Submission

to the

Reserve Bank of New Zealand

on the

Consultation Document: The Dashboard Approach to Quarterly Disclosure

15 December 2016

NEW ZEALAND BANKERS ASSOCIATION
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About NZBA

1. NZBA works on behalf of the New Zealand banking industry in conjunction with its member banks. NZBA develops and promotes policy outcomes that contribute to a strong and stable banking system that benefits New Zealanders and the New Zealand economy.

2. The following fifteen registered banks in New Zealand are members of NZBA:

- ANZ Bank New Zealand Limited
- ASB Bank Limited
- Bank of China (NZ) Limited
- Bank of New Zealand
- Bank of Tokyo-Mitsubishi, UFJ
- Citibank, N.A.
- The Co-operative Bank Limited
- Heartland Bank Limited
- The Hongkong and Shanghai Banking Corporation Limited
- JPMorgan Chase Bank, N.A.
- Kiwibank Limited
- Rabobank New Zealand Limited
- SBS Bank
- TSB Bank Limited
- Westpac New Zealand Limited.

Background

3. NZBA welcomes the opportunity to provide feedback to the Reserve Bank of New Zealand (**RBNZ**) on the Consultation Document: The Dashboard Approach to Quarterly Disclosure (**Consultation Document**), and commends the work that has gone into developing it.

4. If you would like to discuss any aspect of the submission further, please contact:

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Executive summary

5. NZBA fully supports enhancements to the disclosure statement regime that will improve the efficiency, clarity and consistency of prudential requirements for banks and non-bank deposit takers.

6. However, following careful review of the Consultation Document, NZBA cannot support RBNZ's preferred option, namely Option A (**the Dashboard Approach**), due to a number of significant concerns outlined below.

7. After careful consideration of the options put forward in the Consultation Document, NZBA supports Option B (**the Pillar 3 Approach**), subject to some amendments to the proposed content of that disclosure, such as removal of the liquidity metrics.

8. However, NZBA also notes that in light of the balance sheet redevelopment project which is still be finalised, and the issues that arise from the Dashboard Approach as proposed in the Consultation Document, retaining the status quo of the current disclosure statement regime is also palatable to NZBA members.

9. NZBA considers that it is imperative RBNZ conduct further consultation about the detail of the proposed disclosure once an option has been settled on.

Unsupported Option: The Dashboard Approach

10. NZBA appreciates the time and thought RBNZ has put into the Dashboard Approach. NZBA understands RBNZ's main drivers in considering changes to the disclosure regime are:

    a. Encouraging investor participation by providing comparative information about banks

    b. Reduction/re-balancing of compliance costs

    c. Promoting market discipline

    d. Timeliness of information to market.

11. After careful consideration of the Consultation Document, including canvassing the options with parties who currently receive and rely on disclosure statements under the existing disclosure regime, NZBA does not consider that the Dashboard Approach would achieve the above objectives, nor improve the efficiency, clarity and consistency of the production and disclosure of financial information about banks. Furthermore, NZBA submits the Dashboard Approach presents a number of new, complex and potentially irresolvable issues. On this basis, NZBA does not support the Dashboard Approach.

12. The reasons NZBA does not support the Dashboard Approach are set out below.

Lack of comparability between banks

13. NZBA submits that a side-by-side comparison of banks' key metrics via the Dashboard could lead to inaccurate conclusions being drawn around comparability, given the banks' relative sizes and variability in accounting policies.

14. NZBA submits that few retail investors will understand and appreciate the differences between the structures of the various locally incorporated banks and will therefore be unlikely to properly interpret the Dashboard's information in light of its wider context. In this respect, the Dashboard Approach is unlikely to achieve one of RBNZ's key aims of promoting the comparison of financial information published by, and therefore the relative positions of, the banks.

Issues stemming from RBNZ population and publication of the Dashboard

15. Following a discussion with RBNZ officials (and notwithstanding paragraphs 82 – 87 of the Consultation Document) NZBA understands that RBNZ proposes to compile the Dashboard by transferring relevant information received from banks as part of private reporting to populate the relevant elements of the Dashboard on RBNZ's website. Essentially this means RBNZ would publish information on behalf of the banks.

16. NZBA does not consider this approach will further the stated aims for publishing the Dashboard. NZBA members understand from certain investors and other parties that the statement of compliance with IAS 34 contained in interim financial statements and the director attestations that currently accompany disclosure statements provide those parties with a certain level of comfort as to the accuracy and credibility of the information published, and that this comfort would likely not be derived from a third party publishing the information. This method of population and publication raises challenges for such parties to attribute the preparation and accuracy of the information to the individual bank itself.

Lack of context/explanatory information

17. The Dashboard Approach doesn't allow for banks to provide the necessary context for the figures/information (for example, explaining the basis of preparation, variances in figures between periods or any of the information otherwise contained in accounting notes). Lack of meaningful context or explanatory information could lead to the misuse and misinterpretation of data.

Correction of information

18. NZBA submits that the proposed process whereby banks can correct Dashboard data subsequent to publication is undesirable and likely to have unintended consequences such as loss of confidence in both the Dashboard data and the robustness of banks' financial reporting processes.

No reduction of compliance costs

19. In NZBA's view it is unlikely that the Dashboard Approach will result in any overall reduction in compliance costs for the preparation of financial and prudential disclosures by banks. The main reason for this is that for banks that seek offshore funding, some investors, analysts and ratings agencies will require additional financial information to be prepared rather than relying solely on the Dashboard. In part this will be to provide context and explain the information in the Dashboard, but also to incorporate other information relevant to and relied upon by those parties that will not be included. This will effectively result in banks needing to continue to undertake a process similar to the current disclosure statement regime to prepare and provide the relevant information to these parties, as well as embedding a governance framework to provide comfort/assurance in relation to the information to be published in the Dashboard.

20. Therefore, the result that the proposed Dashboard Approach seeks to achieve, providing stakeholders with relevant comparable information while reducing the compliance burden on banks, is not likely to eventuate as a duplicate process will be required. Additionally, running this process to complement the Dashboard creates the risk of errors in duplicated information in another format, and leads to the potential for disparity in information available to different types of debt investors (for example wholesale v retail). Finally, NZBA considers that legal issues may arise as to issuer liability under international legislative requirements (e.g. USA or UKLA) from incorporating an external web address (the RBNZ Dashboard website) into offer documents.

Issues stemming from timing of Dashboard release

21. The release of information on the Dashboard prior to approval by directors raises the question of compliance with director duties or other statutory obligations which must be considered and confirmed prior to adoption of the proposed Dashboard Approach.

22. As noted by NZBA members during the Regulatory Stocktake industry workshops, a key issue with the proposed Dashboard Approach is the timing of its release. Some, or all, of the information contained in the Dashboard could be considered 'price sensitive' under registered exchange continuous disclosure requirements (for banks with listed debt or equity instruments).

23. The proposed timing for release of the Dashboard information by RBNZ is ahead of formal bank results announcements and could breach its continuous disclosure requirements unless it simultaneously releases an announcement on the relevant exchange.

24. Additionally for some of our members who are part of a parent group, this could cause the group to breach its continuous disclosure requirements unless it simultaneously releases an announcement on the exchanges to refer to the third party released information about the New Zealand banks together with an accompanying explanation of that independently released information (which would likely require additional context than simply referring to the RBNZ website). NZBA members are particularly concerned that the release of the information about the New Zealand bank ahead of the release of complete information about the overall group's performance would compromise the overall group's position and make little contextual sense.

Balance sheet reporting redevelopment project

25. We understand the Dashboard would rely heavily on the balance sheet reporting redevelopment project, which has not yet been fully embedded. NZBA believes it will take several cycles of reporting under this new framework for all issues with accuracy and comparability of information to be fully considered and addressed before further decisions as to bank disclosure redesign are made.

Audience understanding

26. NZBA does not consider that the Dashboard Approach will result in a marked increase in the number and types of users of this information. In particular, for the

typical 'retail investor', average financial literacy (particularly accounting skills) needs to be significantly lifted for this to eventuate. NZBA does not consider that the Dashboard Approach will of itself encourage retail depositors to view, or fully understand, the data published by the RBNZ.

27. Furthermore, our concerns noted in paragraph 17 above regarding the lack of context or explanatory information available under the Dashboard approach will exacerbate potential misunderstandings or incorrect assessments about a bank's financial stability.

Preferred approach: Pillar 3

28. NZBA's preferred option for off quarter disclosure is the Pillar 3 Approach. In NZBA's view, the Pillar 3 Approach achieves the right balance of providing relevant information to the market without the unintended consequences and operational problems of the Dashboard Approach. In addition, the Pillar 3 Approach aligns closely other equivalent international jurisdictions (particularly Australia) and is likely to be more readily understood by users.

Reasons for preference

29. NZBA prefers the Pillar 3 Approach as it resolves a set of complex issues that arise under the Dashboard Approach. For example:

    a. The Dashboard Approach takes a very different approach from equivalent international jurisdictions, in particular Australia. NZBA submits that it is preferable that the New Zealand approach to disclosure is generally in alignment with Australia and other internationally comparable jurisdictions used by banks to seek offshore funding. As such, NZBA prefers the Pillar 3 Approach, which is more akin to the Pillar III disclosures made under the Australian regime. However, NZBA notes that in order to effectively denote the Pillar 3 Approach as distinct from, and not a replica of or equivalent to, the Australian regime, it should be referred to as something other than "Pillar 3".

    b. Disclosures relating to financial stability are balanced. These disclosures are relevant to parties who use and interpret the financial information published by banks (for example analysts, investors, rating agencies, market commentators, etc.). Ultimately (and as the Consultation Document itself acknowledges), financial stability (and its disclosure) is very complex. NZBA considers it is not possible to simplify this into the disclosure proposed in the Dashboard.

    c. The risk of errors arising in figures reported under the Pillar 3 Approach is lessened as banks remain ultimately responsible for the information utilising the existing processes under the current disclosure regime. In particular, the information included is not required to pass through multiple systems or be reinterpreted by multiple organisations.

    d. As it aligns more closely with equivalent international jurisdictions, Pillar 3 will be more readily understood by parties internationally, such as investors. Additionally, the director attestation included in Pillar 3 provides certainty to parties like investors who rely on the attendant director/management sign-off, responsibility and liability. See our comments in paragraph 19 above that it is unlikely the Dashboard approach would effectively result in any overall reduction in compliance costs for the preparation of financial and prudential disclosures.

e. The ability to provide additional information or context about the information included in the disclosure is retained. This is critical. The Dashboard, by removing this ability, carries a risk of over-simplification which could be potentially misleading.

f. The ability to attest to compliance with Conditions of Registration (and disclose breaches where relevant) is retained without creating an additional operational and administrative process.

g. No conflicts with listing rule – and continuous disclosure - requirements arise. That is, banks themselves will publish the information under the Pillar 3 Approach and, taking into consideration any rules applicable to the timing of Pillar 3 disclosure, align publication of that information with disclosures required under other regimes. Specifically, there is no risk that a third party (RBNZ) releases price sensitive information (such as information relating to results announcements as a result of financial position/performance) into the market ahead of the issuer bank itself releasing it.

Removal of liquidity metrics

30. NZBA's members are particularly concerned about RBNZ's proposal to publish liquidity metrics (core funding and mismatch ratios), under either Option A or Option B.

31. In the absence of prescriptive guidelines, consistent methodologies and/or RBNZ accreditation on the calculation of core funding and mismatch ratios, this data has the potential to be misleading. The mismatch ratios in particular are a highly technical area and their calculations are not suited to comparability across different sized organisations. In our view, there is a risk that uninformed users could make inaccurate assessments of a bank's financial stability thereby introducing the risk of a run on a bank (itself precipitating the risk that RBNZ seeks to mitigate through market discipline).

32. RBNZ suggest in the Consultation Document (at paragraph 45) that because of the publication lag, appropriate remedial action would have been taken with respect to any breach by the time of release. That might be so, but even if there were no breach, a 'low' end-period ratio could potentially lead to unwarranted disquiet and questioning over a bank's liquidity position.

33. We believe these unintended consequences far outweigh any perceived benefits of disclosing these ratios and strongly recommend that the RBNZ remove this requirement, regardless of the option/approach adopted.

34. Should RBNZ disagree with our submissions on the disclosure of liquidity metrics, NZBA submits the proposed disclosure should be trialled and assessed for a period of time before it is made available to the public.

Publication deadline

35. Regardless of the option/approach adopted by RBNZ, NZBA recommends that the publication deadline be eight weeks. This will allow sufficient time for the data to be adequately analysed and independently reviewed by banks before submission, thereby minimising any adverse consequences of publishing inaccurate data. Furthermore, an eight week timeframe would enable banks to bed in governance processes, and assist RBNZ in processing information.

36. Particularly with regard to the Dashboard Approach, a four-week submission deadline is also not a realistic timeframe in which to complete the appropriate due diligence processes that are critical to ensuring the veracity of the information before it is published. Whilst we acknowledge RBNZ's preference for the timeliness of the data, we contend that there are disproportionate risks and costs relative to the benefits of publishing it early.

Branches

37. NZBA supports the removal of the requirement for branches of overseas incorporated banks to prepare off-quarter disclosure statements. As noted in the Consultation Document, these statements are less beneficial to depositors on the basis that branches of overseas incorporated banks represent a small proportion of the total overseas banking business and therefore are less significant for overall market discipline.

G1 Summary

38. NZBA understands that a key objective of this consultation is to enhance the timeliness of the disclosure of financial information to market. To this end, NZBA notes the RBNZ's comments about the existing G1 tables being difficult to access on the RBNZ website. NZBA suggests that simple enhancements to the placement of this information, such as re-labelling and moving the location of the link to G1 tables, could resolve some of these issues and would be a more pragmatic approach than a complete overhaul of existing processes and disclosures in an attempt to deliver the same or similar outcome.

39. Additionally NZBA suggests the disclosure time lag that currently results due to the manual extraction by RBNZ of information to populate the G1 tables could be alleviated by the banks providing the summary data in the G1 format to RBNZ from their own disclosure statements, at the same time as the disclosure statements are released.

Request for further consultation

40. Following this consultation, regardless of the option/approach adopted by RBNZ, NZBA considers it is imperative that a further round of consultation about that approach is undertaken. This is necessary to work out the detail of the disclosures required, in particular to ensure that the disclosures are comparable between banks with different structures, and to address any other issues that will likely arise.

41. NZBA also suggests that, in line with the Regulatory Stocktake process in 2014/2015, an industry workshop is held to discuss the finer details of the proposed disclosures under the selected option.