

Wednesday 8th March 2023

Dear Ms Seta,

RE: Reserve Bank of New Zealand (RBNZ) Connected Exposures policy review

This document sets out MUFG Bank, Ltd.'s (MUFG) response to the RBNZ's Connected Exposures Policy Review Exposure Draft published on the 24th January 2023. While MUFG is not subject to the revised BPR210 Connected Exposures Policy (BPR210) given we operate in New Zealand as a Branch of an overseas bank with our Head Office located in Japan, we are supportive of the RBNZ's review of its connected exposures policy and its requirements to manage the associates risks to locally incorporated banks.

Internally, MUFG has policies and processes in place to manage our dealings with connected persons. As a branch of a Japanese bank, we are subject to Japanese financial laws and regulations, including the Banking Act and the Financial Instruments and Exchange Act of Japan. An important aspect of these Acts, which differs from other jurisdictions, is the separation of banking and securities businesses. The key purpose of this restriction is to:

- Ensure banks' financial strength for protection of bank depositors.
- Prevent certain conflicts of interest (e.g., between the bank customers and securities company customers)
- Prevent banks from abusing their superior bargaining position
- Maintain sound markets, with fair competition among market participants.

Companies that are part of the MUFG Group; or a non MUFG group company providing bank agency business to MUFG, plus that company's own related persons are deemed to be Special Related Companies (SRCs). Japan's arm's length requirements prohibit Japanese banks and their overseas branches from entering into any transaction (including non-financial service transactions) in unreasonably profitable or disadvantageous terms. As such, transactions with SRCs must be dealt with on the same commercial basis as would occur with any external supplier, and MUFG must demonstrate that this is the case.

Additionally, MUFG has in place a process for the appropriate management of intra-group transactions. Intra-group transactions involve transactions among companies within the MUFG Group and includes transactions which bring certain risks to MUFG Group as a result of transactions between an MUFG Group company and a third party.

The appropriateness of intra-group transactions is assessed in accordance with the following factors:

- Whether intra-group transactions which may have a material effect on the sound and appropriate operations of MUFG Group are conducted for the purpose of improving the business of part of group companies.
- Whether transactions which are in violation of laws and regulations or deemed to be inappropriate from the purpose of laws and regulations are conducted among MUFG group companies.
- Whether the dividends and revenues a company receives from group financial institutions do not impair the sound and appropriate operations of MUFG Group.
- Whether intra-group transactions bring about inappropriate transfers of capital or profits from a group company.

- Whether intra-group transactions are conducted under the terms and conditions or under the circumstances which would not be normally agreed upon if such transactions were conducted with non-group companies or which are unfavorable to MUFG Group.
- Whether other intra-group transactions which may have an adverse effect on the solvency, liquidity, and profitability are conducted.
- Whether intra-group transactions are used as the means of supervisory arbitrage, thereby evading capital or other requirements.
- Whether intra-group transactions result in the abuse of bargaining power and/or a conflict of interest concern.
- Whether intra-group transactions infringe on the arm's-length rule.

The above internal policy approaches by MUFG seek to address the risk of conflict of interest and prevent abuses arising in transactions with affiliated entities, which aligns with the purposes of BPR210.

APRA regulation

In Australia, APRA has in place APS 222 Associations with Related Entities (APS 222) which took effect on 1 January 2022 and sets the standards for authorised deposit-taking institutions (ADIs) to identify, monitor and control contagion risks arising from their associations and dealings with related entities and those creating step-in risk. As a foreign ADI, MUFG is only subject to certain provisions in APS 222 (paragraphs 23 to 28) covering:

- Support to and/or from subsidiaries operating in Australia;
- Group badging and disclosures; and
- Participation in group operations (e.g., outsourcing services to other group members and sharing premises with other group members).

MUFG Bank does not operate any subsidiaries in Australia and 'MUFG Bank, Ltd' is only used by MUFG Bank branches within the MUFG Group. Additionally, MUFG's outsourcing policy addresses outsourcing to MUFG Bank group entities and considers several issues including but not limited to:

- Changes to the risk profile of the business activity that arise from outsourcing the activity to a related body corporate and how these changes have been addressed within MUFG's risk management framework; and
- The ability of the related body corporate to perform the business activity on an ongoing basis.

Should the RBNZ in future seek to extend BPR210 to branches of overseas banks, we would request that such an extension consider the adequacy of similar regulation in the branch's home jurisdiction.

Please let us know if you have any questions in regards to our response.

Kind Regards,

Jo Proud

Managing Director

Chief Compliance Officer & Head of Regulatory Relations (Oceania)

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