

# **Westpac New Zealand Limited**

Submission to Reserve Bank of New  
Zealand on Tranche 1 of the Deposit  
Taker Standards Exposure Drafts and  
Guidance

30 January 2026



## 1. INTRODUCTION

- 1.1 This submission to the Reserve Bank of New Zealand – Te Pūtea Matua (**RBNZ**) is made on behalf of:
- (a) Westpac New Zealand Limited (**Westpac**) in respect of Chapter 1 (Liquidity Standard), Chapter 2 (Depositor Compensation Scheme Standard), Chapter 3 (Lending Standard) and Chapter 5 (Group Supervision Policy for Deposit Takers) of the Deposit Takers Standards Tranche 1 exposure drafts and guidance consultation paper (**Consultation Paper**); and
  - (b) Westpac and Westpac Banking Corporation in respect of Chapter 4 (Incorporation outside of New Zealand Standard) of the Consultation Paper.
- 1.2 Thank you for the opportunity to provide feedback on the Consultation Paper.
- 1.3 Westpac and Westpac Banking Corporation have reviewed and contributed to the New Zealand Banking Association's (**NZBA**) submission on the Consultation Paper. Westpac and Westpac Banking Corporation support that submission and request that this submission is read alongside the NZBA's submission.
- 1.4 Westpac and Westpac Banking Corporation request that certain aspects of this submission are withheld to:
- (a) Protect the privacy of natural persons; or
  - (b) Protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information.
- 1.5 Westpac's contact for this submission is:
- [REDACTED]
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- [REDACTED]

## 2. GENERAL COMMENTS

- 2.1 As outlined on the RBNZ's Deposit Taker's Act (**DTA**) timeline, the current intention is for all standards to be finalised and issued on 31 May 2027. Westpac encourages the RBNZ to consider releasing final or near-final versions of standards if they become available prior to this date and requests that any material changes to the exposure drafts and guidance be released as they become available, as this approach will support higher quality relicensing applications.

### 3. **CHAPTER 1: LIQUIDITY STANDARD**

**Question 1: Does the exposure draft accurately set out the Reserve Bank's liquidity requirements (both qualitative and quantitative), including decisions taken as part of the LPR? If not, what areas of the exposure draft may require revision?**

- 3.1 While Westpac recognises that the Liquidity Standard is now more streamlined, some requirements are difficult to interpret without the Liquidity Guidance.
- 3.2 As the Standard is a legislative document, Westpac submits that the fundamental obligations therein should be determinable without the Guidance. For example:
- (a) Clause 16(1)(a) relates to market funding entities, however there is now no mention of the concept of 'market funding' in the draft Liquidity Standard.
  - (b) Clauses 17(1)(d) and 17(2) relate to undrawn committed lines, however this term is similarly only mentioned in the Liquidity Guidance.

Westpac submits that the inclusion of well-established terms such as 'market funding' and 'undrawn committed lines' in the Liquidity Standard itself will enable the Standard to be read on a standalone basis.

**Question 2: Would the exposure draft and draft Guidance, as currently drafted, create any unintended outcomes? If so, please specify any issues and potential solutions.**

- 3.3 Westpac notes that the Reserve Bank's Liquidity Management Review – Open Market Operations and the Committed Liquidity Facility consultation (**LMR Consultation**), which includes key design considerations and operational parameters for the Committed Liquidity Facility (**CLF**), closed on 31 October 2025. Given that the CLF will be a key component of the 'liquid assets' aspect of the Mismatch Ratio (**MMR**), clarity on how it will be structured and is intended to operate is needed for it to be appropriately factored into liquidity models. Without the final CLF decisions, it is challenging to comment on the quantitative implications of the Liquidity Standard, which could mean that some unintended outcomes have not been identified.
- 3.4 In addition, as noted in the NZBA's submission (at paragraph 5) on the LMR Consultation dated 31 October 2025, it is important that the CLF and any CLF cap is appropriately calibrated to support liquidity in wider markets (as referenced in the draft Liquidity Guidance). If the design of the CLF is overly restrictive, it could exacerbate illiquidity in New Zealand's capital markets, making it more difficult for domestic issuers to raise funds locally.

**Question 3: 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?**

- 3.5 Westpac supports applying caps on liquid assets (for example, a quantity or discount factor for residential mortgage-backed securities and registered certificates of deposit) through conditions of licence under clause 13(1)(b)(i) of the draft Liquidity Standard. This allows for greater flexibility and for changes to be implemented quicker than if the caps were codified in the Liquidity Standard.

**Question 4: Do you have any views on what deposits from government agencies (if any) should be subject to a 100% run-off rate or the size band approach under the MMR?**

3.6 Westpac submits that no ‘government agency’ deposits should be classified as ‘market funding’ and therefore no such deposits should be subject to a 100% run-off rate. As such, the government agency limb should be removed from clause 16(1)(a), with the size band approach applying to government agencies instead.

*Background*

- 3.7 In May 2025, the RBNZ released various policy decisions on the Liquidity Standard, including that it would leverage the DTA definition of ‘eligible depositor’ as an alternative to ANZSIC codes (which are currently used under BS13 to determine ‘market funding’ and reliability of funding sources, including during times of stress). The RBNZ indicated that this definition was an advantageous option given that:
- (a) It leverages off a definition in the DTA; and
  - (b) Deposit takers will already need to identify ‘eligible depositors’ for the purposes of producing Single Depositor View (**SDV**) files.
- 3.8 The RBNZ also published an indicative list of government agencies that are excluded from being an eligible depositor under the DCS. As a result, the definition of ‘market funding’ would include deposits/debt securities held by ‘a government agency’, meaning that the deposits of all government agencies will, by definition, be classified as a ‘less reliable funding source’.
- 3.9 The above policy decision is incorporated into the Liquidity Standard exposure draft. Westpac is highly concerned about the material unintended impacts of reclassifying government agency deposits as ‘market funding’, particularly given the significant increased costs and reduced competitiveness that this will create for Westpac, the broader industry, and most importantly for the government as the end customer. Furthermore, Westpac does not believe that reclassifying government agency deposits as ‘market funding’ would accurately reflect the true nature and behaviour of such funds.

*Impact to Westpac*

- 3.10 [Redacted]
- 3.11 [Redacted]
- 3.12 [Redacted]
- 3.13 [Redacted]

[REDACTED]

*Impact to government customers*

3.14 [REDACTED]

3.15 [REDACTED]

*Customer behaviour in times of market stress*

3.16 The DTA definition of ‘government agency’ covers a wide range of government entities and includes, among others, all core Crown, Crown entities, state owned enterprises and local authorities (noting that certain Crown entities are excluded). The government agencies on this extensive list do not act in the manner that other ‘market funding’ providers would typically act. Deposit takers would not classify these depositors as representing the type of non-sticky rate-sensitive funding which is likely to be a material ‘flight risk’ during times of market stress. As such, we believe that the proposed reclassification of government agencies as ‘market funding’ would be an overly conservative and highly punitive approach that would result in significant unintended additional costs to the government agency sector and the broader banking system, while not reflecting the true nature and behaviour of such funds during times of stress.

3.17 *Core government agency trust deposits*

(a) [REDACTED]

(b) [REDACTED]

(c) [REDACTED]

[REDACTED]

(d)

[REDACTED]

(e)

[REDACTED]

- 3.18 Further, maintaining an up-to-date list of government agencies (in accordance with the definition in the DTA) is operationally challenging for deposit takers because changes to government agencies occur relatively frequently. The list of government agencies provided by RBNZ is not exhaustive or authoritative, and changes to the list could impact deposit takers' liquidity ratios (and, accordingly, their ability to continuously comply with the quantitative requirements).
- 3.19 In summary, if implemented in its current form, Westpac believes that the proposed reclassification of government agencies as market funding would be a highly conservative approach that does not accurately reflect the nature of these funds and would result in material unintended additional costs to the government agency sector and the broader banking system. Westpac therefore submits that this proposal should not proceed and that no 'government agency' deposits are classified as 'market funding'. Westpac considers that a pragmatic solution would be to remove the 'government agency' limb from clause 16(1)(a), instead applying the size band approach.

**Question 5: Do you have any other comments on the attached exposure draft of the Liquidity Standard?**

- 3.20 Westpac has the following comments on the exposure draft of the Liquidity Standard:

- (a) *Clause 5: Reliance on assumptions in calculations*
- (i) Westpac queries whether guidelines or a framework for materiality assessments (including for the use of assumptions), similar to APRA's approach in APS210, will be provided in the Risk Management Standard?
- (b) *Clause 14: Calculation of liquid assets under Part 3*

- (i) Westpac submits that subclause (2) could clarify that the 25% limit applies in aggregate across both subclauses (1)(c)(iii) and (d), to ensure alignment with paragraph 68 of the draft Liquidity Guidance.
- (c) *Clause 16: Calculation of cash outflows under Part 3*
  - (i) Westpac requests that clause (1)(h) clarify the liquidity requirements for public private partnerships (**PPP**), infrastructure and other multi-bid deals.
  - (ii) Westpac (and other larger deposit takers) will often support multiple consortiums for a PPP or infrastructure deal, and while only one consortium can be successful, Westpac is currently required to hold sufficient liquidity for each consortium through the bidding process. Given the scale of these deals, the additional liquidity that must be held materially increases the cost for participants.
  - (iii) Westpac submits that sufficient liquidity should only be required to be held for the underlying asset or deal, rather than for each consortium or bid relating to that same asset or deal. This approach towards improving liquidity efficiency for the sector would be consistent with the RBNZ's upcoming review of the Capital treatment specifically for infrastructure and PPP lending (as signalled in the RBNZ's 2025 Review of key capital settings decisions document dated 17 December 2025) and would support more efficient funding for the PPP and infrastructure sector.
- (d) *Clause 17: Calculation of cash inflows under Part 3*
  - (i) Westpac submits that subclause (1)(c) should only exclude outstanding credit card balances and amounts drawn under retail overdraft facilities (rather than excluding all revolving credit contracts from cash inflows), which would be consistent with BS13 (paragraph 48).
- (e) *Explanatory Note*
  - (i) Westpac notes that the Explanatory Note on the second MMR refers to a subsidiary of the deposit taker being an overseas company that carries on deposit-taking business 'in New Zealand'. We query whether this should be 'outside New Zealand' to align with clause 12(1) of the draft Liquidity Standard.

**Question 6: Do you have any other comments on the attached draft of the Guidance to support the Liquidity Standard?**

3.21 Westpac has the following comments on the draft Liquidity Standard Guidance Note (**Liquidity Guidance**):

- (a) *Paragraphs 13 to 16: Continuous compliance*
  - (i) Westpac submits that the focus of any continuous compliance requirement should be on meeting payment obligations, as is contemplated in paragraph 59 of the draft Liquidity Guidance, rather than meeting MMR requirements intra-day. This approach also aligns with Liquidity Policy Review Principle 6: Liquidity requirements should be practical to administer and seek to avoid any unnecessary complexity and compliance costs.

## 4. CHAPTER 2: DEPOSITOR COMPENSATION SCHEME STANDARD

**Question 7: Do you agree that a DCS depositor page should accept alternate account details from any authorised individual even if that person could not manage that account without approval from another person (n to sign)? If not, please provide suggestions on how this could be cost effectively managed by deposit takers.**

- 4.1 Westpac supports a principles-based approach to authorised individuals that is adaptable to the deposit taker's individual processes. As deposit takers are likely to have a range of different administrator rights and approaches to granting administrator rights, it should ultimately be for the deposit taker to determine whether the individuals they choose to accept alternate account details from, are appropriately authorised (taking into consideration the deposit taker's processes and the risks involved).

**Question 8: Do you agree with the proposal that the alternate model would only be available to deposit takers who do not offer transactional accounts, and the proposed approach to identify which deposit takers offer transactional accounts?**

- 4.2 Westpac has no comments on this question beyond those already raised in the NZBA submission.

**Question 9: DCS depositor page data will be provided to the RBNZ as it is received (for example, every 24 hours). Will you have any system constraints if subsequent transfers contain only depositor data that is new since any previous data transfers (delta data)?**

- 4.3 Westpac has no concerns about only providing delta data.

**Question 10: Account authority SDV variables have been included as an account level variable to reflect submissions on the consultation document. We expect that some or many authorities may be provided at the depositor level and welcome submissions on the appropriate treatment.**

- 4.4 Westpac is supportive of a principles-based approach to the treatment of account authorities, which enables deposit takers to provide the most relevant and appropriate account authority information in their SDV file. Westpac expects that deposit takers will have varying practices for setting authorities at both a depositor level and at an account level for both individuals and organisation depositors. In addition, some authorities may only have access to a subset of the depositor's accounts.
- 4.5 We suggest that the SDV file could identify the role type the authority holds at an account level (such as director or power of attorney) and the relevant signing rule (n to sign).

**Question 11: Do you foresee any difficulty in identifying temporary accounts as identified in row 36 of the table in the Guidance? Are there any further actions the DCS Standard could include that would assist, for example a delay in collating this information compared with the other SDV variables, and if so how long would be appropriate?**

- 4.6 Westpac expects that only some deposit takers will have temporary accounts and that it would be difficult to prove where deposit takers do not have such accounts. Westpac recommends that this field is removed and that temporary accounts are dealt with separately between the RBNZ and the deposit taker as required.

**Question 12: As referred to in the data submission guidelines, are there any technical or non-technical constraints that would prevent your institution from implementing asymmetric encryption?**

- 4.7 Westpac is comfortable with implementing asymmetric encryption, however we would like to confirm that deposit takers can provide files in PGP (Pretty Good Privacy), as GPG (GnuPG) can decrypt these files and both are based on the Open PGP standard.

**Question 13: Do you have any other comments on the attached exposure draft of the DCS Standard?**

- 4.8 Westpac has the following comments on the exposure draft of the DCS Standard:

(a) *Clause 3: Interpretation*

- (i) We consider that part (a) of the definition of 'applicable trust' should refer to the entitlement criteria for a trust in section 209 of the DTA, which would avoid any potential discrepancies between the two definitions.

(b) *Clause 4: Application*

- (i) Clause 4 provides that the DCS Standard applies to licensed deposit takers except for overseas licensed deposit takers 'described in regulation 6(2) of the Deposit Takers Regulations 2025'. However, regulation 6(2) does not describe overseas licensed deposit takers. We suggest that instead, clause 4, for example, refers to an overseas licensed deposit taker that mainly provides services to wholesale clients.

(c) *Clause 19: Activated DCS depositor page must remain readily accessible*

- (i) Westpac queries whether the Crisis Preparedness Standard will provide more guidance on the requirement in subclause (b) for the deposit taker to ensure that assistance is available for customer queries about the DCS depositor page? In particular, more clarity on how a deposit taker in liquidation is expected to retain staff to support and maintain the DCS depositor page when that deposit taker no longer exists, would be beneficial.

(d) *Clause 22: Deposit taker must test whether it would be able to meet requirements and Clause 33: Deposit taker must test whether single depositor view meets requirements*

- (i) Westpac seeks clarity on some operational aspects relating to the testing requirements under clauses 22 and 33, including:
- (aa) whether the format and means of notifying the RBNZ of testing outcomes under subclause (b) of both clauses will be included in the Reporting Standard; and
  - (bb) how and when additional operational aspects of these testing requirements (for example, timing of the testing and the range of circumstances that the SDV testing must be undertaken against) will be communicated to deposit takers.

**Question 14: Do you have any other comments on the attached draft of the Guidance to support the DCS Standard?**

4.9 Westpac has the following comments on the draft DCS Standard Guidance Note (**DCS Guidance**):

(a) *Paragraphs 17 and 18: Updates to details*

- (i) Paragraph 17 of the draft DCS Guidance states that if updated or corrected information is provided through a DCS depositor page, the RBNZ will only update the details if the associated compensation payment has not yet been processed. Paragraph 18 further states that if an account has more than one authorised individual, and more than one submission is provided for the same account, the RBNZ will proceed with the first submission received and update to the most recent submission received unless or until the payment has been processed.
- (ii) Westpac expects that paragraphs 17 and 18 are intended to be consistent, rather than setting two slightly varying rules for different scenarios and recommends that the guidance is clarified to avoid any potential confusion. We also refer to the NZBA submission relating to a datetime field to validate the timing of when a record is entered.
- (iii) Westpac also queries whether multiple submissions of depositor data, either on the same day or different days, will delay a compensation payment to a depositor? Further information on the RBNZ's compensation payment processing flow and expected related SLAs would also be appreciated, so that deposit takers can inform depositors if required.

(b) *Pages 15 to 21: SDV fields table and Appendix B of the DCS Data Submissions Guidelines*

- (i) **Fields 11 to 14 Tax-related fields** – Westpac requests clarification of the requirements where tax information at an account level is held, as the tax information in fields 11 to 14 are stated to be at a depositor level only.
- (ii) **Field 27 Temporary high balance** – Westpac notes that in order to flag a temporary high balance in the SDV there will need to be either some very basic rules set in regulations (e.g. account balance is greater than \$X) or deposit takers will need to apply complex calculations at an account level that considers balances over a certain period of time. Any industry-wide basic rule could also only be indicative, as a high balance alone does not signify the source of the money or its intended purpose. Westpac submits that, given these limitations, the identification of a temporary high balance would be better as a manual process, with depositors applying directly to the RBNZ with the appropriate supporting information. Westpac submits that, if the temporary high balance field is retained, it would be better placed in the 'All depositors: deposit product information' section (rather than the 'contact information' section).
- (iii) **Field 28 Vulnerability** – Clause 1(f) of Schedule 2 refers to communication-related assistance only, whereas the guidance for field 28 refers to a broader range of vulnerability attributes. Westpac submits that it would be helpful to clarify, in the guidance, that deposit takers are only expected to capture communication-related

assistance vulnerability attributes, and there is no requirement to map directly to the Consumer Vulnerability Framework.

- (iv) **Field 34 Relevant arrangement and Field 35 Trust account** – Westpac requests that these fields are framed as indicating a 'suspected' relevant arrangement or trust. This would better reflect the complexities of these arrangements and that deposit takers are likely to have different product solutions. In addition, given that relevant arrangements are a subset of trusts, it is not always easy to distinguish whether an arrangement is a relevant arrangement or a trust. Obtaining this information with some certainty would require depositors to inform deposit takers of their relevant arrangement or trust arrangement. Unless there is a requirement for depositors to do so, Westpac submits that indicating 'suspected' relevant arrangements or trusts is more pragmatic approach, particularly as further information will be required from the depositor for the RBNZ to process relevant arrangement or trust payments.

- (v) **Fields 39 to 52 Account authority**

- (aa) The current SDV schema does not provide sufficient fields to meet the requirements in clause 4 of Schedule 2 of the draft DCS Standard as there are no fields for a unique identifier, date of birth, or communication-related assistance needs for authorised individuals. Westpac requests that the RBNZ clarify whether the RBNZ intends to update the SDV schema to include these elements. If not, we request further clarification of how the RBNZ expects authorised individual information to be used during a failure event (including any ordering or hierarchy of authority).
  - (bb) Westpac would like to clarify if and how multiple authorities (at both a depositor and account level) should be included in a single SDV file. Currently, fields 39 to 52 contemplate only one 'authority' object per account, however where there is more than one authority they may all relate to the same unique identifier and/or different account number.

- (vi) **Field 40 Type of authority** – Westpac would like to clarify if only certain types of authority are required to be included in the SDV file or if every type of authority should be included (for example, this could include an additional card holder). If the RBNZ only requires certain types of authority, Westpac requests that this is clarified in the guidance.

- (c) *Paragraph 53 and 59: SDV testing requirements*

- (i) Westpac queries how a test that the information in the SDV 'could be transferred to the RBNZ' would be undertaken; for example, is it an actual test to transfer an anonymised SDV file to the RBNZ? If so, how will the RBNZ be involved in this testing?
  - (ii) Paragraph 53 notes that the deposit taker is not expected to test whether the information is accurate; however, that paragraph also states that testing would include that the identification information held matched the information in the SDV (which requires testing for accuracy). Paragraph 59 also states that the deposit taker must determine whether the information contained in the SDV was complete and

reasonably accurate, and provide details on inaccuracies. Westpac requests that the conflicting requirements in these paragraphs are clarified.

(d) *Paragraph 60: Providing information in relation to DCS to Bank*

- (i) Westpac recommends that the RBNZ provide further detail on the SDV testing under clause 34, so that deposit takers can incorporate these requirements into their solution. For example, is it expected that this test SDV file holds production deposit and compensation values with only anonymised depositor identification data, and how will this file be sent to the RBNZ?

(e) *Page 11 of the DCS Data Submission Guidelines*

- (i) **Archive file naming standard** – Westpac queries the need to include the quantification time and create timestamp in the file name and submits that the date and/or time of when the data was created would be more relevant.

## **5. CHAPTER 3: LENDING STANDARD**

**Question 15: Do you have comments on the structure of the attached exposure draft of the Lending Standard?**

5.1 Westpac has no comments on this question beyond those already raised in the NZBA submission.

**Question 16: Does the attached exposure draft of the Lending Standard and the draft Guidance set out LVR and DTI exemptions clearly enough (noting that these are now framed as ‘nature of lending’ categories)?**

5.2 Westpac has no comments on this question beyond those already raised in the NZBA submission.

**Question 17: Do you have comments on the changes to LVR and DTI exemptions (noting that these are now framed as ‘nature of lending’ categories)?**

5.3 Westpac notes the removal of the ‘combined collateral’ exemption category, which appears to have been replaced by a combination of clause 27 and the calculation of qualifying credit. In our view, this approach is confusing and complex. Westpac suggests that it would be simpler for combined collateral to be reinstated as a nature of lending category.

**Question 18: Do you have comments on including a range of high-LVR and high-DTI thresholds and speed limits, without increments?**

5.4 Westpac has no comments on this question beyond those already raised in the NZBA submission.

**Question 19: Do you have comments on the approach to anti-avoidance?**

5.5 Westpac has no comments on this question beyond those already raised in the NZBA submission.

**Question 20: Do you have comments on the proposed transitional arrangements?**

5.6 Westpac has no comments on this question beyond those already raised in the NZBA submission.

**Question 21: Do you have any other comments on the attached exposure draft of the Lending Standard?**

5.7 Westpac has no comments on this question beyond those already raised in the NZBA submission.

**Question 22: Do you have any comments on the attached draft of the Guidance to support the Lending Standard?**

5.8 Westpac has no comments on this question beyond those already raised in the NZBA submission.

## 6. CHAPTER 4: INCORPORATION OUTSIDE NEW ZEALAND STANDARD

- 6.1 In this section the reference to Westpac refers to both Westpac New Zealand Limited (**WNZL**) and Westpac Banking Corporation (**WBC**).

**Question 23: Do you agree that the drafting of the large corporate or institutional client definition reflects the previously announced policy intent?**

- 6.2 **Fund managers:** the definition of fund managers being by reference to the 'custodian' or 'manager' under the Financial Markets Conduct Act 2013 (**FMCA**) regime excludes current customers who are mandated to manage funds on behalf of third parties but fall outside those specific definitions in the FMCA. An example is an investment manager who has been contractually mandated by the scheme's 'manager' or another entity like an insurance firm to deal on its behalf under an investment management agreement. Many of our key fund manager clients operate in this way, managing large portfolios of assets exceeding \$250 million on behalf of third parties, so their inclusion is warranted by the underlying policy intent. To avoid any unintended narrowing of the policy intent, Westpac submits that a more general clause should be included covering a fund manager or investment manager with total funds under management exceeding \$250 million, with the Guidance clarifying that a fund manager can include the 'custodian', 'manager' or other fund manager or investment manager who is mandated to manage total assets over the relevant threshold.
- 6.3 **Client expected to become an LCIC:** the proposed test in clause 7(1)(e) of the IoNZ Standard is narrower than the policy decisions and may be difficult to apply in practice. In particular, it contains three elements that must be satisfied and applies only to two of the LCIC threshold tests rather than any of the LCIC threshold tests. The policy decisions also stated that the time horizon for the test would be the later of (i) two years or (ii) the maturity of transactions entered into in reliance on the test. An example of a customer scenario not covered by this test is a merger of two fund managers, or a newly established fund manager that would expect to meet the assets under management test in the next two years. Westpac proposes that the requirement for an 'event causing rapid growth' is removed, and that a client will meet the definition if it is reasonably expected to meet any of the LCIC tests on the later of (i) on or before the maturity date of any proposed transaction with the deposit taker, or (ii) two years from the date of the assessment, consistent with the policy decisions.
- 6.4 **Securitisation and property finance:** the special purpose vehicle (**SPV**) test in clause 7(1)(f) of the IoNZ Standard refers specifically to a 'project' which could be interpreted narrowly and may not apply to securitisation transactions and property finance, as referenced in the policy decisions. In addition to the other comments raised in the NZBA submission, Westpac submits this could be clarified in the Guidance, by stating that a SPV for a 'project' can include, without limitation, SPVs used for project financing, leveraged financing, structured financing, securitisation, property financing or other similar financing structures. The SPV test also only applies to one of the LCIC threshold tests rather than any of the LCIC threshold tests – while the other tests are less likely, there could conceivably be projects that achieve one of the other tests at completion.
- 6.5 **Bondholders:** there is no reference in the IoNZ Standard or Guidance to the application of the LCIC test to bond investors, whereas the policy decisions confirmed that the policy intent is about customers of branches and not intended to limit bond and securities issuances by branches. Westpac submits that the Guidance should clarify whether the large corporate or institutional client (**LCIC**) test applies to bond investors or other brokers or intermediaries where an overseas licensed deposit taker:

- (a) issues a bond that is available for subscription by New Zealand investors;
- (b) acts as arranger or joint lead manager for an LCIC customer who is issuing a bond to New Zealand investors; or
- (c) facilitates the distribution of bonds to New Zealand investors at primary issuance (in connection with an arranger or joint lead manager mandate as above) or as part of secondary trading (i.e. buying and selling bonds on the secondary market).

6.6 **Government agencies:** the IoNZ Standard and Guidance does not confirm that government agencies should be treated as LCICs, in contrast to the stated policy decisions that they would be eligible. [REDACTED]  
[REDACTED]  
[REDACTED].] Consistent with the policy decisions, Westpac submits that the IoNZ Standard should specifically permit business with government agencies, using the definition in the FMCA.

**Question 24: Do you agree that the drafting of the wholesale client definition reflects the previously announced policy intent?**

**Question 25: Do you have any other comments on the attached exposure draft of the IoNZ Standard?**

**Question 26: Do you have any comments on the attached draft of the Guidance to support the IoNZ Standard?**

*Potential unintended territorial reach*

6.7 The IoNZ Standard applies to an overseas licensed deposit taker at an entity level and restricts the 'clients' of its 'New Zealand business'. The Standard does not define 'New Zealand business', except to state that it excludes the business of the New Zealand licensed deposit taker (i.e. WNZL in Westpac's case) and its subsidiaries. Westpac has two key concerns with this restriction, arising from the lack of definition of 'New Zealand business':

- (a) Because 'client' is defined as a person to whom the deposit taker provides a 'financial service' within the meaning of the term in section 5(1) of the Financial Service Providers (Registration and Dispute Resolution) Act 2008 (**FSP Act**), which has extraterritorial effect, this restriction potentially restricts the worldwide business of WBC, to the extent a WBC customer is provided a 'financial service' under the FSP Act. For example, WBC may (without any involvement of its New Zealand Branch):
  - (i) provide lending to an Australian corporate group that includes a New Zealand company; or
  - (ii) provide, but not promote, bank account services to New Zealand persons considering a move to Australia.
- (b) WBC complies with the FSP Act and other requirements in relation to these financial services by being a registered bank and being on the FSP Register. However, an overseas bank that is not a registered bank could provide lending to an Australian corporate group that includes a New Zealand company, provided it had no place of business within New Zealand and does not provide the service to New Zealand retail clients (as permitted by the exemption in section 7A(2)(b) of the FSP Act). An overseas bank could also provide, but not promote, bank account

services to New Zealand persons provided it complies with the exemption in regulation 4A of the Financial Service Providers (Exemptions) Regulations 2010. These exemptions are necessary because these are 'financial services' within the meaning of the FSP Act, which would otherwise require the overseas bank to register under the FSP Act as a result of providing these services.

- 6.8 Westpac submits that the linking of the IoNZ Standard's definition of 'client' to the FSP Act's definition of 'financial service' causes an unintentionally broad application of the restriction, as it may require an overseas licensed deposit taker to assess all New Zealand persons that it provides financial services to against the IoNZ Standard's requirements for its 'New Zealand business', even where the services are delivered by, and relevant business booked to, its head office or other overseas branch.

*Potential unintended regulatory reach*

6.9 [REDACTED]

6.10 [REDACTED]

6.11 [REDACTED]

*Defining New Zealand business*

- 6.12 Westpac submits that in light of the two issues discussed above the term 'New Zealand business' should be exhaustively defined, to avoid unintended consequences or uncertain interpretation of the application of the IoNZ Standard. The definition could, aligning with clause 5(2) of the IoNZ Standard and section 461B of the Financial Markets Conduct Act 2013, link New Zealand business to the financial statements of the branch, excluding the business of any other subsidiaries that are New Zealand persons.

- 6.13 This would mean that clients dealing with WBC outside of New Zealand, who are still captured by the definition of 'client' and the FSP Act's definition of financial services, would not be restricted by clause 5(1), which would apply only to WBC's New Zealand business.

- 6.14 **Assessment timing:** the requirement to assess as soon as reasonably practicable after financial statements are available may cause inadvertent compliance issues and create significant operational burden if assessments are required more frequently than a deposit taker's existing credit assessment process. In addition to the comments raised in the NZBA submission, Westpac suggests the IoNZ Standard or related Guidance clarify that it is permissible for this assessment to be carried out by the deposit taker in the year following the release of financial statements.

- 6.15 **Existing transactions of clients that cease to be LCICs:** the Guidance suggests that existing transactions will be permitted to mature without requirement to offboard those, however, the IoNZ Standard is not explicit on this. Westpac suggests that the Standard is updated to explicitly state that existing transactions may be completed, and that this applies to 'existing clients' under Schedule 1 as well. Additionally, to reflect a customer's commercial needs, existing transactions may need to be restructured or renegotiated and we submit the Guidance should state this is permitted provided the maturity date is not extended. This would be in the customer's best interests, ensuring they are not disadvantaged by transactions being unwound (potentially at a loss) if they cease to meet the LCIC thresholds.
- 6.16 **Reporting of assets:** Westpac understands that the Reporting Standard, when released, will clarify the reporting obligations for the \$15 billion asset cap under clause 5(2) of the IoNZ Standard and whether it will reflect existing disclosure statement requirements. We note that changes to existing reporting requirements could have major impacts on the asset cap for the purpose of the IoNZ Standard.

## 7. CHAPTER 5: GROUP SUPERVISION POLICY FOR DEPOSIT TAKERS

### **Question 27: Do you agree with the proposed situations for applying additional Level 1 requirements to a New Zealand licensed deposit taker?**

- 7.1 Westpac generally agrees with the proposed situations for applying additional Level 1 requirements set out in paragraphs 163 to 165 of the Consultation Paper. However, to avoid any unintended consequences that may arise from the policy applying wider than is necessary, Westpac submits that the policy should only apply in very limited circumstances, such as:
- (a) where a New Zealand licensed deposit taker has a subsidiary incorporated in an overseas jurisdiction that operates as a deposit taker and one or more of the situations in paragraph 165 applies; or
  - (b) where two or more licensed deposit takers are owned by the same holding company and a consolidated supervision approach is necessary.
- 7.2 Westpac recommends that any application of the policy to a deposit taker should only occur after extensive consultation with that deposit taker, given that it could result in significant structural, process, data and system changes for its group.

### **Question 28: Do you have any comments on our proposed terminology for developing group supervision requirements?**

- 7.3 Westpac queries whether the term 'subsidiaries' (rather than 'controlled entities') has been used purposefully in the description of the Level 2 Group in paragraph 162 of the Consultation Paper? If the term 'subsidiaries' is intentionally used, we note that this would change the composition of deposit takers' current financial reporting groups, which may not align with accounting standards. Particularly in relation to covered bond and securitisation entities within a deposit takers' group that are not 'subsidiaries' but are 'controlled entities' and currently consolidated and form part of the deposit taker's financial reporting group.

### **Question 29: Do you agree with our high-level approach to applying Level 1 and Level 2 requirements to relevant New Zealand licensed deposit takers?**

- 7.4 Westpac is unclear about which Level 2 requirements apply to an unlicensed holding entity, and how they apply. For example:
- (a) Paragraph 162 of the Consultation Paper refers to the Level 2 group including one or more holding entities of the licensed deposit taker, and that the holding entity of the licensed deposit taker could be the Level 2 Group Head for the purpose of applying Level 2 requirements (which are both reflected in Figure 1).
  - (b) There are multiple references in Table 1 (on page 41 of the Consultation Paper) to Step 1 requirements applying to the Level 2 group (which, as noted above and in Figure 1, appears to include an unlicensed holding entity).
  - (c) Paragraph 169 states that some proposed standards apply requirements at Level 2 or to the Level 2 Group Head, provided that the Level 2 Group Head is a licensed deposit taker. However, where the Level 2 Group Head is a licensed deposit taker, the Level 1 requirements already apply, so it is unclear whether the intention is for the additional Level 2 requirements to apply

to sister companies of the licensed deposit taker and the other 'consolidated subsidiaries' within Level 2 of Figure 1.

- 7.5 It was Westpac's understanding that RBNZ did not intend for any of the proposals, discussed in Section 5 of the Consultation Paper, to apply to holding entities of licensed deposit takers. Further clarity around the application of Level 2 requirements to holding entities would be appreciated by Westpac.
- 7.6 Westpac also queries whether the inclusion of the holding entity as the Level 2 Group Head could impact the structure of the financial reporting group, which is currently based on the licensed deposit taker being the 'head' of the group.

**Question 30: Do you have any feedback to share that may be helpful in developing any possible future Step 2 approach to amending the DTA?**

- 7.7 The proposal under Step 2 to directly regulate a holding entity, as currently worded, would have a significant impact on a broad range of deposit takers. Westpac submits that the impact could be disproportionate to the risk that the policy intends to address and hence the policy should appropriately consider the structure of the deposit taker.
- 7.8 For example, under current Condition of Registration 12, the holding entity has no influence over the deposit taker's strategic direction, activities, or governance structures – that responsibility sits with the deposit taker's board of directors. Considering the nature and function of deposit takers' holding entities, we expect that in most cases it would be inappropriate for (as an example) the Governance Standard requirements to apply to the holding entity. This would effectively either duplicate regulatory requirements or transfer the licence to the holding entity, resulting in significant compliance costs for the deposit taker.
- 7.9 Westpac submits that a pragmatic and more proportionate approach could be for the RBNZ to work with individual deposit takers to understand their group structure and determine which is the most appropriate entity to be regulated as the licensed deposit taker. This approach would give the RBNZ more flexibility to address the specific situations that are of particular concern (such as where there are two licensed deposit takers under the same holding entity) without the far-reaching consequences of a blanket approach to regulating holding entities.

