

DRAFT FOR CONSULTATION

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- proof reading:
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Website: <https://www.rbnz.govt.nz>

Contact phone: 04 472 2029

Contact address: 2 The Terrace, Wellington 6140

Deposit Takers (Related Party Exposures) Standard 2027

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

- complying with section 25(1) of that Act; and
- having regard to the matters set out in section 92(3) of that Act; and
- being satisfied of the matters set out in section 72(1) and 92(4) of that Act; and
- the board of the Reserve Bank of New Zealand having regard to the matter set out in section 49 of the Reserve Bank of New Zealand Act 2021.

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Standard

- 1 Title**
This is the Deposit Takers (Related Party Exposures) Standard 2027.
- 2 Commencement**
This standard comes into force on 1 December 2028.

Part 1

Preliminary provisions

- 3 Interpretation**
In this standard, unless the context otherwise requires,—
- Act** means the Deposit Takers Act 2023
- banking book** has the same meaning as in clause 5 of the Deposit Takers (Capital) Standard 2027
- capital group** has the same meaning as in clause 9 of the Deposit Takers (Capital) Standard 2027
- close family member** has the same meaning as in clause 5 of the Deposit Takers (Capital) Standard 2027

credit equivalent amount has the same meaning as in clause 5 of the Deposit Takers (Capital) Standard 2027

financial instrument has the same meaning as in clause 5 of the Deposit Takers (Capital) Standard 2027

New Zealand deposit taker group means a deposit taker incorporated in New Zealand and its New Zealand subsidiaries

non-deposit taker related party means a related party other than a deposit taker or an entity that a deposit taker has significant influence over

off-balance-sheet is the off-balance sheet exposure referred to in subpart 6 of Part 5 of the Deposit Takers (Capital) Standard 2027

related party has the meaning set out in clause 4

securities financing transaction or SFT has the same meaning as in clause 5 of the Deposit Takers (Capital) Standard 2027

significant influence has the same meaning as in clause 7 of the Deposit Takers (Capital) Standard 2027

tier 1 capital has the same meaning as in clause 38 of the Deposit Takers (Capital) Standard 2027

trading book has the same meaning as in clause 5 of the Deposit Taker's (Capital) Standard 2027.

4 Meaning of related party

- (1) A person (**A**) is a **related party** in respect of a deposit taker if—
- (a) A has significant influence over the deposit taker or its holding entity (if any); or
 - (b) A is a director or senior manager of the deposit taker or its holding entity; or
 - (c) A is a close family member of a director or senior manager of the deposit taker or its holding entity; or
 - (d) A is an entity that is controlled by a director of the deposit taker; or
 - (e) A is an entity over which the deposit taker or its holding entity has significant influence; or
 - (f) A is an entity in relation to which—
 - (i) a person has both control of the entity and significant influence over the deposit taker; or
 - (ii) a person has both significant influence over the entity and control of the deposit taker.
- (2) For the purposes of subclause (1)(d) and (f), a person (**B**) has control of another person (**C**) if—
- (a) B has the power, directly or indirectly, to—
 - (i) exercise, or control the exercise of, 50% or more of the voting rights in C; or

- (ii) appoint 50% or more of the board of directors of C; or
- (b) B has, together with 1 or more connected persons, the power, directly or indirectly to—
 - (i) exercise, or control the exercise of, 50% or more of the voting rights in C; or
 - (ii) appoint 50% or more of the directors of C.
- (3) For the purpose of subclause (2)(b), **connected person**, in relation to B, means—
 - (a) a person who is acting or will act jointly or in concert with B in exercising, or controlling the exercise of, a power referred to in subclause (2)(b)(i) or (ii); or
 - (b) a person who acts, or is accustomed to acting, in accordance with the wishes of B.
- (4) The central government of any country with a long-term credit rating of A⁻ or A3 or above, or its equivalent, is not a related party.
- (5) Despite subclause (1)(e), a member of the licensed deposit taker group is not a related party.

5 Application

This standard applies to a deposit taker incorporated in New Zealand.

6 Group requirements for related party exposures

- (1) This clause applies when a New Zealand deposit taker has an overseas subsidiary carrying on deposit-taking business outside New Zealand.
- (2) A condition of a deposit taker's licence may specify a particular entity or class of entities that the deposit taker must include or exclude if the Bank is satisfied that the inclusion or exclusion is necessary or desirable—
 - (a) to promote the safety and soundness of the deposit taker; or
 - (b) to avoid or mitigate the adverse effects of the following:
 - (i) risks to the stability of the financial system;
 - (ii) risks from the financial system that may damage the broader economy.
- (3) The New Zealand deposit taker must meet the requirements specified in subclauses (4) and (5) in relation to its New Zealand deposit taker group.
- (4) In addition to the requirements that the deposit taker must meet under this standard,—
 - (a) the deposit taker must calculate its related party exposures and limit those exposures as a proportion of the group's tier 1 capital to the applicable related party exposure limit in the table in clause 8(2); and
 - (b) within that limit, the group's credit exposures to non-deposit taker related parties must not exceed 15% of the group's tier 1 capital.
- (5) The related party exposures of the group must not be on more favourable terms than corresponding exposures to non-related parties.

Part 2 Requirements and limits for related party exposures

7 Requirement to determine related party exposures

- (1) A deposit taker must determine its related party exposures.
- (2) A deposit taker's related party exposures are calculated in accordance with the following equation:

$$\frac{(\text{credit exposure}) - (\text{credit risk mitigations})}{\text{tier 1 capital}}$$

8 Aggregate exposure limits

- (1) There is an aggregate exposure limit for related party exposures.
- (2) The aggregate exposures of a deposit taker's capital group to related parties must not, at the end of each working day, exceed the rating-contingent limit set out in the following table:

Credit rating of deposit taker	Related party exposure limit (% of deposit taker's capital group tier 1 capital)
AA/Aa2 and above	75
AA-/Aa3	70
A+/A1	60
A/A2	40
A-/A3	30
BBB+/Baa1 and below, or exempt from having a credit rating	15

9 Non-deposit taker related party exposure limit

Within the aggregate exposure limit, credit exposures to non-deposit taker related parties must not exceed 15% of the deposit taker's capital group tier 1 capital.

10 Credit rating requirements

- (1) The applicable credit rating is the rating applicable to the deposit taker's long-term senior unsecured New Zealand dollar obligations payable in New Zealand, in New Zealand dollars.
- (2) If a deposit taker has more than 1 credit rating, the lowest rating must be used to determine the related party exposure limit.
- (3) A credit rating may only be used if it has been produced by a rating agency approved by the Bank.
- (4) If a deposit taker is subject to a credit rating downgrade, a 3-month period is allowed for the related party exposure limit that applies before that downgrade to reduce to the new limit based on the table in clause 8(2).
- (5) The 3-month period starts from the date of the credit rating downgrade.

11 Conduct requirements

The related party exposures of a New Zealand deposit taker group must not be on more favourable terms than corresponding exposures to non-related parties.

Part 3

Calculating related party exposures

12 General calculation principles

- (1) When identifying its related party exposures, a deposit taker must consider all the exposures set out in the provisions of the Deposit Takers (Capital) Standard 2027, including—
 - (a) both on-balance-sheet and off-balance-sheet exposures included in the banking book or trading book; and
 - (b) instruments with counterparty credit risk under subpart 5 of Part 5 of the Deposit Takers (Capital) Standard 2027.
- (2) A deposit taker must not recognise any kinds of credit risk mitigations other than the eligible credit risk mitigations recognised under subpart 5 of Part 5 of the Deposit Takers (Capital) Standard 2027.
- (3) An asset deducted from capital in accordance with Part 5 of the Deposit Takers (Capital) Standard 2027 specifying limitations and requirements that apply in relation to the calculation of standard risk weighted assets (RWAs) must not be included in the calculation of related party exposures.

Meaning of exposure value

13 On-balance-sheet value

The exposure value of on-balance-sheet exposures is—

- (a) the value of on-balance-sheet exposures after deducting any impairment allowances attributable to the exposure; or
- (b) the gross exposure value of on-balance-sheet exposures.

14 Off-balance-sheet value

- (1) Off-balance-sheet exposures must be converted into the credit equivalent amount by using a credit conversion factor of 100%.
- (2) A deposit taker may enter into an unfunded contingent credit protection arrangement with a related party to reduce the value of its exposure to a counterparty that is not a related party, to the extent of the portion protected under the unfunded contingent credit protection arrangement.
- (3) The exposure value for derivatives and securities financing transactions that give rise to counterparty credit risk must be calculated in accordance with the requirements in subpart 5 of Part 6 of the Deposit Takers (Capital) Standard 2027.
- (4) Despite subclause (3), unfunded contingent credit protection arrangements (which are set out in subpart 5 of Part 6 of the Deposit Takers (Capital) Standard 2027) must not be included in the calculation of exposure value.

15 Calculation of exposure value for trading book positions

- (1) This clause applies if—

- (a) a deposit taker's capital group holds positions in financial instruments issued by a related party in the deposit taker capital group's trading book; and
 - (b) the financial instruments have been issued by a related party for trading purposes.
- (2) A deposit taker must add exposures relating to the financial instruments to its exposures to the related party in its banking book.
 - (3) The exposure value relating to the financial instruments must be calculated in accordance with Part 6 of the Deposit Takers (Capital) Standard 2027.
 - (4) A deposit taker may offset long and short positions in financial instruments issued by a related party within a trading book but must not offset long and short positions across the banking and trading books.

Recognition of credit risk mitigations in reduction of related party exposures

16 Eligible credit risk mitigations

- (1) This clause and clauses 17 and 18 apply if a deposit taker has eligible credit risk mitigations for the purpose of its RWA calculation for credit exposure under subpart 5 of Part 5 of the Deposit Takers (Capital) Standard 2027.
- (2) The deposit taker may reduce the value of the exposure to its related party by the amount of the eligible credit risk mitigation.
- (3) The eligible credit risk mitigations are those recognised in subpart 5 of Part 5 of the Deposit Takers (Capital) Standard 2027.
- (4) A deposit taker must use the standard supervisory haircuts specified in subpart 2 of Part 6 of the Deposit Takers (Capital) Standard 2027 and not internally modelled haircuts.
- (5) A deposit taker must not recognise an eligible credit risk mitigation that has—
 - (a) an effective original maturity of less than 12 months; and
 - (b) a maturity mismatch with the underlying exposure.

17 Maturity mismatch

If there is a maturity mismatch in respect of eligible credit risk mitigations, the adjustment of the credit protection for the purpose of calculating related party exposures is determined using the mismatch maturity adjustment in subpart 3 of Part 6 of the Deposit Takers (Capital) Standard 2027.

18 Credit risk mitigation approach for related party exposures must align with approach selected in Deposit Takers (Capital) Standard 2027

- (1) This clause applies to a deposit taker that may select either the comprehensive approach or the simple approach for recognising collateral eligible for credit risk mitigation under subpart 5 of Part 5 of the Deposit Takers (Capital) Standard 2027.
- (2) A deposit taker must use the same credit risk mitigation approach for recognising its related party exposures under this standard that it selected under the Deposit Takers (Capital) Standard 2027.

- (3) A deposit taker using the simple approach may use the same eligible credit risk mitigations calculated in accordance with that approach except that it must use the gross value, rather than the net value of its exposure to a related party.

Made at Wellington on [day month year].

Reserve Bank of New Zealand

Explanatory note

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

This standard comes into force on 1 December 2028.

The standard is issued under section 72 of the Deposit Taker's Act 2023 (the **Act**) and in contemplation of section 82 of the Act. It addresses potential conflicts of interest and large exposure risks inherent in a deposit taker entering into a transaction or arrangement with a related party by requiring exposures to related parties to not be on more favourable terms than corresponding exposures to non-related parties and limiting deposit takers' total exposures to related parties.

The standard applies to a deposit taker incorporated in New Zealand.

The standard sets out group requirements for related party exposures when a New Zealand deposit taker has an overseas subsidiary carrying on deposit-taking business outside New Zealand. A condition of a deposit taker's licence may specify a particular entity or class of entities that the deposit taker must include or exclude if the Bank is satisfied of certain matters. The requirements are in addition to the requirements a deposit taker must meet under the standard.

Part 2 sets out the requirements and limits for related party exposures. A deposit taker must determine its related party exposures using the calculation provided in the standard. There is an aggregate exposure limit for related party exposures, and a deposit taker's capital group must not, at the end of each working day, exceed the rating-contingent limit that is specified in the standard in relation to the credit rating of the deposit taker.

Credit exposures to a non-deposit taker related party must not exceed 15% of a deposit taker's capital group tier 1 capital within the aggregate exposure limit.

The standard provides for credit rating requirements including a requirement that a credit rating may only be used if it has been produced by a Bank-approved rating agency.

Part 3 sets out requirements relating to the calculation of a deposit taker's related party exposures. It provides the following general calculation principles:

- a deposit taker must consider all exposures set out in the Deposit Takers (Capital) Standard 2027 (the **Capital Standard**):

- a deposit taker may only recognise eligible credit risk mitigations recognised under that standard:
- an asset deducted from capital in accordance with the Capital Standard must not be included in the calculation of related party exposures.

The standard sets out what is meant by exposure value.

For on-balance-sheet-exposures there are 2 options. The exposure value can be the value after deduction of any impairment allowances attributable to the exposure in accordance with the Capital Standard or the gross exposure value of on-balance-sheet exposures.

Off-balance-sheet exposures must be converted into the credit equivalent amount by using a credit conversion factor of 100%. Provision is also made for the following:

- the deposit taker entering into unfunded contingent credit protection arrangements with a related party (however, these arrangements must not be included in the calculation of exposure value):
- calculation of the exposure value for derivatives and securities financing transactions that give rise to counterparty credit risk.

If a deposit taker’s capital group holds positions in financial instruments issued by a related party in its trading book and they have been issued by the related party for trading purposes, the deposit taker must add any exposures relating to the financial instruments to its exposures in its banking book. The exposure value must be calculated in accordance with Part 6 of the Capital Standard.

The standard allows for the credit risk mitigations recognised in the Capital Standard (eligible credit risk mitigations) to be recognised and deducted. A deposit taker must use the standard supervisory haircuts in the Capital Standard and not internally modelled haircuts. The following eligible credit risk mitigations must not be recognised by the deposit taker:

- a credit risk mitigation that has an effective maturity of less than 12 months:
- a maturity mismatch with the underlying exposure.

If there is a maturity mismatch of eligible credit risk mitigations, the adjustment of the credit protection is to be determined using the mismatch maturity adjustment provided in the Capital Standard. A deposit taker must use the same credit risk mitigation approach for calculating its party exposures under this standard that it selected under the Capital Standard. If a deposit taker is using the simple approach, it may use the same eligible credit risk mitigations calculated in accordance with that approach except that it must use the gross value rather than the net value of its exposure to a related party.

This is secondary legislation issued under the authority of the Legislation Act 2019 .	
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Replacement empowering Act and provisions	Not applicable
Maker name	Reserve Bank of New Zealand

Deposit Takers (Related Party Exposures) Standard 2027

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