



Reserve Bank
of New Zealand
Te Pūtea Matua

Governance Standard Guidance Note

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Guidance Note version history

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Use and status of the Guidance

The purpose of this Guidance is to assist licensed deposit takers (**deposit takers**) to interpret and comply with the Deposit Takers (Governance) Standard 2027 (the **Standard**). This recognises that the Standard deals with technical subject matter and there may be no case law or other external reference points to assist with its interpretation. Guidance will assist individual deposit takers with their own compliance and a more consistent approach across the industry.

The Guidance assists by:

- Outlining the context and purpose of the Standard. Technical content can often be better understood with awareness of the policy intent at the time it was drafted.
- Outlining our preferred interpretation in relation to some clauses, where we have been made aware of differing interpretations by deposit takers.
- Where the Standard relies on judgement by deposit takers (such as with principles-based requirements), outlining our views on how that judgement can be prudently exercised.

To assist in using the Guidance:

- Terms that are defined in the Standard or the Deposit Takers Act 2023 (the **DTA**) and have the same meaning.
- The Guidance is designed to be read alongside the Standard. Sections of this Guidance have the same headings as sections of the Standard. Paragraph and clause numbers are those from the Standard. The term 'clause' is used when referring to text from the main body of the Standard.
- In event of any conflict between the text of the Standard and this Guidance, the Standard prevails. The Standard is secondary legislation made under the DTA, while the Guidance does not have formal status. The Guidance represents our view and is therefore an authoritative indicator of that view. However, ultimately, it is for a court to determine the correct interpretation of the Standard.
- The Reserve Bank of New Zealand (Reserve Bank) will keep under constant review and update the Guidance. We may change our guidance or our interpretation of the Standard if we consider this appropriate. We do not do this lightly and will endeavour to notify deposit takers in advance if we are considering amending the content of the Guidance.
- This Guidance is not legal advice. We encourage deposit takers seek their own professional advice, as it is their responsibility to determine their obligations and ensure that they comply with the requirements of the Standard.
- Some items and treatments may differ between the Standard and other reporting requirements on deposit takers set by the Reserve Bank.
- The Guidance relates to the exposure draft version of the Standard as at 26 February 2026.
- We welcome feedback on the Guidance at any time.

Part A. About this Standard

Overview

The Standard sets governance requirements for deposit takers in the following areas:

- responsibilities of the board of deposit takers and of the New Zealand Chief Executive Officer (the **New Zealand CEO**) of *overseas licensed deposit takers (branches)* to specify how these positions must exercise their governance responsibilities,
- compositional and structural requirements for the board of deposit takers to support independent governance and help to ensure that sufficient governance attention is provided to the key concerns of a deposit taker, and
- fit and proper requirements for **directors** and **senior managers** (as defined in the DTA) of all deposit takers to ensure the suitability of people appointed to these positions.

Context and purpose of the Governance Standard

The Standard seeks to promote sound, effective and efficient corporate governance practices to support the safety and soundness of all deposit takers and, ultimately, the New Zealand financial system. It seeks to address the risks to financial stability arising from poor management and oversight of deposit takers. Addressing these risks is critical to safeguarding public confidence in the financial system more broadly.

The Standard takes a hybrid principles-based approach in many of the requirements. This means that principles-based outcomes are complemented with more specific requirements. Where this is the case, while the same requirements may apply for all deposit takers, we expect that deposit takers will be able to comply with the requirements in a way that reflects the size and the nature of their business. Application of the Standard to the groups of deposit takers in the Reserve Bank's Proportionality Framework¹ are outlined in Table 1 below.

Table 1: Applicability of the Governance Standard's requirements to each deposit taker Group

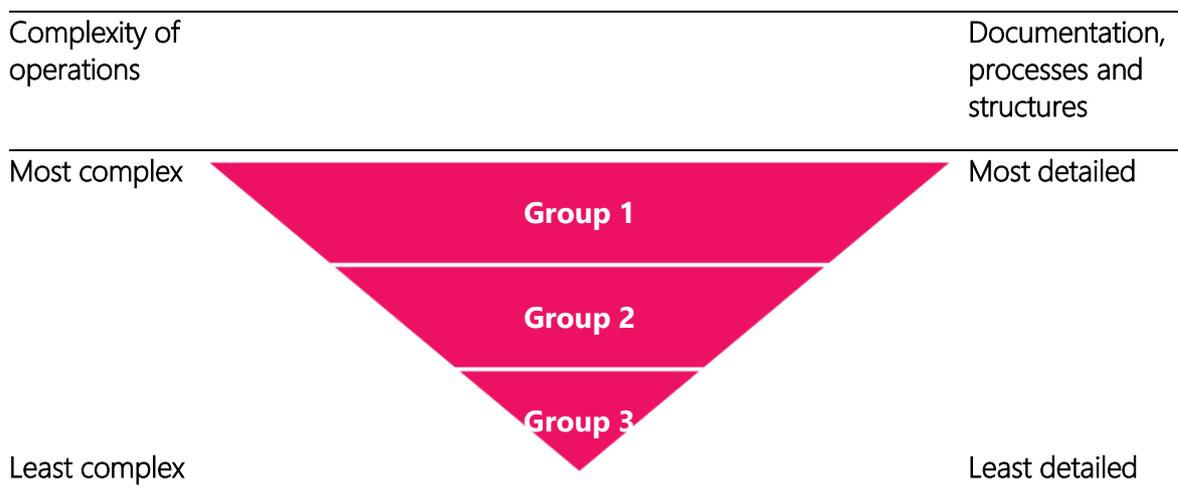
Part	Group 1 deposit takers	Group 2 deposit takers	Group 3 deposit takers	Branches
Part 2: Responsibilities of board	✓	✓	✓	✗
Part 3: Structure and composition of board	✓	✓	✓	✗
Some requirements vary across groups				
Part 4: Fit and proper requirements for deposit takers	✓	✓	✓	✓
Part 5: Responsibilities of New Zealand chief executive officer of overseas licensed deposit taker	✗	✗	✗	✓

¹ [Proportionality Framework for developing standards under the Deposit Takers Act](#)

Proportionality

1. The Standard sets out requirements relating to responsibilities, accountabilities, processes and practices—which the Reserve Bank expects to be documented, appropriately communicated throughout a deposit taker and implemented to achieve the intended policy outcomes.
2. We expect a deposit taker to be able to demonstrate that its processes and policies are applied appropriately and work as intended in practice. We emphasise the importance of focusing on the outcomes in fulfilling the requirements as opposed to approaching compliance as a checkbox exercise. Doing so will allow a deposit taker to implement the requirements in a manner appropriate to the size and nature of their business.
3. In general, we expect larger deposit takers with more complex operations to have greater specificity in documentation than smaller deposit takers with typically less complex operations (Figure 1). Similarly, the processes and organisational structures of larger deposit takers with more complex operations will be more detailed compared to smaller deposit takers with less complex operations.

Figure 1: Expected level of specificity of the documentation, processes and organisational structures by group of deposit takers



4. Notwithstanding these general expectations on the relative level of detail and complexity of documentation, processes and organisational structures, we expect deposit takers to ensure these mechanisms are appropriate and robust on an ongoing basis. We also encourage deposit takers to go beyond minimum compliance when feasible to ensure that governance processes are fit for purpose for their business.
5. A deposit taker has flexibility in its approach to documentation in complying with the requirements. It can have a single document or multiple documents of all the required elements. A deposit taker can also opt to cross-reference, where applicable, to minimise documentation duplication.
6. The guidance and examples described in this document are not exhaustive.

Part B. Guidance on the Governance Standard

Part 1: Preliminary provisions

Interpretation (Clause 3)

7. This clause provides definitions that are later used in the Standard. Consistent with section 20 of the Legislation Act 2019, words or expressions used in the Standard have the same meaning as in the DTA.

Meaning of related entity and significant influence (Clauses 4 and 5)

8. These clauses set out specific definitions used in the Standard.

Transitional, savings, and related provisions (Clause 6)

9. The Standard contains transitional provisions for bringing existing directors and senior managers into the fit and proper requirements of the Standard. Schedule 1 sets out these terms.

Application (Clause 7)

10. This clause sets out how the Standard applies to different types of deposit takers.

Group requirements for governance (Clause 8)

11. Clause 8 sets out how the Standard applies to a deposit taker that is head of a group. In this circumstance, a deposit taker is required to comply with requirements relating to Board responsibilities (clause 9), skills and experience of directors and senior managers (clause 10) and functions of board committees (clause 17) on a group-wide basis. That is, in meeting the requirements the board of a deposit taker must provide oversight of the group that the deposit taker heads. These requirements aim to support prudent governance and oversight of the group that a deposit taker heads.

Part 2: Responsibilities of board

12. Part 2 of the Standard sets out the responsibilities of the board in governing a deposit taker. These requirements establish the key governance accountabilities of the board in prudently governing a deposit taker. They also support the board in exercising its duty of care to a deposit taker, including oversight of its operations in a manner that promotes stability and maintains public confidence. The requirements set out in the Standard are minimum requirements. A board may have responsibilities beyond what is required by the Standard.
13. Part 2 of the Standard only applies to licensed deposit takers.

Board responsible for prudent governance of deposit taker (Clause 9)

Outcome

14. Clause 9 sets out that the board is responsible for the prudent governance of a deposit taker. This means that the board has the responsibility for overseeing a deposit taker's safety and soundness, and accountability for its operations.
15. The board is required to establish and maintain governance structures and practices to support this outcome. We expect the board to document its governance structures and practices to support this outcome and provide transparency and consistency of implementation.

Requirements

16. In order to support the board in achieving the outcome, subclause 9(2) sets out particular requirements that the board must undertake to support prudent governance of a deposit taker.

Board charter

17. **The board must prepare and maintain a charter (Clause 9(2)(a)).** We expect the charter to define its purpose and scope. The required elements for the charter outlined in subparagraphs 9(2)(a)(i) to (iv) are:
 - 17.1. **Responsibilities and powers of the board collectively and in respect of each director (Clause 9(2)(a)(i)).** We expect the board charter to be explicit on the responsibilities and powers reserved for the board. These include the board's powers and responsibilities to approve or set out policies, frameworks, processes and reports, and oversee management. These also include standards of conduct and individual responsibilities expected of directors.
 - 17.2. The process for each of these responsibilities and powers do not have to be in the board charter and can be documented separately.
 - 17.3. Table 2 below provides examples of powers and responsibilities that we would expect to see in a board charter. If these powers and responsibilities are stipulated in a separate document, such as a deposit taker's constitution, we expect the board charter to cite the reference document clearly. However, a deposit taker should exercise judgement in adapting these examples to its specific circumstance.
 - 17.4. **Roles and responsibilities of the board chair, deputy chair and committee chairs (Clause 9(2)(a)(ii)).** We expect the board charter to set out the responsibilities of the board chair, deputy chair and committee chairs. These could include responsibilities relating to:

- the preparation for meetings (such as preparation of the agenda and allowed attendees);
- the conduct of meetings (such as relating to surfacing all views and enabling constructive challenge to support well-reasoned decisions); and
- alignment of governance processes with the board-approved strategic direction.

17.5. **Size, structure and composition of the board and its committees (if any) (Clause 9(2)(a)(iii)).** We expect the board charter to set out the:

- number of members of the board (which can be a minimum number instead of a precise number);
- proportion of independent directors and non-executive directors; and
- committees of the board, their responsibilities and their membership.

17.6. **Board’s governance processes ((Clause 9(2)(a)(iv)).** We expect the board charter to outline the board’s governance processes, including reporting lines between the board and management. This could include:

- the scope and nature of board’s access to management and vice-versa;
- the board’s access to external auditors;
- the board’s meeting procedures, including what constitutes a quorum;
- processes to identify, report and manage conflicts of interest of directors; and
- conditions when the board, board committee or board director could seek external advice.

18. We do not expect the information in the board charter to be detailed but we encourage the board to cite supporting documents containing the details of processes and procedures (if any) in the board charter.

19. We expect the board to review its board charter periodically to ensure that it remains fit for purpose and to update it when there are changes.

Table 2: Examples of the board’s powers and responsibilities in a deposit taker’s board charter

Powers and responsibilities
Oversee the implementation of governance processes and controls, monitoring compliance with the regulatory requirements, and satisfying itself that governance process and controls are adequate and implemented in accordance with the regulatory requirements
Set out and oversee the implementation of strategic direction, and assess if objectives are being met
Approve and/or oversee the implementation of:

Powers and responsibilities

- Internal Capital Adequacy Assessment Process and capital management policies and decisions that include:
 - dividend policy, dividend payments and dividend reinvestment
 - decisions to issue debt, equity, derivative and hybrid instruments, buyback of these instruments, and capital returns.
- liquidity risk management framework and funding strategy
- operational risk management framework, service provider management policy, information and communication technology (ICT) policy and business continuity plans (BCPs)
- remuneration policy, including adjustments to variable remuneration in accordance with the remuneration policy
- risk management strategy and risk appetite statement, and forming a view on sound risk management culture in the organisation in accordance with a deposit taker's risk appetite and risk management strategy
- fit and proper policy
- appointment and termination of the board chairperson (board chair), board committee chairs and senior managers
- establishment of board committees, including committee charters that set out the committees' roles and responsibilities and committee membership
- any delegation of board powers and responsibilities, including changes to existing delegation arrangements
- performance of senior managers, including their exercise of powers and responsibilities delegated by the board
- appointment and termination of an external auditor, where appropriate, in complying with the regulatory requirements
- matters relating to workplace health and safety in the organisation
- other policies, frameworks, reports and decisions that are specified in other DTA standards as board responsibilities or have implications on the financial, operational and reputational position of a deposit taker (such as significant political and other forms of donations, asset purchase, and asset sale).

Monitor a deposit taker's financial performance, and approve financial and non-financial reports and disclosures

Make recommendations to shareholders for the appointment and removal of board directors

Set out and periodically review succession plans for the board and senior managers

Strategic direction

20. **Strategic direction and its implementation (Clause 9(2)(b)).** We expect the board to document the strategic direction that it sets for a deposit taker. In setting the strategic direction, we

expect the board to be informed by key areas (such as socio economic and political environment, nature of market competition and the deposit taker’s financial performance and capability) that affect its strategic directions, such as an assessment of the socio-economic and political environment, market conditions, and a deposit taker’s performance and capability. Table 3 outlines the elements that we expect a deposit taker to consider in conducting this assessment.

Table 3: Examples of key strategic direction areas and topics under each area

Key areas	Elements
Vision and objectives	Business and operational outcomes
Socio-economic and political environment	Economic, political and social (including sustainability) conditions; technology; environment; and legal context
Market and competition	Salient characteristics of the current and potential markets; and competitors
Performance and capability	Market position and a deposit taker’s financial performance and capability

Note: This table draws from IoD (2021), The four pillars of governance best practice for New Zealand directors.

21. We expect the documentation of the strategic direction to include a deposit taker’s strategic priorities, period of application of the strategic direction, key deliverables supporting the objectives and their timelines, and initiatives to engage stakeholders. Examples of key deliverables supporting the objectives could include initiatives relating to digital transformation, product innovation, operational efficiency and customer satisfaction.
22. We expect the strategic direction document to be reviewed periodically and define the frequency of review.

Financial reports and audits

23. **Reporting and independence of audit (Clause 9(2)(c)).** We expect the board to document its processes for preparing its financial and non-financial reports. The following standards and guidance documents provide additional information relevant to this requirement:
 - 23.1. Deposit Takers (Disclosure Statements) Standard 2027 (the **Disclosure Statements Standard**) and Guidance requires disclosure statements to be produced to ensure that market participants, including depositors, have access to timely, accurate and understandable information to help make decisions about a deposit taker’s risk profile;
 - 23.2. Deposit Takers (Reporting) Standard 2027 (the **Reporting Standard**) and Guidance requires financial and prudential information to be supplied to the Reserve Bank, supporting the Reserve Bank’s prudential supervision of deposit takers and monitoring of risk in the New Zealand financial system;
 - 23.3. Deposit Takers (Risk Management) Standard 2027 (the **Risk Management Standard**) and Guidance requires the deposit takers to establish risk reporting processes and have audits, including an internal audit function.

Skills and experience of directors and senior managers (Clause 10)

Outcome

24. Clause 10 sets out that the board is responsible for ensuring that directors and senior managers have the appropriate skills and experience, both individually and collectively, to prudently govern and manage a deposit taker. Deposit takers face a broad range of risks. Identifying the appropriate skills and experience required to govern and manage a deposit taker supports diversity of thought and experience. This in turn fosters decision-making that best manages this broad range of risks, supporting the best interests of the deposit taker.
25. While we anticipate that appropriate training opportunities will be provided, we expect directors and senior managers to be capable of fulfilling their responsibilities effectively and be prepared to undertake their duties fully and competently upon appointment.
26. The board may supplement its skills and experience by engaging external advisers to advise them on specialised areas.

Requirements

27. In order to support the board in achieving the policy outcome, subclause 10(2) sets out particular requirements that the board must undertake to ensure that the board and senior managers have appropriate skills and experience.
 - 27.1. **Selection processes for directors and senior managers are consistent with the fit and proper policy (Clause 10(2)(a)).** We expect that, in addition to the fit and proper requirements, the selection process considers the identified gaps in skills and experience within the board and proactively addresses them. We expect the board to maintain a balanced mix of competencies relevant to a deposit taker's operations and strategic objectives. We encourage the board to consider candidates with expertise in key competency areas that it has identified for the board.
 - 27.2. **Processes to ensure that the skills and experience of directors and senior managers are appropriate for a deposit taker's size, nature, complexity of business (Clause 10(2)(b)).** We expect the board to ensure that there are clear processes to ascertain that the skills and experience of directors and senior managers are appropriate to the deposit taker's size, nature, and business complexity upon appointment. This could include:
 - defining the desired competencies for directors and senior managers aligned with a deposit taker's size, nature, and business complexity,
 - preparing a competency framework (Figure 2 provides an example) and skills matrix template that directors and senior managers can use to assess skills against, and
 - Meetings (documented where appropriate) that foster open dialogue within the board and senior managers about required competencies for these roles to support the governance and management of the deposit taker.
 - 27.3. **Processes are in place to ensure skills remain appropriate (Clause 10(2)(c)).** This could include identifying the skills required to respond to emerging risks and challenges and identifying opportunities to upskill in these areas. This could be supplemented by processes that help ensure that directors and senior managers receive timely information on business and market developments that have the potential to affect the safety and soundness of a deposit taker.

Figure 2. Example of a competency framework for directors and senior managers



Note: This figure draws from [IoD \(2015\)](#), New Zealand Director Competency Framework.

Internal governance (Clause 11)

Outcome

28. Clause 11 sets out that the board is responsible for establishing internal governance processes and ensuring that directors understand their individual and collective responsibilities. It aims to promote robust, clear governance across a deposit taker, reinforce commitment to duty and mitigate conduct not aligned with sound governance processes.
29. We expect a deposit taker to document relevant processes, frameworks and procedures, and make these documents accessible to all board directors and management. These may be consolidated in a single document or maintained as separate documents. We expect the frequency of reviews for these processes, frameworks and procedures to be clearly defined.

Requirements

30. In order to support the board in achieving this outcome, clause 11 sets out requirements that the board must undertake to establish internal governance processes. Further guidance on some requirements is set out below.
- 30.1. **Set out how the board and its committees (if any) operate (Clause 11(2)(a)).** We expect this will include documenting the:
- purpose of a committee,
 - functions (including those required by clause 17) and any authorities,
 - meeting and decision-making processes, and
 - lines of communication with senior managers and any other relevant parties.

30.2. **Board's framework for the delegation of authorities (Clause 11(2)(b)):** We expect the board to document its delegation framework, including the:

- framework's objectives,
- hierarchical levels of delegation (that is, who can delegate to whom),
- authorities and powers that can be delegated,
- limitations on the delegated powers and authorities, and
- board's responsibilities for the delegated authorities and powers.

30.3. We expect delegation to be clear between the board and its committees and with senior managers.

30.4. **Breaches of delegation (Clause 11(2)(c)).** We expect the board to document in the delegation framework:

- a clear definition of breaches (including unauthorised actions);
- reporting, investigation, and escalation processes for breaches; and
- corresponding courses of action for breaches.

30.5. We do not expect the board to compile an exhaustive list of all potential breaches of delegation. Rather, we expect what constitutes a breach of delegated authority for the board to be clearly defined so that it is clear when actions fall outside an approved delegation.

30.6. A breach of delegation, for example, could be defined as any decision, commitment, transaction or approval that exceeds the monetary or risk limits in the delegation, relates to activities not covered by the delegation, and/or is made by a person or body that does not hold the necessary authority. This definition could capture instances of exercising authority beyond the approved scope of delegation, misuse or abuse of delegated authority, failure to comply with approved limits or conditions, and acting without the requisite authorisation or oversight as set out in the board charter or the deposit taker's governance policies, among others.

30.7. **Capacity to perform responsibilities (Clause 11(2)(d)).** We expect the board to:

- be clear about its expectations of directors regarding the time and commitment required to fulfil their responsibilities to a deposit taker, and
- communicate these expectations in appointment documents so that incoming directors are informed of them before assuming their position.

30.8. **Reporting lines, and the flow and nature of the information between the board, board committees, and senior managers (Clause 11(2)(e)).** We expect the board to document:

- how information **flows** between the board, committees, and senior managers in practice, including through reports, meeting agendas, minutes, and updates, to help ensure that relevant parties receive the right information at the right time to support decision-making;

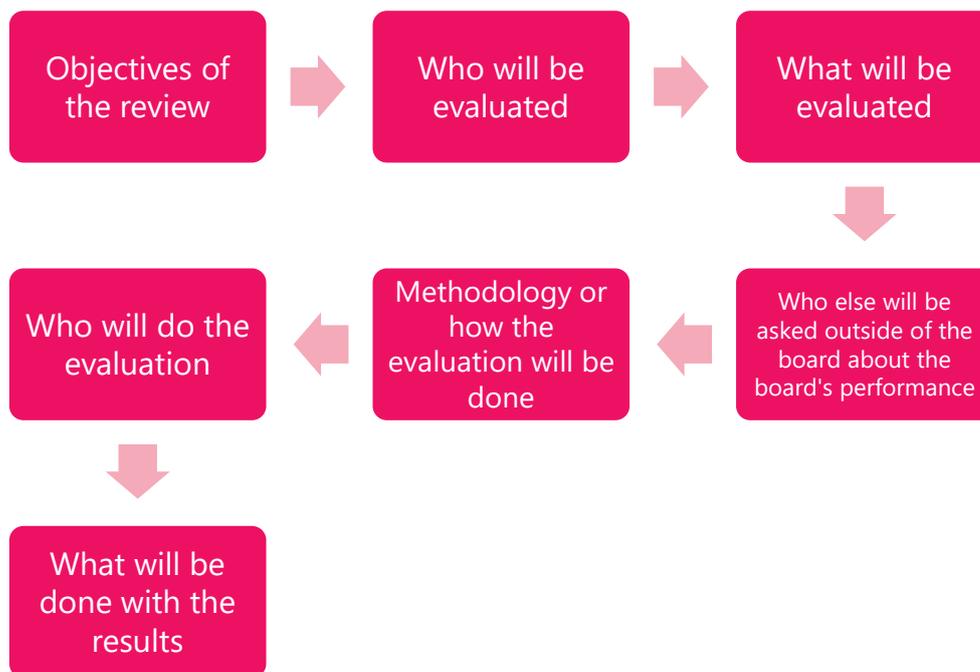
- the **nature** of information shared, including its type, sensitivity, and relevance, and how appropriate protection applies to sensitive information that is expected to flow between the board, committees, and senior managers;
- the escalation process and thresholds for regulatory and statutory compliance breaches, and financial and operational concerns (for example, project delays and overruns);
- information relating to data ownership, accountability and the rules for data quality, security, stewardship and access; and
- the process of reviewing the reporting lines.

30.9. **Procedures for supporting the board's ability to make proper inquiry (challenge) of senior managers and each other's views (Clause 11(2)(f)).** We expect the board to provide appropriate challenge to management. Effective challenge is a critical role of the board and can strengthen decision-making. We expect the board to document discussions between the board and management, providing information on how the board oversees and challenges the management in managing a deposit taker. This documentation may be in the form of meeting minutes or file notes. Non-executive directors-only meetings can support the board in making effective challenge of management.

30.10. **Performance reviews (Clause 11(2)(g)).** We expect the:

- board to establish and document a framework for its performance review process (illustrated by Figure);
- review process to have clear objectives and scope tied to a deposit taker's safety and soundness, strategic direction and financial performance;
- scope of the review process to include who and what will be evaluated as well as who else will be asked to provide input outside of the board;
- review process to clarify the evaluation methodology, who will conduct the evaluation and what will be done with the results; and
- board to manage and disclose any actual or potential conflicts of interest, including in relation to the external evaluator, before the review begins.

Figure 3: Example framework for board performance review process



Note: This figure draws from [Kiel and Beck \(2018\)](#), citing Kiel, Nicholson, Tunny and Beck (2018).

30.11. We encourage the board to give its members an avenue to provide an anonymous assessment of board performance as well as candid and constructive feedback during any review. To maintain the objectivity of these reviews, we encourage the board to engage an external evaluator periodically to conduct an independent review and lead the performance evaluation discussion with the board.

30.12. **Board renewal policy (Clause 11(2)(h)).** We expect the board renewal policy to set out:

- how the board refreshes its membership;
- the scope of the policy's application and decisions required relating to areas such as term limits, external commitment limits, performance reviews, skills and expertise needed in line with a deposit taker's strategic direction; and
- processes relating to the departure of directors.

30.13. **Succession plan for board members and senior managers (Clause 11(2)(i)).** Succession planning supports continuity and stability during leadership transitions. We expect the succession plan to set out:

- its immediate and long-term objectives;
- term limits and retirement schedules of directors and senior managers;
- the target mix of profiles and a criteria checklist of skills, experiences and attributes of future board members (with reference to clause 10); and
- a process for identifying and developing potential leadership candidates.

Remuneration policy (Clause 12)

Outcome

31. Clause 12 sets out that the board is responsible for ensuring a deposit taker has a remuneration policy and that it is consistent with a deposit taker's strategic direction and risk management framework, and supports the safety and soundness of a deposit taker. It aims to promote alignment of remuneration practices with prudent risk-taking and effective management.

Requirements

32. Subclause 12(2) sets out particular requirements that the board must undertake to ensure that a deposit taker's remuneration policy supports the safety and soundness of a deposit taker.

32.1. **Remuneration policy is clearly laid out and able to be understood, specifies the objectives of the policy and is communicated clearly to its board and employees (Clause 12(1)(a)).**

We expect the policy to:

- detail the factors considered in determining remuneration; and
- set out a review process to ensure that the policy remains aligned with a deposit taker's strategic objectives, risk appetite, regulatory requirements, and market practices.

32.2. Where a deposit taker is a part of a group, we expect the policy to include provisions for detailing that remuneration received by directors from all entities within the group is recorded and accessible to help avoid any perception of *double or multiple dipping* (or the practice of receiving 2 or more forms of income from different entities within a group structure for the same work or work hours).

32.3. **Coverage of all types of remuneration (Clause 12(1)(b)).** Table below provides examples of remuneration. The Disclosure Statements Standard (Subpart 3) includes requirements relating to remuneration disclosure. The Risk Management Standard also has requirements relating to variable remuneration and related matters.

Table 4: Examples of remuneration forms

Forms
<p>Fixed remuneration:</p> <ul style="list-style-type: none"> • cash, non-cash and equity-based remuneration (typically fixed components unless performance-linked) • guaranteed cash or equity payments, which are not performance related, or up-front payments, which are not deferred • fringe benefits, where these comprise a significant proportion of remuneration (typically fixed) • lending and leveraged arrangements, such as shares funded by a concessionally priced loan (fixed in structure but the value can vary with share price).
<p>Variable remuneration:</p> <ul style="list-style-type: none"> • service, time-based or project completion awards (variable, linked to completion) • one-off awards, including retention, sign-ons, buyouts and termination payments (typically variable)

Forms

- short-term incentives, which reward performance over a period of 1 year or less, and longer-term incentives for periods beyond this
- deferred awards, including amounts that remain on foot following termination
- equity options, which can generate highly geared incentives (variable, linked to equity value)
- proportion of performance fees and carried interest
- hedging arrangements for equity-based remuneration (variable, linked to equity value).

Note: This table draws from APRA CPG 511 although the entries are grouped differently.

32.4. Promoting good performance (Clause 12(1)(c)). We expect:

- the board to define criteria for good performance of the board, senior managers and all employees in relation to the achievement of a deposit taker's strategic objectives, including having clear targets and measurable key performance indicators;
- the key performance indicators to reflect both financial outcomes and non-financial objectives such as compliance with risk management, customer satisfaction and progress on strategic direction;
- a deposit taker to avoid incentive structures that could encourage behaviours and decisions misaligned with the risk appetite, following the Risk Management Standard (Clause 16) and Guidance document on establishing and maintaining policies and processes that are aligned with its risk management strategy and risk appetite statement;
- performance indicators to balance short-term results with long-term sustainability, incorporating assessments of conduct based on adherence to clearly defined professional standards and ethical behaviour; and
- remuneration to promote accountability and encourage sustained performance by relying on clear, objective criteria that minimise subjectivity and ensure fairness.

32.5. **Managing conflicts of interest (Clause 12(1)(d)).** Conflicts of interest could arise from close relationships of employees and directors within a deposit taker. A conflict of interest could include a potential, perceived or actual conflict. Managing a conflict includes identifying and monitoring conflicts. Measures to manage conflicts of interest could include mandatory and regular disclosure of interests by employees and directors and the recusal of conflicted individuals from decisions where their impartiality could be compromised.

32.6. **Regular review of the remuneration policy (Clause 12(1)(e)).** We expect the board to ensure that the remuneration policy defines the frequency of review and the review process to include:

- evaluation of the policy's effectiveness in promoting sound risk management, driving sustainable performance, and compliance with applicable regulations;
- opportunity for employees to offer feedback during the review process and to be informed of the decisions and their rationale; and

- an assessment of whether remuneration incentives support sustainable conduct and performance.

32.7. We also expect the board to oversee and provide informed challenge to the overall approach to remuneration decisions, especially in periods of financial stress and marked business environment uncertainty.

32.8. External benchmarking and, where appropriate, independent external reviews can be used to supplement the board's assessment to maintain competitiveness and regulatory compliance.

33. We expect the remuneration review to be documented, including any proposed changes, the rationale for those changes, and the outcomes of the review process.

Part 3: Structure and composition of board

34. Part 3 sets out structural and compositional requirements on the boards of deposit takers. The purpose of these requirements is to ensure that the board is sufficiently independent to manage a deposit taker in the best interests of a deposit taker itself and that it dedicates sufficient time to matters of importance in the overall prudent management of a deposit taker.
35. Part 3 of the Standard only applies to locally incorporated deposit takers.

Board size and composition (Clause 13)

36. Clause 13 sets out requirements on the size and composition of the board. Setting minimum size requirements encourages a diversity of views and independence requirements support independent decision making.
37. A deposit taker's conditions of licence will set out the minimum number of directors that must be on their board. The Standard provides that this may be either 3 or 5 directors. These will be set according to requirements set out above in Table 5 below.

Table 52: Size and composition requirements for the board

Requirements	Groups 1 and 2	Group 3
Size of the board	At least 5	At least 3
Chairperson	Must be independent	
Independent directors	<p>A majority of the board must be independent directors which may or may not include the chair of the board [the basis for determining a majority only changes if the chair independence exception is utilised]</p> <p><i>[The exposure draft seeks feedback on two options relating to this requirement and the chair independence exception. In option A, the majority of independent directors could include the chair of the board. In option B, the majority of independent directors could not include the chair of the board if the exception is utilised.]</i></p>	
New Zealand residency	<p>At least half of independent directors must be ordinarily resident in New Zealand</p> <p>[Additional requirement if chair independence exception utilised: The chairperson must be ordinarily resident in New Zealand. <i>[This final requirement only forms part of option B for the options on the chair independence exception.]</i>]</p>	

Acting in the best interests of a deposit taker

38. Clause 13 also sets out that a deposit taker's constitution or rules must not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what they believe is the best interests of a deposit taker. The purpose of this requirement is to ensure that directors can only take decisions that are in the best interests of a deposit taker.

Requirements for independence (Clause 14)

39. Clause 14 sets out the requirements for a director to be considered independent for the requirements set out in Table 5 above. The purpose of the independence criteria for independent directors is to ensure that these directors do not have prior experience, or are not

connected with a deposit taker for such a period of time that it would impact the impartiality of their decision-making in the best interests of a deposit taker.

40. The restrictions include that a director is not, and has not been, a material professional advisor to the deposit taker. This includes situations where the director has provided advice via a firm (for example, a professional services firm).

Exceptions to independence requirements (Clause 15)

41. Clause 15 sets out exceptions to the independence requirements. There are two types of exception: those that automatically apply and those that require Reserve Bank prior approval. The two exceptions requiring Reserve Bank approval are the:
- 41.1. related entity exception: where the Reserve Bank may approve directorships at a related entity in a business transfer, despite the fact that a director may be a director on a related entity, if it is satisfied that it would not endanger the safety and soundness of a deposit taker; and the
- 41.2. chair independence exception: where the Reserve Bank may approve the chair of a deposit taker to sit on the board of its holding entity despite the fact that a director may be a director on its holding entity, under scenarios specified in the Standard.

Board committee requirements (Clause 16)

42. Clause 16 sets out requirements to establish and maintain subject specific board committees. Boards face significant demands on their time with the number of matters that demand their attention. There are also issues that require more time and in-depth discussion than others. The purpose of these requirements is to ensure that the board is able to devote sufficient attention to such issues and also enhance the objectivity of the board's oversight of these important areas.
43. A deposit taker's conditions of licence set out requirements for maintaining board committees. Group 1 and 2 deposit takers must maintain the following committees:
- 43.1. an audit committee,
- 43.2. a risk committee, and
- 43.3. a remuneration committee.
44. These are the minimum committees that a Group 1 or 2 deposit taker must maintain. The board of a deposit taker may wish to maintain other board committees in other subject areas if it considers this would enhance its oversight in specific subject areas.
45. As a matter of prudential best practice, Group 3 deposit takers are encouraged to maintain board committees. All boards can benefit from such arrangements to focus attention on the subject matters identified. However, for small deposit takers, their size and nature of business may not warrant the additional complexity and cost of doing so. If a Group 3 deposit taker does not maintain one or all of the committees required to be maintained by a Group 1 or 2 deposit taker in clause 16, they must have arrangements in place to ensure that the board allocates time to the functions specified for these committees in clause 16.
46. Clause 16 also sets out the minimum structural requirements for board committees for Groups 1 and 2.

Functions of committees (Clause 17)

47. Clause 17 sets out the functions of the 3 board committees that Groups 1 and 2 deposit takers are required to maintain. For the Group 3 deposit takers that do not maintain such committees they must allocate board time to these matters.
48. The functions for the committees set out in the Standard are the minimum functions. We expect that committees may have other functions provided to them by the board. The Standard does not limit these in any way.

Part 4: Fit and proper requirements for deposit takers

49. Part 4 of the Standard sets out the fit and proper requirements for deposit takers. The purpose of these requirements is to ensure that only a fit and proper person is appointed to, and continues to hold, a position as a director or senior manager of a deposit taker.
50. Fitness tests aim to ensure that persons holding these positions are competent and capable of fulfilling their responsibilities. Propriety tests aim to ensure that directors and senior managers are of good character.
51. The integrity and competence of directors and senior managers of deposit takers are critical to the prudent governance and management of a deposit taker. Ensuring their suitability supports protecting and promoting the stability of the New Zealand financial system.
52. The Standard includes requirements which set out when a fit and proper assessment is required, what criteria must be part of the assessment, and obligations for deposit takers to have a fit and proper policy.
53. The requirements set in the Standard are minimum requirements. A deposit taker's fit and proper policy and processes may go beyond what is required by the Standard.
54. Part 4 of the Standard applies to both, locally incorporated deposit takers, and branches, unless specified otherwise.

When fit and proper assessment required (Clause 18)

55. Clause 18 sets out the situations when a deposit taker is required to carry out a fit and proper assessment. The intent of the assessment is to ensure directors' and senior managers' suitability.
56. A branch is required to notify the Reserve Bank of a new appointment, but not to request the Reserve Bank's approval. They are not required to run periodic reassessments.

Fit and proper requirements for directors and senior managers (Clause 19)

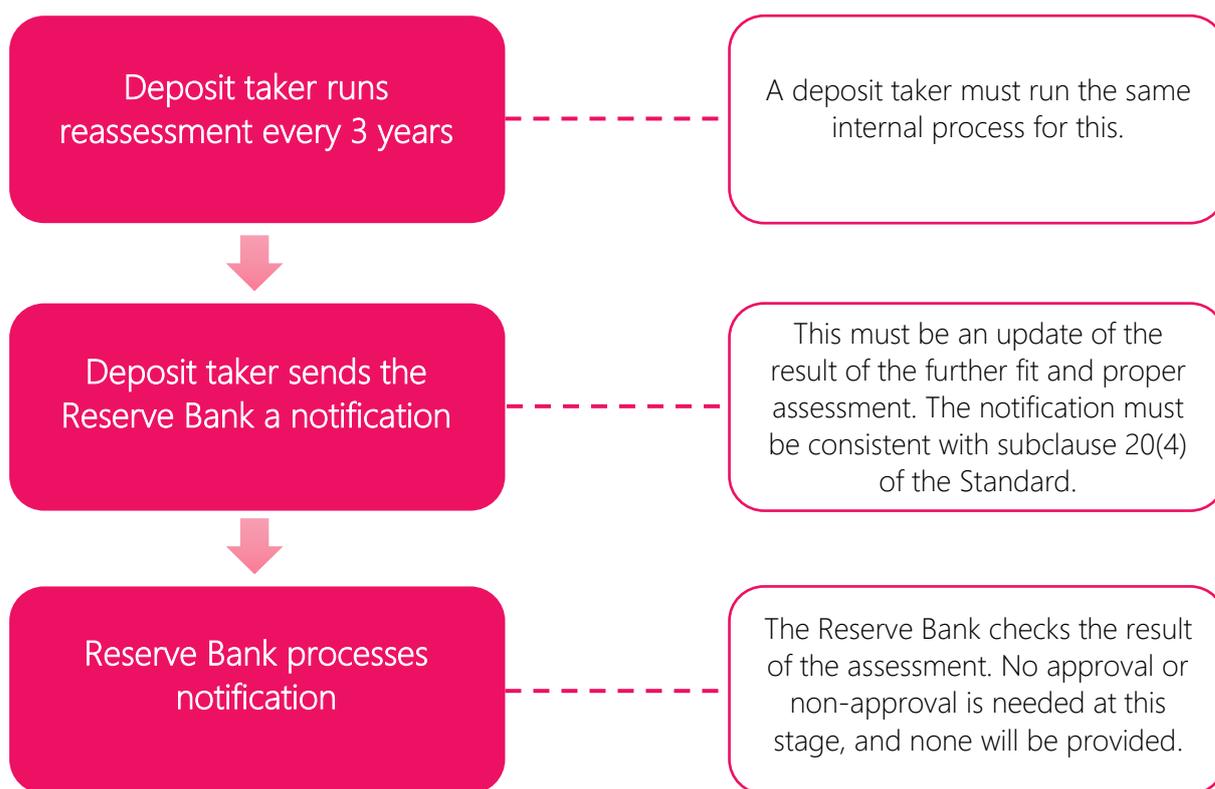
57. Clause 19 requires a deposit taker, in assessing whether a person is a fit and proper person, to have regard to the criteria set out in clause 21, as well as to a deposit taker's own fit and proper policy (see clause 22). The criteria in clause 21 set a minimum level of fitness and propriety to hold a position as director or senior manager of a deposit taker. A deposit taker may consider additional criteria for their own purposes as part of their fit and proper policy.
58. We expect a deposit taker to have adequate processes and arrangements in place to ensure that relevant information is obtained for the fit and proper assessment.
59. Clause 19 requires a deposit taker to obtain all relevant information. This could include any information which may be relevant to clause 21, or any information listed in clauses 27, 28 and 29. This may also include personal information. Any personal information that a deposit taker is required to collect as part of the fit and proper assessment will be managed by the Reserve Bank in accordance with the confidentiality clauses of the DTA and the Privacy Act 2020.

Fit and proper reassessment of directors and senior managers (Clause 20)

60. Clause 20 requires a deposit taker to undertake a fit and proper reassessment for each position of director and senior manager at least every 3 years. This is to ensure the ongoing suitability of people holding these positions. For directors, this reassessment must take place at least every 3 years, regardless of tenure length. This clause does not apply to branches.

61. A deposit taker’s internal reassessment process must be of the same nature as the initial appointment (Figure 4). A deposit taker must source the information, run the same checks (such as criminal and financial checks) and conduct the assessment as they would for the initial appointment of a new director or senior manager.
62. For some checks, a deposit taker may not need to source the same information again, as they would already hold it from the previous assessment. This applies only if they remain valid when the fit and proper reassessment is run. For example, if a person worked in another jurisdiction between 2015 and 2020, the initial checks and documentation would already cover that jurisdiction and time period.
63. While deposit takers will need to gather the relevant information and documentation for their internal assessment (see clauses 27, 28 and 29 in the Standard), the reassessment notification to the Reserve Bank will not need to be accompanied by the same documentation. Figure 4 below provides an example of the fit and proper reassessment process.
64. A deposit taker must **notify the Reserve Bank of the outcome of the reassessment** (not request an approval as is the case for a new appointment). This notification must be provided using a fit and proper certificate.

Figure 4: Process for fit and proper reassessment



Fit and proper criteria (Clause 21)

65. Clause 21 sets out the matters which a deposit taker must assess to determine whether a person is fit and proper to hold a director or senior manager position. This is a non-exhaustive list. A deposit taker may choose to augment the criteria for their candidates through their own fit and proper policy. A candidate for director or senior manager will be assessed for approval by the Reserve Bank against these requirements.

Capacity, competence and integrity (Clause 21(1)(a))

66. The person must possess the capacity, competence and integrity to perform the duties of the position. We expect a deposit taker to apply their judgement and determine an appropriate approach for meeting this requirement in accordance with their size and nature of business, and the duties of the position outlined in the fit and proper policy. For example, we expect that a Group 1 deposit taker may have different requirements for capacity and competence, compared to a Group 3 deposit taker. Each deposit taker will need to determine how much time a director needs to devote to their role, or what specific skills and experience an individual position may require. Specifically:

66.1. in terms of **capacity**, we expect a deposit taker to consider whether the person can devote adequate time to their role as director or senior manager, in a manner which promotes the sound and prudent governance of a deposit taker;

66.2. in terms of **competence**, we expect a deposit taker to consider whether the person possesses the necessary skills, experience and knowledge to perform the duties of the specific position of director or senior manager; and

66.3. in terms of **integrity**, we expect a deposit taker to consider whether the person possesses the level of judgment, good character and honesty required to govern a deposit taker.

Disqualification from holding the position (Clause 21(1)(b))

67. The person must not be disqualified from holding the position of director or senior manager of a deposit taker under legislation. For locally incorporated deposit takers, a deposit taker must assess whether the person is disqualified from holding the position of director or senior manager under New Zealand legislation. In accordance with the Legislation Act 2019, legislation is defined as the whole or a part of an Act or any secondary legislation.

68. For branches, a branch must assess whether the person is disqualified from holding the position of director or senior manager under legislation in their **home jurisdiction** (as defined in the DTA), as well as New Zealand Legislation.

Suitability concerns (Clause 21(1)(c))

69. The Standard sets out the suitability concerns that must be assessed by the deposit taker as a part of the fit and proper criteria. See also the Guidance on clauses 22(2)(h) and 26(2) relating to actions to be taken when a suitability concern is identified.

Financial position (Clause 21(1)(c)(i))

70. We expect that the person must be of a sound and stable financial position to hold the position of director or senior manager of a deposit taker. We expect a deposit taker to undertake the checks to assess this criterion in a manner that is proportionate to their size and nature of business. However, in all cases we expect that a credit check would be a necessary minimum to meet this requirement.

71. Nonetheless, a credit check may not be sufficient to identify concerns relating to financial position in all cases. We expect a deposit taker to consider further background checks as it relates to financial position to identify relevant concerns, on a case-by-case basis, especially where there is a potential risk to the prudent governance and management of a deposit taker.

Bankruptcy or related proceedings (Clause 21(1)(c)(ii))

72. A deposit taker must assess whether the current or proposed appointee has been subject to bankruptcy or any related proceedings. This includes judgement debt, and/or being the subject of:
- 72.1. any creditors' composition,
 - 72.2. any proposal to creditors,
 - 72.3. any order or arrangement to pay debts,
 - 72.4. no assets procedure, or
 - 72.5. any other personal insolvency arrangements or procedures.
73. Although bankruptcies are discharged automatically after 3 years from the public register, it should be noted that any previous record of bankruptcy is relevant to this suitability concern. We expect a deposit taker to disclose any previous bankruptcy to the Reserve Bank, even if it is discharged from the public register. We also note that the inclusion of judgment debts within this suitability concern expands its scope beyond just personal insolvency proceedings.
74. As a matter of prudential best practice, we encourage deposit takers to consider the following factors relating to this suitability concern:
- 74.1. the amount owed by the person in the event of the judgment debt, bankruptcy or insolvency procedure;
 - 74.2. the length of time since the person was subject to the judgment debt, bankruptcy or insolvency procedure; and
 - 74.3. the circumstances leading to the judgment debt, bankruptcy or insolvency procedure.
75. Where this suitability concern is raised, this may warrant further enquiry of the person's credit history by the Reserve Bank.

Influence over an entity subject to prudential legislation (Clause 21(1)(c)(iii))

76. We expect a deposit taker to assess whether the person has been a director or senior manager of, or otherwise exercised influence over, any entity subject to prudential legislation in the circumstances outlined in subclause 21(2). Entities subject to prudential legislation include banks, non-bank deposit takers, and insurance companies. We expect a deposit taker to assess this suitability concern even if there was no direct finding of wrongdoing against the person.
77. When the circumstances referenced are assessed "likely to" happen, the intent is to capture current or developing events. In these cases (for instance, the entity "*is likely to become insolvent*"), we expect the deposit taker to conduct a reasonable review of publicly available information. This public information could include public warnings, disclosures, media coverage, and Bank Financial Strength Dashboard information.²
78. As a matter of prudential best practice, we encourage deposit takers to consider the following factors relating to this suitability concern:

² See [Bank Financial Strength Dashboard](#).

- 78.1. the nature of the business that the entity was involved in;
- 78.2. the person's role in the entity and the importance of that role. Note that this is not simply a question of whether the person filled a formally important role such as director or CEO, but whether they were in a position to substantially influence the affairs or circumstances of the entity. We expect a deposit taker to consider any level of involvement at a director or senior manager level in an entity in the circumstances outlined in subclause 21(2);
- 78.3. the events leading up to the entity being in the circumstances outlined in subclause 21(2);
- 78.4. the person's role in those events. In particular, the degree of influence that they exercised and the specific actions that they did, or did not, take in the circumstances outlined in subclause 21(2);
- 78.5. the person's conduct during those events outlined in subclause 21(2);
- 78.6. where there was regulatory action taken against the entity or the person controlling the entity, what this action was and how this was resolved; and
- 78.7. whether a contravention of any prudential obligation may suggest a careless or reckless attitude towards governance, or poor judgement.

Criminal record or prosecution (Clause 21(1)(c)(iv))

- 79. A deposit taker must assess whether the person has any form of criminal conviction, irrespective of how closely related the offending is to the role of director or senior manager. We expect a deposit taker to undertake a further assessment of the person's suitability where this concern arises. In particular, we expect a deposit taker to consider whether the person has committed certain types of serious criminal offending (such as committing serious criminal offences under the Financial Markets Conduct Act 2013 or the Companies Act 1993).
- 80. Other less serious or less relevant offending may still be material. For example, an offence that indicates a casual or indifferent attitude to compliance with the law (either as an isolated event or as part of a broader pattern of behaviour) may bring into question the person's integrity, character and honesty. This could indicate the person is not fit and proper to hold the role of director or senior manager of a deposit taker.
- 81. If the person is subject to an unresolved prosecution for a criminal offence for which a conviction may be entered at the time of the fit and proper assessment, then this could also be relevant. Where a person is subject to an unresolved prosecution for a criminal offence, the circumstances and events leading to this must also be taken into consideration.
- 82. As a matter of prudential best practice, we encourage deposit takers to consider the following factors relating to this suitability concern:
 - 82.1. the relevance of the offence to the role of director or senior manager (for example, crimes involving dishonesty or relating to behaviour in financial markets will be more relevant than some other crimes),
 - 82.2. the seriousness of the offence – both in terms of its magnitude (for example, a conviction for fraud will be more significant than a conviction for a failure to file an annual return), and the nature of the sentence handed down (for example, in some cases a non-custodial sentence may indicate less culpability on the part of the person), and

82.3. how long ago the offence was committed.

83. Where this suitability concern is raised, the Reserve Bank may also seek authorisation to conduct its own criminal record check. Persons who have the benefit of the Clean Slate scheme are not required to disclose any criminal record. In all other cases, the Reserve Bank will expect the disclosure of any offences that a person has been convicted of at any time, and in any country.

Malpractice, or refusal of admission to, or expulsion from, a professional body (Clause 21(1)(c)(v))

84. A deposit taker must assess whether the person is or has been, the subject of any investigation, adverse admissions or findings made, or disciplinary or regulatory action taken which relates to the person's engagement in a profession or an occupation.

85. This also includes the refusal of admission to, or expulsion from, a professional body, by (or to) an authority with disciplinary or regulatory functions relevant to persons engaging in that profession or occupation.

86. In considering this criterion, we expect a deposit taker to have regard to whether this concern would impact the credibility of the director or senior manager as a senior officer of a deposit taker, and how this would impact its sound and prudent governance.

87. We expect deposit takers to consider a broad range of matters which could be relevant to this suitability concern. For example, this could include adverse findings about a person from an investigation, private or public censure, financial penalty, or the temporary or permanent withdrawal of the right to practise in a particular profession.

88. As a matter of prudential best practice, we encourage deposit takers to consider the following factors relating to this suitability concern:

88.1. how relevant the profession of the person is to the role of director or senior officer of a deposit taker;

88.2. the circumstances that led to the investigation, adverse admissions or findings, or disciplinary or regulatory action resulting from the investigation;

88.3. the nature of the process followed by the professional or regulatory body;

88.4. the seriousness of the steps taken by any relevant public agencies and professional bodies because of the adverse admissions or findings, or as part of the disciplinary or regulatory action; and

88.5. how long ago the events relating to the suitability concern occurred.

89. We expect that an informal warning towards a person would be treated as a less serious or material grievance compared to a formal withdrawal of a practising licence, for example.

90. While the relevance of the profession may be considered by the Reserve Bank, the refusal of admission to, or expulsion from, *any* professional body may be relevant to this suitability concern.

91. Where this suitability concern is raised, the Reserve Bank may wish to make further enquiries with relevant professional and/or regulatory bodies about the nature of the investigation, adverse admissions or findings made, or disciplinary or regulatory action taken. In particular,

the Reserve Bank may wish to verify that the person has made a full and accurate disclosure about the matter giving rise to the suitability concern.

Non-compliance as a market participant (Clause 21(1)(c)(vi))

92. A deposit taker must assess whether the person is, or has been, the subject of any investigation, adverse admissions or findings made, or disciplinary or regulatory action taken relating to non-compliance regarding their participation in a market.
93. This also covers circumstances where the person has been a director or senior manager of, or otherwise exercised influence over, an entity that has been the subject of any investigation, adverse admissions or findings made, or disciplinary or regulatory action taken relating to non-compliance regarding their participation in a market.
94. We expect deposit takers to consider several indicators of non-compliance including (but not limited to), an adverse finding in a report or investigation (irrespective of whether the adverse finding is public), a censure, the imposition of administrative penalties, the seeking of court orders³, or other civil proceedings. Additionally, this may also include action taken by:
- 94.1. a tribunal, for example, the New Zealand Markets Disciplinary Tribunal
 - 94.2. a regulatory authority or public agency, for example, the Financial Markets Authority or Commerce Commission
 - 94.3. a market operator, for example, NZX or a relevant overseas regulator or market operator.

Sanctions applied by a regulator (Clause 21(1)(c)(vii))

95. A deposit taker must assess whether the person has been subject to a sanction at any point in time. A sanction imposed upon the person may be relevant to their propriety as an individual and/or as a senior officer. Senior officers must contribute to the sound and prudent governance of deposit takers. Sanctions imposed on an individual may be indicative of irresponsibility or a lack of integrity in their management of a deposit taker, which may weigh on their assessment as a suitable senior officer of a deposit taker.
96. As a matter of prudential best practice, we encourage deposit takers to consider the following factors relating to this suitability concern:
- 96.1. the circumstances that led to the sanction;
 - 96.2. the nature of the offence which resulted in the investigation by the regulatory authority, public agency, or market operator, and the extent of the person's involvement;
 - 96.3. the nature of the process followed by the regulatory authority, public agency, or market operator leading to them imposing a sanction;
 - 96.4. the seriousness of the steps taken by the regulatory authority, public agency, or market operator resulting from the sanction; and
 - 96.5. how long ago the events relating to the suitability concern occurred.

³ For example, an order seeking to freeze the assets of a director of a failed entity

97. Where this suitability concern is raised, the Reserve Bank may wish to make further enquiries with the relevant regulatory authority, market operator, or government agency about the sanction imposed. In particular, the Reserve Bank may want to verify that the person has made a full and accurate disclosure about the matter giving rise to the suitability concern.

Negligent, deceitful or discreditable professional practices (Clause 21(1)(c)(viii))

98. A deposit taker must assess whether the person is, or has been, the subject of any investigation, adverse admissions or findings made, or disciplinary or regulatory action taken which relates to the person perpetrating or participating in negligent, deceitful, or otherwise discreditable business or professional practices.

99. We expect a director or senior manager of a deposit taker to act with integrity and exercise care to ensure the prudent governance of a deposit taker. Therefore, behaviour which exposes a deposit taker to reputational or actual harm is relevant to this suitability concern.

100. We expect a deposit taker to have adequate processes and systems in place to become aware of any such practices when conducting a fit and proper assessment of the person. This will help ensure that a person appointed into the position of director or senior manager acts and has previously acted in a way which would protect and promote the best interests of a deposit taker.

101. As a matter of prudential best practice, we encourage deposit takers to consider the following factors relating to this suitability concern:

101.1. whether the negligent, deceitful, or discreditable business practice led to any investigation, adverse admissions or findings made, or penalty imposed by any disciplinary or regulatory authority, and the extent of the person's involvement;

101.2. the nature of the process followed by the disciplinary or regulatory authority leading to them imposing a penalty;

101.3. the seriousness of the steps taken by the regulatory authority, public agency, or market operator resulting from the penalty; and

101.4. how long ago the events relating to the suitability concern occurred.

Conflicts of interest (Clause 21(1)(c)(ix))

102. A deposit taker must assess whether the person faces any actual, perceived or potential conflicts of interest. Conflicts of interest are likely to be very specific to the circumstances of the particular deposit taker and director or senior manager. For example, a potential conflict of interest could arise (but is not limited to) where:

102.1. a current or proposed director or senior manager of a deposit taker borrows a significant amount from the deposit taker,

102.2. a current or proposed director or senior manager of a deposit taker has a personal interest in an entity that competes for business with the deposit taker, or

102.3. a current or proposed director or senior manager of a deposit taker has a personal interest in an entity the deposit taker is entering into transactions with.

103. As a matter of prudential best practice, we encourage deposit takers to consider the following factors relating to this suitability concern:

- 103.1. the specific nature of the business of the deposit taker,
 - 103.2. whether the person has a conflict of interest that may impact their ability to carry out the role of director or senior manager,
 - 103.3. the nature of the conflict,
 - 103.4. whether the conflict is of a one-off or ongoing nature, and
 - 103.5. the extent to which the conflict can be managed by a deposit taker.
104. The Reserve Bank may wish to make further enquiries with other parties who may have knowledge relevant to the actual, perceived or potential conflict of interest, to determine the nature and magnitude of the conflict. The Reserve Bank may also require a deposit taker to provide a copy of its conflicts of interest policy.

Deposit taker must have a fit and proper policy (Clause 22)

105. Clause 22 requires a deposit taker to have a fit and proper policy. The purpose of this requirement is for a deposit taker to have documented policies and processes to ensure the suitability of their directors and senior managers. The fit and proper policy must comply, at a minimum, with the requirements set out in clause 22. We encourage deposit takers to consider adding additional details on these or other areas in their policy where appropriate to take into account the size and nature of their business.
106. While the Standard prescribes what the fit and proper policy must include, it does not prescribe how a deposit taker may go about including this. Given the Reserve Bank's proportionate approach, a deposit taker may develop its fit and proper policy in line with its organisational structure, size and nature of business.
107. The requirements for the fit and proper policy can be grouped together into 3 different areas: assessment process, documentation, and information sourcing and disclosure. Each of these areas are discussed in the subsections below.

Assessment processes

108. The policy must set out processes that a deposit taker will undertake in carrying out a fit and proper assessment. This is to ensure that a deposit taker has formalised, recorded processes, which provide transparency, consistency and accountability. The requirements are:
- 108.1. **Setting out the process a deposit taker will undertake for carrying out a fit and proper assessment (sub-paragraph (g)):** we expect this will include the process for an initial assessment, reassessments (where applicable) and interim appointments. Different deposit takers may develop different processes appropriate to the size and nature of their business, but these must comply with the requirements of clause 23.
 - 108.2. **Specifying the actions that a deposit taker must take when a person raises suitability concerns (sub-paragraph (h)), or when it has assessed that a person is not fit and proper.** This also applies for when a deposit taker could reasonably form the opinion of the above situations. This requirement is to ensure transparency and consistency when suitability concerns are raised. The requirement does not specify what steps must be taken in these situations. We expect each deposit taker to decide what specific steps best suit their circumstances.

- 108.3. **Providing a copy of the policy to a candidate before a fit and proper assessment of them is carried out (sub-paragraph (j)).** This is to ensure that candidates for the roles of director and senior manager understand the assessment that will be undertaken and their obligations in providing information to enable that assessment to be undertaken.

Documentation

109. **Development of position descriptions and other documents (sub-paragraph (a)).** The fit and proper policy must require the development of position descriptions and other documentation for each specific position of director or senior manager. We expect these documents to be tailored for individual deposit takers' specific capacity, competence and integrity requirements for each specific role. We expect that these position descriptions will also evolve with the context and business strategy. For instance, the position description for the role of Chief Technology Officer and/or directors may reflect if a deposit taker is undergoing a major technological transformation.
110. **Information used in relation to a fit and proper assessment must be kept for at least 6 years (sub-paragraph (i)).** This requirement ensures consistent record-keeping and the availability of relevant information to support prudent governance and supervision.

Information and disclosure

111. **Consents for information collection and use (sub-paragraph (c)).** This requirement intends to enable the collection and use of information by a deposit taker and the Reserve Bank in relation to an assessment.
112. **Disclosure of information relating to an assessment.** The remaining requirements for the fit and proper policy aim to enable (sub-paragraph (d)), encourage (sub-paragraph (b)) and/or support (sub-paragraphs (e) and (f)) the disclosure of relevant information in relation to a fit and proper assessment.
113. The latter require, for instance, that the fit and proper policy must include provisions preventing a person from suffering any detriment because of such a disclosure, and that all the provisions and processes regarding disclosure are adequately explained to relevant persons.

Branches

114. Subclauses 22(3) to 22(5) allow a branch to rely on its home jurisdiction fit and proper policy, provided that the fit and proper policy meets the requirements set by subclause 22(2). If there are gaps, the branch must ensure the missing requirements are met (for example, with an addendum to the fit and proper policy), unless they have received approval from the Reserve Bank to not meet a requirement.
115. An approval may be issued to a branch in relation to any of the requirements in subclause 22(2) if they are not required in the deposit taker's home jurisdiction and the Reserve Bank is satisfied that imposing a requirement would impose unnecessary compliance costs.

Fit and proper assessment process (Clause 23)

116. Clause 23 sets out the process requirements that must be included in a deposit taker's fit and proper policy. The purpose of this requirement is to ensure that there is adequate oversight at a board level over the fit and proper assessment process.

117. The requirements set out are minimum requirements for the fit and proper assessment process. We expect a deposit taker to consider whether further steps or detail should be included in the fit and proper policy. This could include:
- 117.1. processes for determining what information must be obtained to conduct a fit and proper assessment, including any information which is required by, or would support, an assessment of the matters relating to fitness and propriety in clause 21;
 - 117.2. processes specifying how this information will be obtained and managed, including obtaining necessary consents;
 - 117.3. the key criteria to assess each position of director and senior manager as fit and proper. This includes the competencies, duties, skills, qualifications, and matters relating to character that is required for each position of director and senior manager; and
 - 117.4. how this information will be considered and what steps will be taken by a deposit taker to determine whether a person is fit and proper for the position of director or senior manager.

Approval and review of fit and proper policy (Clause 24)

118. Clause 24 requires the board to approve its fit and proper policy (or the New Zealand CEO in the case of a branch). The purpose of this clause is to ensure that the board has oversight and scrutiny over the processes and contents of the fit and proper policy. The policy is the key document for determining the manner in which a deposit taker will assess the fitness and propriety of directors and senior managers.
119. This requirement ensures consistency and accountability for deposit takers in how they go about this process when requesting the Reserve Bank's approval of a candidate. The board is not expected to directly manage the fitness and propriety of directors and senior managers, or their fit and proper approval process.
120. Regular review of the fit and proper policy ensures that the policy remains fit for purpose as the strategy, skill requirements and risk appetite of a deposit taker may change.
121. In complying with this requirement, we expect a deposit taker to outline in their fit and proper policy how regularly it will review its fit and proper policy, and what processes will be set out to approve future amendments by the deposit taker's board.

When fit and proper certificate required (Clause 25)

122. Clause 25 sets out when a deposit taker is required to provide the Reserve Bank with a fit and proper certificate. A fit and proper certificate is required to provide a consistent set of information for the Reserve Bank to determine whether a person may be appointed to, and continue to hold, a position as a director or senior manager.
123. The intent of this certificate is to inform the Reserve Bank whether the person has been assessed as fit and proper to hold the position of director or senior manager of a deposit taker. It collates the assessment's outcome and relevant information to allow the Reserve Bank to make a decision on whether to approve a new appointment.
124. For locally incorporated deposit takers, in accordance with section 26 of the DTA, a deposit taker is required to obtain the Reserve Bank's approval before a new director or senior manager is appointed.

125. The Reserve Bank considers that:

125.1. a new appointment will not arise in the case of an existing director who is reappointed for a new term, and

125.2. a new appointment will arise even if the person held the position in the past (but is not currently holding the position).

126. When requesting the Reserve Bank's approval, a deposit taker must supply a fit and proper certificate prepared consistent with clause 26 of the Standard.

127. A locally incorporated deposit taker must also provide a fit and proper certificate when the Reserve Bank gives notice to the deposit taker that a further fit and proper certificate is required under section 31 of the DTA.

128. A branch must supply a fit and proper certificate when notifying the Reserve Bank of the appointment of a new director or senior manager, in accordance with section 30 of the DTA. A branch must also provide a fit and proper certificate when the Reserve Bank gives notice to the deposit taker that a further fit and proper certificate is required under section 31 of the DTA.

Contents of fit and proper certificate (Clause 26)

129. Clause 26 sets out the content requirements for the fit and proper certificate.

130. Where a suitability concern is raised a deposit taker must identify this and clearly outline within the certificate the steps it will take to address, mitigate or manage each concern.

131. Under our information gathering powers in the DTA (see section 99), the Reserve Bank may request any relevant information or documentation which is used to underpin the assessment of the suitability concern. This includes physical and/or digital information, and any other information requested by the Reserve Bank.

132. The Reserve Bank has provided a template for the fit and proper certificate that is available on our website. Information relating to a suitability concern being raised may be included in Appendix 1 of the fit and proper certificate template.

Information to accompany fit and proper certificate (Clause 27)

133. Clause 27 sets out information that a deposit taker must provide alongside a fit and proper certificate. This information will support our decision-making before issuing an approval or non-approval to a deposit taker. The following documents must be provided:

133.1. **The person's curriculum vitae.**

133.2. **Identification document:** acceptable forms of identification include certified copies of a person's driver's licence, passport, or birth certificate.

133.3. **Any official criminal records:** for a person who has lived in New Zealand (at any point in time), a deposit taker must provide an up-to-date copy of the person's New Zealand criminal record (subject to provisions of the Criminal Records (Clean Slate) Act 2004), or verification that no criminal record information is held, issued to the person by the New Zealand Ministry of Justice.

133.4. **If the person has been resident overseas:** a deposit taker must provide criminal records from the jurisdictions where they have been resident. We expect the records to cover

the timeframes when the person was resident overseas after attaining full age under NZ legislation⁴. We do not expect these records to be updated for each assessment, as long as they cover the relevant timeframes.

- 133.5. **Financial checks:** an example of a financial check is a credit check, and where applicable, any report or record of offences relating to the suitability concerns noted in subparagraphs 21(1)(c)(i) and 21(1)(c)(ii). A credit check is a necessary minimum to meet this requirement, however, this may not be sufficient to identify concerns in all cases. We expect a deposit taker to consider further background checks as it relates to financial position to identify any relevant suitability concerns, on a case-by-case basis.
- 133.6. **Fit and proper assessments by overseas prudential regulators** (if any): if the person has been resident overseas, a deposit taker must provide a foreign supervisory or regulatory authority's fit and proper assessment (if any). If the person has not been subject to such an assessment in a foreign jurisdiction, this requirement may be disregarded.
- 133.7. **Conflicts of interest disclosure:** a deposit taker must disclose if the current or proposed director or senior manager faces a conflict of interest. Where a conflict of interest is raised, this will be considered when assessing whether a person is suitable for the role of director or senior manager. Where an actual, perceived or potential conflict may arise, a deposit taker must disclose what steps it has taken, or will take, to identify or manage any conflict of interest.
- 133.8. **Fit and proper policy:** we expect a deposit taker to supply the Reserve Bank with their fit and proper policy upon request. This document can be attached in Appendix 1 of a deposit taker's fit and proper certificate. As part of the approval process, we may assess a deposit taker's fit and proper policy and whether this meets the requirements set out in the Standard.

134.A fit and proper certificate may then be assessed against the fit and proper policy, to determine whether the person is fit and proper to hold the position of director or senior manager of a deposit taker.

Additional information for deposit takers incorporated in New Zealand (Clause 28)

135. Clause 28 sets out additional information required to be provided by locally incorporated deposit takers. It requires that they provide a letter signed by the proposed appointee giving their consent for the Reserve Bank to run necessary background checks for the fit and proper assessment. A deposit taker must attach this consent with the fit and proper certificate.

136. The purpose of this requirement is to enable verification of any information provided to support the application.

Additional information for overseas deposit takers (Clause 29)

137. Clause 29 sets out additional information that branches must provide to the Reserve Bank.

138. The DTA provides that the New Zealand CEO of a branch must be ordinarily resident in New Zealand. The requirement for branches to provide residency documentation for the New Zealand CEO allows the Reserve Bank to verify that this requirement has been met.

⁴ The "Age of Majority Act 1970" sets when a person shall attain full age (see section 4). The age of majority is currently set at 20 years, (on the version as at 28 October 2021).

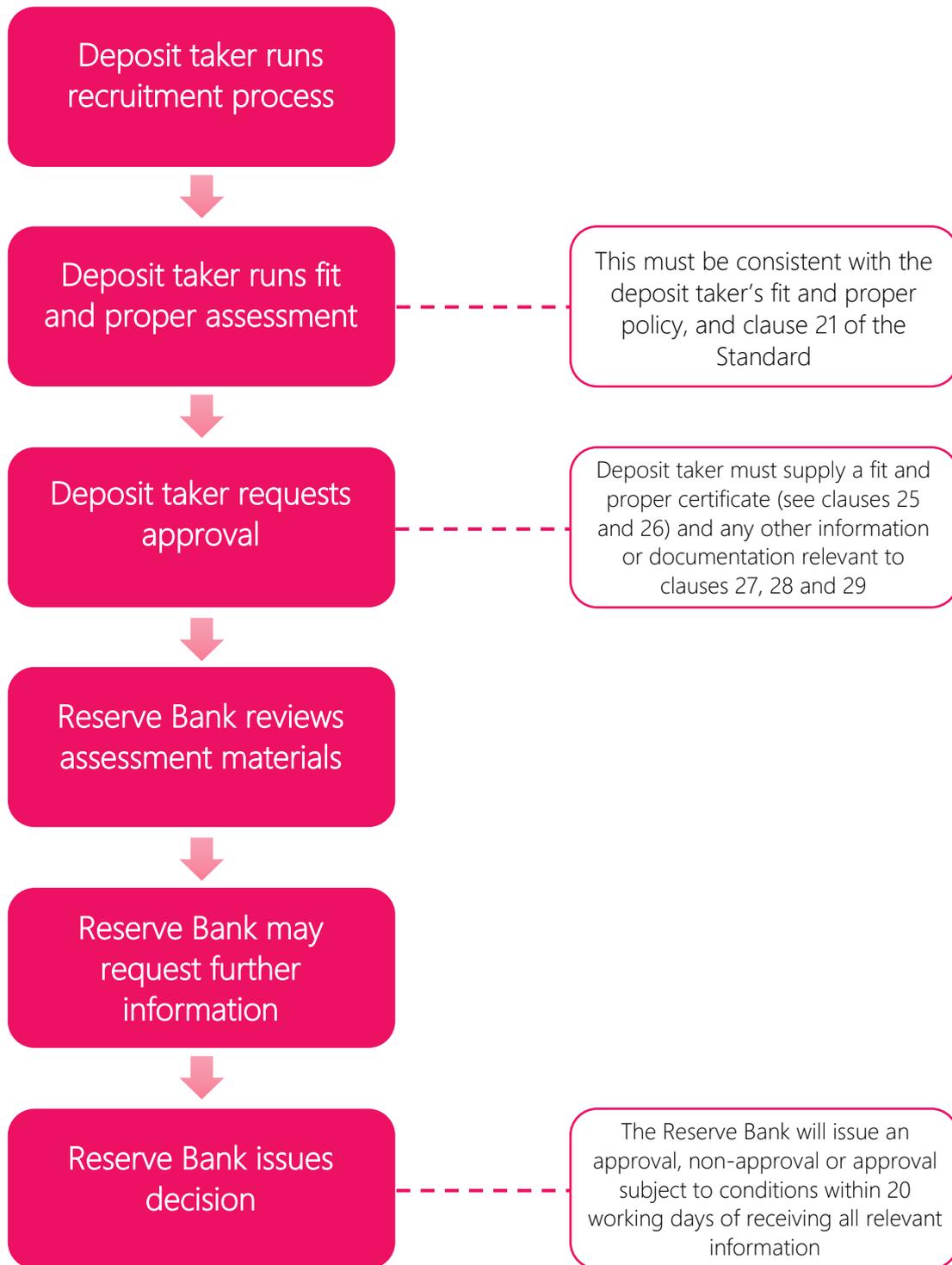
Appointment of interim senior manager for deposit taker incorporated in New Zealand (Clause 30)

139. Clause 30 sets out that a deposit taker may make an interim appointment where the position of senior manager becomes unexpectedly vacant. The purpose of this clause is to allow temporary appointments to be made to avoid vacancies in key positions. Interim appointments without the Reserve Bank's prior approval can only be made for senior managers (see s26(3)(a) of the DTA).
140. We expect a deposit taker to have a business continuity plan in place to prepare for the event where a director position becomes unexpectedly vacant. We expect interim appointments are not used *in lieu* of planned and normal succession for senior managers.
141. An interim appointment may be made for no longer than 90 days unless the Reserve Bank approves a longer term. A longer term may be approved if the Reserve Bank considers that the longer term will not compromise the prudent governance of the deposit taker.
142. Prior to making an appointment, a deposit taker must take reasonable steps to assess the fitness and propriety of the interim appointee to the role in accordance with its fit and proper policy.
143. Subclause 30(3) outlines the minimum matters which a deposit taker must be satisfied with before a person is appointed into an interim position.
144. A deposit taker may choose to augment these matters for assessment in their own fit and proper policy, or run further checks if they prefer.
145. We expect a deposit taker to specify the steps it will take to assess the fitness and propriety of a candidate prior to making an interim appointment within its fit and proper policy. At a minimum, this must include the steps outlined in subclause 30(3).
146. If a deposit taker seeks to appoint the same individual to the role of senior manager on a permanent basis, a deposit taker must conduct a full fit and proper assessment and follow the process for new appointments.
147. A deposit taker must notify the Reserve Bank of the interim appointment before it starts, or on the day it starts. This notification must include necessary information as specified in subclause 30(5).

Fit and proper assessment process

148. This section sets out an overview of how we expect the end-to-end fit and proper assessment process to be conducted by a deposit taker. This is illustrated in Figure 5, with further explanation below.

Figure 5: Fit and Proper Assessment Process



Recruitment process

149. We expect that a deposit taker will undertake a thorough recruitment process, in line with their internal recruitment policies to appoint a suitable candidate. The fit and proper assessment process is no substitute for a deposit taker's recruitment process. The fit and proper assessment process may serve to complement a deposit taker's recruitment process.

Assessment process

150. A deposit taker must conduct a fit and proper assessment consistent with their fit and proper policy. The assessment process must be set out in a deposit taker's fit and proper policy consistent with the requirements in clauses 22 and 23.
151. If a suitability concern is raised during the fit and proper assessment, a deposit taker must notify the Reserve Bank of this, as is provided in section 32 of the DTA.

Requesting approval for a new appointment

152. Under section 26 of the DTA, a deposit taker must obtain the Reserve Bank's approval before a new director or senior manager is appointed. After completing a fit and proper assessment, we expect a deposit taker to submit a request for approval accompanied by a fit and proper certificate, in addition to any information or documentation relevant to clauses 27, 28 and 29 of the Standard. We do not prescribe who within a deposit taker must submit the request for approval. We expect that a deposit taker's policy will set out who has the authority to submit an approval request.
153. The Reserve Bank will review the fit and proper certificate and relevant information and documentation to determine whether to approve the proposed appointment.
154. Under section 28 of the DTA, the Reserve Bank must provide a notice of its decision to a deposit taker within 20 working days from when it has received all the information required to determine its decision. The Reserve Bank may require further information after receiving the certificate, including a deposit taker's fit and proper policy (see section 99 of the DTA).

Requesting approval for a director elected at an Annual General Meeting

155. For deposit takers who elect directors at the Annual General Meeting (AGM) and require voting from the member base, the requirement to have the Reserve Bank's approval before appointing a director may be difficult to implement. This could be due to the process of:
- 155.1. the successful directors not being identified until voting closes (the day before the AGM), and
- 155.2. the term of elected directors ending on the day of the AGM, and for new directors starting the day after the AGM.
156. To accommodate this situation, we have identified two alternative approaches that a deposit taker may undertake:
- 156.1. Under the first approach, we would allow a pre-approval of a reasonable number of candidates. Impacted deposit takers would need to run their fit and proper assessment consistent with the process outlined in the above sections before the election, and provide the Reserve Bank with the corresponding fit and proper certificates and information and documentation before the election, with enough time for the Reserve Bank to assess the proposed candidates. This approach would only be available for elected directors, not board-appointed directors.
- 156.2. Under the second approach, a deposit taker would need to conduct their fit and proper assessment consistent with the process outlined in the above sections after the election, and then submit a request for approval. Impacted deposit takers would need to modify the elected directors' terms' starting date such that there is sufficient time between the election and the appointment dates to allow for our fit and proper assessment.

157. For directors who are elected at an AGM, the basis upon which the Reserve Bank issues an approval (or non-approval) remains the same as above, however the timing for this being issued may differ under the two approaches:

157.1. Under the first approach, the Reserve Bank will issue a pre-approval before the election, provided a deposit taker supplies the Reserve Bank with all the relevant and required assessment material. A deposit taker would then be able to appoint the elected directors after the election, as they would already have received approval.

157.2. Under the second approach, a deposit taker would undertake their fit and proper assessment and submit the approval request in the usual way after the election, allowing enough time to receive the approval and issue the formal appointment before the director's term starts.

Part 5: Responsibilities of New Zealand chief executive officer of overseas deposit taker

158. Part 5 of the Standard only applies to branches. It sets out the New Zealand CEO's responsibilities for managing the operations of the branch. The purpose of these requirements is to foster prudent governance practices for branches in a way that supports their stability and maintains public confidence.

159. The requirements for the New Zealand CEO of a branch are less detailed than the board of a deposit taker incorporated in New Zealand, to reflect the differences in the governance structures.

New Zealand chief executive officer responsible for overseeing New Zealand business and ensuring compliance (Clause 31)

Outcome

160. Subclause 31(1) sets out that the New Zealand CEO is responsible for overseeing the branch and ensuring its regulatory compliance. As the most senior member of management in New Zealand, the DTA makes the New Zealand CEO responsible for ensuring that the branch is managed prudently, supporting its stability and public confidence.

Requirements

161. Subclause 31(2) sets out particular requirements that the New Zealand CEO must undertake to prudently oversee the branch.

- 161.1. **Senior managers' responsibilities are clear and support the prudential management of the overseas licensed deposit taker's New Zealand business (Clause 32(2)(a)).** We expect the New Zealand CEO to ensure that the responsibilities and powers of the management, both collectively and individually, and the size, structure, and composition of the management team are clearly defined.
- 161.2. **The branch's strategic direction, risk management, and remuneration arrangements in relation to its New Zealand business are clear and support prudent management (Clause 32(2)(b)).** We expect the New Zealand CEO to ensure that the following are set out and communicated clearly within the branch:
- the branch's strategic priorities, period of application of the strategic direction, key deliverables supporting the objectives and their timelines, and initiatives to engage stakeholders;
 - how remuneration is determined, including the factors considered and whether fixed or variable;
 - remuneration received by management; and
 - criteria for good performance in relation to a deposit taker's remuneration policy and strategic objectives.

161.3. The Risk Management Standard sets out additional requirements relevant to this requirement.

161.4. **The branch's financial and non-financial reporting relating to its New Zealand business and stability are accurate and delivered within required deadlines (Clause 32(2)(c)).** We

expect the New Zealand CEO to ensure that processes are in place to support the timeliness, quality, and integrity of the branch's financial and non-financial reports. The Disclosure Standard, Reporting Standard and Risk Management Standard, and their corresponding guidance documents respectively set out additional requirements and guidance relevant to this requirement.

Internal governance, risk management, and remuneration (Clause 32)

Outcome

162. Subclause 32(1) requires the New Zealand CEO to ensure the branch has robust governance and risk management arrangements that provide clear lines of responsibility. It aims to support sound risk management and regulatory compliance and promote transparency, accountability, and effective management controls, safeguarding the stability of the branch.

Requirements

163. Subclause 32(2) sets out particular requirements that the New Zealand CEO must undertake to ensure that the branch has robust internal governance processes.

163.1. **Governance arrangements of the branch, including reporting lines with its head office, are clear, up to date, and support the governance arrangements of the branch (Clause 32(2)(a)).** We expect the New Zealand CEO to ensure that a branch clearly understands its governance arrangements, including their objectives, scope and application (that is, who they apply to), decision-making processes, and the processes for identifying and remedying any gaps. These arrangements must explicitly cover the reporting lines and related governance interfaces between a branch and its parent.

163.2. We also expect the New Zealand CEO to ensure that:

- policies governing the selection, appointment, evaluation, retention, and departure of senior managers are clearly established, articulate their objectives and demonstrate alignment with the deposit taker's strategic direction; and
- duties within the deposit taker are clear and that an employee who performs multiple roles is still able to carry out each of those roles with proper care and sound judgment, without any role interfering with their ability to perform the others effectively.

163.3. **Conflicts of interest are managed Clause 32(2)(c).** We expect the New Zealand CEO to ensure that a conflict-of-interest policy is maintained and communicated within a branch. This policy must detail how conflicts of interest are identified, reported, and managed, and must be applied on an ongoing basis.

163.4. **Matters relating to delegation are transparent and clear Clause 32(2)(d).** The New Zealand CEO is required to ensure that the delegation of powers and authorities follows a transparent and well-defined process within a branch. We expect this process to clearly set out the scope and limitations of delegated powers and authorities, as well as the definitions of breaches. We also expect the process to outline the actions to be taken in the event of a breach and the corresponding accountabilities.

Documentation

164. We expect the New Zealand CEO of the branch to ensure that relevant processes, frameworks, and procedures are documented and accessible to senior managers. These can either be consolidated or maintained separately, with review frequencies clearly defined.
165. The branch may leverage the documentations of the overseas deposit taker to comply with the requirements, but the New Zealand CEO is ultimately responsible for ensuring that these are appropriate for the branch and the New Zealand context.
166. The Deposit Takers (Incorporation outside New Zealand) Standard 2027 and Guidance and Due Diligence Guidance also contains relevant additional information.

Schedule 1: Transitional, savings, and related provisions

Part 1: Provisions relating to this standard as made

Fit and proper reassessment of existing directors and senior managers

1. Any person who is a director or senior manager of a deposit taker when the DTA commences will be treated as approved by Reserve Bank, meaning they will not be subject to a complete fit and proper assessment on the day the Standard comes into force. This means existing non-objections will be carried over and treated as approvals under the Standard.
2. Existing directors and senior managers of locally incorporated deposit takers will still be subject to the 3-yearly reassessment required by subclause 20(2). The process for conducting this reassessment must be consistent with that outlined in clause 23.
3. The transitional provisions set out two options to determine the date of the first reassessment (clause 2 or clause 3). Deposit takers may select the option that suits them best. A deposit taker must advise the Reserve Bank of the assessment approach that it will take. The two approaches are explained below.
4. The approach selected for the first reassessment must be applied for all subsequent reassessments.

List assessment approach (Clause 2)

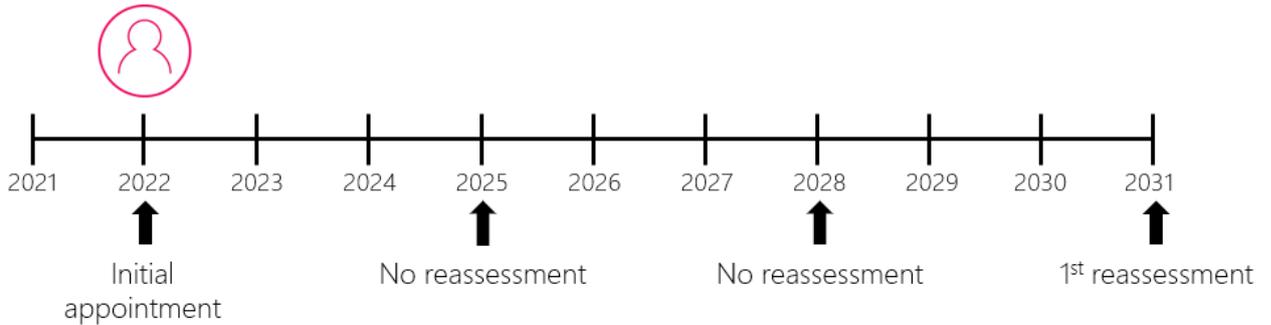
5. This is a bulk approach to notifying the Reserve Bank of the reassessments. A deposit taker must undertake an assessment of each director and senior manager. They must send the Reserve Bank a list of the persons for whom it has carried out the reassessments (these notifications must be consistent with subclause 20(4)).
6. A deposit taker can only batch by role, that is, they cannot send a batch which contains both senior managers and directors. A deposit taker will have to send a list for directors, and a separate list for senior managers. These two lists may be sent at different times.
7. From the date that this assessment is undertaken, the 3-yearly reassessment process will begin for those directors and senior managers.
8. If a deposit taker has advised that they will take a list assessment approach, we expect them to agree with the Reserve Bank when each list would be sent. This is to allow for enough time to process these notifications. This date must be within the first 3 years of the DTA commencement.

3-year post initial appointment assessment approach (Clause 3)

9. Under this approach, the first fit and proper reassessment date will be directly tied to the initial appointment date of each director or senior manager. The notification date of the reassessment for each director or senior manager may be different, and must be sent to the Reserve Bank individually (consistent with subclause 20(4)).
10. Subclauses 3(2) and 3(3) establish the way to determine each person's first reassessment date after the DTA commences. This is as follows: since reassessments occur in 3-year cycles, deposit takers must count 3-year cycles from the initial appointment until the first cycle falls after the DTA commencement date. This 3-year cycles are referred to as "3-year post initial appointment period" in the Standard.

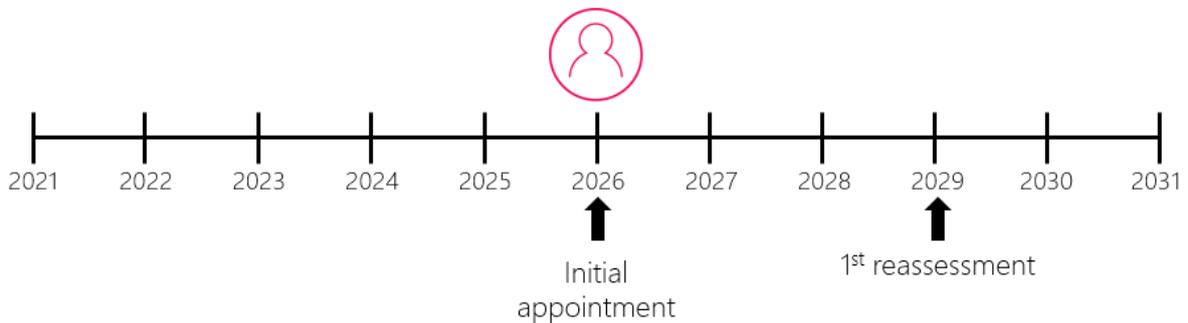
11. There could be several 3-year periods after the initial appointment and before the DTA commences; these would not require a reassessment. The first reassessment would only fall after the DTA commences.
12. The following examples outline how to determine when each director or senior manager’s first reassessment would fall (Figure 6 below).

Figure 6: A director appointed in January 2022



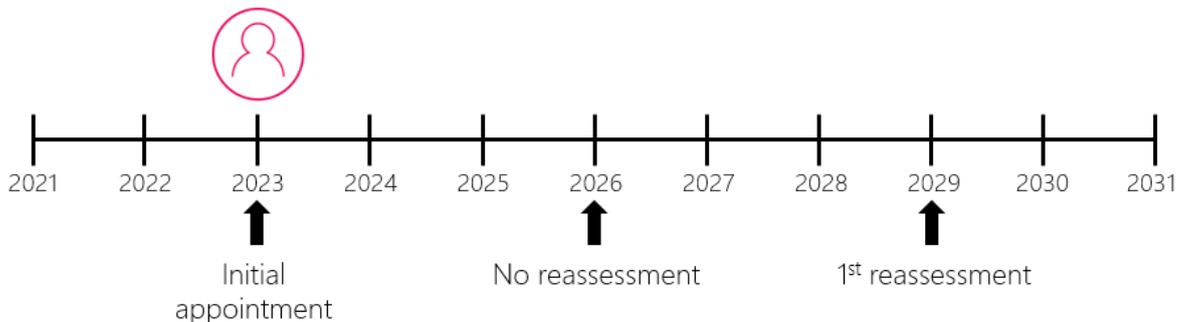
13. A director appointed into their position in January 2022 would face no reassessment in 2025 and 2028. The first reassessment would be in January of 2031 (Figure 7 below).

Figure 7: A director appointed in 2026



14. A director appointed into their position in 2026 would face their first reassessment in 2029 (Figure 8 below).

Figure 8: A director appointed in January 2023



15. A director appointed into their position in January 2023 would face no reassessment in January 2026. Their first reassessment would fall in January 2029.

16. Table 6 below summarises the above examples.

Table 63: Summary of 3-year post initial appointment assessment approach

<i>Summary table of approach 2.1 (examples)</i>		
Example	Date of appointment	Date of first reassessment
A	January 2022	January 2031
B	2026	2029
C	January 2023	January 2029