



Consultation Document: Significant Acquisitions Policy for Banks

Consultation Document

The Reserve Bank invites submission on this Consultation Paper by 31 January 2011.

Submission and enquiries about the consultation should be addressed to:

Felicity Barker

Adviser, Financial System Policy

Prudential Supervision Department

Reserve Bank of New Zealand

PO Box 2498

Wellington 6140

Email: felicity.barker@rbnz.govt.nz

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CONSULTATION DOCUMENT: SIGNIFICANT ACQUISITIONS BY BANKS

SECTION 1: INTRODUCTION

1. The Reserve Bank of New Zealand (the Reserve Bank) is consulting on a policy for significant acquisitions by locally incorporated New Zealand registered banks.
2. The Reserve Bank's initial view is that it is desirable to implement a new condition of registration for locally incorporated registered banks reflecting the draft policy in this consultation document. This policy would require locally incorporated registered banks to obtain a notice of non-objection from the Reserve Bank before undertaking a significant acquisition, investment or business combination ("significant acquisitions").
3. This policy would support the objectives of the Reserve Bank to promote the maintenance of a sound and efficient financial system and to avoid significant damage to the financial system that could result from the failure of a registered bank.
4. The Reserve Bank recognises that the directors of a registered bank remain responsible for assessing the merits and risks associated with a significant acquisition. However, consistent with the Reserve Bank's regulatory objectives, the proposed policy would provide the Reserve Bank with the ability to assess any risks to the wider financial system arising from a significant acquisition, prior to the acquisition taking place. The policy also helps provide certainty for banks by defining what types of acquisitions would be of interest to the Reserve Bank and how the Reserve Bank would assess those acquisitions.
5. To implement this policy, we propose to issue a new Banking Supervision Handbook policy document, entitled "BS 15: Significant Acquisitions Policy". This document would provide the detail of the policy, specifying matters such as what constitutes a significant acquisition, the information banks will be required to provide and the process to be followed by the Reserve Bank.
6. This document identifies a number of specific questions on which we are seeking the views of stakeholders. However, stakeholders are encouraged to provide any other views considered relevant to the proposal.

SECTION 2: BACKGROUND

2.1 Objectives of proposal

7. Under S68 of the Reserve Bank Act (the Act), the Reserve Bank must use its supervisory powers for the purposes of: (a) promoting the maintenance of a sound and efficient financial system; or (b) avoiding significant damage to the financial system that could result from the failure of a registered bank.
8. S74(2)(b) of the Act allows the Reserve Bank, by notice in writing, to vary, add to, or substitute any conditions of registration. S74 (4) specifies the matters to which conditions may relate. These matters include the matters specified in S73(2), being the matters to which the Bank must have regard when it determines an application for registration as a registered bank. S73(2)(b) specifies that one of the matters to which the Reserve Bank must have regard is “the size and nature of the applicant’s business or proposed business, or any part of the applicant’s business or proposed business”.
9. The proposal to require locally incorporated registered banks to obtain a notice of non-objection from the Reserve Bank before undertaking a significant acquisition is relevant to the size and nature of a registered bank’s business. It aims to:
 - a. maintain the soundness of the financial system by providing the Reserve Bank with a mechanism to assess any potential risks to the financial system arising from proposed significant acquisitions, before the acquisition has taken place; and
 - b. provide for efficient regulation by providing banks with greater certainty as to the types of acquisition that could potentially be of concern to the Reserve Bank and the criteria that the Reserve Bank would use to assess those acquisitions.
10. The absence of such a power over recent years has not caused any regulatory problems in practice. Registered banks have generally been prudent in the acquisitions they have undertaken. However, implementation of such a power is timely now as, following the global financial crisis, it would be reasonable to expect some consolidation of financial businesses. Further, this power would bring the Reserve Bank’s supervisory practice more into line with international standards.

2.2 Status Quo

11. Currently, there are two prudential requirements that relate specifically to significant acquisitions undertaken by banks.
12. First, under S77A of the Act, where a person, including a bank, acquires a significant influence over a New Zealand incorporated bank the acquirer must obtain the written consent of the Reserve Bank. This provision, however, focuses on the acquired entity, rather than attempting to capture the range of transactions an acquiring bank may undertake.
13. Second, it is a standard condition of registration for locally incorporated banks that:

- a. The conduct of life and general insurance business of an underwriting nature be no more than 1% of the banking group's total consolidated assets; and
 - b. The conduct of any non-financial activities that in aggregate are material relative to total activities of the banking group is prohibited.
14. This provision has implications for the corporate form in which a locally incorporated bank may undertake material insurance underwriting or non-financial activities. In effect, these activities are 'quarantined' outside of the banking group.
15. For other types of acquisitions there are no specific requirements in the prudential regime. These types of acquisitions would generally be of a financial nature. Some examples include the purchase of the loan assets of another deposit taker, purchase of the assets or capital of an offshore financial entity or purchase of a wealth management or custodial business.
16. There are however general requirements that banks must continue to abide by when undertaking any significant acquisition, such as:
 - a. complying with the requirements of its conditions of registration;
 - b. disclosure requirements; and
 - c. director attestation requirements.
17. For example, in regards to (a) above, a significant acquisition that resulted in a bank holding a riskier portfolio of assets may result in an increase in the capital which the bank must hold. In relation to (b), disclosure is required of a bank's involvement in certain financial activities, such as funds management, securitisation, custodial and other fiduciary activities. In relation to (c), directors of locally incorporated banks must regularly attest that: the bank has systems in place that adequately control the banking groups material risks; exposures to connected persons have not been contrary to the interests of the bank and that the bank is complying with its conditions of registration.
18. In the event that a bank did undertake an acquisition that was considered to pose significant risks to the soundness of the financial system, the Reserve Bank has powers which could potentially be used to impose additional regulatory requirements following an acquisition.
19. Under S74 of the Act the Reserve Bank has the power to vary the conditions of registration of a bank at any time. These conditions could relate to matters such as the level of capital a bank is required to hold, the separation of business units of the bank or internal control systems within the bank.
20. Under S113 of the Act the Reserve Bank may, with the written consent of the Minister of Finance, issue directions to a bank under certain prescribed circumstances. These circumstances include that the affairs of the registered bank are being conducted in a manner prejudicial to the soundness of the financial system or that the business of the registered bank has not been, or is not being, conducted in a prudent manner.

21. Under S77 of the Act the Reserve Bank may recommend to the Minister of Finance the deregistration of a bank where certain events have occurred that adversely affect the registered banks standing or financial position or where the registered bank is judged as not carrying on business in a prudent manner. One such event is the change in any of the matters to which the Reserve Bank must have regard to registering a bank (including the size and nature of the bank's business).

2.3 Basel Core Principles

22. The Basel Committee has established a set of principles that provide guidance on good banking regulatory practices.¹ New Zealand is not obligated to meet these requirements; however they provide a useful mechanism to assess potential gaps in our regime and, generally speaking, New Zealand has chosen to comply with the principles in a way that is appropriate for our country.
23. Core Principle 5 states "*The supervisor has the power to review major acquisitions or investments by a bank, against prescribed criteria, including the establishment of cross-border operations, and confirming that corporate affiliations or structures do not expose the bank to undue risks or hinder effective supervision*". New Zealand does not comply with this principle.
24. In 2003, New Zealand participated in the International Monetary Fund's (IMF) Financial System Assessment Programme (FSAP). The FSAP gave a generally positive report on New Zealand's banking regime but also pointed out some areas where it considered New Zealand could strengthen its regulatory framework. One of the IMF's recommendations was that the Reserve Bank should have powers consistent with Core Principle 5, as they considered "there were good reasons for the international standard here".
25. It is common in other jurisdictions to require banks to notify or seek approval from the regulator before undertaking a significant acquisition. For example, the Australian Prudential Regulation Authority (APRA) requires that approved deposit taking institutions (ADIs) consult APRA before undertaking certain significant acquisitions. APRA must be consulted before an ADI establishes a subsidiary, commits to acquiring more than 20% of the equity in another entity or under certain circumstances where an ADI acquires an entity through the work out of problem exposures.

2.4 Problem identification

26. Significant acquisitions by banks have the potential to pose risks to the soundness of the financial system. This is reflected in existing policies, such as the requirement that a bank may only undertake material non-financial or insurance underwriting activities outside of the banking group.

¹ <http://www.bis.org/publ/bcbs129.htm>

27. There are a number of significant acquisitions that a bank may undertake for which there are no specific requirements. For these acquisitions reliance is placed on disclosure and director attestation to ensure that banks are making decisions that do not pose significant risks to the bank or the financial system. Further, generally speaking, it would be expected that as part of the supervisory process banks would inform the Reserve Bank of significant acquisitions before they take place. This approach is backed up by the Reserve Bank's powers to vary conditions of registration under S74 and the provisions of the Act (S77 and S133) which allow the Reserve Bank to recommend to the Minister the deregistration of a bank or the giving of directions to a bank with the Ministers consent.
28. The strength of this approach is that it promotes self-discipline – that is, it provides incentives for banks to appropriately take account of risks in their own decision-making. However, in making an acquisition a bank will consider the costs and benefits to its own shareholders but will not necessarily consider the potential costs and benefits to the financial system as a whole. The key rationale for regulatory intervention is to ensure that these “external” costs are taken into account. The Reserve Bank considers that there are two key weaknesses in the current regime.
29. First, where there are concerns as to the risks of a significant acquisition the Reserve Bank may not be able to influence that acquisition in a timely or cost effective manner or may not have full information on the proposed acquisition. This is because there is no requirement on banks to engage with the Reserve Bank prior to undertaking a significant acquisition and the Reserve Bank's powers to act *ex-ante* have the potential to impose costs to banks disproportionate to the size of the problem. In particular, a regulatory action taken after a significant acquisition has been concluded is likely to be more costly than if action was taken prior to an acquisition being completed. For example, if the Reserve Bank were concerned as to the corporate form that is proposed for a new acquisition, it will be lower cost for these concerns to be addressed prior to the completion of an acquisition.
30. Second, the Reserve Bank has not to date articulated the types of acquisitions that may potentially give rise to concerns and could potentially result in use of its powers under S74, S77 or S113. This creates uncertainty for banks. This uncertainty would be greatly diminished if the Reserve Bank clearly articulated which types of acquisitions it would potentially have an interest in.

Q1 Do you agree with this problem definition?

SECTION 3: PROPOSAL

31. For the reasons discussed above the Reserve Bank considers that the current regime would be improved if the Reserve Bank had the power to assess a defined set of significant acquisitions before they take place. This would enable the Reserve Bank to work with a registered bank prior to an acquisition taking place, such that any identified risks can be appropriately managed.

32. The Reserve Bank considered three alternative options for the type of assessment undertaken:
- Prior approval;
 - Prior notification; and
 - Requiring that a notice of non-objection be obtained.
33. The Reserve Bank does not favour the option to approve significant acquisitions. In order to promote self-discipline, it is important that the directors of the bank remain responsible for the assessment of the risks involved in an acquisition. Approval of an acquisition may be perceived as shifting some of this responsibility to the Reserve Bank.
34. The Reserve Bank also does not favour a notification requirement. It is unclear what the Reserve Bank's role would be under a notification requirement. The Reserve Bank would continue to rely on the potential to take action under S74, S77 or S113 of Act in the event there were concerns about the risks of an acquisition. As discussed, use of these tools may be an unnecessarily costly approach to manage risks associated with significant acquisitions.
35. The preferred option is that registered banks be required to obtain a notice of non-objection from the Reserve Bank before undertaking a significant acquisition. This would be in the nature of a negative assurance, similar to that which currently applies to changes in key personnel. We consider that this approach provides an appropriate balance to ensuring that the responsibility for assessing risks to a registered bank lies with the board of directors of the bank and providing the Reserve Bank with a tool to assess whether there are any risks to the soundness of the financial system which need to be considered.
36. The requirement to obtain a notice of non-objection would be imposed by way of condition of registration. Additionally, a new policy document would be included in the Banking Supervision Handbook providing detail on the operation of the provision. This document would be BS15: Significant Acquisitions Policy. The policy detail for the provision is discussed in section 4 and a draft of the policy is provided in the annex.

Q2 Are there any other options that the Reserve Bank should consider?

Q3 Do you consider requiring a notice of non-objection has advantages over prior approval or notification?

Q4 Is the proposed policy likely to affect your decisions as regards major acquisitions?

SECTION 4: POLICY DETAIL

37. The detailed policy will be set out in a new policy document, BS 15 Significant Acquisitions Policy (see annex). This would specify the following:
- scope of the requirement;
 - definition of ‘significant’;
 - information requirements on banks; and
 - the process the Reserve Bank will follow in making assessments.

4.1 Scope of requirement

38. The intent of the condition of registration is to cover acquisitions that relate to a bank’s business activities. For example, the purchase of the loan book of another entity or the purchase of a wealth management or custodial business is intended to be covered. Transactions in the nature of investments in businesses systems, such as investment in a new IT system, or purchase of office space are not intended to be captured.
39. One issue to consider is that acquisitions that constitute a change of ownership of a bank already require Reserve Bank approval under S77A of the Act. The Reserve Bank is interested in views on whether these types of acquisitions should be excluded from the requirement to obtain a notice of non-objection.
40. Consistent with Basel Core Principle 5, the Reserve Bank considers that the provision should apply to investments and acquisitions. We also consider that the provision should apply to business combinations, as defined in the financial reporting standards (NZ IFRS 3). Business combinations could have impacts as significant as an acquisition but may not clearly be an acquisition.
41. It is proposed that the provision apply only to New Zealand incorporated banks. We do not consider it necessary to apply the condition to branches because the current conditions of registration for overseas incorporated banks provide that the business of the New Zealand registered bank is not to constitute a predominate proportion of the business of the global bank. Hence, an acquisition by a New Zealand branch should not be significant in comparison to the size of the global bank.

Q5 Do you consider that acquisitions that require Reserve Bank approval under S77A should be excluded from the requirement to obtain a notice of non-objection?

Q6 Do you agree that the requirement should not apply to branches of overseas incorporated banks operating in New Zealand?

Q7 Do you agree that the provision should apply to acquisitions, investments and business combinations?

4.2 Definition of 'significant'

42. The policy will provide tests to determine whether an acquisition is significant. These tests will be set in terms of the size of the acquiring bank, as the policy is concerned with the ability of the acquirer to take on additional risks.
43. The Reserve Bank intends that the policy provide both a qualitative and quantitative test to determine if an acquisition is significant. A quantitative test provides certainty that an acquisition above a certain size will be considered significant. However, in many cases whether an acquisition is significant will depend on the context and a wider set of factors than purely the size of the acquisition. Hence, a qualitative test is also proposed.
44. The proposed tests are:

An acquisition, investment or business combination is significant if:

- it results in a material change in the size of the bank;
- it results in a material change in the risks to which the bank is exposed;
- It results in the acquisition of a business that is material relative to the total activities of the bank.

An acquisition, investment or business combination which meets any of the following criteria will be considered significant:

- a single transaction for which the total consideration exceeds 25% of the actual tier 1 capital of the bank;
 - a single transaction for which the value of the assets acquired exceeds 25% of the value of the total assets of the acquirer;
 - a series of related transactions for which the total consideration exceeds 25% of the actual tier 1 capital of the acquirer;
 - a series of related transactions for which the value of the assets acquired exceeds 25% of the value of the total assets of the acquirer; and
 - any single or series of transactions that does not meet the above quantitative thresholds but results in a material change to the financial position of the acquirer.
45. The first quantitative test is based on the consideration for the acquisition as a percentage of the tier one capital of a bank. Tier one capital is chosen as the denominator as it provides a measure of the bank's ability to absorb losses whilst operating as a going concern. The higher the level of capital a bank holds in relation to its assets, all else being equal, the better position it will be in to take on the risks associated with a new acquisition.
46. It is proposed that an acquisition for which the consideration is in excess of 25% of tier one capital be considered significant. The table below shows the capital of locally incorporated registered banks as at June 2010, and shows the size of transaction that would require approval under a threshold of 25%.

| \$million | Tier one capital | 25% of tier one capital |
|-----------|------------------|-------------------------|
| ANZ | 7,050 | 1,762 |
| BNZ | 3,745 | 936 |

| | | |
|---------|-------|-----|
| ASB | 3,477 | 869 |
| WNZL | 3,282 | 820 |
| Kiwi | 587 | 146 |
| TSB | 326 | 81 |
| Rabo-NZ | 248 | 62 |
| SBS | 177 | 44 |
| Baroda | 40 | 10 |

47. There may be instances where a bank acquires the assets of a distressed entity at considerable discount to the value of the asset or completes a transaction without consideration. In this case the consideration for the acquisition may not fully indicate the risks associated with the acquisition. For this reason it is proposed that a second test measuring the relative size of the assets acquired to the total assets of the acquirer is appropriate. The Reserve Bank proposes that a transaction for which the value of the assets acquired is more than 25% of the value of the total assets of the acquirer be considered significant.
48. In many cases acquisitions occur as a series of steps rather than as a single transaction. For this reason it is intended that the policy also apply to a series of related transactions. The policy would provide guidance on what is to be considered a related transaction.

Q8 Do you have any views on the proposed threshold?

4.3 Information requirements and process

49. Paragraph 9 of the draft policy document in the annex contains a list of information which should be provided when applying for a notice of non-objection. The Reserve Bank would also have the right to request further information if that was considered necessary.
50. The Reserve Bank also proposes that on making an application for a notice of non-objection directors be required to attest that:
- a. The registered bank has appropriate systems in place to monitor and control adequately any material risks arising from the acquisition, investment or business combination.
 - b. The registered bank will continue to comply with its conditions of registration following execution of the acquisition, investment or business combination.
51. The director attestation requirement is in line with the Reserve Bank's philosophy to reinforce self-discipline. That is, directors remain primarily responsible for ensuring that the bank has appropriate risk management systems and complies with regulatory requirements.

52. In order to provide greater certainty, the criteria that will be used to assess a proposal will be provided in the policy. These criteria derive from the powers of the Reserve Bank under the Act. In particular, it is intended that the policy specify, that in making a decision, the Reserve Bank will have regard to any of the matters that the Reserve Bank is required to consider under S73 of the Act in determining an application for registration as a bank and any of the matters which the Reserve Bank may consider to determine whether a registered bank is carrying on business in a prudent manner under S78 of the Act. A list of factors to which consideration may be given is provided in the policy in the annex of this consultation document.
53. The Reserve Bank proposes that it may issue a notice of non-objection unconditionally or subject to conditions being fulfilled by an acquiring bank. For example, conditions might be imposed relating to capital holdings or organisational structure. Any conditions may be made conditions of registration for the registered bank.
54. The policy will also set an indicative time frame to which the Reserve Bank will work. In the case of a straight forward proposal it is intended that a decision on whether to issue a notice of non-objection would be made within 30 working days of receiving a proposal containing all the relevant information.

Q9 Do you consider that the information that the Reserve Banks proposes to collect, in paragraph 9 in the annex, is necessary and sufficient to allow the Reserve Bank to adequately assess a proposal?

Q10 Do you have any comments on the proposed assessment criteria or process?

SECTION 5: COSTS AND BENEFITS

55. The major benefit of this proposal is an improvement in the ability of the Reserve Bank to promote the efficiency and soundness of the financial system arising from improved assessment of and management of potential risks to the financial system arising from significant acquisitions by banks. The condition would also improve certainty for banks, by providing greater clarity as to the types of acquisition that may give rise to regulatory concerns.
56. We consider that there are three potential costs arising from this proposal.
57. First, there will be administrative costs arising from registered banks needing to apply for a notice of non-objection and from the Reserve Bank needing to assess those applications. The magnitude of these costs will depend on how many significant

acquisitions banks undertake but are expected to be small relative to the benefit of improving the Reserve Bank's ability to fulfil its regulatory objectives.

58. Second, there may be costs if the condition of registration results in delays to finalising acquisitions. We consider that this cost can be minimised by specifying in advance the information that banks must provide and the intended timeframe for decision making.
59. There is a potential cost arising from regulatory error. That is, the Reserve Bank may refuse to issue a notice in a case where the risks to the bank or the financial system are not in fact significant. However, we consider that the potential for the Reserve Bank to refuse a notice provides an incentive for banks to undertake comprehensive due diligence of any proposed significant acquisition, which will minimise this risk.

Q9 Are there any other costs and benefits (or impacts more widely) of which the Reserve Bank should be aware?

Q10 Can you quantify the administrative costs you would expect your business to incur in complying with this policy, such as:

- The labour cost arising from providing the Reserve Bank with the information proposed in paragraphs 8 and 9 of the annex (with an estimate of time and unit labour cost per acquisition).
- Any additional work you are likely to carry out, such as additional due diligence or other checks, as a result of the policy.

ANNEX:

DRAFT BS 15: SIGNIFICANT ACQUISITIONS POLICY

1. Locally incorporated registered banks are generally subject to a standard condition of registration providing that the registered bank may not enter into any proposed significant acquisition, investment or business combination unless the registered bank has received a notice of non-objection from the Reserve Bank. This document sets out the standard requirements.
2. The Reserve Bank reserves the right to impose a non-standard condition of registration or to vary the standard condition of registration where special circumstances apply.

Scope of requirement

3. This condition of registration applies to any acquisition, investment or business combination that relates to a bank's business operations and meets the definition of significant in 7 below.

4. The Reserve Bank would consider any of the following to relate to a bank's business operations:
 - a. the acquisition of loans from another financial institution;
 - b. the acquisition of another business of a financial nature, such as a custodial or a wealth management business; or
 - c. the establishment of an offshore subsidiary or branch.
5. An acquisition or investment includes taking on by way of purchase, gift or exchange. The meaning of business combination is as defined in the New Zealand equivalents to international financial reporting standards – Business Combinations (NZ IFRS 3).
6. In the case of a business combination only the acquirer need obtain a notice of non-objection.

Definition of significant

7. An acquisition, investment or business combination, or series of such transactions, is significant if any of the below apply:
 - it results in a material change in the size of the bank;
 - it results in a material change in the risks to which the bank is exposed; or
 - it results in the acquisition of a business that is material relative to the total activities of the bank.

An acquisition, investment or business combination which meets any of the following criteria will be considered significant:

- a single transaction for which the total consideration exceeds 25% of the actual tier 1 capital of the bank;
- a single transaction for which the value of the assets acquired exceeds 25% of the value of the total assets of the acquirer;
- a series of related transactions for which the total consideration exceeds 25% of the actual tier 1 capital of the acquirer;
- a series of related transactions for which the value of the assets acquired exceeds 25% of the value of the total assets of the acquirer; and
- any single or series of transactions that does not meet the above quantitative thresholds but results in a material change to the financial position of the entity.

Tier one capital is to be measured in the month in which the acquisition, investment or business combination takes place.

The value of assets is measured in accordance with New Zealand equivalents to international financial reporting standards as at the last reporting date.

The value of the consideration is measured in accordance with New Zealand equivalents to international financial reporting standards and may include cash, other assets, a business or subsidiary of the acquirer, options, warrants and member interests of mutual entities.

8. A series of transactions will be considered to be related where:
 - the acquisition, investment or business combination relates to the assets or capital of the same entity (entity A);

- the acquisition, investment or business combination relates to the assets or capital of a connected entity as defined in the connected exposures policy (entity B);
- the acquisition, investment or business combination relates to the assets or capital of an entity which has acquired the assets or capital of entity A or entity B.

Information requirements

9. When making an application to the Reserve Bank for a notice of non-objection the information provided by the registered bank should include:
 - a. a description of the proposed transaction;
 - b. the strategic rationale for the transaction;
 - c. the consideration for the transaction and how it is funded;
 - d. impact of the transaction on tier one capital and risk weighted assets;
 - e. changes in loan concentration;
 - f. extent and nature of the due diligence process undertaken, including any advice provided to directors in respect of the risk inherent in the proposed undertaking;
 - g. proposed organisation structure, corporate governance and internal controls;
 - h. systems and policies for managing risks associated with the new business, including reporting to senior management and directors on risk management; and
 - i. any change in arrangements for any business, or functions relating to any business, of the registered bank to be carried on by any person other than the registered bank.

10. The Reserve Bank reserves the right to request further information when it considers this necessary.

11. An application to the Reserve Bank for a notice of non-objection should be accompanied by an attestation by the directors of the registered bank that they believe that:
 - a. The registered bank has appropriate systems in place to monitor and control adequately any material risks arising from the acquisition, investment or business combination.
 - b. The registered bank will continue to comply with its conditions of registration following execution of the acquisition, investment or business combination.

Assessment Process

12. A notice of non-objection from the Reserve Bank is in the nature of a negative assurance. It is not a positive affirmation as to the prudence of the acquisition. The primary responsibility for ensuring that the risks arising from significant acquisitions, investments or business combinations are adequately identified and managed lies with the board of directors of the registered bank, not with the Reserve Bank.

13. A notice of non-objection may be issued unconditionally or subject to conditions. The Reserve Bank may impose any conditions as conditions of registration under S74 of the Act.

14. In deciding whether to issue a notice of non-objection the Reserve Bank will have regard to any of the matters that the Reserve Bank is required to consider under S73 of the Act

in determining an application for registration as a bank and any of the matters that the Reserve Bank may consider to determine whether a registered bank is carrying on business in a prudent manner under S78 of the Act. These factors include:

- a. the size and nature of the applicant's proposed business;
 - b. capital in relation to the size and nature of the business or proposed business;
 - c. proposed loan concentration and risk exposure;
 - d. separation of the proposed business from the other businesses of the bank;
 - e. internal controls and accounting systems; and
 - f. risk management systems and policies.
15. The Reserve Bank recognises that significant acquisitions, investments and business combinations are time critical and hence will seek to issue a notice of non-objection as soon as practicable. Applicants are encouraged to inform the Reserve Bank of any commercial deadlines as soon as possible.
16. The actual time spent assessing a proposal will vary depending on the complexity of the issue. To provide guidance, in the case of a straight forward proposal the Reserve Bank will endeavour to make a decision on whether to issue a notice of non-objection within 30 working days of receiving a proposal containing all the information specified in paragraph 9.
17. Where there is a good faith intention to proceed with an acquisition, investment or business combination, applicants may contact the Reserve Bank ahead of making a formal application for a notice of non-objection. This may expedite the process by allowing the Reserve Bank to plan any resources needed to assess the application and indicate any information that may be needed.