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Website: [\[http://www.govt.nz\]](http://www.govt.nz)

Contact phone: 04 472 2029

Contact address: 2 The Terrace, Wellington 6140

Deposit Takers (Risk Management) Standard 2027

This standard is made under section 72 of the Deposit Takers Act 2023 by the Reserve Bank of New Zealand

- complying with section 75(1) of that Act; and
- having regard to the matters set out in section 92(3) of that Act; and
- being satisfied of the matters set out in sections 72(1) and 92(4) of that Act; and
- the board of the Reserve Bank of New Zealand having regard to the matter set out in section 49(1) of the Reserve Bank of New Zealand Act 2021.

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Standard

1 Title

This is the Deposit Takers (Risk Management) Standard 2027.

2 Commencement

This standard comes into force on 1 December 2028.

Part 1 General provisions

3 Objectives

In line with section 3 of the Act, the objectives of this standard are—

- (a) to promote effective risk management practices to promote the soundness and safety of deposit takers; and
- (b) to support the deposit-taking sector in developing and maintaining adequate risk management processes and procedures in a dynamic and evolving risk environment; and
- (c) to build flexibility for deposit takers in the application of the requirements to their circumstances while also setting minimum thresholds for effective risk management; and
- (d) to ensure an appropriate response to risks that occur in the financial system.

4 Interpretation

In this standard, unless the context otherwise requires,—

Act means the Deposit Takers Act 2023

board,—

- (a) in relation to a deposit taker incorporated in New Zealand, means a board of directors (or other persons or body exercising powers of management, however described);
- (b) in relation to an overseas licensed deposit taker, means the chief executive officer in New Zealand

chief risk officer means a person who undertakes the functions set out in clause 31

group 3 deposit taker means a deposit taker who is identified in the deposit taker's licence as a group 3 deposit taker for the purposes of this standard

material risk has the meaning given in clause 7(3)

related entity has the meaning given in clause 4 of the Deposit Takers (Governance) Standard 2027

risk appetite statement means a risk appetite statement as described in clause 13

risk culture means a shared attitude and understanding of risk within a deposit taker promoted by the board through 1 or more of the actions described in clause 37

risk management strategy means a risk management strategy as described in clause 12

senior management means a group of persons all of whom meet the definition of senior manager set out in section 6 of the Act

significant influence has the meaning given in clause 5 of the Deposit Takers (Governance) Standard 2027.

5 Application

- (1) Parts 2 to 5 apply to—
 - (a) a deposit taker incorporated in New Zealand;
 - (b) an overseas licensed deposit taker in relation to its New Zealand business, other than the stress-testing requirement set out in clause 25.
- (2) Despite subclause (1), for a group 3 deposit taker, the requirements of clauses 25, 31, and 32 apply on a diminished basis as indicated in those clauses.

6 Approaches to applying and interpreting standard

In meeting a requirement of this standard, a deposit taker must—

- (a) determine the steps it takes to meet the requirement in a way that a reasonable person would regard as—
 - (i) adequate for the requirement; and
 - (ii) commensurate with the size and nature of the deposit taker's business;
- (b) take a comprehensive perspective of risk across all material risk types, whether whole-of-enterprise or group-wide, as applicable.

Part 2

Risk management frameworks

7 Risk management frameworks

- (1) A deposit taker must establish and maintain a risk management framework that takes into consideration, and addresses, all material risks of the deposit taker.
- (2) A risk management framework, for a deposit taker, is the totality of its systems, structures, policies, processes, and people that enable it to identify, measure, evaluate, monitor, report on, control, and mitigate all internal and external sources of material risk on a timely basis.
- (3) A **material risk** for a deposit taker means a risk that could have an impact that is more than minor, whether financial or non-financial, on—
 - (a) the safety and soundness of the deposit taker's business; or
 - (b) the ability of the deposit taker to comply with its prudential obligations.

8 Consideration of risks

- (1) In its risk management framework, a deposit taker must—
 - (a) identify any event, circumstance, or trend that has the potential to give rise to a risk to its business; and
 - (b) assess it to determine whether it is material for its business.
- (2) For the purposes of subclause (1), the deposit taker must consider—
 - (a) the categories of risk listed in section 85 of the Act; and
 - (b) how those risks interrelate and interact.

9 Framework features

A risk management framework must—

- (a) be strategic and forward-looking, and be able to consider risks across different time horizons and risks arising from internal and external sources;
- (b) provide a comprehensive view of risk across a deposit taker's business units;
- (c) be able to identify and account for uncertainties, limitations, and assumptions attached to risk measurement;
- (d) include a sound risk culture promoted and encouraged by the board;
- (e) for a deposit taker that is a member of a group, require it to consider risks arising in relation to related entities.

10 Other requirements for frameworks

In addition to the requirements in clauses 7 to 9, a deposit taker's risk management framework must incorporate the requirements relating to the establishment and maintenance of—

- (a) a structural system for risk management that includes a risk management strategy and a risk appetite statement (*see* clauses 12 and 13);
- (b) procedures for the review of the risk management framework and risk management function (*see* clause 22);
- (c) a stress-testing programme (*see* clause 25);
- (d) information management systems (*see* clause 27);
- (e) an appropriate internal control framework (*see* clause 29);
- (f) a risk management function (*see* clause 30);
- (g) compliance and internal audit functions (*see* clauses 32 to 34).

11 Group requirements for frameworks

- (1) This clause applies—
 - (a) when a deposit taker incorporated in New Zealand has 1 or more subsidiaries;
 - (b) to the deposit taker in relation to the group of entities that consists of the deposit taker and its subsidiaries.

- (2) In addition to the requirements that the deposit taker must meet under clauses 7 to 10, the deposit taker must apply the requirements of this standard on a group-wide basis.

12 Risk management strategy

A deposit taker must establish and maintain a risk management strategy that summarises the policies and procedures for risk management. The strategy must—

- (a) describe, in summary form, each identified material risk and the approach to managing the risk; and
- (b) outline—
 - (i) the policies and processes for dealing with the risk; and
 - (ii) the roles and responsibilities related to the risk management function and governance arrangements; and
 - (iii) an approach for building awareness of the risk management strategy.

13 Risk appetite statement

- (1) A deposit taker must establish and maintain a risk appetite statement that defines the level of risk that a deposit taker is willing to assume or tolerate.
- (2) The statement must set boundaries for risk tolerance to enable communication of a deposit taker's tolerance for a particular risk, and enable the deposit taker to—
 - (a) monitor how the deposit taker is operating against its stated appetite for a particular risk; and
 - (b) provide operational limits for the routine management of material risks.

14 Documentation requirements

A deposit taker must ensure that its risk management framework is appropriately documented.

15 Notification requirements

- (1) A deposit taker must—
 - (a) provide the Bank with a copy of its risk management strategy and its risk appetite statement, on adoption and after any material revision; and
 - (b) notify the Bank of material changes made to the risk management framework.
- (2) The actions referred to in subclause (1) must be undertaken as soon as practicable and no more than 10 days after approval by the board.

Part 3

Operational requirements

Policies and processes

16 Setting risk management policies and processes

A deposit taker must establish and maintain policies and processes that are aligned with its risk management strategy and risk appetite statement.

17 Monitoring and notification procedures

A deposit taker must establish and maintain procedures for identifying, monitoring, and providing internal notification of risk exposures, risk issues, and any breach of, or non-compliance with, its policies and processes. These include—

- (a) the validation, approval, and use of models for measuring risk components;
- (b) the early identification and management of problem assets including non-performing and restructured loans;
- (c) the establishment and maintenance of contingency arrangements for stress conditions.

18 Use of models

In setting a policy or process for the use of models, a deposit taker must identify the limitations and assumptions relating to model use that could affect decision making that relies on outputs from models.

19 Identification and management of problem assets

A deposit taker must have a prudent and documented policy or process in place for the early identification and management of problem assets, including remediation of the exposure associated with the problem asset.

20 Contingency arrangements for stress conditions

A deposit taker must establish and maintain appropriate contingency arrangements to—

- (a) address risks that may materialise under stress conditions; and
- (b) define the actions that must be taken in stress conditions, such as planning for continuity and recovery.

21 Management of conflicts of interest

(1) A deposit taker must establish and maintain a policy or process to manage conflicts of interest that—

- (a) articulates what constitutes a conflict of interest; and
- (b) describes when a conflict might arise; and
- (c) ensures the management of the conflict.

- (2) In particular, the deposit taker must have a clear policy setting out why and how a discretionary benefit that is linked to its financial performance may be provided to a person involved in a risk management function or a compliance and internal audit function for the deposit taker.

Reviews of risk management frameworks

22 Reviews

- (1) A deposit taker must undertake—
- (a) a comprehensive review of all the elements of its risk management framework at least once every 3 years; and
 - (b) an annual review of its risk management strategy and risk appetite statement.
- (2) On completion of a review, the deposit taker must—
- (a) ensure that the recommendations of the review are implemented in a timely manner; and
 - (b) make the required adjustments to reflect changing risk appetites, risk profiles, and market and macroeconomic conditions.

23 Conduct of reviews

A review must be conducted by a person with sufficient operational independence from the deposit taker's risk management functions.

24 Results of reviews

The board must be notified of the results of a review of—

- (a) the risk management framework together with any proposed adjustments to the framework;
- (b) the risk management function by the internal audit function under clause 30(1)(e).

Stress testing

25 Regular stress-testing programmes

- (1) To build resilience and identify anticipated financial impacts of a material risk, a deposit taker must have a regular stress-testing programme that—
- (a) is forward-looking; and
 - (b) includes consideration of all risk types listed in section 85(a) of the Act; and
 - (c) covers all its material risks.
- (2) A stress test may—
- (a) include scenario analysis and sensitivity analysis with reference to specific risks; and
 - (b) make use of multiple models with approaches informed by expert judgement.

- (3) Despite subclause (1)(b), the stress-testing programme of a group 3 deposit taker may be limited in its consideration of risk types to the following: operational risk (including cybersecurity risk), credit risk, and liquidity risk.
- (4) This clause does not apply to an overseas licensed deposit taker.

26 Results of stress testing

- (1) As soon as practicable after a deposit taker conducts a stress test, the board must be provided with a summary of the results, together with an explanation of how the results are to be interpreted.
- (2) The deposit taker must also, once within each 12-month period, provide the summary referred to in subclause (1) to the Bank.
- (3) Following stress testing, a deposit taker must consider how to integrate the results of the test into its decision making on the operation of its business, its risk management processes, and the assessment of its capital and liquidity levels.

Information and data management

27 Adequate management of information and data

A deposit taker must establish and maintain information management systems that include risk data aggregation tools and reporting capabilities that enable it to—

- (a) identify, measure, evaluate, monitor, report on, control, and mitigate internal and external sources of risk to the deposit taker; and
- (b) provide adequate information across the deposit taker's business units and at each level of its management and decision making, both under normal operating conditions and in times of stress; and
- (c) provide the board and senior management with information on a timely basis to support their decision making.

28 System features

For the purposes of clause 27, a deposit taker's information management system must include the following features to inform its decision making and support its business reporting:

- (a) the presentation of appropriate documentation that is suitable for audit purposes; and
- (b) the setting of record-keeping requirements; and
- (c) the management of communication, internally and externally, and the notification of risk issues and outcomes; and
- (d) the methods of monitoring and managing different material risks; and
- (e) the flexibility to support decision making during a period of stress when a risk profile may significantly and suddenly change.

Part 4

Internal controls and functions

29 Internal control structures

- (1) To establish and maintain an effectively controlled and tested operating environment, a deposit taker must have internal controls in place that—
 - (a) take into consideration its risk management strategy and risk appetite; and
 - (b) are forward-looking.
- (2) As part of its annual audit plan under clause 34, the deposit taker must conduct a review of its internal control framework to ensure its effectiveness.

30 Requirement for risk management function

- (1) A deposit taker must have a dedicated risk management function that—
 - (a) is independent of the risk-taking functions of the deposit taker; and
 - (b) is assigned the responsibility for—
 - (i) overseeing the deposit taker's core business functions; and
 - (ii) assisting the board and senior management to maintain the risk management framework through its ability to report on risk exposures directly; and
 - (c) is adequately supported with information and communication technology systems; and
 - (d) is required to—
 - (i) notify the board of a significant breach of, or major deviation from, the risk management framework; and
 - (ii) inform the internal audit function of major changes to the deposit taker's risk management strategies, policies, or processes; and
 - (e) is subject to regular review by the internal audit function.
- (2) A deposit taker must not outsource its risk management function.

31 Chief risk officer

- (1) For the operation of its risk management function, a deposit taker must appoint a person to oversee and manage the performance of the function to ensure the risk exposures of the deposit taker are within prudent limits.
- (2) The person must—
 - (a) be operationally independent from the deposit taker's other finance functions; and
 - (b) have no other leading role in the organisation; and
 - (c) be involved in activities and decisions that affect the deposit taker's risk profile, and have the authority to provide an effective challenge to those activities and decisions; and

- (d) have a reporting line to the chief executive officer of the organisation and have access to the board.
- (3) Despite subclause (2)(b), the person appointed to oversee and manage the risk management function of a group 3 deposit taker may have executive responsibilities that are separate from, and in addition to, the risk management function.
- (4) A deposit taker may remove the person from their position only with the prior approval of the board.

32 Requirement for compliance and internal audit functions

- (1) A deposit taker must establish and maintain, as a dedicated, independent, and adequately resourced part of its organisation,—
 - (a) a compliance function that is responsible for identifying, reviewing, and monitoring its compliance risks; and
 - (b) an internal audit function that is responsible for—
 - (i) providing assurances, audits, and advice to management; and
 - (ii) assessing whether the deposit taker's policies, processes, and internal controls, including risk management, compliance, and governance processes, are effective and appropriate.
- (2) For the purposes of subclause (1), the reference to an independent function means a function that has a reporting line within the organisation that is separate from any of the deposit taker's business lines.
- (3) A deposit taker must not outsource its compliance and internal audit functions. However, this subclause does not apply to a group 3 deposit taker.

33 Resourcing of functions

- (1) The deposit taker must ensure that its risk management, compliance, and internal audit functions are adequately resourced with suitably experienced and qualified persons who have—
 - (a) clearly defined roles and responsibilities; and
 - (b) the authority to perform their duties effectively, including, for the internal audit function, the ability to audit a function outsourced by the deposit taker; and
 - (c) access to the board in order to—
 - (i) for the risk management function, provide an effective challenge to an activity or decision that may significantly affect the deposit taker's risk profile;
 - (ii) for the internal audit function, ensure its recommendations are acted upon.
- (2) In addition to the requirements in subclause (1), for the internal audit function, the person must be sufficiently able to—
 - (a) communicate with staff; and
 - (b) access records, files, and data.

34 Audit plans

Under its internal audit function, a deposit taker must prepare an annual audit plan to ensure compliance with its policies and processes.

Part 5 Organisational responsibilities and practices

35 Responsibilities of boards

- (1) It is the responsibility of the board to—
- (a) approve a risk management strategy for the deposit taker; and
 - (b) determine a risk appetite statement for the deposit taker; and
 - (c) encourage a sound risk culture in the organisation; and
 - (d) ensure that any recommendations of a review under clause 22 are implemented in a timely manner; and
 - (e) approve risk management policies and processes developed by the senior management of the deposit taker.
- (2) In undertaking its responsibilities under subclause (1), the board must clearly define risk boundaries.

36 Responsibilities of senior management

It is the responsibility of senior management to manage the operation of its risk management framework, including—

- (a) monitoring and managing all material risks to the deposit taker consistent with the policies and processes approved by the board; and
- (b) developing risk management policies and processes in the organisation for approval by the board.

37 Risk culture

It is the responsibility of the board to encourage a sound risk culture in the organisation to promote the development and execution of its adopted risk management strategy through actions that may include—

- (a) setting up clearly defined and documented roles, responsibilities, and reporting structures for the management of material risks;
- (b) providing for regular communication to be made to all relevant staff to ensure the risk management framework is understood;
- (c) setting escalation procedures for the reporting of major events to an appropriate level of management or, if necessary, the board;
- (d) ensuring that appropriate action is taken in a timely manner in response to a breach or non-compliance issue under the risk management framework.

Made at Wellington on [day month year].

Reserve Bank of New Zealand

Explanatory note

This note is not part of the standard but is intended to indicate its general effect.

This standard comes into force on 1 December 2028.

The standard is issued under section 72 of the Deposit Takers Act 2023 and sets out the requirements for deposit takers to establish and maintain risk management frameworks to address material risks arising in the financial system.

The standard applies to deposit takers incorporated in New Zealand and to overseas deposit takers in relation to their New Zealand businesses.

Part 2 (which relates to risk management frameworks) provides for the establishment and maintenance of a risk management framework under which a deposit taker must identify potential risks to its business and assess the risk to determine whether it is material for the deposit taker. It sets out the components of the framework, including a risk management strategy, a risk appetite statement, and a sound risk culture. For a deposit taker with subsidiaries, the requirements of the framework apply on a group-wide basis.

Part 3 sets out the operational requirements for a deposit taker in setting up policies and processes that are aligned with its risk management strategy and risk appetite statement. First, the risk management framework must be reviewed at least once every 3 years by a person who is operationally independent of the deposit taker's risk management functions. Second, the deposit taker is required to have a regular stress-testing programme, and third, the deposit taker must have adequate information management systems for data aggregation and reporting capabilities.

Under *Part 4* (which relates to internal controls and functions), a deposit taker must have a dedicated risk management function that is responsible for overseeing its core business functions and ensuring the board is notified of a significant breach of, or major deviation from, the risk management framework. It requires a deposit taker to appoint a chief risk officer to manage the deposit taker's risk management function. In addition, under this Part, a deposit taker must set up a dedicated and independent compliance function to monitor its compliance risks, and an internal audit function that provides assurances, audits, and advice to management.

Part 5 (which relates to a deposit taker’s organisational responsibilities and practices) sets out the responsibilities placed on the board for approving its risk management strategy, determining other policies and processes, and for encouraging a sound risk culture in the organisation. It places the responsibility on senior management to manage the operation of the risk management framework and to develop risk management policies and processes for approval by the board.

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