

Submission

to the

Reserve Bank of New Zealand

on the

Follow-up consultation: Updates to registered bank disclosure statements arising from Stocktake

11 January 2018

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 seventeen 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
 - China Construction Bank
 - Citibank, N.A.
 - The Co-operative Bank Limited
 - Heartland Bank Limited
 - The Hongkong and Shanghai Banking Corporation Limited
 - Industrial and Commercial Bank of China (New Zealand) 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 follow-up consultation: Updates to registered bank disclosure statements arising from Stocktake (**Consultation Paper**) and commends the work that has gone into developing the Consultation Paper.
4. If you would like to discuss any aspect of the submission further, please contact:

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NZBA comments on Orders in Council

5. NZBA has suggested some minor drafting amendments to the local and branch Orders in Council (**OIC**) in the **enclosed** mark-ups.
6. In addition to those amendments, NZBA has the following comments:

- (a) As part of the amendments to the local OIC RBNZ has proposed to update the metrics in the half year and full year disclosure statements for concentrated credit exposures. NZBA supports RBNZ's intention to align the metrics for concentrated credit exposures with the metrics used in the disclosure statement, and notes that the final Dashboard calculation is yet to be finalised. In this respect, NZBA would appreciate clarification on the format of reporting of the top five exposures in the Dashboard. Under the current approach, credit exposures are reported in successive ranges of 5% commencing at 10% of shareholders equity (under the new OIC requirements, Common Equity Tier 1 capital) in a table format in the disclosure statement, and excludes counterparty details.
- (b) NZBA members remain concerned about the proposed publication of liquidity ratios, both in the disclosure statement and the Dashboard. As previously submitted, 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.

In our view, there is a significant risk that uninformed users could make inaccurate assessments of such ratios and thus their inclusion outweighs any perceived benefits. If, however, the publication of liquidity ratios in the disclosure statement and the Dashboard is to remain, we recommend that standardised calculations for such ratios are published by the RBNZ after appropriate consultation to ensure consistency between banks.

Under the current proposals, the inclusion of regulatory liquidity ratios and concentrated credit exposures would be subject to an audit by a bank's external auditor. Our view is that this is not appropriate given that these measures are regulatory in nature and are not defined in New Zealand GAAP. We would consider it more appropriate if these metrics were subject to review by the auditor, consistent with the treatment of the capital adequacy disclosures in Schedule 11. The mark-up currently has these items in schedules 4 and 5 "additional financial disclosures" – where the auditors are required to state whether the information disclosed is "fairly stated" (audit test). To avoid this issue it is suggested that the liquidity ratios could be moved to schedules 9 and 11 "capital adequacy" – where the auditors have to provide negative assurance only.

- (c) The enclosed mark-ups include proposed changes to the sections of the OICs addressing additional mortgage information (Schedule 11, s 4 of the local OIC; Schedule 9, s 1 of the branch OIC). Those changes are intended to align the definitions of loan value in the OICs with BS19 *Framework for Restrictions on High-LVR Residential Mortgage Lending*, thereby ensuring consistency between the disclosure statement and the Dashboard LVR disclosures.
- (d) Finally, with respect to the list of Supranationals at the Annex to the Consultation Paper, NZBA notes that the International Finance Corporation is also a World Bank entity (as is noted with respect to the International Bank for Reconstruction and Development).