
Intro

- E nga mana
- E nga reo
- E nga tapu o tenei whenua
- Tena koutou katoa

- Hello everyone. I'm Scott McKinnon, Director of Specialist Supervision. Thank you for joining us today.

- This webinar represents a material milestone for our implementation of the DTA, and being able to start to provide you with the information that you will need to begin preparing for the re-licensing process.

- Our intention today is to give you an understanding of the approach we are going to take. I will cover off the principles that sit behind our decisions, then the Licensing team will provide you with as much detail as we can currently.

- I say "currently" because of course part of the final form of our Licensing documents will depend on the finished Standards, and these are still being worked on.

- All of the material, including this speech and the presentation will then be uploaded to our website if you want to refer to it further.

Why are we re-licensing?

- One of the questions we have been asked by regulated entities since the DTA was going through the Parliamentary process, was “why do we need to be re-licensed”?
- It’s a reasonable question for registered banks, and licensed NBDTs to ask. The majority of you have been operating as regulated entities since our 1989 banking legislation and 2010 NBDT Act were passed respectively. A sizable number of you were in business a very long time before that.
- The easy answer would be to say that Parliament has required it, as it is a statutory requirement set by Parliament and not the Reserve Bank. But that does not tell the full story.
- The DTA is a new regime that represents a substantial modernisation of our prudential approach to Deposit Takers. While a number of “core” obligations are very similar, there are differences that need to be complied with by you, and we need to be comfortable that compliance with all the “core” requirements is taking place when the Act goes live.
- Licensing also allows us to commence implementing our new proportionality approach, which sees entities classed as Groups 1 to 3, with corresponding different obligations. Branches are classed as their own Group.
- Then finally, licensing is necessary to ensure the “Standards” are properly implemented. Under the existing banking regime, our banking handbook could be applied via conditions of registration, over which the Bank had substantial discretion in terms of content and how and when they were applied. Under the DTA, the Standards are “secondary legislation”, and therefore a number of additional controls apply.
- As many of you have told us, we know being required to go through this process is not particularly popular. We have heard you, and we have deliberately tried to build an approach that will allow us to meet our regulatory obligations with the minimum impost on you.

Factors applied our approach to re-licensing

- The starting point for us was, as with the issuing of any licence, that we need to be comfortable that the regulated entities are complying with, or are able to comply with, the obligations.
- This is because a licence to operate conveys to depositors that an entity is meeting certain minimum prudential standards.
- That said, the legislation was designed to ensure a more light-touch licensing approach could be adopted for existing Deposit Takers, when compared to the licensing approach for new entrants.
- In particular, existing registered banks and licensed NBDTs only need to demonstrate they will be able to meet the five "core" Standards at the time of licensing. These are capital, liquidity, DCS, disclosure and reporting.
- Contrast this with new entrants who will have to demonstrate the ability to comply with the core Standards and also a larger number of non-core ones, which will cover matters such as risk management, related party exposures and governance.

- To simplify our approach as much as possible though, we have applied the following three factors:
 - o Firstly, the fact that your entities are already meeting current prudential standards provides us with a degree of comfort that they will be able to meet the core Standards when the DTA goes live. This is particularly so where the Standard represents a “carry-over” of existing obligations;
 - o Secondly, we have existing supervisory relationships with the registered banks, and oversight relationships with licensed NBDTs, which brings a degree of underlying knowledge of your operations; and
 - o Thirdly, we are time constrained so need to be as efficient as possible. Given the number of entities we need to assess, and the time available, we will only have a matter of weeks to work on each application. To put that in perspective, a new prudential licence can take between 6 to 9 months to process.

Streamlined Relicensing Process

- Applying those three factors we were able to discount conducting a normal licence assessment. As I noted, that is a very thorough process that does take months of time for both the applicant and us, as the applicant prepares all the necessary documents that prove its ability to comply, and then we assess the hundreds of pages of materials provided, while continuing to go back and forth with questions.
- With that off the table, we then looked at how we could build a model that would provide us with the level of comfort we needed, without placing undue obligations on entities. We have done this by designing a streamlined approach to relicensing.
- This will involve two parts – seeking commentary, and negative assurance.

- In terms of “seeking commentary” you will be asked to complete an application form covering the requirements under the Core Standards.
- Where a requirement is new to your Group, we will ask you for commentary that confirms you either meet the requirement, or will meet it when the DTA goes live.
 - o We will provide more detail on what we mean by “commentary”, but broadly we will expect a brief summary setting out how your entity knows it will be compliant.
 - o This is the balancing act. We don’t want you writing essays for each obligation, but we need more than “we will comply”.
 - o The application will then need to be signed off by your Board before it is submitted to us.
- “Negative assurance” will apply where a requirement is materially similar to what you do now. In those cases, we will be using our own knowledge of you to assist the process, as well as talking to the FMA, and seeking a final confirmation from yourselves. It will not be a detailed assessment – issues will only be raised by exception.
 - o Internally we will be seeking confirmation from your supervisor on any live or recently closed compliance issues, which might indicate a firm would struggle to comply with the DTA obligations. You will notice I used the term “ask your supervisor”. That is very easy to do in respect of registered banks. We are still to determine how we will make this work for NBDTs that are currently supervised by a corporate trustee.
 - o We also intend to consult with the Financial Markets Authority, in much the same way as they did with us when they licensed firms under their COFI regime. Under the twin-peaks model that operates in New Zealand, such consultation provides an opportunity for the prudential and conduct regulators to ensure there is no material information about a firm that their fellow regulator is aware of, but they are not.

- Finally, we will also ask you to provide negative assurance on each Core Standard, which is your opportunity to flag to us any foreseen compliance issues on requirements we haven't asked you about.
- If no concerns are raised, we will not need to enquire further into your ability to comply with these unchanging requirements.
- What you can probably tell though is that the "trust but verify" approach that we now apply to supervision has, for the purposes of this licensing exercise only, been adjusted back in favour of "trust" as opposed to "verify".
- We are comfortable doing so in this situation because of two of the three factors I referenced earlier. Existing entities are already meeting current prudential obligations, and they have a current regulatory relationship with us.

Our Ask of you

- The Licensing team will provide a lot more detail on how the process will run. Our ask for you at this stage is to please take the time to plan how you will complete the application by the due date.
- The timeframe is tight, so it is critical everyone submits their application when it is requested, with all the necessary information in one go. I can't stress this enough. Our ability to issue you with a DTA licence within the time available will be sorely tested if we have to go back to you seeking additional information. Importantly entities that do not provide all the information needed will be moved to the back of the queue, so we can prioritise other applicants.
- This means it is essential you use information as it becomes available, such as the exposure drafts of the Core Standards, to think about the changes DTA will have for your business. That will put you on the front foot to prepare a licence application as we provide more detailed information.
- On that point, over to Nikki in the Licensing team.