



Crisis Management Issues Paper

11 September 2024
Group 1, Group 2 and Branches

Purpose

The purpose of this presentation is to discuss with you:

1. Background and context for crisis management
2. Crisis management under the Deposit Takers Act
3. The Issues Paper
4. Timetable and next steps

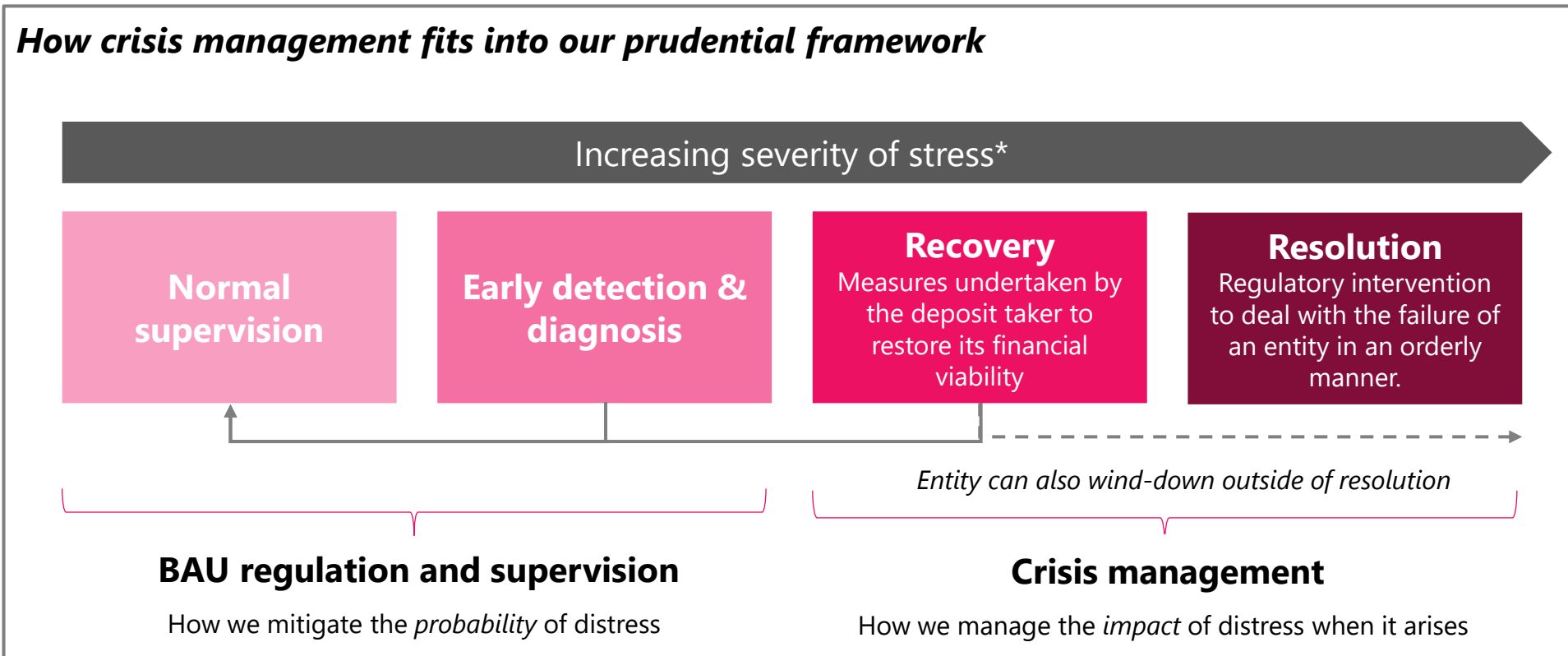


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Background and context

What is crisis management?

Crisis management in this context refers to the responses of the Reserve Bank, deposit takers and other relevant stakeholders to the financial distress or failure of one or more deposit takers.



* NB: distress may arise rapidly in which case we could skip certain stages of this continuum.



Why does crisis management matter?

A sound crisis management framework protects financial stability and the prosperity of NZers

The distress of a deposit taker can have **serious impacts** on depositors, investors, the financial system, and the wider economy. These impacts can include:



Loss of access to banking services and credit (both for private individuals and businesses)



Financial losses to depositors/ investors and potentially taxpayers



A loss of depositor/investor confidence and potential contagion to other financial institutions



Flow-on impacts for the real economy

Our crisis management framework reduces these impacts by establishing and testing the necessary powers, regulations, policies, tools, strategies and processes to enable the Reserve Bank and deposit takers to respond effectively to financial distress and other difficulties.

Crisis management also helps to support a dynamic and competitive deposit taking sector, by ensuring that distressed entities can either be restructured and continue to operate or can exit the sector in a timely and orderly way.



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Crisis management under the Deposit Takers Act 2023

Key changes under the Deposit Takers Act 2023

The Act enhances and modernises our statutory crisis management regime in line with overseas practice

	Existing regime (BPSA)	Deposit Takers Act (DTA)
Scope of entities	<ul style="list-style-type: none"> Banks Non-bank deposit takers covered by NBDT Act* 	<ul style="list-style-type: none"> Banks Non-bank deposit takers
RBNZ responsibilities	<p><i>In business-as-usual:</i></p> <ul style="list-style-type: none"> No explicit responsibilities <p><i>In crisis:</i></p> <ul style="list-style-type: none"> Reserve Bank can recommend appointment of a "statutory manager" Statutory manager holds resolution powers 	<p><i>In business-as-usual:</i></p> <ul style="list-style-type: none"> Resolution plan for each entity "Statement of Approach to Resolution" <p><i>In crisis:</i></p> <ul style="list-style-type: none"> Reserve Bank is "resolution authority" Reserve Bank holds key resolution powers Reserve Bank supervises a "resolution manager"
Statutory purposes	<ul style="list-style-type: none"> Avoid significant damage to the financial system 	<ul style="list-style-type: none"> Avoid significant damage to the financial system, and other related purposes (e.g. dealing with a deposit taker in resolution in an orderly manner)
Creditor safeguards	<ul style="list-style-type: none"> No explicit compensation available 	<ul style="list-style-type: none"> DCS protection for eligible depositors up to \$100k per deposit taker No-creditor-worse-off (NCWO) safeguard

* NB: For NBDTs, we have a power to give directions under the NBDT Act 2013, but we do not have direct resolution powers.



Depositor Compensation Scheme

- Wind down and payout.
- Use of the fund to support a resolution measure.
- Interface with OBR and other aspects of crisis management.



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The Issues Paper

Purpose and content

- The Issues Paper aims to seek feedback on our initial direction of travel in operationalising the crisis management framework in the DTA.
- It is the first in a series of consultations on crisis management issues that will inform our approach.
- It discusses:
 - Dealing with distressed deposit takers;
 - Updates to our existing resolution toolkit;
 - Bail-in; and
 - Preparations in a business-as-usual environment.



Overview of the Issues Paper



Phased approach

- BAU
- Recovery
- Resolution



Existing resolution tools

- How our existing resolution tools work



Bail-in

- A bail-in tool for reducing reliance on public money
- A potential bail-in standard for funding



New crisis preparedness requirements

- Recovery and exit planning (all licensed deposit takers)
- Resolvability



Phased approach

- Business-as-usual – Normal supervision undertaken and planning for recovery or orderly exit.
- Recovery - Activation of recovery plans and the use of Reserve Bank powers such as information gathering.
- Resolution - Formal use of resolution powers.



Existing resolution tools



Overview of bail-in

- Recapitalising a failed deposit taker by writing down, or converting into ordinary shares, selected capital instruments and liabilities of a deposit taker in resolution.
- Mechanisms to deliver bail-in or bail-in type outcomes:
 - Contractual
 - Structural
 - Statutory
- We are due to report back to the Minister of Finance on the needs for a statutory bail-in power by mid-2025.



Statutory bail-in

- We are at an early stage of our analysis and do not currently have a view on the appropriateness of a statutory bail-in power.
- We are not proposing to reopen decisions made as part of the capital review.
- Some of the issues we are considering include:
 - Funding to deliver bail-in (including total loss absorbing capacity (TLAC)).
 - Costs and benefits of different bail-in mechanisms.
 - The potential role of statutory bail-in powers.
 - Some of the more detailed design features of statutory bail-in powers.



New preparedness requirements

- Potential requirements could include:
 - Recovery and exit planning (for all deposit takers);
 - Pre-positioning for resolvability (for certain deposit takers),
 - Information provision to support our development and implementation of resolution plans (for all deposit takers).
- These requirements would be additional to OBR and Outsourcing.
- We are also enhancing our own preparedness as the resolution authority.



Indicative timeline



THANK YOU

If you have any questions about this presentation please email dta@rbnz.govt.nz