

30 January 2026

Reserve Bank of New Zealand
2 The Terrace
WELLINGTON 6140

By email: dta@rbnz.govt.nz

Kia ora,

Submission of Heartland Bank Limited – Deposit Takers Standards Tranche 1

1. Introduction

- 1.1 Heartland Bank Limited (**HBL**) welcomes the opportunity to submit on the Reserve Bank of New Zealand (**RBNZ**) consultation on the first tranche of exposure drafts of new prudential standards (**Standards**) to be made under the Deposit Takers Act 2023 (**DTA**).
- 1.2 HBL fully supports the submissions of the New Zealand Banking Association (**NZBA**) in respect of the Standards relevant to HBL.
- 1.3 HBL also supports the joint submission of Group 2 deposit takers concerning the proposed treatment of undrawn committed facility limits, especially given the divergence from the policy decisions reached during the previous core Standards consultation.
- 1.4 Notwithstanding our full support of the NZBA and Group 2 deposit takers' submissions, HBL provides an additional submission on the Liquidity Standard, noting that there are several points in the NZBA submissions that HBL wishes to reiterate, as well as certain feedback unique to HBL as the owner of a foreign deposit taking subsidiary. This submission is included at **Appendix 1**.
- 1.5 In addition, HBL submits a point of clarification in respect of the treatment of reverse mortgage lending under the Lending Standard – that it is specified as exempt from the requirement to calculate a DTI ratio.
- 1.6 HBL has prepared a separate submission – jointly with its parent company, Heartland Group Holdings Limited (**HGH**) – on the proposed Group Supervision Policy.

2. Summary of Feedback

Liquidity Standard

- 2.1 HBL has consistently supported a unified liquidity framework for Group 1 and 2 deposit takers, with proportionality embedded in the requirements. We consider liquidity metrics based on outflows to provide a more accurate reflection of true liquidity positions as compared to approaches based solely on liquid asset holdings, as used in some jurisdictions for smaller deposit takers.
- 2.2 The RBNZ's proposal to align mismatch ratios more closely with the Liquidity Coverage Ratio (**LCR**) framework for Group 1 and 2 deposit takers would result in some unintended consequences. This is because LCR was designed for large systemic banks and therefore includes protections aimed at mitigating systemic risk; protections that are not proportionate or relevant for smaller institutions.

2.3

- [REDACTED]
- 2.4 These policy changes diverge from the 2025 RBNZ Policy Decisions¹. [REDACTED]
- [REDACTED] This could be viewed as a major policy shift that carries significant cost and offers unclear benefits, particularly as the RBNZ has never indicated that this was its intention.
- 2.5 These unintended consequences occur because LCR was designed for large systemic banks and therefore includes protections aimed at mitigating systemic risk; protections that are not proportionate or relevant for smaller institutions.
- 2.6 HBL is seeking minor modifications to elements of the draft Standard that do not sensibly apply to non-systemic banks.
- 2.7 In addition to these we have submitted on some bespoke issues which face HBL, being a New Zealand bank which owns a foreign subsidiary which is a deposit taker. We submit that guaranteed deposits of a foreign deposit taking subsidiary should receive the same treatment as guaranteed deposits in New Zealand (where they receive an equivalent – or stronger – level of protection).
- 2.8 Accordingly, our individual submission focuses primarily on these matters.

Lending Standard

- 2.9 The Lending Standard requires the calculation of debt-to-income (DTI) ratios for residential housing loans, which, as we read the definition, would include equity release (reverse mortgage) loans.
- 2.10 HBL believes this is unintended, as income is not the source of repayment for equity release (reverse mortgage) loans, and is therefore not a relevant consideration for credit decisioning. Specifically, reverse mortgage loans are not P&I amortising with no regular repayments required. Rather, they are required to be repaid only once the last borrower leaves the property.
- 2.11 Moreover, Part 4 of the Lending Standard states that loan-to-value and DTI speed limits do not apply to equity release (reverse mortgage) lending, only to residential mortgage lending classified as 'ordinary finance'.
- 2.12 We request that RBNZ clarifies in the Standard that equity release (reverse mortgage) lending is exempt from the requirement to calculate a DTI ratio.

Depositor Compensation Scheme (DCS) Standard

- 2.13 HBL fully supports and reiterates the NZBA submission on the DCS Standard, which incorporates all feedback from HBL.
- 2.14 HBL makes no further submission on the DCS Standard.

3. Questions

- 3.1 If you have any questions or would like to discuss any aspect of this submission, please contact HBL via [REDACTED]

¹ Reserve Bank of New Zealand (2025) Deposit Takers Core Standards – Summary of Submissions and Policy Decisions for the Liquidity, Depositor Compensation Scheme and Disclosure Standards

Yours sincerely



9(2)(a)

Chief Executive Officer

Appendix 1 – Liquidity Standard

Q1: Does the exposure draft accurately set out the Reserve Bank’s liquidity requirements (both qualitative and quantitative), including decisions taken as part of the Liquidity Policy Review?

Q2: Would the exposure draft and draft Guidance, as currently drafted, create any unintended outcomes? If so, please specify any issues and potential solutions.

Q3: Do you have comments on the formulation of caps in the Liquidity Standard, such as caps in relation to cash inflows, undrawn committed lines, and various components of liquid assets?

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

² Reserve Bank of New Zealand (2023) Review of Liquidity Policy (BS13) – Stage 2 Significant Policy Issues

³ Reserve Bank of New Zealand (2023) Liquidity Policy Review – Consultation Paper #2 Summary of Submissions, Key Decisions and Regulatory Impact Statements, page 14

[REDACTED]

4. Proportionality Considerations

- 4.1 The above outcome is inconsistent with the DTA principle of proportionality and the rationale behind the design of LCR.
- 4.2 LCR was designed for systemically important banks and large banks. Because LCR banks are systemic, they cannot count “bank paper” (assets issued by other banks) as liquid, because in a crisis, the whole banking sector might be stressed. Further, these banks all clear their own funds, and thus balances held at other financial institutions are not their main liquid assets but those which are involved in some form of transactional exercise.
- 4.3 Internationally, smaller deposit takers are not normally subject to LCR requirements due to cost, complexity, and lack of systemic risk.
- 4.4 As New Zealand does not have two methods, the revised framework needs to consider smaller deposit takers as well as systemic ones. HBL submits that removing the 75% cap on inflows would support a more proportionate outcome.

■

[REDACTED]

■

[REDACTED]

■

[REDACTED]

■

[REDACTED]

■

[REDACTED]

■

[REDACTED]

■

[REDACTED]

6. **75% Cap and Undrawn Committed Line Changes**

- 6.1 HBL fully supports the joint submission from Group 2 deposit takers regarding inconsistency between Clause 17(2)(a) and (b)(i) of the Liquidity Standard in respect of undrawn committed line (**UCL**) changes and policy decisions made previously by RBNZ.
- 6.2 In the prior core Standards consultation, the RBNZ considered whether it should remove the ability for banks to include committed lines in their MMR calculations. HBL addressed this issue in its submission dated 16 August 2024. From page 12 of that submission, we stated the following:

The Policy Proposals propose aligning the treatment of undrawn committed lines to the LCR framework with zero benefit to the mismatch ratio calculations for a committed line.

The reasons included in the Policy Proposals for this proposal are that it aligns with international best practice and that reliance on such a facility could create contagion risk in a financial crisis and the possibility of such arrangements facing breaches of contract due to the counterparty refusing or being unable to honour the agreement.

Heartland strongly disagrees with these arguments regarding non-domestically systemically important Group 2 deposit takers and submits that the proposed rules are not in accordance with the Act's principles, namely proportionality and the need to maintain competition, for the reasons below.

The rationale for excluding such inflows in the LCR methodology is that this framework has been designed for large banks (i.e. Group 1 deposit takers), which pose a systemic liquidity risk. Heartland as a bank is immaterial concerning the New Zealand market, with total loans making up 0.95% of the total loans issued to New Zealand from New Zealand-listed banks.⁴ Thus, the contagion risk incurred by banks like Heartland is minimal. Offshore jurisdictions reflect this by enabling the simpler "Minimum Liquidity Holdings" (MLH) metric for smaller banks, which is more straightforward to calculate

⁴ Per the RBNZ Dashboard March 2024, excluding balances held by Group entities.

and allows a broader range of liquidity holdings. However, New Zealand's existing framework has no such distinguishment.

Heartland submits that:

- *this is a clear example of where proportionality should be applied such that this requirement is not applied to Group 2 deposit takers; and*
- *doing so would be consistent with the RBNZ's prior consultation paper where it noted, "Prudential liquidity is not the Reserve Bank's primary tool to address a systemic, market-wide stress event."⁵*

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

It is also worth considering the impact that such a change, if implemented, would incentivise. The liquidity rules would remove the incentive of smaller banks to hold secured facilities, for which they pay a line fee, as there would be no liquidity benefit recognised in the ratios. These facilities might be replaced with facilities that did not

⁵ Reserve Bank of New Zealand (2023) Liquidity Policy Review, page 9.

⁶ Heartland's undrawn commitment fee is 64bps of the undrawn balance, and the fee on the drawn facility is 167bps plus 1m BKBM. Heartland earns the current OCR rate on funds it deposits with Westpac.

have committed limits, which would remove the capital and liquidity charge for the banks who provided them and the undrawn committed fee for the bank. Accordingly, the liquidity rules could incentivise smaller banks to run liquidity funding schemes, which are less likely to hold up during a liquidity crisis due to their uncommitted nature.

Finally, the proposal assumes that the committed facilities are provided entirely within New Zealand.

Heartland therefore submits that RBNZ retain the inflow from undrawn committed lines granted to the bank for at least Group 2 deposit takers.

- 6.3 In response to submissions from HBL and other banks, the RBNZ indicated its intention to:
- i limit the reliance of Group 1 deposit takers on UCLs when calculating the MMR for liquidity purposes, but
 - ii not impose equivalent limits on Group 2 deposit takers. The rationale provided was that reliance on UCLs by Group 2 deposit takers does not create material contagion risk, and that imposing such limits would disproportionately affect them.
- 6.4 These views were captured in section 2.3.8 and 2.4.2 of the 2025 Policy Decisions⁷ which noted:

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.

[...]

*We will not proceed with [a proposal in the Consultation Paper to no longer include UCL amounts as a cash inflow in the MMR]. 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 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 deposit 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

⁷ Reserve Bank of New Zealand (2025) Deposit Takers Core Standards – Summary of Submissions and Policy Decisions for the Liquidity, Depositor Compensation Scheme and Disclosure Standards

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.

- 6.5 These policy decisions have not been carried through into the exposure draft, which currently makes no distinction between Group 1 and Group 2 deposit takers.
- 6.6 As drafted, the changes introduce several negative impacts on the recognition of UCLs within the MMR calculations.
- i First, the inflow benefit has been grouped together with other inflows (from operating activities) and with deposits held with other deposit taking institutions, as previously noted in relation to the agency bank issue. This aggregation restricts the maximum inflow benefit that can be recognised. Such a limit may be reasonable if deposit balances were not simultaneously being reclassified or constrained where an agency bank relationship exists.
 - ii Second, the maximum benefit calculation has been significantly altered. Previously, a bank could recognise up to 3% of total funding from a single UCL provider to a maximum of 9% of total funding. Under the draft, this shifts to recognising up to 10% of a deposit taker's liquid assets from one UCL provider, to a maximum of 30% of total liquid assets. Quantifying the impact of this shows a reduction of benefit from 50% to 66% based on a deposit taker holding between 15% to 10% of its total funding in liquid assets. This impact is before applying the overall inflow limitation.
- 6.7 In addition, the existing 75% limit on undrawn balances remains in place, compounding these impacts.
- 6.8 HBL strongly submits that the reasoning behind the policy decisions from the previous core Standards consultation continues to apply. Group 2 deposit takers do not present the same contagion risks as Group 1 deposit takers, have materially smaller liquidity needs, and in practice are not significant UCL creditors to other deposit takers.
- 6.9 Allowing Group 2 deposit takers to utilise UCLs without unnecessary restrictions would support a more proportionate framework and enable these deposit takers to maintain a more diverse range of funding options.

Q5: Do you have any other comments on the attached exposure draft of the Liquidity Standard?

7. Interaction of foreign deposit guarantee and discount rates on deposits

- 7.1 Both the Core Funding Ratio (CFR) and the MMR rely on the Depositor Compensation Scheme to apply lower outflow rates to balances that are guaranteed.
- 7.2 However, the current drafting does not address deposits that are guaranteed under a foreign deposit insurance scheme where the foreign bank is a subsidiary of a New Zealand deposit taker.
- 7.3 HBL submits that the same outflow rates should apply to balances that receive an equivalent – or stronger – level of depositor protection.
- 7.4 To give effect to this,
- i Section 16(c) could be amended to read:
 - a “3% of the principal sum of a debt security in respect of which a levy is payable under section 235 of the Act (which relates to the Depositor Compensation Scheme), **or where the balance is held by a subsidiary of the deposit taker that is an overseas company carrying on deposit taking business and is fully guaranteed, in effect, by the government-sponsored deposit insurance scheme of that jurisdiction.**”
 - ii Section 22(c)(i) could be amended to read:
 - a “in respect of which a levy is payable under section 235 of the Act (which relates to the depositor compensation scheme) **or where the balance is held by a subsidiary of the deposit taker that is an overseas company carrying on deposit taking business and is fully guaranteed, in effect, by the government-sponsored deposit insurance scheme of that jurisdiction.**”

8. Increased volatility in ratios due to change in denominator from total funding to total outflows

- 8.1 Preliminary analysis indicates that the MMR can exhibit significant volatility and, at times, reach unusually elevated levels.
- 8.2 This behaviour typically arises when a deposit taker is primarily funded by retail deposits with low runoff characteristics, resulting in very limited net cash outflows.
- 8.3 In these circumstances, the reported MMR may appear disproportionately high; however, it is essential to understand the underlying drivers. Even small changes in the denominator (net cash outflows) can cause substantial movements in the ratio.
- 8.4 For example, a deposit taker holding \$500 million in liquid assets and facing net cash outflows of \$50 million would report an MMR of 1000%. If net outflows increased by only \$25 million, the MMR would fall sharply to 666%.
- 8.5 This illustrates that when net cash outflows are low, the MMR becomes highly sensitive to small changes. In such situations, the absolute surplus of liquid assets may provide a more meaningful measure of liquidity strength than the ratio alone.

9. Aggregation requirements

- 9.1 As noted in the NZBA’s submission, a key area of uncertainty in the new standard relates to whether aggregation is required when determining the appropriate bucketing for outflow assumptions. Sections 16(1)(d) and 22(1)(e) refer to “the total principal sum of debt securities

repayable to a person and any associated person”, while section 81 of the Guidance states that “deposit takers are encouraged to aggregate balances across a given depositor’s accounts in the same way they do when producing their single depositor view under the DCS Standard”. These statements contradict one another, as the Standard itself does not require any grouping of balances.

- 9.2 The current aggregation rules in BS13 already introduce significant complexity. Identifying and linking related parties requires not only intricate logic and rule-setting, but also extensive information gathering to ensure that all relevant connected parties are captured. Importantly, the proposed Liquidity Standard contains even less guidance on what constitutes a related party than BS13, an area that was recognised as opaque during the liquidity thematic review.
- 9.3 HBL strongly submits that the reference to “associated person” should be removed from the definition to prevent unnecessary ambiguity and complexity.

10. Clarification sought on 15% outflow for any credit contract

- 10.1 Section 16(1)(h)(i) specifies that 15% of any amount to be provided by the deposit taker, when requested by the debtor under a credit contract other than a revolving credit contract, must be treated as a required outflow. We note that this definition diverges from the treatment applied for capital purposes when determining requirements for off balance sheet exposures.
- 10.2 We consider it preferable for liquidity and capital requirements to be aligned in respect of off balance sheet commitments. The current liquidity definition appears broader than that used for capital, as it does not take into account whether the credit contract is uncommitted, able to be cancelled on demand without notice, or subject to further credit checks before any funds are advanced.

11. Overseas subsidiaries – liquid assets

- 11.1 Section 14.1(f) provides that liquid assets held by an overseas subsidiary, where the subsidiary meets its home jurisdiction regulatory liquidity requirements, may be included within the deposit taker’s liquid assets. While this results in a broadly comparable overall liquid asset position, we note that the treatment of these assets differs under the draft Standard. For example, there is currently no limit applied to lower quality foreign liquid assets, nor is any valuation haircut required.
- 11.2 We seek clarification as to whether this treatment is intentional, or whether the RBNZ envisages some degree of alignment between New Zealand’s liquid asset classifications and those used overseas, noting that offshore categorisations may not map neatly to New Zealand’s (such as Level 1, Level 2, or Committed Liquidity Facility (CLF)). This issue may also affect reporting to the RBNZ – specifically, whether all a subsidiary’s foreign liquid assets are intended to be reported as Level 1 assets.

12. Page 14 – typographical issue

- 12.1 We believe that on page 14 of the draft Liquidity Standard, the reference should read “carries on deposit taking business outside New Zealand”, rather than “in New Zealand”, when referring to an overseas subsidiary of the deposit taker. The current paragraph reads:

The mismatch ratio is defined as the ratio, expressed as a percentage, of a deposit taker's liquid assets to the deposit taker's net cash outflows. A second mismatch ratio must also be maintained if a subsidiary of the deposit taker is an overseas company that carries on deposit-taking business in New Zealand. The second mismatch ratio must be equal to or greater than 100%. The mismatch ratio may be varied by a

condition of the deposit taker's licence if the Reserve Bank is satisfied of certain matters. The variations that may be specified in a licence condition are set out in the standard. The standard also sets out how a deposit taker calculates its liquid assets, net cash outflows, and cash outflows to determine its mismatch ratios.

Q6: Do you have any other comments on the attached draft of the Guidance to support the Liquidity Standard?

13. Diversification of liquid assets – expectations

- 13.1 Section 66 of the Guidance requires deposit takers to hold a diversified portfolio of liquid assets, while section 67 states that deposit takers are “*encouraged to hold a significant portion of their liquid asset portfolio in NZGS.*”
- 13.2 It would be helpful for the RBNZ to clarify whether it expects full diversification across multiple asset classes, or whether a portfolio consisting solely of highly liquid assets – such as government securities and cash balances – would be considered acceptable.

14. Prepositioning of CLF eligible assets

- 14.1 We seek clarification on the process for prepositioning CLF eligible assets for use in MMR calculations and for access to RBNZ funding.
- 14.2 Is eligibility determined solely by the most recent regulatory reporting returns, or is an alternative assessment process applied? (See sections 73 and 74.)

15. Defining “ultimate authority”

- 15.1 We would appreciate clarification on the meaning of “*ultimate authority*” in the context of the guidance.
- 15.2 Specifically, how does this definition enable the liquidity value of intermediated deposits to be attributed to the actual underlying customer, such that these deposits may be treated as if they were held directly by individual smaller depositors? (See section 82.)