNZ to say these retail services are of no material consequence to the financial sector. Basic economics demonstrates the significant competitive effect of a likely new market entrant and by extrapolation, a competitor in the market with ability to grow.

The history of locally grown banking in New Zealand is far from impressive – the ultimate example being the Australian owned Bank of New Zealand. We are a small market almost entirely dependent on overseas banks. On what basis do we consider we are better able to regulate our banks, whether locally incorporated or branches, than regulators such as in the UK? There is an irony in the RBNZ proposals referring to a benefit from aligning our regulation with APRA.

New Zealand is a very small market in any international context. To encourage participants in our markets we need to maintain flexibility, not a one size fits all approach for a small handful of market

participants where differentiation is justified and has caused no discernible problem. Policies are by definition flexible to accommodate differences of detail – they are not and should not be rule books.

The consultation document refers to insurance supervision involving different consideration from other financial services. I agree with that, but the principle of relying on reliable home jurisdiction regulators is long established. By way of example, the aviation industry in New Zealand and globally transports millions of people daily on the strength of reliance in the competence of home regulators.

It may be problematic and possibly more costly for RBNZ to monitor branches. That must be weighed against the benefits to the retail market from continued existing and potentially greater competition and perhaps the opportunities for RBNZ to continue to learn from interactions with overseas regulators. Ring fencing and isolationist policies will not advance New Zealand's economic interests.

s9(2)(a)



s9(2)(a)

From: s9(2)(a) 2022 11:57 am
To: Branch Policy Review
Subject: Re: Feedback sought on policy for branches of overseas banks

Follow Up Flag: Follow up
Flag Status: Completed

I would like give feedback, namely, that I agree with the proposals outlined below.
Kind regards

s9(2)(a)

On 24/08/2022 09:20 Reserve Bank of New Zealand <no-reply@lists.rbnz.govt.nz> wrote:

[View this email in your browser](#)

✖

Feedback sought on policy for branches of overseas banks

24 August 2022

The Reserve Bank of New Zealand – Te Pūtea Matua is inviting feedback on the second and final consultation on the review of its policy for branches of overseas banks.

Branches of overseas banks can be an important link between our economy and global financial markets. The objective of the review is to create a simple, coherent and transparent policy framework for branches that protects and promotes financial stability.

Promoting a strong, efficient and inclusive financial system is fundamental to the overall resilience of the New Zealand economy, Deputy Governor and General Manager for Financial Stability Christian Hawkesby says.

To maintain a healthy and vibrant financial system we need Te Pekanga – our regulated entities, including branches of overseas banks – to be sound, innovative and have constructive working relationships with us.

Key proposals outlined in the paper include:

- that all branches in New Zealand 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;
- to limit the maximum size of a branch to NZ\$15 billion in total assets; and
- that we 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 of registration; and
 - dual-registered branches only conduct business with large wholesale customers – those with consolidated turnover greater than NZ\$50 million.

We anticipate final decisions on the review to be taken in early 2023 after submissions on the second consultation have been considered. We are proposing a three-year transition period for full implementation.

The first consultation paper was published in October 2021 and set out the objectives, problem definition, assessment principles, and some high-level policy options and questions. We would like to thank the banking industry and other stakeholders for their feedback to the first consultation and engagement with the review process to date. Alongside the second consultation paper, we

have also published a summary of submissions in response to the first consultation paper.

We welcome submissions on the policy questions set out in our Branch Policy consultation, and any alternative options or proposals, to be made before 16 November 2022. We will also be hosting a webinar on Wednesday 31 August 2022. Any interested parties are welcome to attend. To register your interest, please email BranchPolicyReview@rbnz.govt.nz.

More information

The publication packages includes three documents:

- [The second and final consultation paper, with a proposed Banking Prudential Requirements document for changes and proposed amendments to BS1 both appended.](#)
- [A summary of submissions in response to the first consultation paper.](#)
- [Full submissions in response to the first consultation paper.](#)

Media contact

Oliver Bates

Manager, External Stakeholders

DDI: +64 4 474 8627

Email: Oliver.Bates@rbnz.govt.nz





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s9(2)(a)

From: s9(2)(a)
Sent: Wednesday, 16 November 2022 10:56 am
To: Branch Policy Review
Cc: s9(2)(a)
Subject: Submission on Review of Policy for Branches of Overseas Banks

Kia ora s9(2)(a) ,

Thank you for the opportunity for the New Zealand Financial Markets Association (NZFMA) to respond as part of the consultation process for the second and final consultation paper entitled "Review of Policy for Branches of Overseas Banks."

NZFMA's submission is the following:

It is important that foreign banks are not disincentivised from establishing and/or retaining branches in New Zealand as they play an important part in relation to access to international financial markets and the liquidity of domestic financial markets. The risk of increased compliance costs and reduced commercial benefits for branches in respect of any proposed changes need to be considered and taken into account when assessing the desirability of the changes. There may be long term negative impacts on New Zealand's financial markets if the number of branches is reduced.

Please do not hesitate to contact me if you have any questions or wish to discuss further.

Ngā mihi

s9(2)
(a)

[Redacted signature block]