



Submission to the Reserve Bank of New Zealand on the Tranche 1 of the Deposit Takers Act 2023 (DTA) Standards consultation

RBNZ consultation paper dated 30 October 2025
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Introduction

1. The Hongkong and Shanghai Banking Corporation Limited, New Zealand branch (HSBC NZ) welcomes the opportunity to submit to the Reserve Bank of New Zealand (RBNZ) on Tranche 1 of the Deposit Takers Act 2023 (DTA) Standards consultation.

Submissions on the Incorporation outside New Zealand Standard

- *Q25 Do you have any other comments on the attached exposure draft of the IoNZ Standard?*
- *Q26: Do you have any comments on the attached draft of the Guidance to support the IoNZ Standard?*

Prescriptiveness of the approach to customer initial and ongoing classification.

2. The proposed policy already identifies the core prudential safeguard as restricting branches to wholesale clients only, rather than relying on granular process prescriptions around non-retail clients meeting particular criteria. In that context, mandatory collection of detailed financial statements, prescriptive initial assessment and regular reassessments for all branch customers is unlikely to deliver a commensurate improvement in depositor protection or system stability, particularly where those customers are corporates, institutions, or otherwise demonstrably sophisticated wholesale clients.
3. A more proportionate and coherent approach is to embed the wholesale-only and LCIC restrictions, within the conditions of licence for branches rather than within non-core standards, and to rely on the self-discipline pillar and the directors' attestation regime to drive robust internal controls, governance and risk management. The self-discipline framework already assumes that boards and senior management have strong incentives—both regulatory and commercial—to manage misclassification risk and to ensure systems and controls remain adequate, and international

assessments have recognised the New Zealand attestation regime as broadly effective for this purpose. Overlaying highly prescriptive rules, risks duplicating existing obligations under the DTA, FMC Act and FSP Act wholesale regimes, while overlooking branches' inherent incentives and legal duties to manage their own risk profiles and client classifications prudently. A principles-based standard that clarifies expected outcomes (for example, that branches must be able to demonstrate that their customers meet the statutory wholesale tests, supported by risk-based evidence and periodic review) would better align with the Reserve Bank's three-pillars philosophy and avoid unnecessary operational burden without weakening prudential outcomes.

Financial Statements

4. The current proposal requiring branches to rely exclusively on financial statements (where applicable) rather than customer attestation or confirmation, may place branches at a competitive disadvantage relative to local banks. Local banks are not required to classify a customer as wholesale client or investor for DTA purposes, and where they do need to classify such customers, they are permitted to use safe harbour certificates etc. under the FMCA regime when the assessment is required. Clients banking with standalone branches could also be penalised by the additional requirement to provide financial statements when compared to local banks.
5. Ordinarily, banks accept client-provided information unless there are reasonable grounds for doubt, in which case further evidence is requested. For non-listed entities, the obligation to provide financial statements could be particularly onerous, given that such organisations typically do not disclose sensitive financial data unless strictly necessary, such as for credit applications. Many potential bank customers only require non-credit products such as transactional or savings accounts. Furthermore, from a branch compliance perspective, retaining additional restricted information heightens the risk of data loss and complicates record retention obligations. Overall, the proposed requirements appear burdensome, commercially impractical, and more stringent than those imposed in other jurisdictions.

Comments on assessment and reassessment criteria

Reassessment period

6. For standalone branches, while there is no requirement to further classify clients as LCIC, it is recommended that, where the relevant threshold is met (turnover exceeding NZD50million or asset exceeding NZD75million), the reassessment period be extended to at least three years, if not longer. This reflects the very low likelihood that a client qualifying as LCIC may fall below the “large” (NZD 5million turnover/net asset) wholesale investor criteria within two financial years, and also considers the associated compliance costs for both banks and clients in meeting a regular financial statement reassessment requirement.

LCIC assessment flexibility

7. Clause 7(1)(e) permits the “likelihood” of asset growth to be considered in the LCIC assessment. It is recommended that similar flexibility be applied to the “large” wholesale client test, to accommodate comparable scenarios. Additionally, expected turnover should be taken into account, provided it can be appropriately substantiated.

Timing of initial assessment

8. For existing clients, it is mandatory to conduct the required assessment at the point when the new standard becomes effective. This may require reliance on financial statements, eligible investor certificates, or, if allowed, safe harbour certificates. Given the scale—potentially involving thousands of customers—executing these assessments within a short timeframe poses considerable operational and regulatory challenges and may not be achievable. As a minimum, any existing client assessment that is completed from the *issuance of the standards* should only be required to be reassessed within 2 years/2 financial years from the date DTA standards *become effective*.

Submissions on the Lending Standard

- *Q21 Do you have any other comments on the attached exposure draft of the Lending Standard?*

Exclusion of branches from Lending Standard

9. The Lending Guidance currently provides that only Group 3 deposit takers are to be exempt from the Lending Standard, on the basis that they do not pose a systemic risk to financial stability. However, the RBNZ has previously confirmed that the Lending Standard would not apply to branches (see Table A and paragraph 21 of the Deposit Takers Non-Core Standards Policy proposals published on 21 August 2024). This was on the basis that branches also do not pose a systemic risk to financial stability. As this remains the case, the Lending Guidance and/or the Lending Standard should also explicitly exclude branches from the Lending Standard.