



Reserve Bank
of New Zealand
Te Pūtea Matua

Proportionality Framework for Deposit Takers

A framework for how the Reserve Bank takes into account proportionality when setting standards

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CONSULTATION
PAPER

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1 Introduction

The Deposit Takers Act 2023 (the Act) regulates deposit takers in New Zealand. It replaces separate regulatory regimes that were previously in place for registered banks under the Banking (Prudential Supervision) Act 1989 and non-bank deposit takers under the Non-Bank Deposit Takers Act 2013.

The Act requires the Reserve Bank of New Zealand – Te Pūtea Matua (the Reserve Bank) to prepare and publish a framework for taking the proportionality principle into account when developing standards made under the Act.¹ The proportionality principle is one of a number of principles identified in the Act that the Reserve Bank must take into account when exercising functions, powers, and duties under the Act. The complete purposes and principles of the Act are set out in Annex A.

Proportionality (defined for the purposes of this framework in section 2) is important for ensuring that standards are tailored appropriately to ensure that the New Zealand public can benefit from a safe, sound, and stable deposit taking sector, but one that is also diverse, innovative and inclusive. This requires balancing the costs and benefits of standards for individual deposit takers or groups of deposit takers.

This document sets out the Reserve Bank's proportionality framework as required under the Act. It outlines how the Reserve Bank will take into account the proportionality principle in the development of standards for deposit takers. The framework is also intended to support consistency and coherence in the design of these standards. It is not intended to set the requirements contained in the standards that deposit takers will be required to comply with. These requirements will be set out in individual standards which are published separately.

This framework document sets out:

- the purpose of the proportionality framework;
- considerations when calibrating proportionate standards;
- how the Reserve Bank will group deposit takers for the purpose of setting consistent proportionate standards.

It is important to note that the framework is not intended to be rigidly applied, rather it provides guidance on the overall approach. The Reserve Bank has discretion to depart from the framework in case by case situations (as referred to within the framework).

¹ Refer section 77 of the Deposit Takers Act 2023

2 Purpose of Proportionality Framework

The Act sets out *'the desirability of taking a proportionate approach to regulation and supervision'*² as one of the principles that the Reserve Bank must take into account as relevant to the exercise of the Reserve Bank's functions, powers and duties and pursuing its main and additional purposes. This proportionality framework sets out how the Reserve Bank will take into account this principle in the development of standards for deposit takers.

The purpose of the proportionality framework is to set out how we take a proportionate approach when developing standards under the Act. We also aim for the framework to be transparent and consistent. We have regard to the following matters required by the Act³:

- the size and nature of the businesses of different deposit takers;
- the extent to which a range of different requirements are necessary or desirable to promote the safety and soundness of each deposit taker;
- the relative importance of different deposit takers to the stability of the financial system.

The proportionality framework only sets out how the Reserve Bank takes into account the proportionality principle for developing standards for deposit takers. It does not set out how the Reserve Bank may take into account the proportionality principle in the supervision of deposit takers (although there is a relationship). It also does not set out how the proportionality principle is taken into account for other types of entities that the Reserve Bank regulates (for example insurers or financial market infrastructures).

Deposit takers in New Zealand can either be incorporated in New Zealand or be branches of overseas-incorporated deposit takers. The grouping of deposit takers described in section 4 will only be used for locally-incorporated deposit takers. This is because the full suite of prudential regulations cannot be applied to branches of overseas-incorporated deposit takers because of their legal nature. Under the Act, branches of overseas-incorporated deposit takers will be subject to standards that are proportionate to the risks they present to the stability of New Zealand's financial system. The process for designing these standards for branches is not described in detail in this document. Information for branches is available on our website⁴.

² Refer section 4(a)(i) of the Deposit Takers Act 2023

³ Refer section 77(3) of the Deposit Takers Act 2023

⁴ Currently applicable policy for branches is available here. [rbnz.govt.nz/-/media/project/sites/rbnz/files/regulation-and-supervision/banks/banking-supervision-handbook/bs1-statement-of-principles.pdf](https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/regulation-and-supervision/banks/banking-supervision-handbook/bs1-statement-of-principles.pdf)

The policy is currently under review. Updated information will be available here. [rbnz.govt.nz/have-your-say/review-of-policy-for-branches-of-overseas-banks](https://www.rbnz.govt.nz/have-your-say/review-of-policy-for-branches-of-overseas-banks)

2.1 Defining Proportionality for the Purposes of Standards

The concept of proportionality can have different meanings or interpretations in different contexts. The Bank for International Settlements (BIS) defines proportionality in the following way:

*'Proportionality in financial system regulation and supervision may ensure that the applicable rules and supervision practices are consistent with banks' systemic importance and risk profile, and are appropriate for the broader characteristics of a particular financial system.'*⁵

The purpose of this proportionality framework, as outlined above, aligns with this definition. In order to apply proportionality in developing standards, we look at either or both of:

- the *strength* of standards (e.g. higher vs lower capital requirements);
- the *comprehensiveness* of standards (e.g. using detailed and precise vs simple and approximate methodologies to calculate capital ratios).

It is important to note that proportionality or taking a proportionate approach does not necessarily mean reducing the strength and/or comprehensiveness of any particular standard. It means calibrating regulatory requirements to balance the costs and benefits of varying the strength and/or comprehensiveness of a prudential requirement for individual deposit takers or groups of deposit takers. This calibration is based on the characteristics of different deposit takers and the risks they pose to the purposes of the Act. The next section explains the risk elements that we will consider for calibrating the requirements of standards in a proportionate way.

⁵ Refer *High-level considerations on proportionality*, BIS: [High-level considerations on proportionality \(bis.org\)](https://www.bis.org/publ/hi/hi.htm)

3 Calibration of Standards

When we adjust the strength and comprehensiveness of individual standards to balance the costs and benefits of regulations, we will consider the elements below to achieve the purposes of the Act and factor in the appropriate principles:

- **the systemic importance of the deposit taker** (sections 3(2)(b) and (d));
- **the need to promote the safety and soundness of *each* deposit taker** (section 3(2)(a));
- **the need to promote public confidence in the financial system** (section 3(2)(b));
- **the need to support New Zealanders having reasonable access to financial products and services**, to the extent this is not inconsistent with our financial stability objectives (section 3(2)(c));
- **a deposit takers' operational complexity and ability to comply with comprehensive prudential requirements** (sections 3(2)(c) and 4(a)); and/or
- **the business model and risk profile of the deposit taker** (sections 3(2)(a), (b), and (d)).

For the business model and risk profile of the deposit taker, we will look at various factors including systemic importance, concentration and importance in the relevant sector, region, market, or demographic served, and interconnection with other financial service providers.

We will calibrate standards using the above elements with the following process:

- identify/determine the baseline requirements for the relevant standard;
- determine the calibration of the strength and/or comprehensiveness of the standard;
- assess the impact of the calibration of the standard;
- determine the appropriate calibration of the standard across all groups.

4 Grouping of Deposit Takers

To support the consistent application of standards to similar deposit takers, all locally incorporated deposit takers are allocated to groups for the purpose of calibrating each standard. This will allow standards to be developed that are tailored for the types of business undertaken by each group and the risks posed by the group. It will help enable consistent application of standards between similar deposit takers.

Prudential requirements for each group will be outlined in each standard (issued separately to this document). These requirements could be different for each group, the same for all groups, or the same for two groups and different for the third, depending on assessment of the calibration factors outlined above. It will be decided on a standard-by-standard basis. We expect that in most instances the standards that apply to individual deposit takers will be those that are applied to the group of which they are a member (subject to the approach to variation outlined in section 4.3).

4.1 Basis for Grouping Deposit Takers

The grouping of deposit takers will be established on the basis of each deposit takers total assets.⁶ We will use Reserve Bank held data sourced from the Bank Balance Sheet Survey⁷ and the Non-bank Deposit Takers Survey⁸ to calculate the total assets for each deposit taker. Total assets are used as the sole indicator for establishing the ranking and grouping of deposit takers as our analysis identified that there was no significant differences between an asset-based grouping and groupings using a broader range of metrics (such as for sophistication, systemic importance, interconnectedness, complex and ability to absorb regulatory burden).

Deposit takers will be allocated to one of the three groups outlined in section 4.2 below according to their total assets at the time of their initial licensing. The calculation of a deposit takers' total assets will be made on the basis of a one year rolling average. This approach will smooth out any short-term fluctuations in the size of a deposit taker's assets and provide a reasonable longer-term assessment of a deposit taker's size.

New deposit takers will be assigned to a group based on their existing asset base. If prospective new deposit takers have not yet generated sufficient data to determine their group, we may use their business plans submitted to the Reserve Bank that are likely to outline their anticipated size after an initial period of growth, and how they expect to meet regulatory requirements.

The grouping for each deposit taker will be assessed periodically to ensure it remains appropriate for the deposit takers' size of assets. If a change in grouping is required on the basis of this assessment this will be undertaken on the basis of the transition approach outlined in section 4.4.

⁶ The sum of all assets of the deposit taker. Assets of a deposit taker represent the amounts owed by debtors or economic resources it owns, at a specific point in time. Assets will comprise various types of resources like cash, securities or and loans and can also include intangible assets like goodwill and trademarks.

⁷ [rbnz.govt.nz/regulation-and-supervision/oversight-of-banks/resources-for-banks/surveys/bank-balance-sheet-survey](https://www.rbnz.govt.nz/regulation-and-supervision/oversight-of-banks/resources-for-banks/surveys/bank-balance-sheet-survey)

⁸ [rbnz.govt.nz/regulation-and-supervision/oversight-of-non-bank-deposit-takers/resources-for-non-bank-deposit-takers/hbdt-surveys/non-bank-deposit-takers-survey](https://www.rbnz.govt.nz/regulation-and-supervision/oversight-of-non-bank-deposit-takers/resources-for-non-bank-deposit-takers/hbdt-surveys/non-bank-deposit-takers-survey)

4.2 Three Groups of Deposit Takers

Locally incorporated deposit takers will be divided into three groups for the purposes of designing and setting standards. The three groups are (with the level of prudential requirements in brackets):

- **Group 1:** deposit takers with total assets of NZ\$100 billion or more. This group is the domestic systemically important banks (D-SIBs).
- **Group 2:** deposit takers with total assets of NZ\$2 billion or more, but less than NZ\$100 billion.
- **Group 3:** deposit takers with total assets less than NZ\$2 billion.

A list of licensed deposit takers in each group will be published on the Reserve Bank's website.

4.3 Variation From Group Standards

The purpose of the grouping approach is to provide for consistent standards to be applied to deposit takers in each group. However, the Reserve Bank acknowledges and expects that it is unlikely that this standardised approach will be appropriate in every circumstance for some deposit takers. There are likely to be instances where because of the particular nature of an individual deposit taker, a bespoke approach will be required for that deposit taker.

Variations to prudential requirements for each group could be actioned in three ways:

- *Variations to standard requirements incorporated as a part of the design of individual standards.* In such circumstances a standard may prescribe the circumstances in which a variation may be applied.
- *Bespoke variations for individual deposit takers* where either the standard requirements or the variations described above are not appropriate for that deposit taker. In such circumstances, a variation may be applied through a condition of license applied to the individual deposit taker. This could include variation of requirements for individual standards or lifting a deposit taker into a higher group for all requirements. We expect situations such as this to be rare, but it is important we do not fetter our discretion.
- *Opt-into higher prudential requirements:* there may also be circumstances where a deposit taker assesses that it is desirable to opt into higher prudential requirements (for example, due to their growth strategy or the nature of their business model). In such circumstances, in addition to the transition arrangements outlined, a deposit taker could also choose to opt in the standards applied to a higher group. Such an opt-in would be reflected as a variation of a condition of license.

Variations outlined in the second bullet above would be made on the basis of an assessment of the criteria outlined in the calibration section of this document (refer section 3). In particular, we expect such an assessment to be in response to specific risks or business practices identified by supervisors (either in initial licensing or ongoing supervision). Where a variation is proposed to be made from normal group standards this will be made in consultation with the individual deposit taker.

4.4 Transition Arrangements

Section 4.1 outlined the basis for undertaking the initial allocation into groups for each deposit taker. The allocation of a deposit taker to a group will be regularly monitored by Reserve Bank supervisors to ensure that a deposit taker's grouping remains appropriate over time. Where a deposit taker is likely to move from one group to another (e.g., growing on a trend towards the threshold of a group or a deposit taker has identified in their growth planning that they seek to grow their assets towards the threshold of a group), supervisors will engage with the deposit taker on how this may alter the standards applied to the deposit taker. Should change be required, the implementation of any new prudential requirements will be completed consistent with requirements outlined in relevant standards and/or in agreement with the supervisors.

5 Miscellaneous Matters

5.1 Review of the Proportionality Framework

This proportionality framework will be reviewed periodically in order to ensure that it remains fit-for-purpose. In particular, the dollar value threshold for the transitions between groups will be reviewed regularly to ensure that they remain appropriate for the nature of the deposit taking sector in New Zealand. The simple assets-based approach to establishing groupings will also be monitored to ensure it remains fit-for-purpose in determining appropriate standards.

Annex A: The Statutory Framework

The Deposit Takers Act 2023 (the Act) requires the Reserve Bank to prepare, consult, publish and keep up to date a proportionality framework. It also sets out that proportionality principle and the proportionality framework need to be considered in the context of the purposes and relevant principles in the Act. Relevant sections of the Act are replicated below.

3 Purposes

- (1) The main purpose of this Act is to promote the prosperity and well-being of New Zealanders and contribute to a sustainable and productive economy by protecting and promoting the stability of the financial system.
- (2) To that end, this Act has the following additional purposes:
 - (a) to promote the safety and soundness of each deposit taker;
 - (b) to promote public confidence in the financial system;
 - (c) to the extent not inconsistent with **subsection (1)** and **paragraphs (a), (b), and (d)**, to support New Zealanders having reasonable access to financial products and services provided by the deposit-taking sector;
 - (d) to avoid or mitigate the adverse effects of the following risks:
 - (i) risks to the stability of the financial system;
 - (ii) risks from the financial system that may damage the broader economy.

4 Principles to be taken into account under this Act

In achieving the purposes of this Act, the Bank must take into account the following principles that are relevant to the performance or exercise of the functions, powers, and duties conferred or imposed on the Bank:

- (a) the desirability of—
 - (i) taking a proportionate approach to regulation and supervision; and
 - (ii) consistency in the treatment of similar institutions; and
 - (iii) the deposit-taking sector comprising a diversity of institutions to provide access to financial products and services to a diverse range of New Zealanders;
- (b) the need to maintain competition within the deposit-taking sector;
- (c) the need to avoid unnecessary compliance costs;
- (d) the desirability of maintaining awareness of, and responding to,—
 - (i) the practices of overseas supervisors that perform functions in relation to any licensed deposit taker or any holding company of any licensed deposit taker; and
 - (ii) guidance or standards of international organisations;
- (e) the desirability of ensuring that the risks referred to in **section 3(2)(d)** are managed (including long-term risks to the stability of the financial system):
- (f) the desirability of sound governance of deposit takers:
- (g) the desirability of deposit takers effectively managing their capital, liquidity, and risk:
- (h) the desirability of depositors having access to timely, accurate, and understandable information to assist them to make decisions relating to debt securities issued by deposit takers.

77 Bank must prepare and publish framework for taking proportionality principle into account when developing standards

- (1) The Bank must—
 - (a) prepare and keep up to date a proportionality framework; and
 - (b) publish a copy of the framework on the Bank’s Internet site.
- (2) The proportionality framework must set out how the Bank takes into account, or proposes to take into account, the principle under **section 4(a)(i)** when it is developing standards.

Guidance note

The principle under **section 4(a)(i)** relates to the desirability of taking a proportionate approach to regulation and supervision.

- (3) When preparing the proportionality framework, the Bank must have regard to the following:
 - (a) the size and nature of the businesses of different deposit takers;
 - (b) the extent to which a range of different requirements are necessary or desirable to promote the safety and soundness of each deposit taker;
 - (c) the relative importance of different deposit takers to the stability of the financial system.
- (4) Before publishing the proportionality framework, the Bank must consult the persons, or representatives of the persons, that the Bank considers will be substantially affected by the framework.