Reserve Bank of New Zealand
Te Pūtea Matua

Deposit Takers Core Standards

Summary of Submissions and Policy Decisions for the Liquidity, Depositor Compensation Scheme and Disclosure Standards

1 May 2025

Introduction

The Reserve Bank of New Zealand – Te Pūtea Matua (the **Reserve Bank**; **we**) is undertaking a multi-year programme of work to implement the Deposit Takers Act 2023 (the **DTA**). The DTA Standards will replace existing prudential requirements to form a new set of rules for deposit takers.

A significant step in the journey to the new regime was the publication of our Deposit Takers Core Standards consultation paper (the **Consultation Paper**) on 16 May 2024.[1] The core standards are the Capital, Liquidity, Depositor Compensation Scheme (**DCS**), and Disclosure Standards, and are prioritised for development since they are needed for licensing existing banks and non-bank deposit takers (**NBDT**s) under the DTA.

We received a total of 26 submissions in the three-month consultation on the core standards from a broad representation of stakeholders, primarily from the deposit taking sector. We have considered feedback and refined our policy proposals. This document outlines a summary of the submissions that we received on the Liquidity, DCS and Disclosure Standards, our responses and policy decisions.

On 31 March 2025, we announced that we would undertake a reassessment of key aspects of our deposit takers capital settings, utilising international experts and assessing it against the regimes in other countries. Given this decision, we are not publishing our response to submissions on the Capital Standard at this time. This will allow for us to provide a fulsome response in light of this work.

As we have now separated the Capital Standard feedback discussion from the remainder of the core standards, readers should bear in mind that references to the 'core standards' in this document refer only to our responses in relation to the Liquidity, DCS and Disclosure Standards. That said, the Capital Standard remains a 'core standard' under the DTA as it is one of the standards against which existing banks and NBDTs will be licensed.

The next step for the core standards (including the Capital Standard) is to prepare exposure drafts. Figure A below shows our intended approach, and high-level timeframe, for the development of standards, including non-core standards.

Figure A: Process for developing standards

[1] Deposit Takers Core Standards Consultation Paper for publication

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Chapter 1

Deposit Takers Core Standards

Summary of Submissions on Introductory Issues

1.1. Cross-cutting issues – overview

Protecting and promoting the stability of the New Zealand financial system is the primary objective of the DTA.[2] A stable financial system can be defined as one where resilient financial markets, institutions and infrastructures enable a productive and sustainable economy, and ultimately prosperity and wellbeing. Pursuing financial stability through resilience will at times necessitate decisions that trade off desirable factors, such as fostering competition or ensuring proportionality in the regulatory approach across the sector. At other times, policy choices that enhance the resilience of the system will enhance these factors.

In addition to our financial stability purpose, there are a number of other purposes and principles that we take into account in determining prudential policy. Our Consultation Paper included seven questions relating to the overall approach we have taken to developing policy in this area. This included questions relating to how we have taken into account some of the principles in the DTA and other overall impacts of the standards. The consultation questions are set out at Annex B.

This chapter summarises the feedback we received in response to the seven questions, which we have termed 'cross-cutting issues' since they are overarching in nature and relate to and influence (that is, 'cut across') aspects of the core standards. We have also set out our response to the feedback raised. In addition to our responses in this section, standard-specific feedback that relates to cross-cutting issues is detailed in specific core standard chapters.

Many of the responses to the cross-cutting issues referred to the Capital Standard. Our responses in this chapter are focussed on responses relating to the standards other than the Capital Standard. Inevitably, feedback we received to some of the cross-cutting questions covered the impact across the standards, which includes the proposed requirements in the Capital Standard. To the extent possible, we have responded, drawing on our responses to the policy for the Liquidity, DCS and Disclosure Standards.

In our response to the Capital Standard consultation feedback, we will include further discussion of any of the cross-cutting issues where decisions in relation to the Capital Standard will have a significant impact. We expect to publish our response to the Capital Standard consultation feedback by early 2026 at the latest.

Respondents were generally most concerned that we had not adequately incorporated proportionality into proposed policy (including through minimising compliance costs, particularly for smaller deposit takers). Some respondents claimed that our proposals would further entrench what they say is a competitive advantage for the largest deposit takers. Our overall assessment remains that we are striking a reasonable balance between our primary financial stability mandate and our purposes and principles, including proportionality and competition. These issues are discussed below in greater detail, but in considering feedback and undertaking further policy analysis, we agree that changes can be made to some proposals that will further support a proportionate approach, reduce the compliance burden on deposit takers, and enhance potential competition in the market.

In accordance with section 49 of the Reserve Bank of New Zealand Act 2021, we are considering each DTA standard against the matters set out in the Minister of Finance's Financial Policy Remit

2 Section 3.1, Deposit Takers Act 2023

(issued December 2024), including competition. The final assessment will be completed at the time of issuing the Standards in 2027.

We intend for our proposed approach to maintain our existing prudential regime's reputation as being trusted, with a strong degree of consistency with international approaches. We also take a regulatory stewardship approach to prudential policy throughout the implementation of the Standards and by monitoring our prudential settings to ensure they are fit for purpose. This will help us implement the DTA in a way that is consistent with its main purpose: to promote the prosperity and well-being of New Zealanders and contribute to a sustainable and productive economy by protecting and promoting the stability of the financial system.

1.2. Cumulative impact of the proposed standards on relevant DTA principles

We received limited comments on the overall cumulative impact of the core standards. Some respondents were concerned about the impact of cumulative compliance costs that the new DTA regime would bring, especially to Group 2 and Group 3 deposit takers. One respondent provided feedback that we had placed too much emphasis on financial stability at the expense of financial inclusion and competitiveness. Our responses to questions relating to our approach to proportionality and impacts on competition also relate to this question.

Comment

Avoiding unnecessary compliance costs is one of the DTA principles we must take into account in designing our proposals. We have balanced this principle against the purposes and other principles of the DTA. This must also be balanced against the main purpose of the DTA: to protect and promote the prosperity and well-being of New Zealanders and contribute to a sustainable and productive economy by protecting and promoting the stability of the financial system (section 3(1) of the DTA). In response to the feedback received, we have made changes to our policy approach across the core standards which will reduce compliance costs.

Response

The core standards proposals will help us achieve the principles of the DTA. Our overall proposals strike a balance between our financial stability objective and avoiding unnecessary compliance costs for deposit takers.

The changes we have made to proposals across the core standards address certain issues identified by respondents relating to compliance costs. These changes help to ensure that we strike the right balance across the principles of the DTA in setting requirements. The detail of the changes we have made are outlined in the relevant chapters and include the following revisions (among others).

In relation to the Liquidity Standard:

- **Removing the one-week mismatch ratio:** we have responded to feedback by deciding to remove the one-week mismatch ratio and add a qualitative requirement that addresses concerns over potential cash flow timing mismatches. This approach reduces unnecessary compliance costs for deposit takers.

- **Retaining the use of undrawn committed lines:** these will continue to be eligible as a cash inflow for the mismatch ratio, provided their use does not substantially increase contagion risk to the financial system. This approach reduces unnecessary compliance costs relative to our original proposal of eliminating the eligibility of these lines under the mismatch ratio.
- **Simplifying assumptions in calculating quantitative liquidity requirements:** we will continue to allow the lower-compliance option of using simplifying assumptions provided that these assumptions are prudent, documented, quantified where possible, and available for internal and external review.

In relation to the Disclosure Standard:

- **'Dashboard[3]-only' approach for Group 3 deposit takers:** we have decided on this option instead of requiring the 'bank-lite' approach to disclosure, which is a proportionate response that will reduce compliance costs for those smaller deposit takers.

1.3. Proportionality

Respondents indicated support for our Proportionality Framework.[4] However, some smaller deposit takers provided feedback that we had not sufficiently taken the Proportionality Framework into account in the core standards proposals. One respondent pointed to a lack of differentiation between Group 1 and 2 requirements. Another stated that policy proposals should be reconsidered to give greater weighting to competition and avoiding unnecessary compliance costs. One respondent commented that the proposals are not proportional in terms of practical outcomes. It was also stated by a respondent that simpler liquidity requirements would be more consistent with the Proportionality Framework.

Comment

We consider that our overall approach to applying the proportionality principle strikes a balance between this principle and other principles of the DTA and remains appropriate. However, we agree that changes on specific issues could be made. We have made calibrations to our proposed approach across the core standards to address issues identified relating to proportionality. Our specific responses to the Liquidity and Disclosure Standards set out how we have responded to these issues.

Response

Broadly, we consider that our overall approach across the core standards remains proportionate. Our responses set out above in section 1.2 of this chapter highlight key changes we have made that are also relevant to how we have taken into account the proportionality principle and made adjustments following consultation.

1.4. Diversity of institutions

Some respondents provided feedback that the proposed standards may negatively impact the diversity of institutions in New Zealand by making it difficult for new entrants to emerge.

3 This refers to the Bank Financial Strength Dashboard (the Dashboard).
4 *See* rbnz.govt.nz/hub/news/2024/03/a-proportionality-framework-allows-for-diversity-while-promoting-financial-stability

Respondents pointed out that the NBDT sector has already seen a trend of consolidation through sales and mergers, with no new entrants under the current regulatory framework, highlighting the need to simplify requirements for smaller deposit takers.[5]

However, there were other comments from respondents stating that they expected no significant changes to the diversity of institutions providing financial products and services from our proposals. Two NBDTs and an industry body were generally supportive of the proposed standards since it provides them with a level playing field with banks and improves the credibility of well-managed institutions previously disadvantaged by existing regulations. Feedback recognised that the application of the Proportionality Framework will help promote contestability and competitiveness by considering the regulatory burden on smaller deposit takers.

Comment

We must, where relevant, take into account the desirability of the deposit-taking sector comprising a diversity of institutions to provide access to financial products and services to a diverse range of New Zealanders when exercising our powers under the DTA.[6] Changes that we have made to address feedback relating to compliance costs and proportionality will have the ancillary impact of supporting a diversity of institutions by addressing the potential barriers raised by respondents.

We note as well that *Our Approach to Financial Inclusion* (September 2023) outlines how we are considering and contributing to an inclusive financial system in line with our role and remit.[7] This positions our work on the DTA within our overall approach to financial inclusion.

Response

It is desirable to see diversity in institutions operating in New Zealand under the new DTA regime. Our proposed approaches across the core standards does not preclude this. We have calibrated our approach taking into account how it applies to both new applicants and incumbent deposit takers at the point of licensing to acknowledge their different characteristics and interaction with our prudential regime. We also refer to the changes we are making in response to feedback on compliance cost and proportionality issues (for example, choosing the 'Dashboard-only' approach to disclosure for Group 3 deposit takers). Lower compliance costs make it easier for potential new entrants to enter the sector.

We also note that it is possible for an entity to borrow (through, for example, offering transactional services like domestic or foreign currency payment functionality) or provide lending (that is, to offer credit) without being regulated under the DTA. It is only entities that wish to do both borrowing and lending activities that meet the definition of a deposit taker and must be licensed to operate under the DTA. This is because entities that take deposits (which is a form of borrowing) and use them to make loans create special risks that prudential regulation can mitigate.

More institutions will offer either transactional services[8] or loans in New Zealand's wider financial sector outside the scope of the DTA than within the narrower deposit-taking sector. This means the diversity of institutions providing access to financial products and services to New Zealanders

5 On 6 January 2025 we granted a new entrant NBDT a license under the current regulatory regime. *See* rbnz.govt.nz/regulation-and-supervision/cross-sector-oversight/registers-of-entities-we-regulate/register-of-non-bank-deposit-takers-in-new-zealand

6 Section 4 (a)(iii), Deposit Takers Act 2023.

7 Reserve Bank of New Zealand. (2023, 29 September). *Our Approach to Financial Inclusion*. rbnz.govt.nz/hub/publications/financial-inclusion-report/2023/our-approach-to-financial-inclusion

8 These would generally be held on trust at a deposit taker and would have eligibility for protection under the DCS. This would work in practice by 'looking through' to the underlying clients when calculating eligibility under the $100,000 limit (a 'relevant arrangement').

can be improved through increasing the number of deposit takers and financial institutions more broadly. Whilst operating under the DTA may require a minimum scale in order to meet prudential requirements, it is possible for entities to commence operations outside of the scope of the DTA and then consider seeking a deposit taking license in the future. We are considering minimum capital requirements and will respond when we release our response to the Capital Standard submissions.

1.5. Impact on Māori

One respondent suggested that the proposals could support access for the Māori economy through application of the principles of the DTA. Others suggested that there would be limited impact. It was also suggested that there could be detrimental impacts, such as worsened access to capital, lower home ownership, increased poverty, and that this indicates a limited understanding of Māori culture.

One respondent signalled they perceived a narrower focus on financial stability by the Reserve Bank. This narrower focus could risk insufficient consideration of, and therefore adversely impact, the Māori economy and customers.

Comment

We are committed to improving economic prosperity for all New Zealanders, and this task includes tackling the challenges faced by Māori. Our report (*Te Ōhanga Māori - Māori Economy Report*, 2018) demonstrated the importance of the Māori economy to New Zealand's economic wellbeing and future prospects. We followed this with public consultation on the issue of Māori access to capital.[9] We also published our Te Tiriti o Waitangi statement in 2023, which outlines how we have committed to identify opportunities to give effect to Te Tiriti o Waitangi and to show how we are delivering on those commitments.[10]

We consider that the implementation of the core standards will promote financial stability which will have a positive effect for all participants in the financial system. We note that Māori have unique and diverse aspirations from the financial system, and we have limited information and analysis on how the DTA will impact Māori customers and the Māori economy.

Currently, Māori have lower trust in financial institutions and lower access to financial products and services such as transaction accounts and mortgages.[11] The DTA presents an opportunity for deposit takers and us to create positive outcomes for Māori customers by enabling reasonable access to products and services.

As part of our forward work programme for financial inclusion and Māori access to capital, we are undertaking further work to improve data and better understand whether Māori individuals and entities have reasonable access to products and services.

We also have work currently underway to consider more granular risk weights for lending for housing on Māori free hold land as discussed in the Minister's Letter of Expectations and the Commerce Commission's report on its market study into personal banking services.

9 *See* 2022 consultation *Improving Māori Access to Capital* - rbnz.govt.nz/have-your-say/improving-maori-access-to-capital
10 rbnz.govt.nz/about-us/how-we-work/te-ao-maori/te-tiriti-o-waitangi/te-tiriti-o-waitangi-statement
11 FMA-Consumer-Experience-with-the-Financial-Sector-Survey-2022.pdf

We will continue to explore Māori financial inclusion as it relates to implementation of the core standards as part of our strategic theme of 'increasing participation'[12] and *Our Approach to Financial Inclusion*. This work includes research on the customer onboarding experience due to be released this year, Māori Access to Capital, Access to Bank Accounts, Māori Data project, Cash System Redesign and the development of Financial Inclusion Indicators.[13]

Response

We continue to assess that the core standards will promote the stability of the financial system and the safety and soundness of deposit takers which will support the New Zealand economy as a whole, including the Māori economy. We will continue to work with relevant stakeholders to address some of the barriers or issues faced by Māori in accessing financial products and services that meet their needs.

1.6. Cumulative effect on competition

A Group 2 deposit taker responded that the proposals will further entrench the competitive advantage that the four largest banks already have. This competitive advantage is said to exist due to the following factors, which reduce the ability of smaller deposit takers to compete. These are the:

- disproportionately higher costs of regulation on smaller banks compared to the four largest New Zealand banks
- larger banks having greater access to funding options at a lower cost.

Another Group 2 deposit taker made a similar point, stating that the proposals will have a negative impact on competition due to Group 2 deposit takers having higher (proportional) costs of compliance compared to Group 1 deposit takers since the requirements are essentially the same. In addition, Group 3 deposit takers will be disincentivised to grow into Group 2 deposit takers, further reducing competition in the market. Relatedly, another respondent stated that we failed to strike the right balance in respect of competition.

Some respondents also stated that the impact of regulatory transition costs for Group 2 deposit takers may adversely affect their ability to compete in the short term. We were asked to specifically consider Group 2 deposit takers limitations and operational challenges in formulating final policy proposals.

Comment

Healthy competition between deposit takers has an important role in contributing to a sustainable and productive economy. Competition makes a fundamental contribution to efficiency - and therefore welfare - by:

- helping to allocate society's scarce resources to their best use (allocative efficiency)
- providing financial products and services at least cost (technical efficiency)

12 This is outlined in our Statement of Intent - Statement of Intent 2024 - 2028 - Reserve Bank of New Zealand - Te Pūtea Matua
13 *See* RBNZ Thematic Review on Financial Inclusion Practices for further discussion on these areas.

- supporting improvements in the way the various functions are performed over time (dynamic efficiency).

A stable financial system is critical to enable sustainable competition. The need to maintain competition within the deposit-taking sector is a principle we must take into account when developing standards under the DTA.

In the Consultation Paper, we outlined the difficulties in assessing the overall competition impacts of our proposals as some were positive and some were negative. For instance, regulatory transition costs are likely to be higher for smaller, less-resourced deposit takers, which may affect competition in the sector negatively. However, there are also aspects of the new DTA regime that support competition. This includes the introduction of the DCS, which may lead to more customers using smaller deposit takers, or new and growing entrants, since depositor protection would be the same for all deposit takers. We consider this overall assessment to hold. We expect that the direction of some of our proposed changes will reduce compliance costs and support proportionality. These changes also support a more competitive environment.

Response

We consider our proposed regulatory approach across the core standards will not inhibit a healthy level of competition in the deposit taking market.

Changes discussed at section 1.2 of this chapter (relating to impacts on the compliance costs and proportionality effects of our proposals) are also relevant to the competitive environment for deposit takers. This is because they make our approach simpler to comply with or reduce barriers to entry for smaller deposit takers.

1.7. Appropriateness of approach to developing standards

Certainty and clarity in new regime, including drafting of standards and guidance

Some respondents emphasised the importance of certainty and clarity in the new regime, for example by ensuring the drafting of the standards is precise, and that clear guidance regarding implementation and compliance is issued.

Comment

We plan to issue guidance relating to individual standards to support stakeholders in transitioning to and complying with the new regime. We note that there is a broad distinction between detailed quantitative requirements such as liquidity ratios, and qualitative requirements such as those for liquidity risk management. We accept that the calculation methodologies for minimum ratios need to be set out precisely. However, we believe that a principles-based approach is right for qualitative standards, so that it is up to entities to develop their own approach to ensure that they achieve the high-level outcomes specified. Our guidance will be there to assist entities with this, but not to provide a tick-box compliance list.

Response

We agree on the importance of certainty and clarity in regulatory requirements. The DTA will facilitate this through the use of standards which we are preparing with the support of professional drafters. We intend to issue guidance for standards to support implementation. We will consult on draft guidance when we consult on the exposure drafts of standards.

1.8. Outcomes-based standards

We received feedback on our approach to developing "outcomes-based" standards where appropriate. Outcomes-based standards provide deposit takers with flexibility to comply, but the nature of the topics covered by core standards is complex and technical. We were told that using an outcomes-based approach must not compromise the need for clarity and specificity.

Comment

Our approach is not to issue standards that consist of entirely prescriptive requirements. In some cases, the standards will set out expected outcomes and, to some extent, it will be for deposit takers to manage their own risks and determine their own operational approach in order to comply with the requirements.

Response

As above, we agree that clarity and specificity will be important in the new DTA regime. Where used, we also consider that our proposed hybrid principles-based approach to developing standards allows deposit takers to tailor the requirements to best fit their specific business model and circumstances over time. We note that guidance will be issued, which we expect will be particularly helpful for smaller deposit takers.

1.9. Transitional arrangements

Many respondents commented on the issue of transition to the new DTA regime. While there was some support for our proposed approach of bringing standards into application at a single point in time (in 2028), some raised issues with our approach. Specific issues are set out in the table below. We have the following general comment on the transition.

Comment

There has been a long lead-in time in the policy development process, and the intended 2028 implementation date is still over three years away. We have developed and well-signalled the overall work programme for implementing the DTA to support deposit takers in planning for the transition.

The transition to the DTA regulatory regime, including the development of standards, is a significant and complex work programme. The transition is deliberately sequenced with DCS coming in first, followed by standards, then licensing and then full implementation including supervision.

Response

We will consider if transitional arrangements are required for individual standards in preparing the exposure drafts of the standards. We note that in making decisions we are balancing a range of transitional preferences across the sector.

Table 1.1: Transitional issues

Transitional issue raised	Response
Some Group 2 respondents stated that they should be granted a longer transition period, relative to Group 1 deposit takers in the new regime. This is due to higher proportional implementation costs that Group 2 deposit takers face relative to Group 1 deposit takers, and the challenges and costs of hiring staff to satisfy 365-day requirements (for example, monitoring and managing liquidity ratios).	We will consider if particular transitional arrangements are required for individual standards in preparing the exposure drafts of the standards. On the specific issue of 365-day compliance with liquidity requirements, we have clarified that this refers to an entity being confident that it complies at all times, not that it necessarily needs to carry out the ratio calculations every day. (See section 2.3.13 in the Liquidity Standard chapter.)
NBDTs may need longer to implement IT systems changes to give effect to DCS data requirements once finalised, according to one respondent. They suggest an additional two years (to 1 July 2030) to allow time for NBDTs to update their systems to produce the DCS data required.	We do not agree that an extension of time is warranted. We note that the coming into force date for the standards of 2028 is three years after the introduction of the DCS itself.
One respondent raised the issue of the implementation and transition period for the DTA Standards overlapping with licensing requirements under the DTA, and potential new requirements that may result from the Consumer and Product Data Bill. More broadly, they suggested Council of Financial Regulators (**CoFR**) should ensure regulators coordinate and appropriately sequence the regulatory agenda with 2-to-5-year strategic regulatory plans.	We work with all CoFR agencies to support alignment across our work, within our respective legislative mandates. CoFR produces a Regulatory Initiatives Calendar to provide an integrated view of work programmes across CoFR agencies. We seek to avoid overlap in significant work programmes consistent with each agency's mandated work. We will continue to work with our CoFR colleagues to identify opportunities for alignment across our respective work programmes.
One respondent indicated that implementation/coming into force of DTA standards by 2028 may be too remote and that some deposit takers will be well placed for earlier adoption. Other NBDTs agreed in a joint submission.	To bring in new policy early (either through standards or changes to the existing law) is complex and time consuming. Our assessment is that it would not be possible for the full suite of DTA standards to be brought in any faster than is currently planned without significant additional risks to quality and overall programme delivery. However, there are targeted aspects that may be able to be brought forward to deliver benefits ahead of the overall implementation of the DTA. We are reviewing standardised risk weights as a part of our work on capital and we are exploring how the outcomes of this work will be able to be implemented ahead of the DTA coming into force, if there are any changes.

Transitional issue raised	Response
Concerns have been raised regarding the proposed timing of consultation on exposure drafts for the core standards. It is recommended that appropriate engagement and time is provided, given the volume of detailed changes to come with the new DTA standards regime.	We note the concerns and agree that the sector needs sufficient time to meaningfully consider consultation materials as we transition into the DTA regime. We extended the period for feedback on the core standards in response to feedback and have set a longer period for consultation on the non-core standards. We will take the same approach when consulting on exposure drafts. We plan to stagger the release of consultation materials to reduce the volume of material being considered at once by stakeholders.
One respondent noted that, because the DCS starts before the DTA, there is a risk that some deposit takers (particularly NBDTs) try to grow deposits without the additional safeguards from the full DTA supervisory and regulatory regime.	We are aware of the risk and will be monitoring the growth and overall soundness of entities before the full suite of new prudential standards are in force. If we observe heightened risks emerging, we have a range of supervisory and regulatory responses that we can deploy to address this. We have also sought to mitigate this risk in other aspects of the DCS policy design, such as using risk-based levies, to address moral hazard.

1.10. Other issues raised

Table 1.2 below sets out some of the more specific issues raised regarding the Consultation Paper cross-cutting questions. Some of these are more specifically relevant to individual core standard chapters (in those cases, please refer to the relevant chapter).

Table 1.2: Other cross-cutting issues raised

Issue	Response
For competition/diversity reasons, we should consider exemptions or tailored solutions for smaller deposit takers, since smaller NBDTs will face higher marginal costs to comply with the new regime compared to larger Group 3 NBDTs.	Our Proportionality Framework sets out our approach to tailoring standards for deposit takers according to the size and nature of their business. Our responses highlight where we have further tailored our proposals for each group to support proportionality.
One submission highlighted the increased cost of banking for Māori customers, for example if banks pass on the costs of DCS fund levies to their customers.	The high-level costs and benefits of the DCS and the levy approach were considered at the time of original policy development and legislative passage of the DTA. We note the point on the cost of banking and we are undertaking work to improve data and better understand Māori access to transactional banking services and deposits. We would also point to the financial stability provided by the DCS to depositors affected by potential deposit taker failure, including Māori depositors.

Issue	Response
One respondent suggested projecting future market concentration of the four largest banks under the proposed DTA regime and targeting less than the current 85% market share over time (e.g. 80% market share or less within five years).	We take into account competition when setting prudential policy, but it is subsidiary to our main purposes. The level of competition and market share of the largest banks in the financial sector is driven by a number of factors, most of which are outside the scope of our prudential regulator role, as set out in legislation.
Allowing more deposit takers to use the word 'bank'.	We have begun a review of our restricted word regime and will consult on this later this year.[14] We will update our Statement of Prudential Policy following this consultation. We note this work has implications for competition and is highlighted in the Minister of Finance's Letter of Expectations (December 2024).
Allowing more deposit takers access to our Exchange Settlement Account System (**ESAS**).	This is outside the scope of the core standards. In March 2025, the Board approved revised access criteria and supporting policy for ESAS. The revised policy opens ESAS eligibility to more non-bank entities, and NBDTs may now apply for access.[15]
DCS design should prevent disproportionate impact on smaller deposit takers.	Proportionality has been a focus in the policy design of the DCS to date and that will continue to be the case. For instance, the DCS Transitional Standard[16] includes the ability for the Reserve Bank to approve an alternate model to collect account details if a deposit taker does not have the capacity to develop a DCS depositor page through their online software.

14 Section 428 and 429 of the DTA provide that the Reserve Bank may authorise licensed deposit takers or a class of licensed deposit takers (via a notice issued as secondary legislation) to use a name or title that includes the word 'bank' or related words.

15 *See* https://www.rbnz.govt.nz/payments-and-settlement-systems/exchange-settlements-account-system/our-policy-on-access-to-exchange-settlement-accounts

16 *See* Depositor Compensation Scheme Transitional Standard - Reserve Bank of New Zealand - Citizen Space for the consultation paper that outlined our proposal for the Deposit Takers (Depositor Compensation Scheme Transitional Provisions) Standard 2025. The consultation closed in February 2025.

Chapter 2

Deposit Takers Liquidity Standard

Summary of Submissions and Policy Decisions

2.1. Non-technical summary of responses and decisions

The Liquidity Standard will contain the Reserve Bank's liquidity requirements, both qualitative and quantitative, that will be applied proportionately across deposit takers. The Liquidity Standard will help ensure that deposit takers can provide depositors, and others they need to pay, with their money when they want or need it, or when it comes due.

This section summarises the feedback we received in response to our Consultation Paper and provides our responses to this feedback and our decisions on key issues.

Table 2.1 summarises the key issues raised in the feedback with additional feedback discussed below.

Table 2.1: Liquidity Standard - Key issues and responses

Deposit Taker Group	Key issue	Response
Group 1 and 2	Respondents generally did not support the retention of the one-week mismatch ratio (MMR) and suggested the 30-day MMR is sufficient.	We will remove the one-week MMR. However, we will add a qualitative requirement (potentially supplemented with qualitative guidance) that would ensure deposit takers are appropriately managing any timing differences in stressed cash flows throughout the entire 30-day MMR period.
	Respondents did not support removing the provision that allows deposit takers to make any reasonable simplifying assumptions on the basis that they are a pragmatic way to deal with the complexities of calculating quantitative liquidity requirements.	We will continue allowing simplifying assumptions. However, we will amend the existing requirements so that deposit takers must maintain a record of any simplifying assumptions, ensure that they are prudent, and keep them up to date.
	Respondents suggested that continuous compliance would be impractical and costly to implement due to system limitations, so should not be a requirement.	We will proceed with our proposal that compliance with our quantitative requirements should occur on a 'continuous basis' as we view this as being important to ensure that deposit takers are prudently managing their liquidity risk. We will not carry over the references in our current liquidity policy for banks (BS13) to 'at the end of each business day'. However, we do not expect deposit takers to calculate or report liquidity ratios throughout the day or on non-business-days in the normal course of business.
	Respondents had mixed views on eliminating 'undrawn committed lines granted to the registered bank' as a cash inflow in the MMR.	We will not proceed with this proposal. However, we will consider how to address potential contagion risks if Group 1 deposit takers use undrawn committed lines, which we will clarify further during the exposure draft phase.

Deposit Taker Group	Key issue	Response
Group 3	Respondents had mixed views on the proposed calibration of the cash-flow coverage ratio (**CFCR**), with some concern that it would result in a weakening relative to current requirements.	The CFCR will be calibrated to ensure there is no overall material weakening of liquidity requirements. Deposits that are protected by the DCS will have the same 3% run-off rate as is applied in the MMR. A single 50% run-off rate will be applied to uninsured deposits. These calibrations are subject to review as part of the Quantitative Impact Study (**QIS**).

2.2. Introduction

Our liquidity requirements help ensure that deposit takers can pay their liabilities when they fall due. The policy does this by requiring deposit takers to carefully monitor and manage their ability to make payments to others, and by requiring them to have a minimum amount of cash, and other assets that can be sold quickly at a reliable price, to meet financial obligations such as paying bills and deposit withdrawals.

The proposed Liquidity Standard, which will set out our liquidity requirements, aims to support the main purpose of the Deposit Takers Act 2023 – to promote the prosperity and well-being of New Zealanders and contribute to a sustainable and productive economy by protecting and promoting the stability of the financial system. Our liquidity requirements also support the additional purposes of the DTA (including promoting the safety and soundness of each deposit taker and promoting public confidence in the financial system) as they improve deposit takers' capability to manage liquidity risk and lower the likelihood of liquidity problems resulting in their failure.

This chapter of the Consultation Paper is related to the Liquidity Standard and forms part of the Liquidity Policy Review (**LPR**), which is a comprehensive, multi-year, review of our liquidity policy. The LPR started in February 2022 with the release of an initial consultation paper (**C1**). In February 2023, we released a second consultation paper (**C2**) that consulted on some significant policy issues, including the potential adoption of the Basel Committee on Banking Supervision (**BCBS**) Liquidity Coverage Ratio (**LCR**) and Net Stable Funding Ratio (**NSFR**) to replace our existing metrics, the Mismatch Ratios (**MMR**) and the Core Funding Ratio (**CFR**).

We announced key decisions on these C2 issues in December 2023, which included our decision to retain and modify our existing metrics rather than adopt the BCBS metrics and to tighten our eligibility criteria for liquid assets.[17] We will reflect these two decisions in the requirements for Group 1 and Group 2 deposit takers under the proposed Liquidity Standard.

This chapter of the Consultation Paper focused on other significant policy issues for the LPR, which included the following proposals:

- revised qualitative liquidity requirements that would streamline and further clarify these requirements, with a simplified set of requirements applying to the Group 3 deposit takers under our Proportionality Framework

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- potential modifications to strengthen and update our existing quantitative liquidity requirements (which would apply to almost all existing banks - Group 1 and Group 2 deposit takers under our Proportionality Framework)
- potential features and components of the Committed Liquidity Facility (**CLF**)[18]
- a simplified quantitative liquidity requirement that would apply to our smaller deposit takers (Group 3 deposit takers under our Proportionality Framework)
- certain qualitative liquidity requirements that we believe should apply to branches of overseas banks.

2.3. Approach for Group 1 deposit takers – our response to submissions

2.3.1. Qualitative requirements

In the Consultation Paper, we proposed a set of qualitative liquidity requirements for Group 1 deposit takers, which also included potential guidance. Our current liquidity policy for banks (**BS13**) sets out qualitative liquidity requirements, which are largely based on the BCBS's qualitative liquidity principles. Despite the high degree of alignment with the BCBS's principles, we proposed some revisions to our qualitative liquidity requirements to streamline and further clarify these, while also applying such requirements in a proportionate manner.

There was broad support for the proposed qualitative requirements. Respondents also largely agreed with our assessment of the costs and benefits, noting that the requirements would generally align with international standards and streamline existing requirements from BS13. Several respondents emphasised the importance of having clearly worded requirements to avoid any confusion and ambiguity. For instance, they requested that the requirements be clear on which requirements are responsibilities of the board and which responsibilities can be delegated to senior management.

We also asked respondents for their thoughts on supplementing the qualitative requirements with guidance and whether this should be included in the Liquidity Standard or as guidance.

There was broad support for supplementing qualitative requirements with guidance. Some respondents noted that there should be more clarity where some qualitative requirements are open to interpretation and suggested that guidance could assist deposit takers in interpreting these definitions by including worked examples. One respondent suggested that criteria or examples that demonstrate compliance could be written directly into the Liquidity Standard for ease of reference.

Respondents broadly agreed that guidance should be set out in a separate document to the Liquidity Standard. Some respondents noted that if guidance was set out in the Liquidity Standard, there would be confusion over whether the guidance is non-binding, which could inhibit flexibility in adopting guidance. Further to this point, respondents commented that a separate guidance

18 To address a potential shortage of liquid assets (as a result of stricter eligibility criteria), the Reserve Bank will establish a CLF. This would entail us entering into an agreement with deposit takers to provide them with liquidity via a repurchase (repo) facility, with CLF-eligible assets serving as collateral. We will charge a standing fee to deposit takers for the ability to access the CLF. See section 2.2.12 of the Consultation Paper for more detail.

document could be updated more easily (than the Liquidity Standard) to reflect clarifications and/or other changes.

Comment

The proposed qualitative requirements are designed to promote effective management of liquidity risk, and therefore support financial stability, in line with the main purpose of the DTA. We acknowledge the feedback, and recognise the importance of ensuring the requirements are drafted clearly. This is consistent with LPR principle 5,[19] which states:

> *Liquidity requirements should be sufficiently prescriptive to promote and facilitate consistent interpretation and implementation by deposit takers to enhance comparability and market discipline.*

We will consult on specific wording of the Liquidity Standard and guidance at the exposure draft stage.

We also note that the existing qualitative liquidity requirements for registered banks in BS13 pre-date the development of a fulsome set of risk management requirements. Under the proposed Risk Management Standard, deposit takers will be required to have a risk management framework that includes a range of specified components and address a stated minimum list of material risk categories, one of which is liquidity risk. Further analysis is required to determine which of the existing BS13 qualitative requirements will be carried over to the Risk Management Standard, and which will be carried over to the Liquidity Standard. We will work on this during the exposure draft phase.

Response

We will proceed with the substantive qualitative liquidity requirements and guidance proposed in the consultation, while looking for areas where clarity could be enhanced. However, at the same time, we do not wish to be overly prescriptive in our requirements and guidance, so that deposit takers retain a level of flexibility in how they chose to comply with these requirements. The proposed language for our qualitative liquidity requirements will be set out in the exposure draft of the Liquidity Standard and accompanied by guidance.

Guidance will be set out in a separate document from the Liquidity Standard. The aim of guidance will be to aid deposit takers in interpreting the requirements in the Liquidity Standard.

2.3.2. Quantitative requirements – modifications to MMR and CFR

In the Consultation Paper, we outlined our proposed modifications to the MMR and CFR that would apply to Group 1 deposit takers. As mentioned in the introduction to this chapter, these modifications build on earlier decisions taken as part of the Liquidity Policy Review.

Respondents broadly agreed with our assessment of the potential benefits of our proposed modifications to the MMR and CFR but suggested that some aspects of the proposed modifications would be costly to implement. We go into more detail on specific aspects of the proposed modifications in the following subsections.

19 The LPR is guided by six principles, which were finalised as part of the first round of consultation of the LPR. For a list of the principles, see section 2.3 of the Liquidity Policy Review Consultation Paper #2 (Significant Policy Issues)

2.3.3. Natural minimum of 100%

We asked respondents if the MMR and CFR should be structured so that they both have a natural minimum of 100%. In the MMR, this would be achieved by having liquid assets as the numerator and net cash outflows as the denominator. In the CFR, this could be achieved by applying a factor of 75% to the denominator.

Respondents broadly agreed that the MMR should be re-structured to have a natural minimum of 100%. They noted that this was a logical modification as the metric would then be interpreted as requiring liquid assets (and CLF-eligible assets) to cover at least 100% of net cash outflows.

However, respondents had mixed views on whether the CFR should be restructured to have a natural minimum of 100%. Some respondents saw the benefit of having consistency across both the MMR and CFR in terms of their natural minimum. Other respondents did not believe that the change was justifiable and would make the CFR more difficult to interpret, especially historically. It was also suggested that a natural minimum of 100% could be misleading as it would not clearly represent the proportion of a bank's loans and advances that are funded by core funding.

Comment

We acknowledge the general agreement from respondents that the MMR should be restructured to have a natural minimum of 100%. This aligns with our view, as it is conceptually intuitive that we would want deposit takers to have an amount of liquid assets (including the CLF) that would exceed net cash outflows. Given that we are adopting a MMR with a natural minimum of 100%, we will place a limit on the maximum amount that cash inflows can be used to offset cash outflows. This will ensure that deposit takers are required to hold at least some liquid assets (including CLF) and there are not cases where the denominator is negative (cash inflows exceed cash outflows). The BCBS LCR places a 75% maximum on the amount that cash inflows can be used to offset cash outflows, which may be a good starting point for the MMR. However, we will analyse and determine the appropriate size of this 'cap' on cash inflows as part of the QIS, which will follow the release of the exposure draft.[20]

Regarding the CFR, our initial thinking was that there may be benefits to both the MMR and the CFR having a natural minimum of 100%, consistent with the LCR and NSFR. However, we note that having a 75% minimum for the CFR seems to be more appropriate given that it can be useful to understand what proportion of a bank's loans and advances are funded by core funding.

Response

We will proceed with restructuring the MMR so that it has a natural minimum of 100% by having liquid assets as the numerator and net cash outflows as the denominator. We will not restructure the CFR to have a natural minimum of 100% and will instead retain the existing natural minimum of 75%.

20 The QIS will help ensure that our quantitative liquidity requirements have been calibrated appropriately.

2.3.4. Redefining 'market funding' to include insurance companies and superannuation funds, along with banks, credit unions, building societies and finance companies

In the Consultation Paper, we proposed to add insurance companies and superannuation funds to the definition of market funding. We noted that these institutions are (or should be) sophisticated enough to carefully manage their credit risk and have contingencies in place if the safety of their bank deposits comes into question. This can be done, for example, by having multiple banking relationships, which many of these entities do.

Respondents had mixed views on this proposal. Some respondents agreed with the reasoning set out in the consultation and noted that that these market segments were expected to grow. Other respondents disagreed given that it could result in a net loss of deposits treated as 'core funding' (for the CFR), as the definition of market funding would be broadened. One respondent suggested that deposit size, rather than industry classification, is the main determinant of expected run risk. There was also a suggestion to apply 'de minimis' rules, allowing deposit takers to exclude depositors below a certain size.

Alternatives to ANZSIC codes

We also asked for any suggestions on how entities could be captured under market funding without using ANZSIC codes.

Respondents generally agreed that the use of ANZSIC codes when defining market funding can have some drawbacks and suggested that any move away from ANZSIC codes be consulted on with industry given that it would require significant changes to systems.

Respondents suggested multiple alternatives to using ANZSIC codes to capture 'financial institutions' in the definition of 'market funding'.

- One suggestion was to leverage off the definition of 'eligible depositor' in the DTA (or more specifically, capture in the definition of market funding those entities not captured within the definition of 'eligible depositor' under section 191(1)(b)(i)-(iii) of the DTA). Respondents noted that it would be beneficial to align various definitions and classifications across prudential requirements where possible.
- Another suggestion was to align with the Reserve Bank's bank balance sheet survey approach, where sectors that are intended to be captured by market funding could be described by the Reserve Bank rather than ANZSIC codes. It was acknowledged that some judgement would be required by deposit takers under this approach but suggested similar judgements are required when working with ANZSIC codes.
- A further suggestion was to leverage off the Financial Service Providers Register.

Comment

We believe it is worthwhile to leverage the DTA definition of 'eligible depositor' as an alternative to ANZSIC codes. We view this definition as the best of the suggested alternatives, given that it leverages off a definition in the DTA and deposit takers will already need to identify eligible depositors for the purposes of producing Single Depositor View (SDV) files. We believe that it would be desirable for our definition of market funding to align with (or 'mirror') the DTA to help ensure simplicity and consistency of application across deposit takers.

This means that the definition of 'market funding' in our Liquidity Standard would include deposits/debt securities of the deposit taker held by:

- a licensed deposit taker, a licensed insurer, or an operator of a designated FMI
- a bank or other entity that is licensed, registered, or otherwise authorised to accept deposits under the law of an overseas jurisdiction
- a government agency.

Additionally, existing funding captured under 'market funding' such as tradeable debt securities and funding received from related parties of the deposit taker would continue to be included under 'market funding'.

This definition of market funding would capture insurance companies but not superannuation funds. It would also not include investment funds, which are currently captured in the BS13 definition of market funding using ANZSIC codes. Instead, this funding would be captured under non-market funding and the size band approach. While capturing investment funds and superannuation funds under the definition of market funding would be more prudent, we are not convinced that doing so would justify the potential complexity and inconsistency. Our proposal to add a new run-off rate bucket of 90% for uninsured deposits over $100 million also helps offset a narrower definition of market funding.

While we do not expect the quantitative impacts of adopting this alternative definition of market funding to be large, we will estimate impacts as part of the QIS, which will follow consultation on the exposure draft.

Response

We will no longer use ANZSIC codes to capture entities in the definition of market funding. Instead, we will leverage the DTA definition of 'eligible depositor' as an alternative to ANZSIC codes. This will help ensure simplicity and consistency across deposit takers.

2.3.5. Introducing a new category for 'insured deposits'

The DCS is scheduled to come into effect in mid-2025, at which time eligible depositors with protected deposits up to $100,000 (per deposit taker) may be entitled to compensation. As such, in the Consultation Paper, we proposed that the run-off rate for insured deposits under the MMR be 3% and that the factor for insured deposits under the CFR be 95%. All else being equal, we would expect insured deposits to run off at a lower rate than uninsured deposits in a liquidity stress, which is consistent with the objective of the DCS to protect and promote financial stability.

Respondents universally supported the proposed 3% run-off rate for insured deposits under the MMR. Respondents agreed that this appropriately reflects that insured deposits are a more stable source of funding. There was also broad support for the proposed 95% factor for insured deposits under the CFR, except for one respondent who suggested that the factor should be 97% instead.

We also asked if the existing 5% run-off rate for uninsured deposits less than $5 million was still appropriate.

Most respondents felt that the existing 5% run-off rate remained appropriate and suggested that there was no evidence supporting a higher run-off rate (that is any changes to this run-off rate would not be justified on the basis of past stress events). However, one respondent suggested that there could be a recalibration to a 10% run-off rate if made in conjunction with a change to a narrower definition of market funding. Another respondent also noted that having differing run-off rates for insured and uninsured deposits may add complexity and that it may be difficult to determine the appropriate treatment of relevant arrangements. There were also a few suggestions that the run-off rates for uninsured deposits were too large. Some respondents highlighted that the size bands have not been recalibrated since 2010, which could mean liquidity requirements have effectively become tighter over time given growth in the size of deposits.

Comment

Compared to the existing calibration of the metrics, it seems reasonable that the run-off rate for insured deposits be lower than the current run-off rate (5% for deposits less than $5 million), and that the factor for insured deposits under the CFR be higher than the current factor (90% for deposits less than $5 million). This reflects our expectation that insured deposits function as a more stable source of funding than uninsured deposits, all else constant.

We also acknowledge the feedback that a higher run-off rate for uninsured deposits less than $5 million may not seem justifiable based on past evidence. However, we note that liquidity stress events tend to be rare and often do not resemble previous stress events. We want our liquidity requirements to be forward-looking and prepare deposit takers for a wide range of unforeseen stress events that might eventuate. As noted in our Consultation Paper, we intend to review run-off rates and the overall calibration of our liquidity requirements as part of the QIS.

Response

Under the existing MMR calibration, we will proceed with the 3% run-off rate for insured deposits. We will also proceed with the 95% factor for insured deposits under the existing CFR calibration. We consider that this reflects the impact that the introduction of the DCS will likely have on the actual risk in times of stress.

However, before finalisation of the Liquidity Standard, and as part of the QIS, we will be reviewing the specific run-off rates and overall calibration of the MMR and CFR to ensure they appropriately reflect the nature of liquidity risk at the time of implementation.

2.3.6. Introducing new and higher run-off rates for non-market funding

In the Consultation Paper, we proposed to add a new run-off rate of 90% for uninsured deposits over $100 million. The highest run-off rate for non-market funding under the MMR is currently 80% for deposits over $50 million. We also proposed to add a new factor of 10% for uninsured deposits over $100 million in the CFR.

Respondents had mixed views on this proposal.

Respondents that did not support the proposal stated that a new, higher run-off rate over $100 million would not be evidence based or supported by past stress events. They stated run-off rates for large, non-market funding, deposits are already more conservative than the LCR. These respondents also felt that the benefits would be negligible for what would likely be a reasonably significant increase in required liquid asset holdings.

A few respondents supported the proposal, noting that it could reduce the risk of funding concentration across the system as there would be less incentive for deposit takers to rely on very large depositors for funding. One respondent supported the proposal on the basis that the definition of market funding was also narrowed.

We also asked for alternative views on the appropriate threshold and calibration for this potential new category of funding. Respondents noted that qualitative requirements may better address the concerns raised in the Consultation Paper regarding the liquidity stress event at Silicon Valley Bank in 2023. They suggested that event was an idiosyncratic case and that such cases would be better addressed by deposit takers having robust risk management frameworks, rather than a new category of funding.

Comment

We agree with respondents that past stress events do not in themselves justify adding a new size band for uninsured deposits over $100 million. However, as a forward-looking regulator, we should prepare for a broad range of potential future events. Indeed, while liquidity stress events are relatively infrequent, when they do occur, they often do not resemble any particular past liquidity stress event.

We note this would result in an increase in required liquid asset holdings. We estimate that, at a sector level, this increase in required liquid asset holdings will roughly offset the reduction in liquid asset holdings resulting from the introduction of the lower run-off rate (3%) for insured deposits (discussed in section 2.3.5).

Response

We will proceed with introducing the new size band category for uninsured deposits over $100m, which would be reflected in both the MMR and the CFR.

2.3.7. Integrating the existing 'deposit grouping' provisions with the DCS Standard's 'Single Depositor View' approach

In the Consultation Paper, we asked for feedback on whether it would be feasible for the grouping of deposits under the liquidity policy to be based upon the same rules used to aggregate deposits for the purposes of producing SDV files (in accordance with the proposed DCS Standard).

Respondents widely supported the use of SDV definitions for grouping deposits under the Liquidity Standard, but noted the potential complexities involved in doing so, particularly around third/related parties and 'relevant arrangements'. Some respondents highlighted specific cases where it is very difficult to determine how deposits should be 'grouped' – for example, a corporate account that has multiple individuals authorised to transact on that account, none of whom are the owner. Another example could be a joint account for a society with multiple signatories that have withdrawal authority independent from the owner.

Respondents also agreed with the potential treatment of 'relevant arrangements' as noted in the consultation. Under the DTA, a 'relevant arrangement' refers to deposits held under a regulated client money or property service, or is held in a trust, scheme, or other arrangement of a kind that is prescribed by the regulations.[21] In a DCS payout scenario, 'look-through' treatment would entitle

[21] Section 191(2) of the DTA.

the underlying clients to compensation (not the account holder). However, under these 'relevant arrangements' it may not always be possible to immediately identify the persons with a beneficial interest in the deposit, what proportion of the deposit each of those persons' beneficial interests cover, and what proportion of the deposit is therefore protected by the DCS.

Some respondents suggested that the details of any approach taken should be consulted on given these potential complexities and the need for clear guidance where possible. Relatedly, it was also stated that there needs to be an adequate transition period to implement any SDV alignment, particularly given that the DCS Standard will come into force around the same time (if not the exact same time) as the Liquidity Standard. These submissions stated that full alignment can only happen once SDV is delivered.

Comment

We acknowledge the widespread support for using the SDV approach as a method for supporting the 'grouping' of deposits under our Liquidity Standard. However, as the SDV requirements are yet to be finalised it will be important to ensure that the Liquidity Standard accounts for any changes to the SDV requirements as proposed.

As for 'relevant arrangements', we intend to follow any approach taken for the purposes of the DCS levy calculation. This may involve specifying a percentage of (all or certain) 'relevant arrangements' as insured, with the remainder as uninsured. We may also permit deposit takers to treat funds held in 'relevant arrangements' as insured where they can identify those funds as insured with reasonable certainty (for example, as in the case of certain PIE deposits).

We are also aware that there could still be outstanding situations where it is unclear how uninsured deposits should be grouped (and therefore treated) under the Liquidity Standard given the complexities involved. It may be the case that, where idiosyncratic (and complex) cases arise, the SDV approach is not sufficiently prescriptive, and interpretation and judgement are required. We will continue to consider the best approach for these cases. Our revised position on simplifying assumptions provides a basis for dealing with these cases in the absence of prescriptive requirements.

Response

We will proceed with using the SDV approach as a method for supporting the 'grouping' of deposits under our Liquidity Standard. We intend to follow any approach taken for the purposes of DCS levy calculation when determining the appropriate treatment for 'relevant arrangements'. We will continue to engage with industry regarding other complex cases under the Liquidity Standard.

2.3.8. Eliminating 'undrawn committed lines granted to the registered bank' as a cash inflow in the MMR

In the Consultation Paper, we proposed to no longer include amounts from undrawn committed lines as a cash inflow in the MMR. This would align with the BCBS LCR.

Respondents had mixed views on this proposal. Some respondents agreed with the reasoning set out in the Consultation Paper. These respondents noted that they specifically do not rely on undrawn committed facilities. One respondent suggested an undrawn committed line could continue to be included if it had not been provided by another licensed deposit taker.

In addition, we received relatively strong feedback on the impact of this proposal on Group 2 deposit takers, which we discuss further in section 2.4.

Comment

Given the size of Group 1 deposit takers, we are concerned about the potential for contagion risk should they use these facilities to meet MMR requirements in the future. As outlined in the Consultation Paper, our proposal aims to reduce the risk that liquidity shortages in one deposit taker cause liquidity shortages in other institutions. While this risk exists to some extent with any credit facilities, facilities used by Group 1 deposit takers could potentially present a material risk to financial system stability and other DTA purposes.

That being said, it is unclear that we need to exclude undrawn committed lines from MMR altogether in order to manage this risk. As discussed in section 2.4.2, we do not share the same concern regarding Group 2 deposit takers given that they are smaller. Moreover, there may be scenarios where a Group 1 deposit taker's use of undrawn committed lines to meet MMR does not present material contagion risks.

It should also be noted that our current MMR only allows banks to count 75% of the dollar amount of undrawn committed lines 'up to a maximum amount from any one provider of 3 per cent of the bank's total funding, and a maximum amount from all providers together of 9 per cent of the bank's total funding'.

Response

We will not proceed with this proposal. However, as outlined in the analysis section of the Consultation Paper, the potential for contagion risk remains a concern (particularly the use of undrawn committed lines by Group 1 deposit takers). We will consider how to address these concerns over potential contagion risk, which we will clarify further during the exposure draft phase.

We will also analyse whether the 75% eligibility factor and the 'maximum amounts' continue to remain appropriate and whether the 'maximum amounts' should be expressed in terms other than 'total funding', particularly if 'total funding' is removed from the denominator of the MMR as is proposed. We intend to consult on this at the exposure draft stage.

2.3.9. Changing the 'one-month MMR' to a '30-day MMR'

In the Consultation Paper, we proposed that the actual length of the 'one-month' MMR be standardised to '30 days'. This aligns with the BCBS LCR.

There was broad agreement for this proposal, with respondents noting that it would simplify the calculation and would ensure consistency in the measurement period. However, some respondents expressed concern over there being potential inconsistencies for a 31-day month (if some days are excluded from the calculation due to the 31-day month).

One respondent also inquired about how the 30-day MMR would deal with cases where day 30 was a non-business day.

Comment

We consider that moving to a standardised period of 30 days will ensure consistency in the measurement period and the number of days in a particular month would not have an impact. Deposit takers would need to consider cash inflows and outflows over the 30-day MMR period regardless of what month(s) or days of the week this period covered.

Response

We will proceed with changing the one-month MMR to a 30-day MMR. This will ensure consistency in the measurement period and regardless of whether those days are business or non-business days.

2.3.10. Retaining the 'one-week' MMR (and renaming it to a '7-day' MMR), while potentially applying a higher run-off rate to insured deposits than under the '30-day MMR'

In the Consultation Paper, we considered there to be value in having an MMR metric for a shorter period than one month or 30 days. As such, we proposed retaining the one-week MMR.

Respondents largely disagreed with retaining the one-week MMR. Many respondents noted the existence of the one-week MMR is sensible under the current liquidity policy given the distinction between primary and secondary liquid assets. However, the future eligibility criteria for liquid assets requires all liquid assets to be liquid in private markets in a stress and/or through the CLF. Therefore, they suggested the one-week MMR was no longer necessary and that removing the one-week MMR would avoid unnecessary confusion and complexity.

We also asked whether the one-week MMR should have higher run-off rates than the 30-day MMR, should we retain it. Respondents that disagreed with retaining the one-week MMR also disagreed with it having higher run-off rates. One respondent suggested the run-off rates already capture a severe stress scenario and having different run-off rates between the two metrics would add complexity.

Another respondent supported retaining the one-week MMR, citing its importance with the introduction of SBI365.[22] This respondent also suggested that the one-week MMR should have higher run-off rates than the 30-day MMR as deposit takers would likely experience higher run-off rates during this period.

Comment

The potential retention of the one-week MMR was premised on the possibility that the timing of Group 1 and Group 2's cash inflows and outflows could result in them being able to comply with the one-month MMR, but not the one-week MMR. This is particularly if a significant amount of cash inflows were scheduled to be received on or after Day 8.

Net cash outflows (cash outflows less cash inflows) should, in most cases, be larger over a one-month period than over a one-week period. As such, if deposit takers are holding enough liquid assets (including CLF) to meet their net cash outflow obligations over a one-month period, they

[22] Settlement Before Interchange 365 is discussed in section 2.3.13.

should - in almost all cases - be holding enough liquid assets (including CLF) to meet their net cash outflow obligations over a one-week period.

When we introduced the one-week MMR, we excluded 'secondary liquid assets' from that ratio given that banks may not be able to liquidate these assets within a week. However, under the forthcoming revised (and stricter) eligibility criteria for liquid assets, all liquid assets (such as ESAS balances, NZGBs, Kauri bonds, Local Government Funding Agency (LGFA) securities) are assumed to be able to be quickly and easily converted into cash. Additionally, the CLF would provide deposit takers with immediate liquidity. As such, it will no longer be necessary for our Liquidity Standard to draw a distinction between 'primary' and 'secondary' liquid assets (or assume that 'secondary liquid assets' are less liquid than 'primary liquid assets').

We acknowledge there remains the risk that the timing of cash flows for certain deposit takers would allow them to comply with a 30-day MMR, while not being able to comply with a hypothetical one-week MMR. Removing the one-week MMR without further requirements could increase the risk of net cash flow maturity mismatch within the 30-day period. Therefore, we believe it is prudent to add a qualitative requirement that would require deposit takers to ensure that they are, in the normal course of business, appropriately managing any timing differences in projected stress cash flows throughout the entire one-month MMR period.

We understand that deposit takers already, to varying extents, monitor net cash flow mismatches at various points within the one-month period. Moreover, no longer having to report and monitor the one-week MMR would reduce compliance costs for deposit takers. Therefore, we consider the decision to remove the one-week MMR aligns with the LPR principle 6, which states:

> *Liquidity requirements should be practical to administer and seek to avoid any unnecessary complexity and compliance costs.*

Additionally, we consider that replacing the one-week MMR with a qualitative requirement to supplement the 30-day MMR would encourage more holistic compliance with our liquidity requirements and more effective management of liquidity risk. This aligns with LPR principle 4, which states:

> *The liquidity policy should contain both qualitative and quantitative requirements and encourage deposit takers to take a holistic approach to their management of liquidity risk.*

We note that removing the one-week MMR aligns with international practice, where the BCBS requires the LCR for periods of 30-days only.

Response

We will not proceed with our proposal to retain the one-week MMR. Instead, we will remove the one-week MMR and use qualitative requirements (potentially supplemented with qualitative guidance) to ensure deposit takers are appropriately managing any timing differences in cash flows throughout the entire 30-day MMR period.

This qualitative liquidity requirement would require deposit takers to ensure that liquid assets (including the CLF) are sufficient to meet net cumulative cash outflows throughout the 30-day period used for the MMR. For example, this would mean that a large net cash outflow on day 10 may need to be balanced by extra liquid assets (including CLF and cumulative net cash inflows before day 10), even if the 30-day MMR would still be satisfied due to positive net cash inflows during days 11 to 30. We will consult on precise wording for this in the exposure draft of the Liquidity Standard.

2.3.11. Removing the two-year maturity requirement for tradeable debt securities to qualify as 'core funding'

The CFR helps to ensure that banks fund their assets (loans and advances) with sufficient levels of 'core funding', while targeting funding with a maturity of greater than one year. When funding obtained from tradeable debt securities has a residual maturity of more than six months and not more than one year, this funding can still qualify as 'core funding' (at a discount factor of 50%) so long as it has an original maturity of two years or more.

In the consultation, we proposed to remove the two-year maturity requirement for tradeable debt securities to qualify as core funding. Respondents universally supported the proposal, noting that the original maturity of a security has no impact on its ability to serve as core funding.

Comment

The current 'two-year maturity' requirement encourages banks to obtain funding from tradeable debt securities with original maturities of two years or more, so that they can receive the benefit of such funding as 'core funding' when the residual maturity falls between six months and one year.

However, we agree that the ability of such funding to serve as 'core funding' is not affected by its original maturity once its residual maturity falls within this range. This would represent a slight relaxation of the current rules, but we do not anticipate it materially reducing banks' resilience to liquidity risk given the other requirements to qualify as core funding.

Response

As per our proposal, we will remove the two-year maturity requirement for tradeable debt securities to qualify as core funding. We note that the existing discount factors will remain as they are and will apply regardless of the original maturity of the security.

2.3.12. Removing the provision that would allow deposit takers to make 'any reasonable simplifying assumption' in calculating these metrics

BS13 allows banks to adopt any reasonable simplifying assumptions in their methods for calculating the quantitative metrics that have the effect of decreasing the ratio of those metrics (that is, resulting in a more conservative outcome). Our Liquidity Thematic Review (2021)[23] uncovered several practical issues associated with this provision, noting that: "Simplifying assumptions were being made that were not well substantiated and these were not always conservative." As such, we proposed removing the provision for simplifying assumptions.

Respondents unanimously disagreed with this proposal, noting that simplifying assumptions have been a pragmatic way for banks to deal with complexities and the limitations in liquidity data. If simplifying assumptions were no longer allowed, absolute accuracy would be required, which

[23] Thematic review of compliance with liquidity policy - Reserve Bank of New Zealand - Te Pūtea Matua

would significantly add to compliance costs and may not be practical given the proposed implementation timeframes.

Some respondents suggested that deposit takers instead be required to document, review, analyse, and audit their simplifying assumptions, and that these assumptions also be subject to external review.

Comment

We agree with respondents' feedback that no longer allowing reasonable simplifying assumptions when complying with the quantitative requirements could add unnecessary complexity and compliance costs. Our primary concern is that deposit takers use such assumptions without adequately analysing, documenting and reviewing them, and without removing them if no longer justified. We plan to address these concerns directly in the Liquidity Standard, rather than removing the ability to apply simplifying assumptions altogether.

Response

We will not proceed with removing the provision for simplifying assumptions. However, in reflecting the feedback from this consultation and incorporating the findings of the liquidity thematic review[24], as part of the requirements deposit takers must:

- maintain a record of any simplifying assumptions used to comply with the quantitative liquidity requirements
- ensure these assumptions are prudent
- quantify the impacts of these assumptions where possible
- keep assumptions up to date, including by reviewing, at least every three years, the need to use simplifying assumptions, and remove the use of such assumptions where practically feasible
- clearly document their justification for using simplifying assumptions to comply with the quantitative requirements and make this available for both internal and external review.

We will consult on the precise wording of the requirements related to simplifying assumptions as part of the exposure draft. Further, we will consider whether guidance could clarify our intentions regarding the use of simplifying assumptions.

2.3.13. Continuous quantitative requirements following the introduction of Settlement Before Interchange 365 (SBI365)

Settlement Before Interchange (**SBI**), first introduced in 2012, is the SWIFT-based payment system used by banks for retail payments and is administered by Payments NZ. SBI365 is an upgrade to SBI that allows retail payments to be settled seven days a week rather than only on business days.

In the Consultation Paper, we proposed that compliance with our minimum quantitative requirements should, in the normal course of business, occur on an ongoing basis or continuously rather than 'at the end of each business day'. We also asked whether deposit takers should be required to calculate their MMR and CFR seven days a week (rather than only on business days).

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Respondents unanimously disagreed with being required to comply with our quantitative requirements on a continuous basis, suggesting that this would be impractical and costly to implement due to system limitations. Given this, respondents also expressed concerns around how they could demonstrate continuous compliance to their boards.

Further, respondents noted that a requirement to calculate the MMR and CFR seven days a week would require staffing over the weekend and changes to their systems, which would entail significant costs. Some respondents felt that it would not add significant value given that outflows tend to be lower over the weekend (compared to weekdays) and banks tend to build buffers into their ESAS accounts to manage potential outflows. Some deposit takers noted that they already calculate the MMR and CFR for weekends but do so on the following Monday.

Comment

We acknowledge and accept the concerns respondents have raised over being required to comply with our quantitative requirements on a continuous basis, particularly around the complexities involved. We continue to believe that deposit takers should comply with our quantitative requirements on a continuous basis, which would align with international jurisdictions. For example, as we noted in the consultation, the BCBS LCR states, '…absent a situation of financial stress, the value of the ratio be no lower than 100%…on an ongoing basis…' Further, APRA's Liquidity Standard requires Authorised Deposit-taking Institutions (**ADIs**) to be compliant with their minimum quantitative requirements 'on a continuous basis'.

That being said, it is not our intention to require real time, 24 hour/seven days-a-week monitoring and verification of such compliance. There may instead be ways in which a deposit taker could reduce the risk of non-compliance. For example, a deposit taker could maintain an adequate liquidity buffer alongside (and potentially informed by) policies for managing its intra-day and non-business-day liquidity risks.

Response

We will proceed with our proposal that compliance with our quantitative requirements should occur on a 'continuous basis'. We will not carry over the references in BS13 to 'at the end of each business day'. We may not need to explicitly require continuous compliance in the Liquidity Standard itself, given that requirements are (by default) continuous unless otherwise stated.

We may supplement our views on continuous compliance in guidance. We are still working through what this guidance will specifically entail but we expect to share more details when we consult on the exposure draft.

However, in any case, we will not expect deposit takers to routinely perform intra-day calculations of their liquidity requirements. We will similarly not expect deposit takers to calculate and report their liquidity ratios on weekends. This does not limit our ability to request such information by notice during a stress event.

2.3.14. Creating a Committed Liquidity Facility

Features/components of the CLF

In December 2023, we stated that we would tighten the eligibility criteria for liquid assets.[25] However, at the same time we were conscious of ensuring adequate market functioning in financial markets and noted that New Zealand is a country with a limited supply of these liquid assets relative to the expected demand from the deposit-taking sector. To address this shortage, we announced that we would establish a CLF.

We outlined potential features/component of the proposed CLF (see Table AC on pages 128 and 129 in the Consultation Paper) and asked respondents for feedback on these. There will be further engagement with industry on more detailed design features and components at a later date.

Of those that responded to this question, there was general agreement that the potential features were reasonable. However, respondents suggested that further engagement is needed in order for them to provide more detailed feedback. It was suggested that worked examples would be useful to facilitate further engagement. There were also some comments on some of the specific features, as summarised below.

Standing fee methodology

A few respondents stated that the standing fee methodology will have important implications for wholesale financial markets (including the market for New Zealand debt securities). One respondent suggested that, if the fee is greater than the credit spread earned on CLF-eligible asset holdings, it may discourage diversification in deposit takers' liquid asset portfolios. Another respondent stated that Group 1 and Group 2 deposit takers are large investors in New Zealand debt markets and reiterated there would be implications for these markets. Respondents also requested clarity on the fee well in advance of implementation.

Size of the CLF

Respondents noted that the size of the CLF will likely impact access to liquidity in a time of stress and so more clarity on the size of the CLF is needed. Some agreed that it would be more efficient to set a percentage cap on the CLF's contribution to each deposit taker's total liquid assets under the MMR.

A few respondents wanted clarity on what would happen if an institution did not use their maximum allocated volume of the CLF. For example, respondents asked if institutions would still be charged for the maximum allocated volume, and if any surplus allocation would be reallocated across the industry.

A few respondents wanted more clarity on the indicated range of 40-50% of total liquid assets being eligible for the CLF. For example, respondents asked how this will be calculated and how much 'lead-in' time will there be.

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Haircuts on collateral

One respondent suggested that the 'haircuts' in the new Liquidity Standard and those applied in domestic operations should be identical to simplify the operating environment.

Operation of the CLF

We asked respondents for their views on the potential operating model for the CLF, and whether it should be operated as a completely new facility, or via an existing facility with additional documentation as required.

Most respondents did not express a view, but the few that did suggested the CLF should be operated as a new facility. This reflected the concern that the CLF may affect other Reserve Bank facilities if it was cancelled in the future (if or when it is not required).

Comment

We acknowledge that respondents require more clarity on the details of the CLF, particularly around the size and the methodology for determining the standing fee. As stated in the Consultation Paper, we plan to set out the initial calibration of any cap on how much the CLF can count towards a deposit taker's liquid assets under the MMR at a later stage, so we can take into account the expected stock of liquid assets at the time. Our current expectation is to address this as part of the QIS. We will also consider other details of the CLF as part of future work.

We are yet to decide if the CLF should operate as a new facility or not. However, even if it were delivered via an existing Reserve Bank facility, we would not envision that it would affect this facility if the CLF was removed in the future.

Response

We will be consulting on the details of the CLF later this year, including on size and the methodology for determining the standing fee. We intend to confirm the initial calibration of the CLF at least 12 months before the Liquidity Standard comes into force. We also note that the calibration of the CLF (such as the size and fee) will be reviewed periodically.

2.4. Approach for Group 2 deposit takers – our response to submissions

2.4.1. Qualitative requirements

In the Consultation Paper, we proposed that Group 2 deposit takers be subject to the same qualitative liquidity requirements that apply to Group 1 deposit takers (as set out in Tables Y and Z on pages 110 to 113 of the Consultation Paper).

Most respondents also agreed that Group 2 deposit takers should be subject to the same qualitative requirements as Group 1 deposit takers. They suggested that having the same qualitative requirements across Group 1 and Group 2 deposit takers would support robust liquidity management across the system given that Group 1 and Group 2 deposit takers face similar liquidity risks.

However, a few respondents disagreed, stating that Group 2 deposit takers should have a simplified set of qualitative requirements that are proportionate to Group 1 deposit takers. One respondent cited APRA's Liquidity Standard (APS 210), where larger deposit institutions (which could be considered analogous to Group 1 deposit takers) have more stringent requirements for stress testing.

One respondent also raised a point about overseas operations and asked whether associated bespoke requirements would be considered within the Liquidity Standard.

Comment

We acknowledge the feedback from respondents on having a simplified set of qualitative requirements for Group 2 deposit takers that are proportionate to Group 1 deposit takers.

However, we consider it appropriate to apply the same qualitative requirements to Group 1 and Group 2 deposit takers given the similar nature of liquidity risk that they face, consistent with the principle of treating similar institutions in a similar manner. This approach would also maintain comparability across Group 1 and Group 2 deposit takers, as is currently the case for banks subject to our liquidity policy. We have also stated in the first consultation paper for the LPR that we do not wish to see an overall material weakening in liquidity requirements relative to what currently exists, which applies to both qualitative and quantitative requirements.

Whilst the qualitative requirements are the same across Group 1 and Group 2 deposit takers, we consider that these requirements can be applied proportionately, according to the level and nature of liquidity risk across deposit takers.

Response

We will apply the same qualitative requirements to Group 2 deposit takers that are applied to Group 1 deposit takers. As outlined in the Group 1 section, we will proceed with the substantive qualitative liquidity requirements and guidance proposed in the consultation. At the exposure draft stage, we will consider clarifying how requirements can be applied in a proportionate manner (if appropriate).

2.4.2. Quantitative requirements

In the Consultation Paper, we proposed that Group 2 deposit takers be subject to the same quantitative liquidity requirements that apply to Group 1 deposit takers.

Respondents generally agreed that Group 2 deposit takers should be subject to the MMR and CFR. Most respondents reiterated the point that they made for qualitative requirements, stating that quantitative requirements should be the same across Group 1 and Group 2 deposit takers given the similar nature of liquidity risk that they face.

However, a few respondents disagreed and suggested that aspects of the MMR and CFR could be adjusted for Group 2 deposit takers. In particular, respondents noted the following points.

- Removing simplified assumptions would add complexity for Group 2 deposit takers.
- Continuous compliance is complex, particularly for Group 2 deposit takers as they have fewer resources than Group 1 deposit takers.

- Undrawn committed lines should continue to be included as cash inflows for Group 2 deposit takers.

Of those aspects raised by respondents, the proposal to no longer include amounts from undrawn committed lines as a cash inflow was of most concern as respondents felt that this would have a disproportionate impact on Group 2 deposit takers. Respondents suggested that the removal of these facilities would impact the profitability of Group 2 deposit takers as they would be required to instead hold more expensive forms of liquidity.

Furthermore, these respondents noted that the approach to undrawn committed lines set out in the LCR is designed for large international banks and that any concerns over 'contagion risk' should not exist to the same extent for Group 2 deposit takers utilising these facilities (relative to Group 1 deposit takers) given their smaller size and lower systemic importance. They also stated that committed facilities utilised as part of a balanced and resilient liquidity portfolio adds diversity to funding options for smaller deposit takers.

Comment

We acknowledge the feedback from respondents regarding proportionality and simplifying some aspects of the MMR and CFR for Group 2 deposit takers relative to Group 1 deposit takers. However, we consider it appropriate to apply the same quantitative requirements to Group 1 and Group 2 deposit takers given the similar nature of liquidity risk that they face, consistent with the DTA principle of treating similar institutions in a similar manner.

We note the points around the complexities of removing simplifying assumptions and requiring continuous compliance. As stated in our responses in the Group 1 section, we will adjust or clarify our initially proposed approach to help avoid unnecessary complexities. In our view, the adjustments and clarifications that we discussed in the Group 1 section will also address concerns that respondents had regarding the impacts of the quantitative requirements on Group 2 deposit takers.

We agree that undrawn committed facilities held by Group 2 deposit takers with Group 1 deposit takers should generally not pose the same level of contagion risk as they would if these facilities were held between Group 1 deposits takers given that Group 2 deposit takers are smaller. Our assessment is that the benefits of allowing Group 2 deposit takers to continue to use undrawn committed lines outweigh the potential risks. This is because Group 2 deposit takers are smaller than Group 1 deposit takers and these facilities allow for greater diversity in their funding options.

Response

We will apply the same quantitative requirements to Group 2 deposit takers that we are going to apply to Group 1 deposit takers.

See section 2.3.8 for our response regarding undrawn committed lines. In practice, this means that Group 2 deposit takers will likely be able to continue using these facilities to meet their MMR requirements.

2.5. Approach for Group 3 deposit takers – our response to submissions

2.5.1. Qualitative requirements

In the Consultation Paper, we proposed that Group 3 deposit takers be subject to some of the qualitative requirements that we propose applying to Group 1 and Group 2 deposit takers. The proposed Group 3 requirements are set out in Table AD on pages 132 and 133 of the Consultation Paper.

Respondents provided mixed feedback on the proposed qualitative requirements.

Some respondents disagreed with the proposed qualitative requirements for a range of reasons. Some of these respondents noted that there would be significant costs to implement the systems, resources, and processes to comply with the proposed qualitative requirements. They also suggested that current qualitative liquidity requirements and liquidity risk management processes are sufficient for NBDTs and should be carried over to the new regime.

Other respondents suggested that Group 3 deposit takers should be subject to the same qualitative requirements as Group 1 and 2 deposit takers to ensure prudent and effective liquidity risk management across the industry.

There was also some support for the proposed qualitative requirements. However, some respondents raised the following issues for consideration.

- Management of intra-day liquidity positions is overly onerous for small institutions, and deposit takers should be able to seek an exemption from this on the basis of their practices (for example, some smaller deposit takers do all outgoing payments manually once per day).
- The contingent funding plan should be small for small institutions as their funding options are limited. Relatedly, one respondent suggested that Group 3 deposit takers should also be subject to the cash flow projection requirements, noting that NBDTs have limited contingent funding plan options compared with banks.
- The Reserve Bank should provide additional information and clarity on our expectations in regard to stress testing and a contingent funding plan.

Given these issues, respondents suggested that qualitative requirements should be proportionate in how they are applied.

Comment

Licensed NBDTs must currently have, and comply with, a risk management programme that sets out the procedures they will use for effectively identifying and managing liquidity risk.[26] This programme includes elements of our proposed qualitative requirements and is subject to regular review and trustee approval.[27] The current risk management programme requires NBDTs to take the following:

26 More information regarding prudential requirements for NBDTs is available on our website - Prudential requirements for non-bank deposit takers - Reserve Bank of New Zealand - Te Pūtea Matua

27 The Risk Management Programme Guidelines for NBDTs provides guidance in relation to risk management programme requirements under the NBDT Act 2013 - NBDT Risk Management Guidelines

- identify and manage any funding gaps (including forecasting future cash flows to identify the scale of funding gaps)
- manage their sources of regular funding (including regularly monitoring their funding markets for evidence of declining confidence, managing concentration risk, and managing the risk of funding sources being adversely affected by a credit rating downgrade)
- maintain emergency sources of liquidity funding (including holding a portfolio of reliably marketable liquid assets).

We acknowledge feedback that Group 3 deposit takers should be subject to a broader range of qualitative requirements. We note that qualitative requirements play an important role in addressing potential liquidity risks that are not fully captured through quantitative requirements. We also acknowledge submissions that specifically suggested that cash flow projections should be added to the qualitative requirements for Group 3 deposit takers.

We agree that cash flow projections are important for managing liquidity risk and identifying potential funding gaps. Therefore, we will include the cash flow projections requirement as a qualitative requirement for Group 3 deposit takers (in addition to the qualitative requirements proposed). We anticipate that most, if not all, Group 3 deposit takers are already complying with this requirement to some extent, given that cash flow projections already form part of the current requirements for NBDTs.

We will also apply a qualitative requirement relating to funding strategy, and sources and diversification of funding to Group 3 deposit takers. We agree that, notwithstanding our quantitative requirements, the absence of an adequate funding strategy, and diversification in the sources and maturity of funding, could weaken the safety and soundness of Group 3 deposit takers. We note that similar requirements regarding sources of funding currently exist for NBDTs. We recognise that some Group 3 deposit takers may be limited in their ability to diversify their sources and maturity of funding.

We acknowledge the feedback regarding specific requirements related to the management of intra-day liquidity positions and that these requirements may not be proportionate in the case of Group 3 deposit takers due to the reduced intra-day liquidity risk. However, we believe that there is still a need for Group 3 deposit takers to have a requirement related to intra-day liquidity positions as these deposit takers may still have intra-day payment obligations via their agent bank (or if they gain ESAS access in the future).

In general, these qualitative requirements will be principle-based such that individual deposit takers have flexibility to implement them proportionately, according to the level and nature of liquidity risk (for example, intra-day liquidity risk, concentration risk, and cash flow mismatch risk).

Response

We will proceed with the proposed qualitative requirements for Group 3 deposit takers with some amendments. These amendments are to add the requirements of:

- cash flow projections
- funding strategy, and sources and diversification of funding.

We also note that business models differ between Group 3 deposit takers, as well as from Group 1 and Group 2 deposit takers. Therefore, we consider it is important to retain some degree of flexibility in the Liquidity Standard to allow deposit takers to adapt to their specific circumstances. This flexibility will be supported by guidance to provide more clarity to Group 3 deposit takers in interpreting the requirements, acknowledging that the proposed requirements will replace those currently supervised by the Trustee Supervisors.

2.5.2. Quantitative requirements

Our decisions in December 2023[28] included that quantitative liquidity requirements should be applied across deposit takers in a proportionate manner, and that we were inclined to apply a form of cash-flow coverage ratio (**CFCR**) requirement to smaller deposit takers.

Relative to the alternative option of a 'simple coverage ratio', a CFCR more precisely determines whether deposit takers can meet their actual short-term obligations because it accounts for expected cash inflows and outflows. By contrast, a simple coverage ratio is typically a fixed percentage of total funding or tangible assets, which may not adequately reflect the liquidity risk of individual deposit takers.

In light of these decisions, the Consultation Paper provided further detail on the proposed quantitative requirements for Group 3 deposit takers, which we discuss further below.

Calibration of the CFCR

In the Consultation Paper, we proposed that the CFCR be calculated as:

$$\frac{liquid\ assets}{net\ cash\ outflows} \geq 100\%$$

Respondents largely agreed with the proposal to implement a CFCR. However, respondents raised a number of caveats.

One respondent suggested that the CFCR should be used as an indicative tool only. This is because it does not include all cash flows and relies on assumptions about run-off rates and loan repayments that may hold in normal circumstances, but could become materially inaccurate during periods of stress.

Another respondent suggested that a simple liquid assets-to-liabilities ratio be implemented instead of the CFCR, which would reduce compliance costs and align with APRA's approach for small ADIs.

A few respondents disagreed with the proposal to implement a CFCR. One respondent suggested that it would not fit their business model. Another respondent stated that Group 3 deposit takers should be subject to the same quantitative requirements as Group 1 and Group 2 deposit takers to ensure that there is robust liquidity risk management across the industry.

We also asked for feedback on compliance costs and implications of the CFCR. The feedback included the comments set out below.

- There will be increased reporting and compliance costs. This means that it is important that liquidity requirements and changes to policies are clearly communicated in a timely manner.

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- The broader context of the transition to the DTA framework and the complexities involved need to be considered, particularly the CFCR timeline crossing over that of the proposed DCS composite risk calculation requirements.
- Requiring Group 3 deposit takers to hold shorter term securities and demand deposits would potentially involve costs to balance sheet operations in order to maintain compliance.

Finally, we asked if there were any additional simplifications that we could make to the CFCR relative to the MMR beyond those proposed in the consultation (see pages 141 and 142 of the Consultation Paper). Respondents did not have any further suggestions on simplified features, instead reiterating points regarding other aspects of the proposals.

Eligible liquid assets under the CFCR

In the Consultation Paper, we proposed that liquid assets for Group 3 deposit takers be the same as is proposed for Group 1 and 2 deposit takers, with the exception that liquid assets include demand deposits held with Group 1 and Group 2 deposit takers. Respondents had no specific feedback on this proposal.

We also asked for feedback on whether there was a need for a cap on the amount of Kauri bonds and LGFAs that Group 3 deposit takers can hold as liquid assets under the CFCR. Of the few respondents that did comment, there was no support for a cap. These respondents stated a cap was not necessary because Group 3 deposit takers are small and hold minimal amounts of Kauri bonds or LGFAs.

Further, we sought feedback as to whether undrawn committed lines are sufficiently reliable to be included as a liquid asset or cash inflow for the CFCR. There was only one comment related to Group 3 deposit takers, where it was noted that some smaller deposit takers maintain an undrawn committed funding facility, which should be included as a liquid asset. As stated in section 2.3.5, there were mixed views on the treatment of such facilities under the MMR.

We also proposed that term deposits held by Group 3 deposit takers at Group 1 and Group 2 deposit takers should not be treated as liquid assets and should only be treated as cash inflows if the term deposit matures during the specified period (for example, seven days or 30 days). Some respondents suggested that term deposits of all maturities be treated as liquid assets. It was also noted that NBDTs have accessed on-call funding from banks by using term deposits as collateral, resulting in NBDTs being able to access funding regardless of term deposit maturity. Our proposal would mean that deposit takers would need to hold more shorter-term deposits (relative to current requirements). These deposits generally have lower yields than longer-term deposits, so this would adversely impact profitability. Respondents also noted that ESAS access would reduce the need for NBDTs to hold term deposits.

100% minimum

In the Consultation Paper, we proposed the minimum requirement for the CFCR be set at 100%, to ensure that deposit takers can completely meet their expected net cash outflows in a stress event. A minimum requirement of 100% would also make it more comparable with the MMR and help depositors and other stakeholders to assess the relative risk of different deposit takers (despite other differences between the two metrics).

Respondents had mixed views on the proposal for the CFCR to have a 100% minimum.

The respondents that agreed suggested the 100% minimum was simple to understand, aligned with the proposed minimum for the MMR, and allowed deposit takers to target higher minimums regardless. Those that disagreed stated the 100% minimum would not align with current business practices, and that (with the run-off rates we suggested) it is substantially lower than what NBDTs are currently subject to in their trust deeds (as well as lower than what NBDTs currently implement via management and their Boards). One respondent stated that the 100% ratio (as proposed) is insufficient because it does not include all cash inflows and outflows.

Cash inflows greater than cash outflows

Some respondents provided feedback on the structure of the CFCR, where it was noted that there could be a scenario where cash inflows can be greater than cash outflows. This would result in a negative denominator (and a negative CFCR), which would be nonsensical, as it would suggest the deposit taker would have more money coming in than going out in a stress. Respondents sought clarity on how this scenario would be prevented.

Run-off rates under the CFCR

A key feature of the MMR for Group 1 and Group 2 deposit takers is the use of size bands, which apply progressive run-off rates for larger-sized deposits. The size of the deposit is used as a proxy for the depositor's level of sophistication and their potential behaviour in response to a liquidity stress scenario.

In the Consultation Paper, we outlined two possible options for setting run-off rates under the CFCR. However, we did not express a preference and asked for feedback on which option would be more appropriate.

The two options were:

- Option 1: Apply the MMR's 'size band' approach for Group 1 and Group 2 deposit takers to Group 3 deposit takers.
- Option 2: Apply one run-off rate for insured deposits and one run-off rate for uninsured deposits.

Of the respondents that commented, the majority supported applying the MMR size band approach (Option 1). These respondents cited the benefits of incorporating the relative size of deposits into the CFCR and consistency with Group 1 and Group 2 deposit takers.

One respondent supported Option 2 on the basis that it better reflects the simpler business models of smaller deposit takers. Two submissions preferred further simplification from Option 2, with one respondent suggesting that one run-off rate should apply to all deposits, and the other suggesting that a simple liquidity coverage metric be applied instead of the CFCR (such as what APRA applies to smaller ADIs).

We also asked which of the two options would result in higher compliance costs. Most respondents did not comment but those that did suggested that Option 1 would have higher compliance costs given the additional complexity of the size band approach compared to Option 2. It was noted that this may not be relevant for smaller deposit takers given that they generally have smaller-sized individual deposits compared to larger deposit takers.

Finally, we asked whether the potential size bands and their associated run-off rates in Option 1 would be appropriate for measuring the potential deposit outflows of Group 3 deposit takers in a liquidity stress scenario. Again, most respondents did not comment, but those that did suggested that the potential size bands seemed reasonable. However, one respondent stated that they expect run-off rates in a stress for Group 3 deposit takers to be at least as severe as for Group 1 and 2 deposit takers. Another respondent suggested that the run-off rates do not accurately model a stress event. As mentioned above, several respondents noted broader concerns around the overall stringency of the proposed CFCR.

Comment

We recognise the broad agreement with the proposal to implement a CFCR and acknowledge the caveats that were raised in the submissions. We will address them throughout this section.

We note that we have previously addressed the option of a simple liquid assets to liabilities ratio during the second stage of consultation of the LPR and determined that such a ratio is too simple to act as a robust liquidity requirement for smaller deposit takers.

We acknowledge the feedback that disagreed with the proposal to implement the CFCR as a formal requirement. However, the CFCR has been adapted to fit a variety of business models for Group 3 deposit takers where the MMR would not be suitable (for example, the treatment of demand deposits). This aligns with our Proportionality Framework and balances the LPR principles.[29]

We acknowledge the feedback that the CFCR may result in increased compliance costs, that changes to the broader regulatory context should be considered, and that it is important that liquidity requirements are clearly communicated in a timely manner. We have attempted to reduce complexity and compliance costs as much as possible while still ensuring that liquidity requirements contribute to prudent liquidity risk management and do not result in an overall material weakening relative to what is currently in place. Where relevant, we will align our approach with other standards, and the exposure draft will provide industry with the opportunity to provide feedback on the specific wording of the Liquidity Standard.

Eligible liquid assets under the CFCR

We acknowledge the feedback that undrawn committed lines should be an eligible liquid asset under the CFCR. However, we will be treating undrawn committed lines as a cash inflow for the MMR and are not sufficiently persuaded that differences between Group 1 and 2 deposit takers and Group 3 deposit takers suggest taking a different approach under the CFCR. Moreover, we view that the reasoning regarding the materiality of contagion risk of undrawn committed lines for Group 2 deposit takers (as discussed in section 2.4.2) also applies to Group 3 deposit takers.

We acknowledge the feedback that term deposits should be treated as liquid assets. However, we do not see it as appropriate to treat them as liquid assets because, contractually, term deposits generally cannot be reliably withdrawn before maturity during a stress event. In paragraph 717 of the Consultation Paper, we stated that "We also propose that term deposits held at Group 1 and Group 2 deposit takers should be treated as cash inflows except where the term of the deposit ends during the 7-day or 30-day measurement period for the CFCR." However, the correct

29 The LPR is guided by six principles, which were finalised as part of the first round of consultation of the LPR. For a list of the principles, see section 2.3 of the Liquidity Policy Review Consultation Paper #2 (Significant Policy Issues).

description is that term deposits should not be treated as cash inflows except where the term of the deposit ends during the measurement period for the CFCR.

We also wish to clarify and reiterate our proposal that, for Group 3 deposit takers, demand deposits held with Group 1 and 2 deposit takers will be treated as liquid assets. We acknowledge that this may have been unclear in paragraph 703 of the Consultation Paper.

100% minimum

We acknowledge respondents' concern that a 100% minimum for the CFCR could result in a weakening relative to current liquidity requirements in Trust Deeds.

We do not want to see an overall weakening of requirements under the incoming Liquidity Standard. We have considered the relative merits of changing the minimum, relative to changing other elements of the CFCR, for example run-off rates for funding. We see value in retaining the 100% minimum given the intuition behind there being sufficient liquid assets to meet projected net cashflows. We see value in calibrating the CFCR by adjusting aspects of the calculation other than the 100% minimum to better reflect liquidity risk.

Cash inflows greater than cash outflows

We recognise and agree with the feedback that the CFCR should be structured in such a way that prevents a negative denominator when cash inflows are greater than cash outflows. This issue is discussed for the MMR in section 2.3.3, and we will follow a similar approach for the CFCR. Specifically, we will consider placing a limit on the maximum amount that cash inflows can be used to offset cash outflows, to ensure that deposit takers are required to hold a minimum amount of liquid assets, and to ensure that there are not cases where the denominator can be negative (cash inflows exceed cash outflows). We will determine the appropriate size of this 'cap' on cash inflows as part of the QIS, which will follow the release of the exposure draft.[30]

Run-off rates

We acknowledge the feedback provided regarding run-off rates for funding under the CFCR. We have considered additional risks that could result in higher risk of deposit flight. In a stress, there may be a tendency for funding to move away from entities that are perceived higher risk and toward entities that are perceived as lower risk. For example, deposits could be withdrawn from smaller deposit takers and deposited at larger deposit takers that are perceived to have a lower risk of failure during a stress event.

We also note that the size band approach to calculating run-off rates for funding would result in a small proportion of modelled deposit flight. This is because a majority of Group 3 deposit takers have a high proportion of funding from deposits that are (individually) small in value and would not fall within most of these size bands.

Although these deposits are generally viewed as a stable source of funding, for many smaller deposit takers the high proportion of smaller-sized deposits poses concentration risk (that is, a high concentration in one particular source of funding). The size band approach could therefore

30 The QIS will help ensure that our quantitative liquidity requirements have been calibrated appropriately.

result in the CFCR requiring Group 3 deposit takers to hold a minimum amount of liquid assets that does not adequately reflect this risk.

Furthermore, given that the size band approach is more granular than the single run-off rate approach (that is, one run-off rate for insured deposits and another run-off rate for uninsured deposits), it would be more complex to implement and would add compliance costs for Group 3 deposit takers.

We note that some Group 3 deposit takers offer term deposits but do not offer demand deposits. Therefore, at maturity, the term deposit will either roll-over (that is, be reinvested in a new term deposit with the same entity), or it will be paid into an account with another deposit taker. In the latter case, the run-off rate is effectively 100%. Additionally, we expect reinvestment rates to decrease during a stress. For these reasons, such deposits may present liquidity risks that are not otherwise captured by the CFCR run-off rates for uninsured and insured deposits.

Response

We will proceed with our proposed CFCR:

$$\frac{liquid\ assets}{net\ cash\ outflows} \geq 100\%$$

We will calibrate run-off rates to ensure there is no overall material weakening of liquidity requirements. To achieve this, deposits that are protected by the DCS will have the same 3% run-off rate as is applied in the MMR. However, instead of applying the MMR size bands, the CFCR will have one run-off rate of 50% applied to uninsured deposits.[31] By doing so, the overall stringency of our requirements will likely be much higher than if we had applied the MMR size bands and run-off rates, and broadly similar to current NBDT requirements on average. We plan to finalise this calibration following the QIS, at which point we will be able to account for any intervening developments in the sector, such as changes that might arise from the DCS coming into effect.

Eligible liquid assets will be the same for Group 3 deposit takers as for Group 1 and Group 2 deposit takers, with the exception that Group 3 deposit takers can include demand deposits held with Group 1 and Group 2 deposit takers as liquid assets in the calculation of the CFCR.

We will not apply a cap to the amount of Kauri bonds and LGFA securities that Group 3 deposit takers can hold as liquid assets under the CFCR on the basis that Group 3 deposit takers hold minimal amounts of these securities.

We will continue with our proposal to treat term deposits (held with Group 1 and Group 2 deposit takers) as cash inflows where they mature within the 30-day period (for the 30-day CFCR).

We will not allow undrawn committed lines to be treated as a liquid asset under the CFCR, rather they will be treated as a cash inflow in circumstances where their accessibility within 30-days can be demonstrated by the deposit taker. We consider that the risk of contagion from drawing on these lines during a stress event is unlikely to be material for Group 3 deposit takers given their small size. We will consider how to address potential contagion risk by applying limits (as with Group 1 and 2 deposit takers), which we will clarify further during the exposure draft phase.

31 These calibrations will be subject to potential 'fine tuning' as part of the QIS.

We will place a limit on the maximum amount that cash inflows can be used to offset cash outflows in the CFCR. We will analyse and determine the appropriate size of this 'cap' on cash inflows as part of the QIS, which will follow the release of the exposure draft.[32]

We will consider how to account for the additional liquidity risk presented by term deposits where the principal and/or interest are due to be paid to another deposit taker. For example, this could involve applying a 100% run-off rate to outflows within the 30-day CFCR period (akin to "other contractual outflows"). We will clarify this in the exposure draft and assess the potential impacts on deposit takers as part of the QIS, including any implications for the calibration of other CFCR run-off rates.

2.5.3. Time horizon and measurement frequency for the CFCR

7-day vs 30-day CFCR

In the consultation, we proposed that Group 3 deposit takers measure the CFCR for both 7-day and 30-day periods (unless the Group 3 deposit taker only issues term deposits, in which case only measurement over a 30-day period is required).

Respondents largely agreed with measuring the CFCR for a 30-day period but not a 7-day period. They saw the 30-day metric as being sufficient for the intended purpose of the CFCR, while the 7-day metric would likely incur significant cost without commensurate benefit.

Continuous compliance

In the Consultation Paper, we proposed that the CFCR requirements are met by Group 3 deposit takers on an ongoing basis.

Of the respondents that commented, all disagreed with this proposal.

Some respondents stated that this proposal would result in significant compliance costs, including system changes which would not be feasible or necessary, particularly given that some deposit takers only process payments on weekdays. Some respondents suggested that requirements be met at the end of each day (7-days a week) or at the end of each business day, depending on their business model. One respondent suggested that the requirement to comply at all times should apply only to deposit takers that have on-call deposits, while each business day would be acceptable for those that only issue term deposits.

A few respondents noted that it is likely that the CFCR would be met at all times, but the ability to measure and provide evidence of this would require systems and resources that smaller deposit takers do not have. They suggested that current funding structures for some smaller deposit takers are designed to have sufficient liquid assets intra-day without needing to measure and comply with the CFCR at all times.

There were also some suggestions that some aspects of the CFCR calculation could be undertaken less frequently, perhaps on a weekly or monthly basis. This would ease compliance costs, particularly for deposit takers with manual systems.

32 The QIS will help ensure that our quantitative liquidity requirements have been calibrated appropriately.

Comment

7-day vs 30-day CFCR

We accept the concerns from respondents regarding the proposed 7-day CFCR, and the costs it would incur. We view that, rather than ensure deposit takers meet the CFCR minimum at the set periods of seven and 30 days, the intention of the requirement is to ensure that cashflow mismatches are appropriately managed throughout the projected 30-day period. Therefore, we will not proceed with implementing a 7-day CFCR. We see it as appropriate to take a similar approach for the CFCR as for the MMR which is outlined in section 2.3.10.

Continuous compliance

We acknowledge and accept the concerns respondents have raised regarding the requirement to comply with the CFCR on a continuous basis, particularly the complexities involved. As stated in section 2.3.13, for Group 1 and 2 deposit takers, it is not our intention to require real time, 7-days-per-week monitoring and verification of such compliance. We expect to apply the same approach for Group 3 deposit takers.

Response

We will not proceed with implementing a 7-day CFCR requirement but will proceed with implementing a 30-day CFCR requirement. We will use qualitative requirements to ensure that deposit takers appropriately manage cash flows throughout the 30-day period and will consult on precise wording of these requirements in the exposure draft.

2.5.4. Stable funding requirement

In the Consultation Paper, we proposed that Group 3 deposit takers would not be subject to a stable funding requirement, such as the CFR.

Respondents largely supported this proposal as smaller deposit takers tend to have higher levels of stable funding compared to larger deposit takers regardless of stable funding requirements.

However, one respondent disagreed, stating that Group 3 deposit takers should be subject to the same quantitative requirements as Group 1 and Group 2. They suggested that if Group 3 are not subject to the CFR, there should be processes to monitor the funding profile of Group 3 deposit takers to assess whether applying a stable requirement may become appropriate (in the interests of system stability).

Comment

Group 3 deposit takers tend to have higher levels of stable funding (such as small retail deposits) than large internationally active banks that often obtain a higher proportion of funding from non-retail sources (some of which is on a short-term basis). This suggests that Group 3 deposit takers would typically have very high CFRs if it applied to them, which reduces the need for a stable funding requirement for these deposit takers.

A stable funding requirement would create compliance costs for Group 3 deposit takers. On balance, the benefits of a stable funding requirement are not commensurate of the associated compliance costs. However, it is possible that changes in Group 3 deposit takers' funding composition suggest a need to reconsider such a requirement in future.

Response

We will proceed with not requiring Group 3 deposit takers to meet a quantitative stable funding requirement. However, we will monitor the funding composition of Group 3 deposit takers and could consider amending the approach and requiring a stable funding requirement in the future if there were significant and persistent decreases in stable funding.

2.6. Approach for branches of overseas deposit takers – our response to submissions

In the Consultation Paper, we proposed applying some qualitative requirements to branches to address risks faced by branches. We did not propose applying quantitative requirements to branches as we felt that the costs would outweigh the benefits.

2.6.1. Qualitative requirements

Of those that responded, there was broad agreement with our proposed approach of applying some qualitative requirements to branches but no quantitative requirements. They agreed with our assessment of the costs and benefits but noted that there should be sufficient flexibility in the qualitative requirements, as well as being consistent with, and proportionate to, locally incorporated banks.

Furthermore, some respondents suggested that branches should be able to use their group or entity level liquidity policies, processes and documentation (collectively their 'group liquidity framework') in complying with the New Zealand requirements. This would make it more efficient for branches in terms of complying with these requirements. However, respondents acknowledged that the New Zealand CEO (the NZ CEO) should review the group liquidity framework and ensure that it is sufficient to address liquidity risks in New Zealand.

One respondent suggested that a minimum high quality asset requirement (in proportion with the size of branches balance sheets) could be applied instead of qualitative requirements, to help ensure that there would be no competitive advantage in comparison with locally incorporated deposit takers.

Respondents also agreed that we should collect more information from branches on how they manage their liquidity risk but requested clarity around what information we plan to collect.

Comment

We acknowledge the feedback that the qualitative requirements for branches should be sufficiently flexible to allow branches to efficiently comply with their New Zealand liquidity requirements. The proposed qualitative requirements generally align with the BCBS framework, and we expect that branches will be able to leverage some of their group liquidity framework.

Specifically, branches do not necessarily need 'standalone' liquidity policies and processes, but the NZ CEO should ensure the group liquidity framework is reviewed in the context of New Zealand and amended for the branch as needed to comply with the Liquidity Standard. This could either be set out in a standalone New Zealand framework for the branch or through the group liquidity framework. However, in any case, we would expect due consideration of the liquidity risks applicable to their New Zealand branch.

The option to comply using the group liquidity framework would help avoid unnecessary compliance costs for the branch relative to requiring a standalone New Zealand liquidity framework. Moreover, there may be benefits from maintaining a degree of consistency with how liquidity risk is managed across the entire bank entity and/or group that the branch is a part of.

We also believe there is a need to collect more information from branches on how they manage liquidity risks. This may involve collecting data on the amount of NZD liquid assets they hold and information on depositors and deposit sizes. However, this will not be collected via the Liquidity Standard, and we will be considering data collection more generally for all deposit takers in due course.

Response

We will adopt the qualitative requirements for branches that we proposed in the Consultation Paper. We will also make clear, potentially in guidance, that we do not necessarily expect the branch to have frameworks and processes separate from its home regulator. We will consider where it may be appropriate for branches to leverage the parent's approach. The key point is that there is due consideration of liquidity risks specific to the New Zealand branch, and the NZ CEO should consider these liquidity risks when approving a liquidity management framework or contingent funding plan.

We will continue to consider what additional information to collect from branches on how they manage their liquidity risks and will communicate this with branches in due course.

Chapter 3

Deposit Takers Depositor Compensation Scheme Standard

Summary of Submissions and Policy Decisions

3.1. Non-technical summary of responses and decisions

This section outlines our responses to the consultation feedback received in relation to the proposed Depositor Compensation Scheme (**DCS**) Standard. The proposed DCS standard is comprised of two parts. The first relates to the customer facing disclosure requirements that will apply to protected deposits. The second relates to the Single Depositor View (**SDV**) files that deposit takers will be required to prepare.

This table summarises the key issues raised in the feedback with additional feedback discussed below.

Table 3.1: Depositor Compensation Scheme Standard - Key issues and responses

Deposit Taker Group	Key issue	Response
All deposit taker groups	Compliance costs of disclosure	We will reduce disclosure to main product webpages and new account documentation to reduce compliance costs.
	How the $100,000 threshold applies	The supporting documentation we develop will be clear that the $100,000 threshold applies per depositor rather than per product.
	SDV – testing frequency	We will reduce this from six monthly to 12 monthly. However, we may revisit this once the standard is in place.

With regards to the disclosure requirements, we received mixed feedback on our proposed approach. We have considered the submissions in favour and opposed, and recommend maintaining our broad approach, but refining the detailed requirements to limit the compliance costs imposed on deposit takers.

With regards to the SDV proposals, we have received a wide range of detailed feedback which we have considered to help develop our proposals.

3.2. Introduction

The DCS will pay eligible depositors entitled to compensation up to $100,000 for their protected deposits with each deposit taker in the event of its failure.

We proposed that the DCS Standard included two sets of requirements - those relating to the disclosure of DCS information, and those relating to the development of the SDV file.

The disclosure proposals were intended to:

- build and maintain public awareness of the DCS
- provide the public with clear information on coverage under the DCS
- provide depositors with accurate information to help them to make decisions
- reduce the risk of depositors relying upon vague or misleading information about the DCS.

These objectives seek to promote financial stability by ensuring that depositors are able to structure their affairs to protect themselves from the risk of deposit taker failure, and to reduce the risk of a run on deposits in the event of deposit taker failure.

Disclosure requirements also tie directly to the principle in section 4 of the DTA relating to depositors having access to timely, accurate and understandable information to help them make decisions.

SDV files contain data that will enable us to determine the compensation entitlements for eligible depositors and to pay those compensation entitlements. The purpose of the SDV portion of the DCS Standard is to ensure that these files can be generated by deposit takers' own systems. The aggregated protected deposit amount calculated through the SDV will also be used to help calculate the DCS levies payable by deposit takers.

We proposed that the requirements under the DCS Standard applied in the same way to all deposit takers, given the DCS will apply to all deposit takers.

3.3. Approach for Group 1 deposit takers – our response to submissions

Group 1 deposit takers tended to provide the most extensive feedback on our proposals. Feedback from Group 1 deposit takers was mixed on the overall disclosure approach, and largely supportive on the SDV proposals (while including detailed feedback to help refine the proposals).

We appreciate the effort put into these submissions.

3.3.1. DCS disclosure

Disclosure requirements are intended to ensure that depositors can access timely, accurate and understandable information to help them make informed decisions about how they manage their deposits. This supports financial stability and public confidence by ensuring depositors can mitigate their exposure to financial loss in the unlikely event of deposit taker failure.

Our proposal sought to build awareness of the DCS in a consistent manner without overemphasising DCS coverage or creating significant compliance costs for deposit takers.

In the Consultation Paper, we proposed taking a "product disclosure" approach where deposit takers would be required to use DCS brand elements in connection with protected deposits in advertising or collateral material related to those products (with the exception of credit products). This approach was intended to ensure that the scope of DCS coverage was clearly communicated and consistent across all advertising material. We noted the option of a "general disclosure" approach, where deposit takers would be permitted to use the DCS branding in a more general manner.

We also proposed requiring deposit takers to supply supporting information addressing other aspects of the DCS (such as eligibility of depositors and how the aggregate limit functions).

Disclosure approach

Group 1 deposit takers were evenly split between preferring the product disclosure approach or the general approach, as outlined in the Consultation Paper. Those in favour agreed with the product disclosure approach noting the need for clarity about which products were protected (particularly given the risk that depositors assume KiwiSaver and other investment products are protected by the DCS).

Most Group 1 deposit takers noted that, as proposed, the product disclosure approach would impose significant compliance costs, particularly due to the breadth of collateral and advertising material to which it could apply.

Respondents opposed to the product disclosure approach noted that a product disclosure approach risked implying that the DCS would protect each account for up to $100,000 separately, rather than in aggregate, particularly if the logo referred to the coverage limit.

We also provided additional information in the Consultation Paper about possible detailed requirements within this approach (such as the treatment of credit products and sales conversations). Deposit takers were supportive of our proposed approach on these matters.

Comment

We intend to retain the product disclosure approach, with refinements to reduce the compliance costs associated with the proposal.

We note that the product disclosure approach was preferred because it more clearly allows depositors to identify which products are protected and to make informed choices. Supportive respondents noted that depositors generally assumed most products were protected, including investment products such as KiwiSaver. We consider that assumptions about protection create risks of depositor panic and so the product disclosure approach remains the best approach to manage this risk. We remain concerned that a general disclosure approach risks depositors assuming a wider degree of DCS protection than is available.

We note the feedback about being clear about how the compensation limit applies. We will mitigate this risk by ensuring that the supporting information we develop is very clear about how aggregate protection applies. We will also exclude specific dollar values from the logo design.

We acknowledge that the breadth of the initial proposal created substantial compliance costs. In response to this, we propose to make the disclosure requirements clear and narrow to minimise the compliance burden.

Response

We intend that DCS disclosure requirements will only mandate:

- using the prescribed DCS branding elements on the main product webpage for each protected deposit (excluding credit products)
- providing a copy of the supporting information to depositors as part of the process of opening an account.

Other than these two requirements, we propose that the use of the DCS branding elements in other advertising and communications by deposit takers would be optional, providing there is a clear link to a protected deposit.

3.3.2. SDV

SDV files will be data generated by a deposit taker that will enable us to determine the compensation entitlements for eligible depositors and to pay that compensation. Aggregate reporting primarily supports the DCS by ensuring that the DCS levy can be accurately calculated based on the protected deposits held by a deposit taker.

In the Consultation Paper, we outlined our proposals for the SDV file and associated requirements. At a high level these were that:

- deposit takers have the capability to generate an SDV file including the required variables and in the JavaScript Object Notation (JSON) format
- deposit taker testing of SDV files occurs every six months
- we would test a small number of these SDV files every six months
- testing would require:
    - generating an SDV file
    - reconciling the file with the deposit takers balance sheet and
    - undertaking a statistically significant check of individual records
- aggregate reporting based on the SDV data would be required quarterly.

Group 1 deposit takers provided extensive feedback on all aspects of the SDV proposals. Generally, deposit takers were supportive of the overall approach and feedback suggested improvements to the detailed requirements.

Testing frequency

The most significant feedback related to the testing requirements, where deposit takers suggested that testing should be annual, rather than six monthly. Respondents noted that this frequency aligns with the testing frequency for other Reserve Bank policies.

Testing requirements

Deposit takers also requested more information about what the statistically significant check of records would require, and whether this check would require verifying the accuracy of the information or just that it matches the records held by the deposit taker.

Materiality threshold

Deposit takers also suggested that there should be a materiality threshold for the reconciliation with the deposit takers balance sheet.

Aggregate reporting

On the proposal for aggregate reporting, some respondents suggested that there should be some flexibility on how deposit takers produce the aggregate report (providing it is consistent with the SDV file).

Respondents also provided a wide range of very detailed feedback on all aspects of the proposals.

Comment

Testing frequency

We accept the feedback on the testing frequency but note that, once the DCS Standard comes into force, we may need to revisit testing frequency to ensure that the SDV file is accurate.

Testing requirements

The testing requirements are intended to only verify that the SDV file reflects the deposit takers records. The number of records required to complete a statistically significant check should reflect external audit requirements.

Materiality threshold

We acknowledge the submissions made regarding the need for a materiality threshold for reconciliation to the deposit takers balance sheet. The purpose of the reconciliation is to verify that the SDV file does not exclude any depositors' accounts and is otherwise accurate.

Aggregate reporting

We accept the feedback from the sector about the requirements to provide the aggregate report being outcomes-based to allow the sector flexibility in how the requirements are met.

Response

For the purpose of the DCS Standard, we will require testing every 12 months, rather than six monthly as initially proposed and we will outline the testing requirements within the DCS Standard.

We acknowledge the detailed feedback provided and will provide a revised SDV variable list with the exposure draft, which will incorporate this feedback.

3.4. Approach for Group 2 deposit takers – our response to submissions

3.4.1. DCS disclosure

Group 2 deposit takers were generally opposed to our proposed disclosure approach. Overall, their reasoning for preferring the general approach was similar to the arguments from Group 1 deposit takers.

Comment

As outlined for Group 1 deposit takers in section 3.3.1, we propose refinements to our preferred product-based approach to mitigate compliance costs but ensure that depositors are able to accurately identify protected deposits.

Response

For Group 2 deposit takers, we propose to use the same approach as for Group 1 deposit takers which is outlined in section 3.3.1.

3.4.2. SDV

Broadly, Group 2 deposit takers raised similar issues to Group 1 deposit takers, particularly around testing. Some Group 2 deposit takers also noted that compliance costs were likely to be more significant for them in relation to the SDV, as they tended to offer a wide range of products but lacked the scale of Group 1 deposit takers.

Comment

We acknowledge the work of deposit takers to provide feedback on our proposals.

We also acknowledge the point about the impact of compliance costs on these deposit takers but consider the SDV file requirements are necessary to the functioning of the DCS.

Response

Our approach for Group 2 deposit takers will be the same as for Group 1 deposit takers as detailed in section 3.3.2.

3.5. Approach for Group 3 deposit takers – our response to submissions

3.5.1. DCS disclosure

Overall, limited feedback was provided by Group 3 deposit takers on our DCS disclosure proposals. The feedback that was provided was supportive of our proposed approach overall.

We sought feedback on whether there were any products offered by Group 3 deposit takers that could require different treatment under the DCS disclosure requirements. Feedback from Group 3 deposit takers indicated that there were not.

Comment

We acknowledge the work of Group 3 deposit takers to prepare submissions on this proposal and have noted the feedback provided.

Response

Our final approach to DCS disclosure for Group 3 deposit takers will be the same as for Group 1 and Group 2 deposit takers, as set out in sections 3.3.1 and 3.4.1.

3.5.2. SDV

Group 3 deposit takers tended to be supportive of the overall SDV proposals and provided constructive feedback in relation to the details of the proposals.

A number of Group 3 respondents suggested that smaller deposit takers may find it easier to provide a SDV file in CSV rather than JSON format.

Comment

We acknowledge the work of deposit takers to provide detailed feedback. We will provide a revised SDV file variable list reflecting the feedback alongside the exposure draft of the DCS Standard.

Response

We acknowledge the suggestion that alternative formats could be preferred. At this stage we intend that JSON will be the primary format accepted, as allowing for multiple file formats would increase the overall complexity of the payout system design. The DCS Standard could provide the option for alternative formats to be approved in the future.

3.6. Minor and technical issues

Respondents raised a significant number of technical issues, particularly in relation to the SDV file, including specific variables (particularly address and contact details). We thank the sector for providing this feedback and will provide a revised SDV file variable list reflecting this feedback alongside the exposure draft of the DCS Standard.

Table 3.2 Minor and technical issues for the DCS Standard

Issue	Response
Authorities can be held against either accounts or at a customer level.	Noted. The situations where we need authorities are where someone other than the account owner should be contacted about the account.
Address formats do not match up with the SDV proposal and some have no standard format (e.g. retirement villages).	Noted. We will revise this for the SDV file.
Phone numbers and email addresses are not held for every customer.	Noted. The final SDV file will reflect this.
Definitions should align with other requirements as much as possible.	Noted
The SDV file does not perfectly align with tax requirements.	Noted. We will revise the SDV file to align.

Issue	Response
What should be included and excluded in the aggregate report?	Purpose of the aggregate report is to determine total protected deposit amounts so that the DCS levy can be calculated. On this basis, negative balances and ineligible depositors should be excluded from the total balance of protected deposits.
Deposit takers may use categories for depositors other than those suggested.	We suggest that deposit takers should use their own categories and separately include an explanation of the meanings of those categories.
Vulnerability does not have a standard definition across the industry.	Noted. The purpose of this is to identify where we should take care in dealing with the account owner.
Suspense accounts may not fit neatly into the SDV and may need to be provided separately.	Noted. We expect these will need manual processing by us in the event of a payout.

Chapter 4

Deposit Takers Disclosure Standard

Summary of Submissions and Policy Decisions

4.1. Non-technical summary of responses and decisions

This section outlines our responses to the consultation feedback received in relation to the Disclosure Standard. The Disclosure Standard covers what information deposit takers must make publicly available or provide to the Reserve Bank, and how and when they must do so.

This table summarises the key issues raised in the feedback with additional feedback discussed below.

Table 4.1: Disclosure Standard – Key issues and responses

Deposit Taker Group	Key issue	Response
Group 1 and 2 and Branches	**Disclosure Policy** (as a replacement for director attestations regarding the accuracy of disclosure statements): • Respondents requested more details to better judge compliance costs, which could be high if the requirement was highly prescriptive. • Respondents requested clarity on how this requirement interacts with due diligence duty under the DTA.	We will retain the Disclosure Policy requirement subject to elaborations, for example: • The Disclosure Policy is a principles-based requirement focused on internal controls and procedures for the publication of disclosure statements (which can be described at a high level). • One or more senior responsible persons must be assigned to ensure that disclosure statements are prepared in accordance with the Disclosure Policy.
	Remuneration (disclosures) of the Chief Executive Officer (CEO) and executive management team: Respondents noted privacy concerns for detailed remuneration disclosures and argued that current disclosures are sufficient to address financial stability risk stemming from remuneration practices.	We will retain a requirement for disclosure of CEO and executive management remuneration. This requirement will: • Generally align with international practice (i.e. BCBS) but with fewer detailed requirements. • Cover qualitative and quantitative elements. • Not require disclosures of individual remuneration, to help preserve privacy.
	Standardised template for disclosure statements: Respondents noted some concerns about the increase in costs and reduction in flexibility associated with this proposal.	We will require a standardised order for the presentation of information in disclosure statements, rather than a standardised template. This approach aims to improve the comparability of disclosure statements (a key principle of effective disclosures) and retain some flexibility to present information.

Deposit Taker Group	Key issue	Response
Group 3	**Option C ('Dashboard only') vs Option D ('Bank-lite'):** • Option C was supported by Group 3 citing lower compliance costs. • Group 3 noted concern that other regulators might require additional disclosures under Option C. • Most supporters of Option C preferred targeted mechanisms to ensure quality data is provided for the Dashboard rather that requiring a regular external audit. • Option D was supported by some respondents citing the need for consistent treatment to ensure comparability of disclosures across all deposit takers and ensure the Dashboard's data quality.	We will proceed with Option C. This means that Group 3 will not be required to prepare disclosure statements. We consider that Option C will provide adequate prudential disclosures for Group 3 entities that are clear, comprehensive, meaningful, consistent over time and comparable with other deposit takers. We consider that appropriate information quality under Option C can be achieved through a range of targeted mechanisms, rather than requiring a regular external audit of Dashboard information for all Group 3 entities. The range of targeted data assurance mechanisms includes the ability to require information supplied to the Reserve Bank be audited. We have been and will continue to progress dialogue with CoFR agencies on how best to coordinate disclosure requirements for Group 3 deposit takers in a manner that minimises unnecessary compliance costs but also meets the information needs of stakeholders.
All deposit taker groups	**Private reporting under the DTA:** • The Consultation Paper highlighted the possibility of using section 88 of the DTA to compel reporting to the Reserve Bank (alongside information-gathering notices under section 99 of the DTA) and noted the intention to consult stakeholders on this matter as part of the exposure draft process.	We consider that it is appropriate to use section 88 of the DTA to require reporting of certain types of information to us. We will consult on reporting requirements under the DTA as part of the exposure draft process and will engage with relevant stakeholders on the contents of the standard ahead of that.

4.2. Introduction

Disclosure requirements are our main regulatory tool to make private information about a deposit taker publicly available. Prudential disclosures contribute to financial stability by addressing information imbalances between deposit takers and their stakeholders (including depositors). When stakeholders are well informed, they can exert a degree of influence on deposit takers (that is, market discipline) and help incentivise prudent risk management and business practices.

We consider that our existing prudential disclosure regime for registered banks works well and, therefore, we proposed to largely adopt this regime for deposit takers (with some modifications) under the DTA.

The prudential disclosure regime for registered banks requires the following information:

- publication of full and half-year disclosure statements each year as required by the relevant Order in Council (**OIC**) issued under section 81 of the Banking (Prudential Supervision) Act 1989 (the **BPSA**)
- supply of information to us under section 93 of the BPSA, from which we publish key prudential metrics quarterly on our Dashboard.

For Group 1 and Group 2 deposit takers and branches we consulted on two options.

- **Option A – the carry over approach**, which would see the current bank disclosure regime translated into a Disclosure Standard under the DTA.
- **Option B – the carry over with minor revisions approach**, which is the same as Option A, except that it also takes the opportunity to make simple tidy-ups and improvements.

We indicated preference for Option B as it makes little change to the compliance costs imposed on Group 1 and Group 2 deposit takers and branches, while more effectively supporting financial stability than Option A.

For Group 3 deposit takers we consulted on Options C and D.

- **Option C – the 'Dashboard only' approach,** which only requires disclosure through the Dashboard and does not require the preparation of prudential disclosure statements.
- **Option D – the 'Bank-lite' approach**, which is the same as Option B for Group 1 and Group 2 deposit takers, except that it only requires one full-year prudential disclosure statement each year instead of both half- and full-year disclosure statements.

We gave our view that both Option C and Option D adequately support market discipline and promote financial stability. We also recognised that Option C presents certain data quality concerns, and sought feedback on how these challenges could be addressed.

4.3. Approach for Group 1 deposit takers – our response to submissions

This section summarises key areas of feedback on our proposal to largely carry over the existing prudential disclosure regime for registered banks, as well as our analysis and response to this feedback.

4.3.1. Option A vs Option B

For Group 1 deposit takers, we proposed two broad options. Under Option A, we would carry over the current registered bank disclosure regime as outlined in the OIC. Under our preferred Option B, we would take the opportunity to make some minor revisions. We sought feedback on whether our overall approach to disclosure meets the purposes of the DTA and the needs of depositors and market participants. We also sought feedback on the details of our proposals including minor and technical changes and other revisions.

Overall, respondents largely agreed that we had identified the most relevant options and supported our goals to improve accessibility and comparability of disclosures. Many respondents agreed that our existing approach to disclosure would continue meeting the needs of depositors. One respondent noted that our proposed disclosure would lack an overarching narrative which decreases its accessibility and usefulness to the average depositor. They suggested adding clarity by requiring disclosure of individual deposit takers' services, their purpose, and identification of specific risks.

Assessing the costs and benefits

Some respondents supported our analysis of the costs and benefits for Option B, including our expectation that the one-off costs would not be material. We also received some feedback that our assessment of the net benefits was incorrect as the proposed change was significant when viewed in aggregate. It would, therefore, entail significant one-off and ongoing implementation costs. This included, for example, the impacts of the new director due diligence requirements under the DTA, preparation of proposed additional information (including remuneration disclosures), standardisation of presenting disclosures, and periodic review of a board-approved Disclosure Policy. In aggregate, these could result in significant changes to disclosure statements and the underlying operations to produce them.

Minor and technical changes listed in the Table of Changes

As part of our preferred option (Option B) we presented two Tables of Changes in our consultation chapter showing some of these simple tidy-ups and improvements.[33] We received some feedback on these changes with most feedback being either minor or supportive. We have summarised the feedback received in Table 4.4 in section 4.7 (which discusses minor and technical issues). The table covers those changes which are not addressed in their own sections below.

Comment

Assessing the costs and benefits

We view our proposal to largely carry over the disclosure regime for registered banks as one way in which we have avoided unnecessary compliance costs. We acknowledge that some of our proposals will have one-off costs, but note that shifting from the current legislative regime to the DTA will require a degree of changes and associated costs regardless of whether we proceed with Option A or B. For example, the DTA imposes director due diligence requirements, which will result in one-off and ongoing compliance costs.

33 See Appendices 3 and 4 in the Consultation Paper: consultations.rbnz.govt.nz/dta-and-dcs/deposit-takers-core-standards/user_uploads/deposit-takers-core-standards-consultation-paper-1.pdf

Response

We will progress our proposal to largely carry over the requirements from the current disclosure OICs while taking the opportunity to make minor revisions as outlined in our preferred option, Option B. This approach meets the purposes of the DTA, and the needs of depositors and market participants. We will also be vigilant in avoiding unnecessary compliance costs and recognising the aggregate impact of changes as we prepare an exposure draft for the Disclosure Standard.

4.3.2. Dashboard linking and historical financial statements in Disclosure Statements

We proposed that deposit takers' disclosure statements include a link to the Dashboard (via URL), and to replace the requirement to include historical financial statements with a requirement to advise readers of the availability of this information on the Dashboard (see change items 1 and 2 respectively in Appendix 3 of the Consultation Paper). Both changes aimed to link the Dashboard and disclosure statements more closely together as a single coherent disclosure regime that improves accessibility and comparability of prudential information.

Linking the Bank Financial Strength Dashboard URL in disclosure statements

Many respondents supported our intention to increase the visibility of the Dashboard and improve the connection between the different modes of disclosure. However, they opposed including the Dashboard URL in disclosure statements. Respondents advised us that doing so would likely result in inadvertently capturing Dashboard data within the scope of the external audit of disclosure statements. Additionally, it may result in disclosure statements not meeting some international stock exchanges' disclosure rules which forbid the inclusion of clickable links in disclosure documents, thus making them incompatible with those rules. Respondents raised concerns that including the URL would therefore increase compliance costs and would not meet our stated intent.

Respondents supported requiring deposit takers to link to the Dashboard on their website (as proposed) but, instead of linking directly to it in disclosure statements, suggested requiring that statements include text describing the Dashboard, its purpose and its availability.

Noting historical financial statements are available on the Dashboard

Respondents expressed similar concerns regarding unintended consequences of linking disclosure statements with the Dashboard's historical financial statements. They were concerned that such a link might mean historical Dashboard information would need to be updated and resubmitted due to accounting policy changes or other material changes to satisfy auditing of disclosure statements.

Respondents were supportive of removing the requirement to disclose historical financial statements in disclosure statements.

Comment

Linking the Bank Financial Strength Dashboard URL in disclosure statements

It is not our intention to require external auditing of Dashboard data by including the Dashboard URL in a disclosure statement. We agree with the feedback. To avoid this unintended consequence, we will only require linking to the Dashboard on deposit takers' websites (via the webpage which has the links to their disclosure statements) and to otherwise include text in disclosure statements advising of the Dashboard's availability.

Noting historical financial statements are available on the Dashboard

As discussed above regarding the Dashboard URL, it is not our intention to require external auditing of the historical financial statements on the Dashboard. We want readers to be aware that historical financial information is available, but we will aim to make sure that this does not trigger the need to include that information in the audit requirements applying to the disclosure statements. We will proceed with requiring text describing the availability of historical financial statements on the Dashboard in deposit takers' disclosure statements only if we are satisfied it would not inadvertently trigger an audit of Dashboard data.

Response

Given the synergies between our adjusted proposal on linking the Dashboard URL and our original proposal to note the availability of historical financial statements on the Dashboard, we will effectively merge these requirements. That is, we will prepare an exposure draft to require deposit takers to:

- link to the Dashboard on their website
- include text in their disclosure statements describing the Dashboard and its functions including the availability of historical financial statements.

4.3.3. Standardised template for disclosure statements

We proposed to prescribe a standardised template for presenting information in disclosure statements to increase the accessibility and comparability of prudential information. This would improve depositor access to understandable information.

Respondents were largely supportive of our intention to improve accessibility and comparability of disclosure statements through standardisation. However, they noted concerns about the potential loss of flexibility and the (potentially unnecessary) associated compliance costs of this proposal.

Flexibility was emphasised in the context of accounting for individual deposit takers' circumstances (for example, various NZ IFRS accounting standards) and to maintain disclosure statements' compatibility with other non-prudential disclosure purposes (such as for offshore debt funding programmes).

Respondents had a range of suggestions on how best to balance improving accessibility and comparability through standardisation versus maintaining flexibility and lowering compliance costs which are set out in Table 4.2 below.

Table 4.2: Respondents' suggestions – standardisation vs flexibility

Options	
1	Maintaining the exact wording and ordering of requirements as currently in the OICs wherever possible to preserve flexibility.

Options	
2	Stating where the format of tables must be followed strictly and how to address nil amounts in tables.
3	Standardising naming conventions for 'Note Disclosures'.
4	Requiring the addition of an 'index' to assist users to find information.
5	Standardising the order of presenting disclosed information (whether to match the order in the Disclosure Standard or another prescribed order).
6	Requiring that the Disclosure Standard's prudential disclosures and the NZ IFRS financial statements are presented separately.

Comment

We recognise the desirability to preserve some flexibility in how disclosure documents are presented. Consultation feedback suggests that most Group 1 and 2 deposit takers would be content with options 1 to 4 above. We note that if we standardise the order of presenting prudential disclosures (option 5) we would also need to separate them from accompanying financial statements (option 6). This split gives us two levels of potential change to implement a standardised presentation of disclosure statements.

We consider the changes in options 5 and 6 are the best approach to achieve our policy objectives. These options will, on balance, enhance market discipline and therefore promote financial stability better than options 1-3. We do not think limiting our changes to options 1-3 would improve the accessibility of disclosure statements to nearly the same degree. We think the associated compliance costs of diverging from the existing OICs are justified to achieve that purpose.

The suggestion of requiring an index (option 4) is an already existing requirement in the current OICs for full-year disclosure statements which we will carry over into the Disclosure Standard.[34] However, we interpret this suggestion to mean we should make the existing index requirement more standardised and to consider requiring it for half-year disclosure statements too. This could be useful, and we will consider it as part of our exposure draft process to determine whether standardising the requirement best fits in the Disclosure Standard or guidance and whether to also apply it to half-year disclosure statements.

One respondent sought clarity on whether they could disclose information in addition to what we may prescribe in the Disclosure Standard (for example, continuing to include historical financial statements). The current OIC provides a degree of flexibility (for example, clause 14(b) of Part 1 of the OIC allows directors to disclose any other information that they consider appropriate, except where providing additional information is expressly prohibited). Our intent is to maintain a comparable degree of flexibility.

34 See Schedule 2 paragraph 19 of the locally-incorporated registered bank disclosure OIC and Schedule 2 paragraph 22 of the overseas incorporated disclosure OIC for branches.

Response

We will require a standardised order for the presentation of information in disclosure statements (option 5) and to separate financial statements from prudential disclosures (option 6), rather than a standardised template. This approach aims to improve the comparability of disclosure statements (a key principle of effective disclosures) and retain some flexibility to present information.

We will consider further the idea of standardising the index requirement for full-year disclosure statements to assist readers to navigate them and whether to apply the requirement to half-year disclosure statements (option 4). We will consult on our specific proposals as part of the exposure draft or associated guidance (where appropriate).

4.3.4. Disclosure of CEO and executive management remuneration

In the Consultation Paper, we proposed requiring deposit takers to disclose remuneration (including long-term incentives) of the CEO and senior executives to address risk taking through compensation practices as recommended by the 2017 International Monetary Fund's Financial Sector Assessment Program. We elaborated on our proposal as part of our core standards Consultation Workshops with industry. We explained our objective was to ensure disclosure of remuneration practices that are consistent and comparable across all deposit takers, as well as aligned to established international and domestic practice.[35]

Many respondents noted that there was not enough detail provided in the Consultation Paper to provide meaningful feedback although others provided feedback based on our elaborations from the Workshops.

Most of the Group 1 and 2 deposit takers considered that the current disclosures were sufficient and questioned what further benefits would be gained through more granular disclosures. Some respondents commented that granular disclosure could reveal salaries of individuals (whether directly or indirectly), which could harm recruitment and retention efforts of deposit takers. One respondent supported, in principle, closer alignment with international standards citing the BCBS' DIS35 remuneration disclosure templates as an example.[36]

Comment

We consider that remuneration practices are a vector for excessive risk taking by deposit takers. The related proposals in the Governance Standard help address this by establishing requirements around remuneration practices. We consider that certain remuneration disclosures are desirable to further address the potential for excessive risk-taking by providing consistent and comparable information that allows market participants to better judge and exert influence over remuneration practices (in other words, market discipline).

We acknowledge the need for further detail on our remuneration disclosure proposal and elaborate on it below. At present, we do not require deposit takers to disclose their remuneration policies or the amount of remuneration for senior executives (whether individually or in aggregate). Nonetheless, some banks disclose aspects of their senior executives' remuneration and associated policies as required by:

35 This includes the BCBS, the Australian Prudential Regulation Authority (APRA) and the New Zealand Stock Exchange's (NZX) corporate governance disclosure recommendations for publicly listed companies

36 DIS35 remuneration disclosure templates can be found here DIS35 - Remuneration. Note these are based on the BCBS Pillar 3 disclosure requirements for remuneration.

- the Companies Act 1993 for New Zealand registered companies[37]
- the NZX for publicly listed companies as part of their annual report[38]
- Australia's Corporations Act 2001 for publicly listed companies in Australia (which includes the ultimate parents of our Group 1 deposit takers) as part of their annual 'Director's Report'[39]. These requirements include the disclosure of individual remuneration for key executives, which captures the Chief Executives of the New Zealand banking subsidiaries
- APRA requirements for Australian authorised deposit-taking institutions (ADI) (that is, the Australian parent group for our Group 1 deposit takers) as part of remuneration disclosure reporting.[40] APRA has largely followed the BCBS approach.

International standards

The BCBS Pillar 3 disclosure framework for remuneration includes a range of qualitative and quantitative elements such as:[41]

- the make-up of the remuneration committee or advisors
- the scope, design and structure of the remuneration policy
- how the remuneration policy fits with the deposit takers' risk management
- how it links to long- and short-term performance
- the amounts of different types of remuneration and how they fit into the overall remuneration structure.

There is significant overlap between the BCBS-recommended disclosures and the NZX disclosure template for publicly listed companies, as well as those required by APRA for the Group 1 deposit takers' Australian parent groups.[42]

Accounting for the feedback received in the consultation and other relevant factors, we have considered options ranging from maintaining the status quo, requiring only qualitative disclosures (aligned with the proposed Governance Standard or BCBS Pillar 3) or requiring both qualitative and quantitative disclosures.

Response

We will introduce remuneration disclosure requirements for deposit takers to provide consistent and comparable information that supports market disciple around deposit takers' remuneration practices and thereby promote financial stability.

We will use the BCBS Pillar 3 remuneration disclosure recommendations as a baseline, which we will adjust and simplify for the New Zealand context. This includes a requirement for qualitative

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37 Under section 211 (1)(g) of the Companies Act 1993 a company's annual report must state the number of employees remunerated $100,000 or more per annum broken down by bands of $10,000. This does not apply if shareholders who together hold at least 95% of the voting shares agree that the report need not do this (section 211 (3)). legislation.govt.nz/act/public/1993/0105/latest/DLM321118.html

38 NZX remuneration disclosure rules relate to remuneration for non-executive directors and, on a comply-or-explain basis, the CEO. NZX recommends companies follow its remuneration disclosure template for annual reporting which incorporates disclosure of the CEO's remuneration on a comply-or-explain basis and the company's remuneration policy, and the remuneration disclosure table as required under section 211(1)(g) of the Companies Act 1993. nzx.com/regulation/nzx-rules-guidance/tools-resources/nzx-remuneration-reporting-template

39 Australia's Corporations Act 2001 (s298) requires publicly listed companies to publish a Director's Report which must include qualitative and quantitative remuneration disclosures including individual remuneration of "key management personnel" broken down into various components. legislation.gov.au/C2004A00818/2024-10-14/2024-10-14/text/original/epub/OEBPS/document_2/document_2.html#_Toc179465689

40 APRA rules more closely follow those recommended by the BCBS, require detailed disclosure of the remuneration strategy, how it relates to the deposit takers' risks, and specific quantitative information about the remuneration of the board, senior management and other significant decision makers.

41 BCBS 2011 "Pillar 3 disclosure requirements for remuneration"

42 As an example of the APRA requirements, ANZ group's remuneration disclosure documents can be viewed here: ANZ Remuneration Disclosure

disclosure of remuneration policies that aligns with the proposed Governance Standard requirements around remuneration, and a subset of the BCBS Pillar 3 aggregate quantitative remuneration disclosure requirements.

Moving towards the BCBS recommended approach is desirable as the disclosures would provide more detail and a broader scope compared with what Group 1 and some Group 2 deposit takers currently disclose. Requiring remuneration disclosure will also provide for greater consistency in the information available for Group 1 and Group 2 deposit takers compared with the current requirements and therefore improved comparability.

In recognition of concerns about privacy of individual's remuneration, we will not require any individual level remuneration disclosures. Instead, we will incorporate aggregated quantitative remuneration disclosures. We see this providing an appropriate means for market participants to scrutinise the connection between a deposit taker's risk management and its remuneration of the CEO and executive management. We note that market participants can find more granular individual level remuneration information (to some extent) through other means as discussed previously in this section.

We intend to use the definition of 'senior manager' in section 6 of the DTA as the cohort of executive management we intend to capture within aggregate quantitative remuneration disclosures.[43] This is administratively efficient and aligns with proposals in other standards.

We intend to include high-level qualitative and quantitative remuneration disclosure requirements such as those listed in Table 4.3 below and consult on the specific requirements as part of the exposure draft process. These will be aligned with any final Governance Standard requirements regarding a deposit taker's remuneration strategy, and the structure and composition of its board.[44] We will also align these with any relevant remuneration-related requirements from other standards, for example, the Risk Management Standard.

43 For Group 1 and 2 deposit takers, senior manager captures the CEO, CFO, and a manager who reports directly to the CEO. See section 6 of the DTA, legislation.govt.nz/act/public/2023/0035/latest/LMS469462.html

44 *See* the Governance Standard chapter in the DTA Non-Core Standards Consultation Paper: Outcome 5, Table B, page 35 regarding a board's remuneration responsibilities, and paragraph 162 regarding requiring boards to have a remuneration committee.

Table 4.3: Proposed high-level remuneration disclosures

Qualitative disclosures high-level requirements
a. Information relating to the bodies that oversee remuneration.
b. Information relating to the design and structure of remuneration processes.
c. Description of the ways in which current and future risks are considered in the remuneration processes.
d. Description of the ways in which the deposit taker seeks to link performance during a performance measurement period with levels of remuneration for its senior managers.
e. Description of the ways in which the deposit taker seeks to adjust remuneration to take account of longer-term performance for its senior managers.
f. Description of the different forms of variable remuneration that the deposit taker utilises and the rationale for using these different forms.
g. Number of meetings held by the main body overseeing remuneration during the financial year and remuneration paid to its members.
h. Number of senior managers having received a variable remuneration award during the financial year.
i. Breakdown of the aggregate amount of remuneration awards to senior managers for the financial year to show: • fixed and variable • deferred and non-deferred • different forms used (cash, shares and share-linked instruments, other forms).

Summary

We will require disclosure statements to include selected qualitative and aggregate quantitative remuneration disclosures. Qualitative disclosures will align with the proposed Governance Standard and will largely follow BCBS Pillar 3. The aggregated high-level quantitative remuneration disclosures will not identify individuals and will capture a deposit taker's CEO and other senior managers (as defined in the DTA). Precise wording of such requirements will be consulted on as part of the exposure draft and will align with other relevant standards.

4.3.5. Credit risk, liquidity and other indicators

We proposed to prescribe disclosure of additional credit risk, liquidity and other indicators to both disclosure statements and the Dashboard. These changes intend to provide market participants with information to enhance market discipline, and to account for updated macroprudential policies.

The majority of respondents supported the additional metrics except for the inclusion of D-SIB scores. One respondent questioned the value of additional credit risk and liquidity indicators, noting that more detail was required on our proposed liquidity metrics as the costs of compiling different metrics can vary significantly. Another respondent suggested that there is no benefit in presenting new indicators in both disclosure statements and the Dashboard.

Comment

We agree with the feedback regarding the inclusion of D-SIB scores. Since proposing this, we are now considering whether the Proportionality Framework's Group 1 categorisation would replace D-SIB scores. We also note that disclosure of conditions of license would include which group a deposit taker is in, which would achieve the same intended outcome as disclosing its D-SIB score.

Regarding the costs of producing these additional metrics, we intend to limit any additional metrics to those that are already reported to us through private reporting. Therefore, the costs of producing these for disclosure purposes should only be the marginal impacts on the costs of auditing the disclosure statement and of carrying out additional review of Dashboard data in partnership with us.

The inclusion of metrics in both disclosure statements and the Dashboard allows both for comprehensive scrutiny of an individual bank, and for regular and simple comparison of banks. We consider that the additional metrics are likely to be key metrics that users of this information would want to see.

Response

We propose to proceed with requiring the additional credit risk, liquidity and other indicators set out in the Consultation Paper for both disclosure statements and the Dashboard. However, we will not require disclosure of D-SIB scores given that deposit takers will in any case need to disclose which group they are in as part of their conditions of licensing. When determining which specific data points to include for each indicator, we will limit them to items already collected through private reporting and will consider the merits of adding them to the Dashboard on a case-by-case basis.

4.3.6. Board-approved Disclosure Policy and 3-yearly review

We proposed requiring deposit takers to have a board-approved 'Disclosure Policy' covering internal controls and procedures for preparing information for disclosure, which would serve as a replacement for the existing director attestation requirements about the accuracy of disclosures. The Disclosure Policy would need to be internally reviewed on a 3-yearly cycle and whenever there is material change in circumstances that may affect the appropriateness of the Policy. A report on the conclusion of any such review would need to go to the board.

Most respondents suggested that a Disclosure Policy requirement could result in an increase in compliance cost compared to the status quo, especially if there were prescriptive requirements about the content of the Disclosure Policy. Clarification was sought on two main points to better judge potential compliance costs:

- the content of the Disclosure Policy
- how the Disclosure Policy will interface with the director due diligence obligation under section 93 of the DTA.

There was universal support for the proposal to not require directors to attest to the accuracy of disclosure statements.

Comment

We consider that the requirement for a Disclosure Policy should include some further detail on the expected content. In our response below, we aim to clarify the expected relationship between the Disclosure Policy and director due diligence obligations. We expect that this further information will provide clarity that we do not expect ongoing compliance costs to increase from the status quo for registered banks.

Response

We will retain the requirement for a board-approved Disclosure Policy, with some elaborations and clarifications to address stakeholder feedback. We will also establish the requirement for one or more senior responsible persons to be assigned to help ensure that disclosures are consistent with the Disclosure Policy.

Elaborations and clarifications on content of the Disclosure Policy

The Disclosure Policy requirement is intended to be largely principles-based to provide flexibility in implementation as well as addressing the following aspects.

- It should apply to the preparation of disclosure statements and not the provision of reporting to us (that is, excluding 'private reporting').
- It should focus on internal controls and procedures for the publication of disclosure statements. Internal controls and procedures should cover, without limitation, the process to review, verify and sign out disclosure statements. These process steps can be described at a high level and refer to other internal materials and procedures (for example, we do not expect the Disclosure Policy itself to explain in detail how to produce the underlying disclosure information). Sufficient detail must be contained in the Disclosure Policy so that the board is able to fulfil its due diligence obligations regarding the publication of disclosure statements (that is, that they are complete and are not false or misleading).
- It should set out the approach for exercising discretion to include additional information in disclosure statements – similar to paragraph 14(b) of the disclosure OIC. This requirement mirrors an APRA requirement and helps clarify the exercise of discretion when preparing disclosure statements.

Respective roles of the board and senior management

We will require the Disclosure Policy to assign one or more senior responsible persons for ensuring preparation and publication of disclosure statements are in line with the Disclosure Policy. There are two reasons for this.

Firstly, this requirement aligns with the BCBS recommendations[45] and APRA attestation requirements[46] for disclosure documents but is calibrated to the New Zealand and DTA context (that is, we do not consider that published attestations from senior responsible persons are needed given we have external assurance of disclosure statements).

Secondly, this requirement helps clarify the respective roles of the board and senior management in the preparation and publication of disclosure statements and how directors can meet their due

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45 *See* paragraph 10.11 of the BCBS Disclosure requirements – Definitions and applications. https://www.bis.org/basel_framework/chapter/DIS/10.htm

46 *See* paragraph 30 of APS330. apra.gov.au/sites/default/files/2022-12/Final%20Prudential%20Standard%20APS%20330%20Public%20Disclosure%20%28January%202025%29%20%E2%80%93%20Clean.pdf

diligence obligations. This, in turn, helps ensure adequate oversight of the disclosure process while avoiding the need for the board to be disproportionately engaged (relative to other prudential obligations).

Relation to director due diligence obligations

The requirement for boards to approve a Disclosure Policy (which is focused on the preparation and publication of disclosure statements) could be part of the approach the board of a deposit taker uses to exercise its due diligence obligations regarding compliance with the Disclosure Standard. We suspect that, if we did not require a Disclosure Policy, deposit takers would eventually develop such a policy or similar mechanisms to demonstrate directors' compliance with the DTA in any event.

We recognise that there will be some overlap with the forthcoming director due diligence guidance and that board ownership of internal policy documents is an issue that cuts across other proposed DTA standards. We intend to ensure consistency and not create duplicative requirements for boards regarding disclosure and due diligence obligations. Further, we intend to aim for consistency across requirements for board ownership of internal policy documents required under the Disclosure Standard and other proposed standards. Further guidance on director due diligence is under development and will be made available in due course.

4.4. Approach for Group 2 deposit takers – our response to submissions

4.4.1. Proportionality: treating Group 2 deposit takers the same as Group 1

We proposed to apply the same requirements to Group 2 deposit takers as we proposed for Group 1, that is Option B – the carry-over with minor revisions approach (including changes in the table at Appendix 3 of the Consultation Paper). All respondents that commented on this point supported applying the same requirements to Group 1 and 2 deposit takers as it treats them consistently and is the best approach for effective market discipline.

We did not receive any other feedback related to the question of proportionality for Group 2 deposit takers. As such, we will progress the Disclosure Standard based on applying the same requirements to Group 2 deposit takers as we will for Group 1 under Option B.

4.5. Approach for Group 3 deposit takers – our response to submissions

4.5.1. Option C 'Dashboard only' vs Option D 'Bank-lite'

We consulted stakeholders on two disclosure options for Group 3 entities. Both options are considered more proportional (they deliver adequate outcomes for smaller entities while entailing lower compliance costs) compared to the proposed approach for Group 1 and 2 deposit takers. The Group 3 options are:

- **Option C – the 'Dashboard only' approach,** which only requires disclosure through the quarterly Dashboard publication and no requirement for any prudential disclosure statement document.
- **Option D – the 'Bank-lite' approach,** which requires one full-year prudential disclosure statement each year (instead of both half- and full-year disclosure statements) and inclusion in the quarterly Dashboard publication.

We did not signal our preference for Option C or D in the Consultation Paper, but sought stakeholder feedback on how data quality (especially for prudential metrics) could be effectively managed under Option C. We explained that, regardless of the option selected, Group 3 deposit takers would still be required to prepare and file audited annual financial statements (under Part 7 of the Financial Markets Conduct Act 2013), which would serve as a quality anchor for this type of information on the Dashboard. The potential data quality gap therefore arises only with purely prudential information, such as reporting on regulatory capital and liquidity.

Proportionality

Group 1 and 2 respondents favoured Option D, citing the importance of consistency in the approach to disclosures for all deposit takers to ensuring comparability.

Group 3 respondents favoured Option C noting that it was the lowest cost approach and suggested a range of mechanisms to ensure the quality of Dashboard data. These respondents considered that the Dashboard is more accessible than disclosure statements and, therefore, would be more useful to their customers. They also argued that there are unlikely to be many users of disclosure statements for Group 3 deposit takers.

Data quality assurance

Most Group 3 respondents did not support a requirement for a regular audit of Dashboard reporting noting that other, more targeted, mechanisms were available and preferrable from a cost perspective. These more targeted mechanisms could include enhanced engagements with the Reserve Bank, such as thematic reviews of reporting through to formal investigation and bespoke audit requirements. Group 3 respondents also argued that publication on the Dashboard will create an additional incentive to provide high quality reporting due to public scrutiny.

On the other hand, one Group 1 respondent proposed the requirement for an external audit to assure the quality of reporting for the Dashboard if Option C was selected.

CoFR coordination for a single comprehensive disclosure regime

For Option C, most Group 3 respondents noted concern that the Financial Markets Authority (FMA) might apply additional disclosure requirements and suggested that a single comprehensive disclosure regime would be preferrable.

Comment

The consultation feedback largely confirms our initial judgement of the costs and benefits of our two options for Group 3 deposit takers, including our view that both options meet our baseline prudential requirements in terms of strength and comprehensiveness.

Proportionality

We agree that consistent and comparable disclosures are important but consider that this can adequately be achieved via the 'Dashboard only' option, which will present the same information (where relevant) for all deposit takers in an accessible format that is designed to enable peer-to-peer comparisons.

We agree with respondents' views that Group 3 deposit takers' disclosure statements are not likely to be widely used, based on the profile of their customers and investors. Interest in prudential disclosures could increase during times of stress. However, we consider that the Dashboard is likely to be a better source of timely key risk information compared to annual disclosure statements which are published three months after the balance date. This suggests the benefits for requiring an annual disclosure statement under the 'Bank-lite' option are unlikely to outweigh the costs.

We note there is international precedent for taking a proportionate approach to prudential disclosures for small deposit takers. For example, APRA has recently applied a similar 'Dashboard only' approach to non-significant ADIs. The main rationale for doing this was that, for smaller entities, the benefits of preparing disclosure documents were judged to not exceed the costs.[47]

Data quality assurance

The consultation feedback indicates that any requirements for regular and systematic external audit assurance of Dashboard data – to ensure high quality data is published – would likely mean that there is no material cost advantage of the 'Dashboard only' option over the 'Bank-lite' option.

We agree with respondents that other, more targeted measures, would be more appropriate and that publication itself will provide strong incentives to provide quality data. This view is based on our experience with the impact of the Dashboard on the quality of private reporting by registered banks. Prudential disclosures need to be high quality to be effective. We consider that the other tools we have available (as described earlier) are sufficient to ensure this outcome.

CoFR coordination for a single comprehensive disclosure regime

We have been, and will continue to, progress dialogue with CoFR agencies (including the FMA) on how best to coordinate disclosure requirements for Group 3 deposit takers in a manner that minimises unnecessary compliance costs but also meets the information needs of stakeholders.

Response

Our analysis of the consultation feedback, and consideration of the international context, indicates that the added benefits of the stronger and more comprehensive 'Bank-lite' option do not outweigh its increased costs compared to the 'Dashboard only' option.

We will, therefore, proceed with the 'Dashboard only' option (Option C) for Group 3 deposit takers, without requiring a regular audit of data included in the Dashboard. This means that Group 3 deposit takers will not be required to prepare prudential disclosure statements.

47 Discussion paper - Enhancing ADI public disclosures

As mentioned, we recognise the importance of minimising unnecessary compliance costs and are progressing dialogue with CoFR agencies on the feasibility and merits of a single comprehensive prudential disclosure regime for Group 3 deposit takers.

4.6. Approach for branches of overseas deposit takers – our response to submissions

We proposed the same requirements for branches of overseas deposit takers as we proposed for Group 1, that is Option B (the 'carry over with minor revisions' approach).

The differences are that we would:

- only carry over the requirements from the applicable disclosure OIC for branches
- require full- and half-year disclosure statements but no Dashboard publication[48]
- ensure revisions were tailored to the unique circumstances of branches (including changes in the tables at Appendices 3 and 4 of the Consultation Paper (where applicable to branches)).

All respondents that commented on this supported the Option B approach and agreed it would meet the needs of depositors and market participants.

4.6.1. Disclosure of New Zealand CEO and executive management remuneration

As a part of Option B for branches, we proposed requiring disclosure of the NZ CEO and executive management's remuneration and associated policies (see change item B in the table at Appendix 4 of the Consultation Paper). This is effectively the same requirement we proposed for Group 1 and 2 deposit takers[49] but tailored for branches.

All respondents that commented on this matter opposed requiring branches to disclose their NZ CEO and executive management's remuneration and associated remuneration policies. Respondents had two main reasons for this:

- branch-level remuneration information would not be material or of value for market participants to exercise market discipline
- the risk that any branch-level remuneration disclosures are 'disconnected' from any remuneration disclosures required by the overseas deposit taker's home jurisdiction.

Respondents also sought clarification on who would be captured within our proposed 'executive management' cohort alongside the NZ CEO.

Comment

We consider that branch-level remuneration disclosures are material and of value to supporting the effectiveness of market discipline for the same reasons as for locally-incorporated deposit takers. A branch's depositors and other stakeholders (that is, market participants) will scrutinise a branch's management of remuneration and its connection with risk.

48 Note, we will continue to require those "dual registered" branches (or "dual operating" branches as defined in the proposed Branch Standard) to report data for the purposes of the Dashboard alongside their related New Zealand incorporated deposit taker as part of their overall "New Zealand banking group" metrics.

49 *See* change item 4 in the table at Appendix 3 of the Consultation Paper and discussed under the Group 1 section of this Response to Submissions.

Inconsistencies between any branch-level remuneration disclosure and the rest of its overseas deposit taker's remuneration disclosures could risk undermining market participants' ability to understand the branch-level disclosure. However, the risks of this occurring should be mitigated by aligning any requirements with internationally accepted disclosure requirements.

As discussed, for remuneration disclosures for Group 1 deposit takers, we expect to use the BCBS-recommended Pillar 3 remuneration disclosure requirements as a basis for our proposals. This should lower the risk of any disconnect and potential confusion between an overseas deposit taker's remuneration disclosure and its New Zealand branch-level remuneration disclosure.

In principle, our intention is to build an 'executive management' concept (working title) to capture those key senior personnel that, alongside the NZ CEO, ultimately ensure the branch's soundness. This could include employees that work exclusively on branch business, or divide their time between the branch and the overseas deposit taker, and may or may not be directly line managed by the NZ CEO.

We will use the definition of 'senior manager' under the DTA as it applies to persons that are not an overseas person.[50] This captures the broader cohort of senior managers that we will use for locally-incorporated deposit takers, and resolves any privacy concerns regarding individual remuneration that could arise if we used the narrower definition applied to overseas persons (that is, the NZ CEO and the branch's Chief Financial Officer). We note this approach has the added cost of not aligning with the proposed fitness and propriety requirements for a branch's senior managers under the Governance Standard but this should not result in unnecessary compliance costs.

Response

We will retain the requirement for disclosure of the NZ CEO and executive management remuneration and associated policies but will make clarifications to address stakeholder feedback as part of the exposure draft. We also intend to mitigate any risks of inconsistencies with other remuneration disclosure requirements. We intend to use the broader non-overseas person definition of 'senior manager' under the DTA to capture aggregate quantitative remuneration of a branch's 'executive management', which should maintain the privacy of individuals' remuneration.

4.6.2. Board-approved Disclosure Policy and 3-yearly review

We proposed that branches be required to have a board-approved 'Disclosure Policy' in the same manner and description as proposed for Group 1 and 2 deposit takers (see Group 1 section above for discussion).

All respondents that commented supported the proposal. However, respondents suggested the proposal should be adjusted in two main ways.

- The NZ CEO should approve the branch Disclosure Policy rather than the overseas deposit taker's board. This would align with the due diligence duties of the NZ CEO under section 94 of the DTA and other proposed standards (such as approval of the liquidity risk management policy under the Liquidity Standard and various requirements proposed in the Risk Management Standard).

50 *See* section 6 of the DTA for interpretation of "senior manager".

- Branches should be allowed to rely on their overseas deposit taker's overarching Disclosure Policy (where one exists) rather than reproduce one at the branch level.

Any feedback on the Disclosure Policy requirement that was not explicitly related to branches is covered earlier in the Group 1 section.

Comment

We agree that having the NZ CEO approve any branch Disclosure Policy is desirable. This change aligns with section 94 of the DTA, avoids unnecessary compliance costs, and aligns with the approach taken in other standards.

We also agree with the suggestion to allow branches to rely on their overseas deposit taker's Disclosure Policy as it is an opportunity to avoid unnecessary compliance costs. However, this is on the basis that one exists, and that the NZ CEO still approves it as sufficient for the branch to meet its Disclosure Standard requirements.

Response

We propose to retain the Disclosure Policy requirement for branches but will make changes based on feedback. This means that the Disclosure Policy will need to be approved by the NZ CEO, rather than the overseas deposit taker's board. We will also allow a branch to rely on its overseas deposit taker's Disclosure Policy where one exists, and where the NZ CEO approves it as relevant to the branch's disclosures.

4.7. Minor and technical issues

In Table 4.4 below, we address certain discrete technical topics that were included in the Consultation Paper or that have been raised by respondents. As noted in section 4.3.1, we presented two Tables of Changes in our consultation chapter showing simple tidy-ups and improvements to parts of the OICs.[51] We received some feedback on these changes with most feedback being either minor or supportive. The table covers those changes which are not addressed in their own sections above and indicates the respective change item reference we used in the Consultation Paper (see the first column of Table 4.4).

In our Tables of Changes for consultation, we erroneously titled sections as 'Proposed terminated requirements' which was at odds with how we presented the rationale for our proposed changes (see the final column 'Proposed change compared with the current requirement'). We have corrected these in Table 4.4 to show where we intended to replace or largely update requirements rather than outright terminate them. Our responses in Table 4.4 account for how respondents provided feedback based on our erroneous titles.

51 *See* Appendices 3 and 4 in the Consultation Paper: consultations.rbnz.govt.nz/dta-and-dcs/deposit-takers-core-standards/user_uploads/deposit-takers-core-standards-consultation-paper-1.pdf

Table 4.4: Minor and technical issues for the Disclosure Standard

Respective change item reference	Issue	Response
All deposit taker groups		
N/A	**Private reporting requirements** Respondents expressed an expectation that any changes to private reporting requirements (as currently done under section 93 of the BPSA) would be consulted on before the Disclosure Standard exposure draft.	We intend to develop a Reporting Standard under section 88 of the DTA to require reporting of periodic and non-bespoke information to the Bank. We consider that the purposes and context of the DTA indicate it is appropriate to use section 88 of the DTA to require this reporting. Information-gathering notices under section 99 of the DTA remain an important mechanism for other circumstances and other types of information. We will consult on reporting requirements under the DTA as part of the exposure draft process and will engage relevant stakeholders ahead of that. For Group 1 and 2 deposit takers, changes to current survey templates and related operations for registered banks will need to be updated to reflect any changes under the DTA standards. Our intention is to ensure they are in place for Group 1 and 2 deposit takers and for us to work with them to help with the transition. We recognise that the new private reporting requirements for Group 3 deposit takers will likely be a significant change compared to our current requirements and those of NBDT's trustee supervisors. We will work with NBDTs to ensure a smooth transition ahead of 2028.
N/A	**Secondary impacts of the core and non-core standards on disclosure requirements** Although no respondents raised this issue, we note that changes to requirements proposed in other standards will impact disclosure requirements compared to the current OICs.	With the core and non-core standards consultations concluded, we reiterate that current disclosure requirements in the OICs will be updated to align with the final standards as part of the Disclosure Standard exposure draft. Examples include current requirements to disclose (among others): • liquidity metrics in Schedules 9 and 11 which will align with proposals in the Liquidity Standard • risk management policies in Schedules 17 and 18 which will align with proposals in the Governance, Operational Resilience, and Risk Management Standards • guarantees on material obligations in Schedule 2 which will account for the DCS.

Respective change item reference	Issue	Response
Group 1 and 2, and Branches		
7	**Proposal to terminate requirement: Delivery to Reserve Bank** Respondents were supportive.	Proceed unchanged. Our exposure draft process will capture any residual issues with terminating this requirement.
8	**Proposal to update requirement: Request for copies** Respondents were supportive.	Proceed unchanged. Our exposure draft process will capture any residual issues with simplifying this requirement.
9	**Proposal to terminate requirement: Disclosure statement not to be false or misleading (clause 14) vs. Other material matters (clauses 2.16 and 3.11)** Respondents were supportive.	Proceed unchanged. Our exposure draft process will capture any residual issues with terminating this clause including how section 175 of the DTA is referenced (if at all).
10	**Proposal to terminate requirement: Historical summary of financial statements** Respondents were supportive.	Proceed unchanged. See related discussion in section 4.3.2 Dashboard linking and historical financial statements in Disclosure Statements.
11 (and E)	**Proposal to terminate requirement: Directors' (and NZ CEO's) statements** Respondents were supportive. We received no specific feedback related to Branches (that is, change item E).	Proceed unchanged. See related discussion in section 4.3.6 (and 4.6.2) Board-approved Disclosure Policy and 3-yearly review.
12	**Proposal to test usefulness of requirement: Additional information on statement of financial position** There was strong opposition from a respondent to terminating this requirement as it is a useful proxy for relative risk profiles between banks as well as timely calculation of banks' interest margin, among other benefits. While most respondents support terminating this clause, some noted the usefulness of the information to some market participants but that the additional metrics proposed in section 4.3.5 Credit risk, liquidity and other indicators, would largely replicate this information and the benefits to market discipline.	Retain the requirement. The data does appear to be useful to some market participants and the effectiveness of market discipline.

Respective change item reference	Issue	Response
13	**Proposal to test usefulness of requirement: Additional information on interest-rate sensitivity** A few respondents were supportive of terminating the requirement.	Retain the requirement. We received only light support for removing this requirement and therefore will err on the side of caution and assume it remains useful to market participants.
14	**Proposal to terminate requirement: Movements in individually impaired assets (clause 7.4) and in balances of total individual credit impairment allowances (clause 7.5) and collective credit impairment allowance (clause 7.6)** Respondents were supportive.	Proceed unchanged. We will terminate these specific clauses as NZ IAS 39 is no longer applicable. See discussion on change items 15-17 below for related changes to align with NZ IFRS 7.
15	**Proposal to update requirement: NZ IFRS 9 metrics re: loss allowances** Respondents were supportive with one requesting alignment with NZ IFRS 7 insofar as possible.	Update the requirement. We will update these requirements to reconcile them with the now universally applicable NZ IFRS 7.
16	**Proposal to test usefulness of requirement: Other asset quality information** Respondents were supportive of terminating this requirement.	Terminate the requirement. We will terminate this requirement as the information requested is essentially redundant under the new NZ IFRS 9 measurement approach to impaired assets and the associated disclosure required by NZ IFRS 7.
17	**Proposal to update requirement: General asset quality information (clauses 7.3 to 7.8)** Respondents were supportive with one suggesting removing the requirement to disclose additions and deletions from clause 7.4 as presenting these amounts on a net basis would be more meaningful to market participants and aligned with overseas practice.	Update the requirement. We will revise these requirements to account for NZ IFRS 9 and 7 accordingly. Also see discussion on change items 14 to 16 above.

Respective change item reference	Issue	Response
18	**Proposal to test usefulness of requirement: Credit risk mitigation** One respondent was supportive of terminating this requirement.	Retain the requirement. We received only light support for removing this requirement and therefore will err on the side of caution and assume it remains useful to market participants.
19	**Proposal to terminate requirement: Additional information about operational risk** Respondents were supportive.	Proceed unchanged. We will terminate this requirement as it is no longer applicable.

Annex A: Glossary

Term	Meaning
APRA	Australian Prudential Regulation Authority
BCBS	Basel Committee for Banking Supervision
BPSA	Banking (Prudential Supervision) Act 1989
Branches	Branches of overseas deposit takers
BS13	Liquidity policy for banks, implemented in 2010 by the Reserve Bank
CFCR	Cash-flow coverage ratio
CFR	Core Funding Ratio, a quantitative liquidity metric
CLF	Reserve Bank's Committed Liquidity Facility
CoFR	Council of Financial Regulators
C1	First consultation paper for the Liquidity Policy Review, released in February 2022
C2	Second consultation paper for the Liquidity Policy Review, released in February 2023
Company	Has the same meaning as in section 2(1) of the Companies Act 1993 and includes an overseas company within the meaning of that Act
Consultation Paper	Our Deposit Takers Core Standards consultation paper published on 16 May 2024 available here
D-SIBs	Domestic systemically important banks
Dashboard	Bank Financial Strength Dashboard published by the RBNZ
DCS	Depositor Compensation Scheme, has the same meaning as in Part 6 of the Deposit Takers Act 2023
DTA	Deposit Takers Act 2023
ESAS	Exchange Settlement Account System
FMA	Financial Markets Authority
JSON	JavaScript Object Notation
LCR	Liquidity Coverage Ratio
LGFA	Local Government Funding Agency

Term	Meaning
Licensed NBDT	Has the same meaning as in section 4(1) of the NBDT Act
LPR	Liquidity Policy Review
MMR	Mismatch Ratios, a quantitative liquidity metric
NBDT	Non-bank deposit takers, has the same meaning as in section 5 of the NBDT Act
NBDT Act	Non-bank Deposit Takers Act 2013
NSFR	Net Stable Funding Ratio
NZD	New Zealand Dollar
NZGB	New Zealand Government Bond
OCR	Official Cash Rate
OIC	Order in Council
Proportionality framework	*Proportionality Framework for Developing Standards under the Deposit Takers Act*, published by the Reserve Bank on 14 March 2024
QIS	Quantitative Impact Statement
Registered bank	Has the same meaning as in section 2(1) of the Banking (Prudential Supervision) Act 1989
Reserve Bank	The Reserve Bank of New Zealand – Te Pūtea Matua
SBI	Settlement Before Interchange payment system
SBI365	Settlement Before Interchange 365 payment system
SDV	Single Depositor View
Standards	Refer to the Deposit Taker Standards to be made under the Deposit Takers Act 2023

Annex B: Consultation questions relating to introductory issues, the Liquidity, DCS and Disclosure Standards

Q1	What do you think the cumulative impact of the proposed standards will be on the relevant principles?
Q2	What do you think of the way we have taken into account the proportionality principle in developing the proposed standards?
Q3	What do you think the implications of the proposed standards will be on the deposit taking sector comprising a diversity of institutions to provide access to financial products and services and on financial inclusion more generally? If possible, please provide specific feedback on how these requirements might impact the accessibility and affordability of financial services.
Q4	What do you think the impact of the proposed standards will be on the Māori economy, in particular on: a. the role of the financial system and deposit takers in supporting the Māori economy b. Māori customers, iwi and individuals and Māori businesses, trusts and entities?
Q5	What do you think the cumulative impact of the proposed standards will be on competition? How do you think competition should be factored into our broader analysis of the principles?
Q6	Do you think that this approach to developing standards is appropriate? Is there anything else we should take into account when developing the prudential framework?
Q7	What transitional arrangements would be appropriate? Are there any particular requirements that would take longer to comply with than others?
Q51	Do you have any comments or suggestions on the proposed qualitative liquidity requirements for Group 1 deposit takers?
Q52	Do you have any views on our intention to supplement our qualitative liquidity requirements for Group 1 deposit takers with qualitative liquidity guidance?
Q53	Do you have any comments or suggestions on the proposed qualitative liquidity guidance for Group 1 deposit takers included in the standards, as opposed to through non-binding guidance?
Q54	Do you agree with our assessment of the costs/benefits of our proposed qualitative liquidity requirements for Group 1 deposit takers?

Q55 Do you agree with our assessment of the potential benefits of our overall proposed modifications to the MMR and CFR?

Q56 What are the expected costs of implementing these proposed modifications to the MMR and CFR? Are there any proposed modifications that would be particularly costly to implement, relative to the potential benefits?

Q57 Do you agree that both the MMR and CFR metrics should be restructured so that they each have a natural minimum of 100%?

Q58 Do you agree that we should add insurance companies and superannuation funds to our definition of 'market funding' under our Liquidity Standard?

Q59 Do you have any comments on what the impacts (quantitative or otherwise) might be of the addition of insurance companies and superannuation funds to our definition of 'market funding'?

Q60 Do you have any suggestions for how entities could be captured under 'market funding' without using ANZSIC codes?

Q61 Do you agree with our proposed treatment of insured deposits under the MMR (where they would have a run-off rate of 3%) and CFR (where they would have a factor of 95%)? If not, what alternative treatments might be appropriate?

Q62 Do you have any views on what the appropriate run-off rate for uninsured deposits less than $5 million should be under our revised Liquidity Standard? Is the existing 5% run-off rate still appropriate, or should this rate be recalibrated?

Q63 Do you agree with our proposal to introduce a new size-band category of funding for deposits over $100 million in both the MMR and CFR?

Q64 Do you have alternative views on the appropriate threshold and calibration for this potential new category of funding?

Q65 Do you consider that there are any issues with requiring the grouping of deposits under the liquidity policy to be based upon the same rules used to generate SDVs?

Q66 What are your views on whether the MMR should eliminate the inclusion of amounts from undrawn committed lines as a cash inflow?

Q67 Do you agree with standardising/changing the period o f the 'one-month' MMR to 30 days?

Q68 Do you agree that the one-week/7-day MMR should be retained?

Q69 If retained, should the 7-day MMR apply higher run-off rates than the 30-day MMR? If so, to which category(ies) of funding should any higher run-off rates apply?

Q70	Do you agree that funding received from tradeable debt securities should qualify as core funding when its residual maturity falls between six months and one year (at the existing discount factor of 50%), regardless of its original maturity?
Q71	Do you agree with the removal of the provision that allows a deposit taker to make any reasonable simplifying assumption in calculating its quantitative ratios?
Q72	Do you have any views on whether, in the normal course of business, we should require deposit takers to comply with their quantitative liquidity requirements 'on an ongoing basis', 'at all times', or 'continuously'? What would be the expected costs and implications of such a requirement?
Q73	Do you have any views on whether we should require deposit takers to calculate their MMRs and CFR seven days a week? What would be the expected costs and implications of such a requirement (e.g., potential staffing requirements over weekends)?
Q74	Do you have any views/comments on the potential features/components of the CLF outlined in this Table AC?
Q75	Do you have any views on whether the CLF should be operated as a completely new facility, or via an existing facility with additional documentation as required?
Q76	Do you consider that Group 2 entities should be subject to the same qualitative liquidity requirements as Group 1 entities? Are there any particular requirements that are not also appropriate for Group 2 entities?
Q77	Do you consider that Group 2 entities should be subject to the same quantitative liquidity requirements as Group 1 entities? Are there any particular requirements that are not appropriate for Group 2 entities or any negative implications of this approach for Group 2 entities that we should be aware of?
Q78	Do you agree with our proposed qualitative requirements for Group 3 deposit takers? If not, what changes would you propose to these requirements?
Q79	What compliance costs do you think may result from the proposed qualitative requirements for Group 3 deposit takers?
Q80	Do you agree that Group 3 deposits takers should be required to comply with a CFCR?
Q81	What are the implications of the different structures for the CFCR?
Q82	Is there a need for a cap on the amount of Kauri bonds and LGFA securities that Group 3 deposit takers may hold as liquid assets under the CFCR?
Q83	Do you agree that the minimum requirement under the CFCR should be 100%?
Q84	Do you prefer Option 1 or Option 2 for the treatment of deposit run-off rates?

Q85	What compliance costs do you think may result from Option 1 and Option 2 (including the costs of any necessary system builds)?
Q86	Are the potential size bands in Option 1 appropriate for measuring the potential deposit outflows of Group 3 deposit takers in a liquidity stress scenario?
Q87	Do you agree the CFCR should be applied for both 7-day and 30-day periods for Group 3 deposit takers that issue both demand and term deposits, and for only a 30-day period for Group 3 deposit takers that only issue term deposits?
Q88	Do you agree that the CFCR should be met 'at all times' rather than just at the end of each business day? If we require Group 3 deposit takers to comply with the CFCR at all times, what are the expected costs and are there reasons why at all times 7 days a week is not appropriate (for example, if payments are not processed on 7 days a week)?
Q89	Do you have any views or suggestions on what further simplifications could be made to our proposed CFCR?
Q90	What would be the impact of the proposed treatment of term deposits on your business model, liquidity risk management, and profitability? Please quantify the impacts on profitability where possible.
Q91	What could mitigate the impacts of the proposed treatment of term deposits? For example, could Group 3 deposit takers hold (more) liquid assets such as NZGBs, Kauri bonds, and LGFAs?
Q92	Do you agree with our proposal not to apply a quantitative stable funding requirement on Group 3 deposit takers?
Q93	What liquidity risk management requirements do you consider are appropriate to apply to branches?
Q94	Do you agree with our assessment of the costs and benefits of applying certain qualitative liquidity requirements to branches of overseas banks?
Q95	Do you agree that we should collect more information from branches on how they manage their liquidity risks?
Q96	Do you agree with our preferred approach of disclosure requirements to identify protected deposits?
Q97	Do you agree with our proposal to focus on the product disclosure approach?
Q98	Do you agree with the proposal to require the use of a trademark in connection with DCS-protected products, except for credit products?

Q99	Is it practical to require deposit takers to make supporting information provided by the Reserve Bank available to depositors?
Q100	Are there any issues with adopting the "advertising" definition in section 434(4) of the DTA for the purpose of the DCS disclosure standard?
Q101	How costly would it be and how long would it take to incorporate DCS brand elements into depositor-specific account information such as internet banking, mobile applications and bank statements?
Q102	Do you agree with the proposal not to impose requirements for disclosure in sales conversations?
Q103	Do you agree with our assessment that the approach to DCS product disclosure for Group 2 deposit takers should be the same as that for Group 1?
Q104	Are there any products offered by Group 3 deposit takers that are designed differently from bank deposits, that could require a different treatment under the DCS disclosure standard?
Q105	Do you have any comments on the proposed list of variables required for the SDV file?
Q106	Do you have any comments on the proposed fields for the variables, especially where they may be currently held as a string rather than individual fields? Would this requirement have any significant negative implementation or data quality impact?
Q107	Do you have any comments on the proposed requirement to use Json as the file format?
Q108	Do you agree that the option of combination deposit taker and regulator testing is appropriate? If not, which option would you prefer?
Q109	Do you agree with our assessment that the approach to SDV testing for Group 2 and Group 3 deposit takers should be the same as that for Group 1?
Q110	Do you agree with our preferred approach of requiring Group 1 deposit takers to maintain a system to report aggregate data? What compliance costs are associated with this approach?
Q111	Do you agree with our preferred approach of requiring Group 2 and Group 3 deposit takers to maintain a system to report aggregate reporting data? What compliance costs are associated with this approach?
Q112	Can you provide information on the compliance costs associated with aggregate reporting?

Q113	How frequently and to what standard should we require a review of the proposed board-approved disclosure policy for deposit takers?
Q114	Do you agree we have the right set of options for Group 1 deposit takers?
Q115	Do you agree with our assessment of the costs and benefits of these options for Group 1 deposit takers?
Q116	Do you agree with our proposal to have the same approach to disclosure requirements for Group 2 deposit takers as we propose for Group 1?
Q117	Are we correct in our comparison of relative costs between our proposed disclosure options for Group 3 deposit takers and the current disclosure regime for NBDTs? Please provide quantitative evidence to support your position.
Q118	What assurance methods other than regular external auditing of the data provided for the Dashboard should we consider? Please provide specific evidence of the costs and benefits relative to Option D's externally audited annual disclosure statement.
Q119	Does our proposed Disclosure Standard overall meet the needs of depositors to make well-informed choices on the financial products and institutions in which they invest? Do our proposed requirements assist depositors to have access to timely, accurate and understandable information to help them to make these decisions?