Reserve Bank of New Zealand
Te Pūtea Matua

Deposit Takers Non-Core Standards

Summary of Submissions and Policy Decisions for:

- Governance Standard
- Risk Management Standard
- Operational Resilience Standard
- Outsourcing Standard
- Lending Standard
- Related Party Exposures Standard
- Restricted Activities Standard
- Branch Standard

17 July 2025

Introduction

The Reserve Bank of New Zealand – Te Pūtea Matua (the **Reserve Bank**; RBNZ; **we**) is undertaking a multi-year programme of work to implement the Deposit Takers Act 2023 (the **DTA**). The DTA standards will replace existing prudential requirements to form a new set of rules for deposit takers.

Our first consultation on the DTA standards covered the four core standards (on Capital, Liquidity, the Depositor Compensation Scheme (DCS), and Disclosure). The consultation ran from May to August 2024, and we published a summary of submissions and responses in relation to the Liquidity, DCS and Disclosure Standards on 1 May 2025.[1] We are prioritising the core standards development since they are needed for licensing existing banks and non-bank deposit takers (**NBDT**s) under the DTA.

We followed this up with the publication of our Deposit Takers Non-Core Standards consultation paper (the **Consultation Paper**) on 21 August 2024. The nine non-core standards we consulted on were the Governance, Lending, Risk Management, Operational Resilience, Related Party Exposures, Open Banking Resolution (OBR) Pre-positioning, Outsourcing, Restricted Activities, and Branch Standards.

We received a total of 25 submissions in the three-month consultation on the non-core standards from a broad representation of stakeholders including banks, NBDTs, industry bodies, and other interested organisations. We thank respondents for their carefully prepared submissions. We have considered feedback and refined our policy proposals. This document outlines a summary of the submissions that we received on the non-core standards, our responses and policy decisions.

We are not publishing our response to submissions on the proposed OBR Pre-positioning Standard at this point, as ongoing work on bail-in (in the context of the Review of Key Capital Settings) and other short to medium term work on crisis management issues may influence the scope and content of this standard. We expect to have greater clarity by early next year about what (if any) implications this work may have on the scope and content of the OBR Pre-positioning Standard. Further, we currently expect that there will be an exposure draft of some form of OBR Pre-positioning Standard issued around mid-2026.

The next step for the non-core standards is to prepare exposure drafts. Figure 1 below shows our intended approach, and high-level timeframe, for the development of standards, including non-core standards.

Figure 1: Process for developing standards

[1] On 31 March 2025, we announced that we would undertake a reassessment of key aspects of our deposit takers capital settings, utilising international experts and assessing it against the regimes in other countries. Given this decision, we did not publish our response to submissions on the Capital Standard. This will allow for us to provide a fulsome response in light of this work.

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Chapter 1

Deposit Takers Non-Core Standards

Summary of submissions on introductory issues and responses

1.1. Cross-cutting issues - overview

The main purpose of the DTA is to promote the prosperity and well-being of New Zealanders and contribute to a sustainable and productive economy by protecting and promoting the stability of the financial system.[2] A stable financial system can be described as one where resilient financial markets, institutions and infrastructures enable a productive and sustainable economy, and ultimately prosperity and wellbeing.

In addition to the financial stability purpose, the DTA has a number of purposes and principles that we take into account in determining prudential policy.[3] The purposes explain why the law was enacted and the reasons for which decision-makers must exercise their powers, functions, duties under the DTA. The principles support and enable decision-making (such as the issuance of standards) and the exercise of other functions in line with the DTA's purposes. Some principles have greater application and importance in certain circumstances than in others, but the DTA does not impose any hierarchy among them.

Our Consultation Paper included seven questions relating to the overall approach we have taken to developing policy in the areas covered by the nine non-core standards. This included questions relating to how we have taken into account some of the principles in the DTA and other overall impacts of the standards. The consultation questions are set out at Annex A.

This chapter summarises the feedback we received in response to the seven questions, which we have termed 'cross-cutting issues' since they are overarching in nature, relate to and influence (that is, 'cut across') aspects of the non-core standards. Section 1.9 summarises feedback on a few other cross-cutting issues not directly related to any of the consultation questions. We have also set out our responses to the feedback raised. In addition to our responses in this section, standard-specific feedback that relates to cross-cutting issues is detailed in the relevant standard chapters.

Overall, respondents were positive about the approach taken to the non-core standards. Respondents were generally most concerned that we had not adequately incorporated proportionality into proposed policy (including through avoiding unnecessary compliance costs, particularly for smaller deposit takers), and that our proposals would further entrench a competitive advantage for the largest deposit takers.

Related to this, some respondents had concerns around the degree of prescription of some requirements, too much being loaded onto boards by not striking the balance between board and management responsibilities, and duplication across standards.

We agree that changes to some proposals will further support a proportionate approach, reduce compliance costs for deposit takers, and encourage competition in the market. These issues are discussed below in detail.

We recognise the cumulative change impacts, particularly on Group 3 deposit takers who may face a higher degree of change. In considering feedback, we have carefully calibrated requirements under the standards bearing in mind the cumulative impacts. As we prepare exposure drafts of the

[2] Section 3, Deposit Takers Act 2023.
[3] Sections 3 and 4, Deposit Takers Act 2023.

standards, we will maintain line of sight of potential impacts while also ensuring the standards adhere to the purposes and principles of the DTA.

1.2. Cumulative impact of the proposed standards on relevant DTA principles

There were limited comments on the overall impact of the proposed standards. Two respondents thought that the standards would be negative for the principles relating to taking a proportionate approach to regulation and maintaining competition within the deposit-taking sector, with unnecessary compliance costs particularly for smaller deposit takers. Another pointed to the significant cumulative impact when combined with regulatory changes coming from other agencies.

A few noted that it was hard to judge the overall impact without more detail: "the devil lies in the detail", and noted the importance of thorough consultation on the draft standards. It would also depend how we apply the standards in practice.

Two big banks viewed the principles as having been suitably considered in general. Another felt that further work is needed on the "responding to overseas practice" principle by aligning with APRA and other international requirements unless the New Zealand context justified divergence. Another supported the overall approach to taking the principles into account, and that we have taken account of international best practice and co-ordinated across the Council of Financial Regulators (CoFR) sufficiently.

Comment

Many concerns are about the degree of proportionality. The concerns and our responses are discussed in the next section. Our responses in some of the later sections also rely on steps we are taking to develop the standards so that they will apply to deposit takers in a more proportionate way.

Response

Proportionality, competition and compliance costs responses are included in the following sections.

We accept that there is a cumulative impact of the proposals, especially for entities that will be directly supervised by us for the first time. We have tried to calibrate this by using international standards (including those from the Basel Committee, and relevant standards issued by APRA) as a starting point for a number of the proposals. This applies mostly to the new standards in comparison to those which will be based on existing requirements. In the latter case, there is more of a trade-off between reflecting international standards and the compliance burden of changing existing requirements more than needed. The following chapters on individual standards note a few places where we are changing the proposals to align more closely with APRA standards. The Lending and Outsourcing standards will not apply at all to Group 3 deposit takers.

1.3. Proportionality

Two respondents thought that there was not enough differentiation between the proposed requirements for Group 1 and Group 2 deposit takers, and that the new requirements will have a disproportionate effect on Group 2.

Other respondents suggested there needs to be a more pragmatic and proportionate outcome for NBDTs and more differentiation between all three Groups to better reflect size, complexity and systemic importance. One suggested that a more proportionate approach for Group 3 would not undermine our financial stability objective,[4] since we will be directly supervising NBDTs.

Another concern raised was the proposals are prescriptive rather than principles-based, and some standards have particularly comprehensive rules. They expressed doubt that smaller deposit takers will be able to implement requirements in less complex ways as intended.

Some specific examples suggested of how requirements could be made more proportional included allowing a combined audit and risk committee outside Group 1 (in the Governance Standard), and a more proportionate approach in the Risk Management Standard, particularly in the stress-testing requirement. One respondent suggested we should take the current NBDT risk management guidelines as the starting point. There was also a comment that there should be more proportionality in the Operational Resilience Standard.

Some respondents thought that if we provided detailed guidance to clarify how standards apply to the different groups, this would help explain how requirements will vary across the different groups in a more proportionate way than is apparent from each standard looked at on its own.

Two large bank respondents believed that the proportionality approach has been consistently and reasonably applied. Another respondent appreciated the efforts made to deliver a proportionate approach, but noted the difficulty of achieving it across the wide range of entities within Group 3. And one respondent suggested that there should be a more proportionate approach across different branches, to reflect their wide diversity.

Comment

It is our intention that different entities should be able to implement the more principles-based standards in ways that are proportionate to the size and complexity of the entity. We agree that there are some cases where further variation between the groups of the proportionality framework could be provided without undermining the Reserve Bank's financial stability objective.

Response

In a number of the standards, we have revised some of our proposals in response to specific concerns that requirements are too prescriptive. Examples include:

a. In the Governance Standard, we have simplified and made more flexible the Board charter requirements (see requirement 1 of Outcome 1 in Table 2.4, section 2.7), and we have made the requirements on planning for board and senior management renewal less specific (see requirement 5 of Outcome 4, in Table 2.4, section 2.7). We have also clarified that we will carry out the 3-yearly fit and proper reassessment of director and

[4] Section 9, Reserve Bank of New Zealand Act 2021

senior managers in a risk-based way, to reduce the compliance cost of this requirement (see the discussion on fitness and propriety in section 2.2.7 for Group 1 deposit takers, section 2.3.5 for Group 2 deposit takers, section 2.4.4 for Group 3 deposit takers and section 2.5.4 for branches).

b. In the Risk Management Standard, we will take a less prescriptive approach to discretionary benefits for risk management staff, clarifying that a deposit taker needs a clear policy on such benefits, rather than requiring them to be banned (see section 3.2.7). We have also introduced more flexibility into the requirement for event-based reviews of a deposit taker's risk management framework (see section 3.2.8).

c. In the Operational Resilience Standard, much of the prescriptive detail on information and communications technology (**ICT**) strategy and on ICT systems and tolerance thresholds has been removed (see Outcome 3 of Table 4.8 in the Operational Resilience chapter for more detailed feedback).

d. We have also introduced more flexibility into internal audit and review requirements across a number of standards (see more on this point in section 1.9 below).

These changes should reduce the compliance cost for smaller entities by allowing more flexible approaches to complying with the required principle.

We have also reduced proposed requirements on non-Group 1 deposit takers in a few places as set out in Table 1.1.

Table 1.1: Reduced requirements for non-Group 1 deposit takers

Standard	Change
Operational Resilience	Removed certain underlying detailed requirements relating to • Comprehensive risk profile assessments (see item 1.2 in Table 4.6, section 4.7) • Effective information security controls (see item 3.3 in Table 4., section 4.7) • Business continuity plan coverage and testing (see item 4.2 in Table 4.9, section 4.7).
Governance	We have reduced the required frequency for carrying out reviews of board performance and conflicts of interest (see requirement 4 of Outcome 4 in Table 2.4, section 2.7).

We will issue guidance to clarify the policy intent of the standards. Among other things, this will help entities understand how the application of a policy varies across the three groups and across any other relevant variations in the nature of their business. Our aim is that this will help reinforce the proportionality principle where appropriate and give entities more confidence about the scale of the changes (if any) they will need to make to comply with each standard. We will publish draft versions of the guidance alongside the exposure drafts of the respective standards.

We think that it is important for stress-testing by Group 2 deposit takers to cover all material risks as proposed, but as we explain further in the chapter on the Risk Management Standard, we plan for guidance to make it clear what the different expectations are for Group 2.

In that chapter, we also respond to the point raised about basing Group 3 risk management requirements on the current risk management guidelines for NBDTs. We note that some requirements do represent an uplift relative to the existing NBDT regime, but we consider our proposed requirements are consistent with the minimum expectations for the prudent management of a deposit taker to promote its safety and soundness, and financial stability.

1.4. Diversity of institutions

Some respondents suggested that the relatively higher costs of complying with the new regime for NBDTs compared to larger deposit takers will reduce the likelihood of new entrants and also put greater pressure on incumbents, leading to more sales and mergers of firms. Three respondents also felt that the higher compliance costs could impact entities' ability to cater to particular markets and provide a full range of products, hence undermining financial inclusion.

One NBDT was less definite, noting that it was hard to gauge our expectations, (for example, the Operational Resilience Standard), and the impact would depend on how we applied the standards in practice.

One large bank thought the proposals broadly support and encourage diversity of industry participation.

Comment

We are required to issue standards that contribute to achieving the main purpose of the DTA and its additional purposes, whilst the principles are matters that we must take into account in achieving those purposes. One of the additional purposes is to support New Zealanders having reasonable access to financial products and services provided by the deposit-taking sector (to the extent not inconsistent with the other purposes). The concept of accessibility also appears in the diversity of institutions principle, which refers to the desirability of the deposit-taking sector comprising a diversity of institutions to provide access to financial products and services to a diverse range of New Zealanders.

We note the concerns raised about the proposals affecting both the likelihood of new entrants, and the range of products provided to specific customer segments, derive from concerns about the proposals imposing disproportionate costs on small NBDTs and new entrants.
We believe that the changes noted above in the discussion of proportionality, will make a significant difference to the compliance costs, particularly for Group 3 entities. This will lower barriers to entry for new deposit takers, and free up resources of existing small deposit takers, allowing them to provide a wider range of products.

We are cautious about the ability of the proposed standards to directly contribute more to the accessibility purpose or take greater account of the diversity principle. However, we believe that the changes in the approach to proportionality will achieve this indirectly, while making very little difference to how much the standards will contribute to achieving the main financial stability purpose.

Response

In section 1.3 on proportionality, we have updated the proposals to ease compliance costs for Group 3 entities, either directly, or by reducing the level of prescription to allow for proportionate implementation. These changes will reduce impacts on the diversity of institutions and accessibility of financial products and services, by lowering barriers to entry and freeing up small deposit takers' resources.

As described in the Summary of Submissions and Policy Decisions for the Deposit Takers Core Standards (**Core Standards response document**),[5] it is possible for entities to provide some of the services that a licensed deposit taker is allowed to undertake without needing to be licenced. Such entities already provide diversity in the respective services that they offer.

For further information, see section 1.4 of the Core Standards response document.

1.5. Impact on Māori

There were very few responses answering the question about the impact of the proposed standards on the Māori economy. One respondent thought the proposals would have an adverse effect on Māori, while another noted we have a narrow focus on financial stability, with little discussion on the Māori economy, which could mean we are insufficiently considering the impacts on Māori. One of the comments on diversity also pointed out that entities being less able to provide products to particular customer segments could also disproportionately impact Māori.

One large bank submitted that the proposed standards would facilitate accessibility and inclusivity across all sectors, including the Māori economy.

Comment

The main purpose of the DTA is to promote the prosperity and well-being of New Zealanders. An additional purpose is to support New Zealanders having reasonable access to financial products and services provided by the deposit-taking sector. Achieving these purposes for all New Zealanders includes tackling the challenges faced by Māori.

In section 1.5 of our Core Standards response document, we discussed the steps we have taken so far and further planned work to support Māori financial inclusion and access to capital. We consider that the implementation of the non-core standards will further promote financial stability, which will have a positive effect on all participants in the financial system.

We also received comments about the diversity of institutions principle (see section 1.4 above) suggesting higher compliance costs may not only make it harder for new entrants to obtain a licence but may also impact entities' ability to cater to particular markets and to provide a full range of products. This would run counter to the DTA's accessibility purpose.

[5] Our Summary of Submissions and Policy Decisions for the Liquidity, Depositor Compensation Scheme and Disclosure Standards was published on 1 May 2025 and is available on our website: Deposit Takers Core Standards - Reserve Bank of New Zealand - Citizen Space.

Response

We have limited information on what the direct impact of implementing the non-core standards might be on the Māori economy. But we believe that the changes we are making in response to comments about developing a more proportionate set of regulations for smaller entities should support the diversity of deposit-taking institutions, for the reasons discussed above, and also free up the resources of smaller entities to allow them to offer a wider range of more tailored products. These changes should therefore indirectly improve outcomes at the margin for Māori, while not materially affecting financial stability.

1.6. Cumulative effect on competition

Two respondents suggested that our focus should include actively enhancing competition, rather than simply taking it into account in fulfilling our financial stability mandate. This is in light of the Commerce Commission's recent findings on competition in the market for personal banking services. One felt that too much focus on financial stability would stifle innovation, creativity and competition, while the other respondent acknowledged that this was beyond the scope of the consultation.

Two specific suggestions made for better supporting competition were that deposit takers below a certain size should be "declared out" and continue being subject to a trustee supervisor, and that all deposit takers should be allowed to use the word "bank".

A large bank commented that the proposals would help competition by setting consistent requirements across all deposit takers, allowing easier comparison by depositors.

One Group 2 deposit taker responded that disproportionately higher costs for Group 2 compared to Group 1 (see section 1.3 above) would have a negative impact on competition. Another respondent felt that the more prescriptive requirements proposed would divert Group 2 resources away from competing in the market and towards compliance.

The OBR and Outsourcing Standards were specifically mentioned as undermining competition by hampering the growth of Group 2 deposit takers. One respondent also thought that the proposed separation of duties between dual-operating branches and subsidiaries would impose an unsustainable overhead on Group 2 deposit takers.

One NBDT thought that new entrants would be discouraged by high start-up costs (as noted in Section 1.4 above), and that this would also impact competition.

Comment

We note the DTA gives us the main purpose of protecting and promoting the stability of the financial system, while the need to maintain competition is a relevant principle for us to take into account when exercising powers under the DTA, such as making standards. As such, the feedback suggesting that we should *actively* enhance competition is outside the scope of this consultation.

In addition to the principle of maintaining competition within the deposit-taking sector, the Reserve Bank of New Zealand Act 2021 also requires us to have regard to the financial policy remit

when issuing standards. The current Financial Policy Remit states that the Government regards competition in the financial sector as a key priority.[6]

We agree with the comment that setting consistent requirements across all deposit takers will support competition, while recognising that this consistency needs to be tempered by the proportionality framework to ensure smaller deposit takers can compete effectively.

We disagree with the suggestion that smaller NBDTs be "declared out" of the regime. This would be contrary to one of the key legislative aims of the DTA, namely to implement a comprehensive financial stability framework that includes the introduction of the DCS. We believe that the proportionality framework will address most concerns.

We are reviewing the restricted word regime (including the word 'bank') and will consult on this later this year.[7] We will announce our policy decisions following this consultation. This work has implications for competition and is highlighted in the Minister of Finance's Letter of Expectations (December 2024).

Concerns that competition might be affected by relatively high costs for Group 2 and Group 3 deposit takers are mainly covered by our responses to the points on proportionality (see section 1.3). By levelling the playing field, we can more effectively support competition.

Response

We see the changes noted in our responses on proportionality and elsewhere as the main lever for ensuring that competition is maintained in the system. This can be achieved by, for example, reducing compliance costs on smaller entities. Lower costs can - in turn - help entities compete for market share.

1.7. Appropriateness of approach to developing standards

While respondents supported the general approach of developing principles-based and outcomes-focused standards with prescriptive requirements where necessary, some felt they may be too prescriptive in some places. One respondent felt that overly prescriptive rules materially increase compliance costs with no real benefit. (Concerns about the degree of prescription undermining proportionality are discussed in section 1.3 above.)

One respondent said that given the expanded governance and risk management requirements, the narrow, detailed and minor rules should be removed. Non-compliance with such prescriptive rules can mean a minor technical breach of a standard where there is no material impact on risk (for example, as can happen with the *Outsourcing Policy* (BS11)).

Examples from respondents of 'overly prescriptive proposals' included:

- the composition requirements for board committees (in the Governance Standard)
- the list of material risks (in the Risk Management Standard)

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[6] Financial Policy Remit, issued in December 2024: Microsoft Word - Financial Policy Remit 2024 publication version(5050529.2).docx

[7] Section 428 and 429 of the DTA provide that the Reserve Bank may authorise licensed deposit takers or a class of licensed deposit takers (via a notice issued as secondary legislation) to use a name or title that includes the word 'bank' or related words.

- the ICT requirements (in the Operational Resilience Standard)
- the existing Outsourcing Policy (BS11) issues being carried over into the Outsourcing Standard.

Key points raised by respondents were:

- to use materiality thresholds for compliance
- to be clear on how we expect deposit takers to demonstrate compliance, and how this differs between principles and prescriptive requirements
- the effectiveness of standards is dependent on clear drafting
- the importance of guidance to provide clarity on complex concepts like materiality and proportional application and to provide draft guidance as soon as possible so they can work through any changes required to ensure their compliance.

Comment

We believe that a framework of prudential standards, whether qualitative or quantitative, must have clear requirements for deposit takers to meet. However, we acknowledge that under the current prudential framework for registered banks, it is possible for minor breaches of conditions to technically expose a bank to action such as deregistration (imposed mainly by conditions of registration under the Banking (Prudential Supervision) Act 1989 (**BPSA**)).

The breach reporting and materiality framework we put in place in January 2021 (which largely dealt with concerns about burdensome public disclosure of breaches), does not remove the legal risk for a bank. In addition, our Enforcement Framework[8] sets out our approach to deciding which investigation or enforcement tools (from the range of available options, including no action) we may use in response to any apparent breach of our prudential requirements. This means that, in practice, our responses are proportionate to the nature of any breach.

The DTA will establish a modern regulatory regime which has a graded response to infractions built into the primary legislation. It will allow our Enforcement Framework to include a wide range of options to respond appropriately to an infraction. For example, any contravention of a standard does not necessarily lead to delicensing but may result in a pecuniary penalty imposed by a court (which is required to take the considerations in section 159 of the DTA[9] into account).

The DTA also introduces an obligation for a deposit taker to report any contravention of a prudential obligation to us (see section 116 of the DTA[10]), but only if it believes the contravention is material. This implies a continued need for us to provide guidance on materiality and so we will consider adapting the current breach reporting guidance. Work is underway in parallel with developing the standards to set up the approach and processes for supervision under the DTA.

In response to concerns raised about compliance costs we will consider whether the current requirement for ex-post six-monthly reporting of all breaches will remain in place.

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8 *See* Enforcement - Reserve Bank of New Zealand - Te Pūtea Matua
9 *See* section 159 of the DTA.
10 *See* section 116 of the DTA.

We believe that the updated supervisory approach and Enforcement Framework will provide a practical solution to the issue of minor contraventions, instead of removing all very specific requirements. It will provide clear compliance expectations and outline how we will respond proportionately to breaches.

Response

We have made several changes to the proposals to reduce the level of prescription as outlined in section 1.3. We have also introduced greater flexibility in some audit requirements and elevated board responsibilities to a more strategic level (see section 1.9). These changes are intended to strike a better balance between principles-based and rules-based approaches, and to support more proportionate implementation.

However, we have retained certain specific requirements to ensure a minimum standard for the prudent operation of a deposit taker.

We plan to publish draft guidance alongside the exposure drafts of standards. This guidance will help deposit takers understand how to comply with the more principles-based requirements.

1.8. Transitional arrangements

We received a number of detailed comments on the timing of implementation. These are summarised in the table below, together with our responses.

Comment

There has been a long lead-in time in the policy development process, and the intended 2028 commencement date for the standards is still over three years away. We have developed and signalled well the overall work programme for implementing the DTA to support deposit takers in planning for the transition.

The transition to the DTA regulatory regime, including the development of standards, is a significant and complex work programme. The transition is deliberately sequenced with DCS coming in first, followed by standards, then licensing and then full implementation including supervision.

Response

We will consider if particular transitional arrangements are required for individual standards in preparing the exposure drafts of the standards. We note that in making decisions we are balancing a range of transitional preferences across the sector.

Table 1.2: Transitional issues

Transitional issue raised	Response
• The transitional arrangements question was difficult to answer based on current information, and clear, simple transitional	We will continue to update our timetable for exposure drafts and issuing standards as we progress our work. We also continue to update our broader implementation timetable, including for licensing.

Transitional issue raised	Response
arrangements need to be communicated well in advance.	
• The OBR pre-positioning, Operational Resilience and internal / external assurance requirements across risk management will need the longest lead time. • We should consider transitional arrangements such as extending the implementation period from 18 months to at least 24 months.	As noted in section 3.2.8, we have taken steps to make the requirements for review of risk management processes and controls more flexible. We would expect these to reduce the degree of change that deposit takers will have to make to comply with this standard. At this stage, we do not think a shift in the implementation window is required. We are open to further considering this point as we receive feedback on the exposure drafts of the standards.
• Challenges include the technology changes needed for implementing standards, the requirements still being at an early stage, and the overlap with licensing requirements under the DTA. • The licensing process for existing banks should be simplified and links to standards timeline clarified. • We should consider bespoke transitional arrangements or use of the legislative backstop.	We intend to consult on exposure drafts of the standards in three tranches (October 2025, February and June 2026), and for the standards to be issued in 2027. We are prepared to discuss the need for any extensions of implementation periods as the final form of the standards becomes clearer. We are aiming to provide further details of the approach to licensing and the timing to external audiences from September 2025. We will aim to co-ordinate the finalisation of the standards with the steps in the licensing process to ensure as far as possible that entities do not face too much regulatory burden at the same time.
• The approach to exposure drafts should be staggered with the most significant ones coming earlier.	We agree that the sector needs sufficient time to consider consultation materials as we transition into the DTA regime. We extended the period for feedback on the core standards in response to feedback and set the same longer period for consultation on the non-core standards. We will take the same approach when consulting on exposure drafts. We plan to stagger the release of consultation materials to reduce the volume of material being considered at once by stakeholders.
• There is overlap with other significant regulatory changes happening at the same time, e.g. potential new requirements under the Consumer Data Right. • We should consider sequencing with CoFR to reduce the burden, especially for Groups 2 and 3.	CoFR produces a Regulatory Initiatives Calendar to provide an integrated view of work programmes across CoFR agencies. We seek to avoid overlap in significant work programmes consistent with each agency's mandated work. We will continue to work with our CoFR colleagues to identify opportunities for alignment across our respective work programmes.
• Publish proposed guidance at the same time as draft standards and	We are planning to do both of these.

Transitional issue raised	Response
release key policy decisions ahead of exposure draft consultation.	
• Implementation/coming into force of DTA Standards by 2028 may be too remote as some deposit takers will be well placed for earlier adoption.	We responded to this point in our Core Standards response document (see Table 1.1). In summary, our assessment is that it would not be possible to bring in new policy any faster than is currently planned, without significant additional risks to quality and overall programme delivery. However, there are targeted aspects that may be able to be brought forward to deliver benefits ahead of the overall implementation of the DTA.

1.9. Other cross-cutting issues raised

In this section, we address some high-level points that do not relate directly to consultation questions 1-7, but which are common to more than one of the proposed standards.

1.9.1. Duplication / consistency across standards

Two respondents noted there were some overlapping requirements across the proposed standards. Another noted overlaps in where the requirements for branches are covered. Another respondent suggested that we need to review all standards holistically to avoid overlaps and inconsistencies (for example, the definition of 'critical services' across the Operational Resilience, OBR Pre-positioning and Risk Managements Standards). There was also a request that we should work on a single Crisis Management Standard from the outset to avoid duplication between that Standard and related standards.

Comment

We note that there is some overlap in requirements relating to material service providers (**MSPs**) across the Operational Resilience Standard and the Outsourcing Standard. However, the requirements in the Operational Resilience Standard are solely intended to focus on managing business continuity risk arising from the use of MSPs, while the Outsourcing Standard has a specific focus on the provision of particular services in the event of a deposit taker failure.

Response

We agree that there was some duplication between the proposed requirements of the Governance Standard and Risk Management Standard. We have removed all the requirements relating to Outcome 2 (risk culture and values) from the Governance Standard, as these are also covered in the Risk Management Standard.

In light of the feedback we received, we are carrying out further work to address any unnecessary overlaps, ensure consistency and reduce duplication between the Outsourcing and Operational Resilience Standards. We will do this mainly in the Operational Resilience Standard, so that business continuity focussed requirements are contained in that standard and the Outsourcing Standard remains focussed on requirements to support recovery and resolution. Further details are included in the respective chapters.

We agree that it makes sense for the Crisis Management Standard to include the requirements that are proposed for the OBR Pre-positioning and the Outsourcing Standards, as these both focus on different aspects of crisis management. (We indicated in our Crisis Management Issues Paper that we would consider doing this.) However, the DTA implementation timetable will not allow us to issue an exposure draft of a comprehensive Crisis Management Standard, including the OBR pre-positioning and outsourcing requirements, at the same time as the exposure drafts of all the other core and non-core standards on which we have already carried out our policy consultation.

Our current plan is that the policy consultation on the Crisis Management Standard will happen at the same time as the exposure draft consultation on the OBR and Outsourcing Standards. The policy consultation will give a clearer indication of the direction we are taking on crisis management. We plan to consult on an exposure draft of a combined standard in time for it to be issued on 1 December 2028 when the other standards come into effect.

1.9.2. Review / internal audit requirements

One large bank asked us to review the level of the governance proposals and was concerned about the nature and number of audit requirements across the standards. Another respondent raised a similar concern, suggesting that a significant increase in the volume of mandatory assessments by a deposit takers' audit team could reduce their capacity to carry out risk-based reviews.

Comment

We accept the general thrust of these comments. Our key concern is to ensure that deposit takers maintain an acceptable baseline of assurance, but to the extent possible, we want to allow flexibility in how this is achieved. We discuss this further in the following chapters, particularly those on the Operational Resilience and Risk Management Standards.

Response

We have made proposed requirements more general and more flexible in a few places in the Operational Resilience and Risk Management Standards. In particular:

- In relevant places in the Operational Resilience Standard, we have changed the proposed wording of review requirements from "internal audit must review" to "the deposit taker must review". (See the review of MSP arrangements for critical services in Outcome 2.6 in Table 4.7, the review of BCPs for critical operations in Outcome 4.9 in Table 4.9, and regular assurance to the Board on the credibility of BCPs in Outcome 4.10 in Table 4.9 – all set out in section 4.7.)
- In the response on the Risk Management Standard (see Chapter 3), we state that we aim to make the approach more principles-based. This means for instance that, in the three lines model, we will require that a sufficiently independent party is responsible for reviewing the risk management function, rather than stating specifically that it must be internal audit. The same applies to regular reviews of the Board Risk Appetite Statement and Risk Management Strategy.

We have also eased the required frequency of review in two places in the Operational Resilience Standard. We have changed the review of processes and systems for managing operational risk

from annual to "regular risk-based". And we have changed the proposal for reporting to the Board on the compliance of MSP arrangements with the provider's management policy, from "every 3 years or after a material incident" to "regularly".

1.9.3. Obligations on directors

One respondent noted that the proposed standards had a considerable focus on creating additional obligations at the Board level, requiring a range of specific matters to be the explicit responsibility of the Board. They noted that this would effectively expand the director due diligence duty under the DTA, and would be at odds with the intended aim of the new framework to move away from the focus on director liability.

Another respondent recommended that we prioritise development of our planned guidance on director due diligence duties to ensure it is finalised before the publication of any exposure drafts of standards. The guidance will be critical for deposit takers so that they can assess the potential impacts of the new obligations and the interaction of the standards with other aspects of the prudential framework (such as supervision, and crisis and resolution).

Comment

As outlined in the Governance Standard chapter, we do not agree that the proposed requirements extend the due diligence duties of the directors under the DTA. The requirements are intended to complement the other requirements by providing clarity around the obligations on the board. These requirements are also intended to make clear the collective governance responsibilities of the board, as opposed to a focus on due diligence obligations of individual directors.

There is no intent to impose additional liabilities on the directors.

Response

We have made a number of changes in response to these concerns, broadly along the lines of changing from "the Board must carry out" some specific actions, to "the Board must ensure that processes are in place" to ensure that those actions are carried out. The desired outcome is to specify areas where we believe the Board should have overall responsibility for the outcomes, while acknowledging that it is the job of senior management to deliver those outcomes.

These changes are mainly in the "responsibilities of the Board" section of the proposed Governance Standard, but also in the Operational Resilience Standard (see Outcome 1.1 in Table 4.6, section 4.7), and the Risk Management Standard (in relation to the processes and policies for establishing a sound risk management culture). We have also changed the proposal in the Governance Standard from a deposit taker having to ensure that a fit and proper certificate and associated information is accurate, to the deposit taker having processes in place to ensure this is the case. This is to avoid any suggestion that the board itself must confirm accuracy.

The DTA requires the Reserve Bank to issue guidance on the due diligence obligation. We will be consulting on guidance as part of our implementation programme on the Governance Standard.

Chapter 2

Deposit Takers Governance Standard

Summary of Submissions and Policy Decisions

Non-technical summary of responses and decisions

This section outlines our responses to the consultation feedback received in relation to the Governance Standard. The Governance Standard seeks to ensure that deposit takers are appropriately managed within the context of protecting and promoting the stability of the New Zealand financial system.

Respondents broadly supported our proposed approach for the Governance Standard, with some amendments and clarifications sought. The table below summarises the key issues raised in the feedback.

Table 2.1: Governance Standard – Key issues and responses

Deposit Taker Group	Key issue	Response
All groups and branches	Due diligence	The proposed governance requirements would not extend the due diligence duties under the DTA but clarify the board and NZ branch CEO's responsibilities in governing the deposit takers. The diligence guidance will provide further clarity. We would also draw respondents' attention to section 157 of the DTA that explains how a court may make pecuniary penalties if the due diligence duty is contravened.
Groups 1, 2 and 3	Prescriptiveness and proportionality	In drafting the Governance Standard, we will ensure that the framing of the requirements is clear on the intent to focus the board responsibility on ensuring that the relevant processes or policies are in place. We expect deposit takers to have the flexibility to tailor and adapt the policies and processes to their size and structure. We will simplify or generalise some requirements to take into account the differences in the organisational structures and scale of operations across deposit taker groups. For instance, we will differentiate the frequency of board performance assessments for the three groups. See amendments in Table 2.4, section 2.7.
	Remuneration	We will ensure we use the term "remuneration policy" instead of the term "remuneration strategy". The proposed requirements do not imply that the remuneration necessarily has to be tied to the performance of the individual directors. We will also ensure to reflect the view that directors must not approve their own remuneration package (instead of not being involved in deciding it).
	Independence	We will consult further on options relating to how we consider independence as a part of consultation on the exposure draft of the Governance Standard. We will not provide a more specific exception to the 9-year limit relating to the chair. We will also provide for transitional provisions for existing directors. Our consultation proposals already provided that the Reserve

Deposit Taker Group	Key issue	Response
		Bank could approve exceptions to the 9-year limit, to manage any specific issues that may arise.
	Fit and Proper	We clarify and/or will change specific proposed requirements relating to the policy and matters to assess, disclosure, processes, information and certificate, notification and reassessments, transition and interviews.
Group 2	Separate committees and majority independent directors	We will keep our proposed requirement to maintain separate audit and risk committees for Group 2 deposit takers. We also will maintain our proposal to require a majority of directors to be independent.
Group 3	Elected Directors	We will enable two different options for deposit takers with elected directors, so they can choose the option that best suits their needs (for fit and proper).
Branches	Remuneration	We will include obligations relating to remuneration as suggested. We will also explicitly link the NZ CEO's remuneration obligation with the objective to prudently manage the branch.
	Fit and proper	We clarified our policy intent and will modify some of our proposed requirements. Branches will be required to notify us of an appointment, via a certificate and documentation similar to the one for Group 1, with adaptations. We did not propose that branches be subject to periodic fit and proper re-assessments. Branches are subject to section 32 of the DTA.

2.1. Introduction

Effective governance of deposit takers is essential to ensure that they operate safely and soundly. The Governance Standard seeks to ensure that deposit takers are appropriately managed within the context of protecting and promoting the stability of the New Zealand financial system.

Our proposed approach to the Governance Standard structured requirements across three key areas as set out in the table below.

Table 2.2: Governance Standard key areas

Key area	Purpose
Responsibilities of the board of directors (**board**) of a locally-incorporated deposit taker and of the New Zealand Chief Executive Officer (**NZ CEO**) of the branch of an overseas licensed deposit taker (branch)	to specify how these positions must exercise their governance responsibilities
Compositional and structural requirements for the board of locally-incorporated deposit takers	to support independent governance of deposit takers and help to ensure that sufficient governance attention is provided to the key concerns of the deposit taker
Fitness and propriety of directors and senior managers of all deposit takers	to ensure the suitability of people appointed to these important positions – that is, among other criteria, ensuring that they are of good character, appropriately qualified, capable and competent

Our Consultation Paper generally proposed the same requirements apply to all deposit takers. There were some variations between requirements for Group 1 and Group 2 and the requirements for Group 3 for some of the board compositional and structural requirements to reflect the different sizes and business natures among deposit taker groups. We expect that deposit takers will be able to comply in ways that are appropriate to their size and business operations.

The responses in this document and the changes to proposed requirements aim to make clear our policy intent. However, the final wording of the requirements in the exposure draft of the standard could be different, while still maintaining the policy intent.

Some respondents highlighted the common interests between our proposed requirements (such as fit and proper requirements) and those of the Financial Markets Authority (FMA). We will continue to work with the FMA when it comes to supervising relevant requirements to avoid unnecessary compliance costs.

2.2. Approach for Group 1 deposit takers – our response to submissions

2.2.1. Responsibilities of the board

Respondents generally supported our proposed approach to the responsibilities of the board. Feedback focussed on the scope, prescriptiveness, clarity and flexibility of the requirements. We also received comments relating to the directors' personal liability and the interaction of the Governance Standard requirements with the requirements in other standards.

2.2.2. Prescriptiveness of the requirements

Respondents raised 3 substantive issues relating to the framing of some of our proposed requirements for the responsibilities of the board.

- **Level of prescription in the proposed requirements:** respondents suggested that some requirements may be overly prescriptive and may not achieve our intended hybrid principles-based approach because the proposed requirement was too detailed and did not offer flexibility in how a deposit taker could implement the requirement.
- **Division of responsibilities between board and management:** respondents considered that the proposed requirements would increase the obligations placed on directors and blur the lines of responsibility between the board and senior managers. They considered that some of the proposed board requirements may also be better suited for senior managers. They also mentioned that the proposed approach could impede the board's ability to manage the deposit taker, and effectively carry out its responsibilities, in line with the directors' due diligence responsibilities. Respondents suggested that the board should focus on strategic issues and oversight rather than maintaining an operational role.
- **Focus of the requirements:** respondents considered that some requirements place operational responsibilities on the board (including the requirements relating to the board charter). They considered that this approach makes the requirements too prescriptive. They suggested that the requirements should instead mandate boards to ensure that the relevant processes and policies are in place to achieve the intended outcomes and that boards should have the flexibility to manage policies and procedures as they see fit within the directors' due diligence duty under the DTA. Respondents also requested clarification on when board responsibilities can (or cannot) be delegated to board committees, the board chair, a committee chair and/or senior managers.

Comment

We acknowledge the concerns raised on the framing of some of the proposed requirements, in particular, relating to the division of responsibilities between the board and management and the view that the board could be seen as being made responsible for operational matters. We do not think that there is a difference in substance in our views with the views of respondents.

We agree that the board should focus on strategic issues and oversight rather than operational issues or be responsible for the 'doing' of issues that require board attention. However, in some instances, we do think it is important that the board is providing oversight of key policies by approving them. We expect that the board will be ensuring that processes or policies are in place

to achieve certain objectives, rather than being directly responsible for the actions needed to achieve these objectives.

Generally, we consider that it is a matter for boards to determine the authorities they may delegate to management. When authorities are delegated, the board retains the responsibility for how that authority may be exercised. This is consistent with the overall outcome we proposed that *"The deposit taker's board is ultimately responsible for prudently governing the deposit taker and for ensuring the safety and soundness of the deposit taker."*

We emphasise, that good governance entails that it is the board's responsibility to ensure that there is a process in place on when and how authorities are delegated and that the board remains responsible for these delegated authorities. This approach is consistent with section 130 of the Companies Act 1993 relating to the delegation of powers.

There are some areas where we consider that it is important that the board does not delegate matters. These are set out in our Consultation Paper and includes, for example, the requirement for the board to have its own charter.

Response

In drafting the Governance Standard, we will ensure that the framing of the requirements is clear on the board's responsibility in providing governance and strategic direction, and on the intent to focus the board's responsibility on ensuring that the relevant process or policies are in place to attain the intended outcomes. We expect deposit takers to have the flexibility to determine the detailed scope of the processes to comply with the requirements. We intend for the drafting of the Governance Standard to enable these intentions.

The amendments that reflect our policy positions on these points in relation to our Consultation Paper are detailed in section 2.7. We will provide further guidance where appropriate.

2.2.3. Directors' due diligence duties in the DTA

Respondents were concerned about the requirements' implications on directors' personal liability in relation to the deposit taker's compliance with the standards. They considered that the corresponding requirements expanded directors' due diligence duties beyond the obligations in section 93 of the DTA.

Comment

The proposed requirements for the responsibilities of the board are aligned with the intent of the DTA. Section 78 of the DTA states that a standard may regulate, deal with, or otherwise relate to 1 or more of the following matters:

- the governance of a deposit taker, including organisation structure matters; the composition, size and structure of the governing body; and the responsibilities of the governing body, of committees of that body, and of its management
- the remuneration of, and incentives available to, directors, senior managers, and employees
- the incorporation and ownership structure of a deposit taker.

We do not agree that some requirements (such as requirements 3 and 4 under outcome 1) extend the directors' due diligence duty under the DTA (section 93). Rather, these requirements are

intended to make clear the governance responsibilities of the board and what needs to be done in practice to prudently govern the deposit taker, in line with section 78 of the DTA. These requirements are ultimately intended to support public trust in, and the stability of, the financial system.

The due diligence guidance will provide further clarity on what this means in practice and on how the prudential standards link with the directors' due diligence duty.

Response

In drafting the Governance Standard, we will ensure that the requirements are clear that they do not extend the directors' due diligence duty under the DTA. Rather, they are intended to make clear the governance responsibilities of the board and what needs to be done in practice to prudently govern the deposit taker. The due diligence guidance will provide further clarity on this concern.

2.2.4. Internal governance matters

Respondents raised concerns relating to three substantive internal governance areas:

- **Interpretation of 'risk culture and values' and its interaction with the Risk Management Standard:** respondents noted that the relevant requirements should have a broader focus, including having a strong customer focus to keep the business sustainable. They added that the term "risk culture and values" is vague and could be interpreted in several ways and that the requirements seem to duplicate parts of the proposed Risk Management Standard.
- **Setting of the board meeting procedures:** respondents suggested that board procedures are better developed and maintained by the governance team that supports the board, and that we should clarify how the exercise of challenge will be monitored. They also noted some of the requirements are part of the general board practice and questioned the value gained by setting out these as requirements.
- **Board's performance and succession plan:** respondents suggested that the deposit taker should have procedures to conduct an internal or external performance evaluation rather than requiring boards to conduct the performance evaluation themselves. They added that there should be flexibility in the conduct of the evaluation, such that an individual director's performance can be evaluated by the chair instead of by the board. They also suggested that the deposit taker should have some flexibility in succession planning.

Comment

Interpretation of 'risk culture and values' and its interaction with the Risk Management Standard

We refer respondents to the definition of 'risk culture' in the Basel core principles (**BCBS 2024**).[11] The Basel core principles defines risk culture as "norms, attitudes and behaviours related to risk awareness, risk-taking and risk management, and controls that shape decisions on risks" and notes that "risk culture influences the decisions of management and employees during their day-to-day

[11] *See* BCBS (2024), Core Principles for effective banking supervision.

activities and has an impact on the risks they assume." The Financial Stability Board (**FSB 2014**)[12], which subscribes to this definition, discusses in detail what a sound risk culture entails.

Principle 14 (Essential Criteria 5) and Principle 15 (Essential Criteria 1a) of the Basel core principles notably emphasises the board's role in establishing and communicating the deposit taker's risk culture to promote the development and execution of its strategy. BCBS (2014) also notes that the institution of a sound risk culture should reflect the evolving risks and broader medium- and long-term trends facing the deposit taker.

We agree with the comment on the relevance of strong customer focus in the context of making the business more sustainable, but we prefer to keep the outcome less prescriptive. Even so, we consider that the outcome sufficiently supports the deposit taker's capability to develop and execute a sound risk management strategy as required by the Risk Management Standard. The due diligence guidance may also provide further clarity on this and similar concerns.

We, however, agree with the comment that the requirements under Outcome 2 duplicate the Risk Management Standard requirements (paragraphs 424 and 439 of the Consultation Paper). To eliminate duplication, we will exclude these requirements from the Governance Standard and only have them in the Risk Management Standard.

Setting of the board meeting procedures

We consider that the requirement to have board meeting procedures in place, and to ensure that the board exercises its responsibility to challenge senior managers and each other's views are critical in governing the deposit taker prudently. The requirement for the board to challenge senior managers and each other's views also draws from the findings of the 2023 Governance thematic review.[13] We consider it important to be explicit on these requirements even though these may be standard board practices for some deposit takers. This formalises requirements and expectations for supervision purposes, and provides clarity for entities.

We acknowledge the comment that we need to consider who needs to set out the board meeting procedures. We expect that the board will be supported by a team in developing and documenting such procedures, but the board must oversee and approve this work.

Regarding the monitoring of the exercise of their responsibility to challenge themselves and senior managers, we expect deposit takers to be able to provide evidence if requested to do so by the Reserve Bank. This can be through minutes or meeting summaries that clearly indicate that the board is exercising its responsibility to challenge the senior managers in managing the deposit taker as well as its own views in governing and overseeing the deposit taker.

Board's performance and succession plan

As above, we agree that the drafting of some board responsibility requirements can be modified to focus on ensuring that the relevant processes or policies are in place. We also consider that a deposit taker should have the option to choose whether to conduct internal or external reviews, but its board must be responsible in ensuring that the reviews are free from conflicts of interest.

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[12] *See* FSB (2014), Guidance on supervisory interaction with financial institutions on risk culture: A framework for assessing risk culture.
[13] *See* RBNZ and FMA (2023), Governance thematic review, p.26

On the succession planning point, we clarify that the requirements (such as requirement 5 under Outcome 4) do not specify the nature of succession planning for boards, board committees and senior managers. A deposit taker can take any approach it considers fit for its needs. However, there is scope to simplify the framing of the relevant requirements to clarify the intent without compromising the objective.

Response

In drafting the Governance Standard, we will keep the outcome relating to risk culture and values (Outcome 2), but we will remove the underlying requirements under this outcome to avoid duplicating the Risk Management Standard requirements.

We will ensure that the framing of the requirements is clear on the board's responsibility in ensuring that the relevant processes or policies are in place to attain the intended outcomes. We will also modify the framing of some of the requirements to clarify their intent.

We will provide further guidance in the Guidance document where necessary.

2.2.5. Remuneration

For Outcome 5 and the underlying requirements, respondents raised concerns relating to three key areas:

- **Terminology and remuneration setting practices:** respondents noted that the terms "remuneration strategy" and "remuneration policy" are not defined and suggested that "remuneration policy" is seemingly the more appropriate terminology, which could then encompass a remuneration strategy. They also pointed out that there is a difference between the remuneration strategy for the entity, which is set by the board, and the remuneration for directors, which is set by the shareholders. In this regard, they suggested that consideration should be given to deposit takers that have listed issuer parents, noting that the NZX Listing rules require that director remuneration of the listed issuer and its subsidiaries is approved by its shareholders.
- **Executive director vs. non-executive director remuneration:** respondents pointed out that the difference between the remuneration requirements for non-executive directors and those for employees (including executive directors) should be considered. They noted that it is unclear whether the requirements (such as requirement 4 under Outcome 5) are intended to apply only to executive directors who may have performance-based remuneration packages or also to non-executive directors, whose remuneration is not typically performance-based. They suggested that the NZX Corporate governance code could be informative, as it requires a remuneration policy which clearly segments the components of director remuneration.
- **Further guidance and management of conflicts of interest:** respondents queried the purpose of requiring the board to undertake a review on how the remuneration strategy (a term which we will replace with "remuneration policy" as noted above) has contributed to the performance of individual directors and the board. They noted that it would be difficult for directors not to effectively be involved in the approval of their own remuneration. They cited section 161 of the Companies Act 1993, which they interpreted to contemplate a situation where the board approves the payment of remuneration to directors and sets out a process for that approval. They suggested that the board's responsibility should be limited to approval of the remuneration package of executive directors as opposed to being involved in the

remuneration review process. Respondents also sought guidance on how to operationalise the requirements. In particular, how the remuneration strategy could be aligned with the deposit taker's strategic direction, risk strategy and values; promote good performance; and reinforce the deposit taker's desired risk culture.

Comment

Terminology and remuneration setting practices

We agree to replace the term "remuneration strategy" with "remuneration policy". We agree that the latter term is broader and suits the intent of the outcome. We clarify that deposit takers can have multiple remuneration policies—not just one policy—and that the outcome refers to remuneration policy in a general sense.

We acknowledge the comments on the different ways deposit takers establish remuneration policies depending on circumstances and organisational characteristics. Following the discussion above, instead of establishing the remuneration policy, we consider it more appropriate for the board to ensure that this policy is in place. This allows the requirement to accommodate different practices in establishing remuneration policies.

Executive director vs. non-executive director remuneration

We clarify that the intent of the requirements is not to mandate performance-based remuneration, rather to assess whether the remuneration policy aids the deposit taker in achieving optimal outcomes in terms of governance and corporate performance. The deposit taker also has flexibility in determining the remuneration processes for executive directors, non-executive directors and other staff as it sees fit. These policies can be in a single or multiple documents.

We consider that the revision in the framing of the requirement will not change the intent of the requirement nor its alignment with the outcome.

Further guidance and management of conflicts of interest

We clarify that the second line of requirement 3 under Outcome 5 intends to facilitate the first line, by prohibiting directors from approving their own remuneration package. This requirement is critical in supporting the integrity of the remuneration policy. However, we understand that the original framing can be ambiguous and needs modification.

We confirm that we will provide further guidance in the Guidance document on how we expect deposit takers to comply with the requirement where necessary.

Response

In drafting the Governance Standard, we will ensure to use the term "remuneration policy" instead of the term "remuneration strategy". However, we do not consider it necessary to define the term "remuneration policy".

We will ensure that the framing of the outcome and requirements focusses on the board's oversight responsibility, and clarify that the requirements do not imply that remuneration necessarily has to be tied to the performance of the individual directors. We will also ensure that

the requirements reflect the view that directors must not approve their own remuneration package (instead of not being involved in deciding their own remuneration package).

We will provide further guidance in the Guidance document where necessary.

2.2.6. Structure and composition of the board

Overall, Group 1 respondents were supportive of our proposed approach to structural and compositional requirements for the boards of deposit takers. Our proposals expanded on existing requirements in our Corporate Governance policy (**BS14**). The proposals included requiring separate risk and remuneration committees and a majority of independent directors, and were supported by Group 1 deposit takers. Two issues related to how we determine independence for directors received more substantive comment.

Issue

At a high level, our approach for the structural and compositional requirements for Group 1 and 2 was to adapt existing requirements in BS14 with some enhancements to reflect lessons from the governance thematic review.

Exception for a chair to sit on a parent board and remain independent

As a starting point, our Consultation Paper indicated that we were proposing to carry over the exception contained in BS14 to the independent chairperson requirement. This exception accommodates the case in which the chairperson of the bank's board also sits on the board of a holding company or parent bank. This exception is subject to approval by the Reserve Bank. However, we indicated that we were also considering removing this exception.

We received submissions on this issue from all Group 1 deposit takers and an industry body. Respondents supported the status quo position to retain the existing exception. Respondents considered that the exception provided a voice for the New Zealand subsidiary in the parent board's decision-making and strengthened the sharing of knowledge and insights between the entities in the group. They considered that conflict-of-interest risks arising from the arrangement could be mitigated through a mixture of policies to manage these risks and planning for how the risk would be mitigated if it eventuated (such as recusal in decision-making or resignation from the parent board).

Tenure limits for being considered independent

Respondents were generally supportive of our proposed approach. Group 1 entities provided particular feedback relating to the 9-year period and how this would be counted for a director appointed chair beyond their initial term. They expressed that a longer period could be appropriate, and also suggested a transition period.

Comment

Exception for a chair to sit on a parent board and remain independent

We acknowledge the views of respondents to retain the existing exception. We have been looking at this exception further, and we consider that the key judgement on whether to retain or remove the exception relates to the materiality of the conflict-of-interest risk in a stress event. We are

particularly concerned about situations where the interests of the New Zealand subsidiary and overseas parent may diverge, creating a conflict of interest. This risk can be both real (in terms of the challenges that the person would face) and perceived (how their decision-making would be viewed externally).

We acknowledge there may be potential benefits, but we note that most of the submissions on this point were general in nature on the benefits of the exception. In the examples provided it is not immediately clear what the benefit of the exception is beyond other communication channels or using non-independent directors to support this. We also do not have direct evidence of a New Zealand Chair being able to influence decision-making at their parent board in the interests of the New Zealand bank. We would also expect that the information flows that are a potential benefit should already be happening.

From a first-principles approach, this exception can undermine our independence policy. This is because of the fundamental role of the chair of a deposit taker's board in guiding independent decision-making in the best interests of the deposit taker. Any action or practice that could undermine the chair in this role is detrimental to the independent governance of the deposit taker.

In light of the submissions received, we are further considering options to balance these competing objectives. We intend to consult further on these options as a part of the exposure draft process.

Tenure limits for being considered independent

We have considered whether the tenure rule should apply differently for the position of chair (e.g. whether the 9-year period should reset). We do not see a reason that prior service on the board should not be counted for tenure limits. The same reasons for putting this limitation in place apply even if an existing director moves to the position of chair. Given the importance of the Chair role, there are even stronger reasons to ensure their independence.

We acknowledge that this view could limit the continuity of leadership of the board – although six years is still a reasonable period of time to provide continuity of leadership (if a person was appointed after an initial term of three years).

Our consultation proposals already provided that the Reserve Bank could approve exceptions to the 9-year limit. We could consider whether this exception power was clarified more specifically for the position of chair. To the extent that flexibility could be desirable for an individual director in transitioning to chair we consider that this exception is sufficient.

Response

We will consult on options relating to how we consider independence as a part of consultation on the exposure draft of the Governance Standard.

We intend to maintain our existing proposal for tenure limits given the general support. We will not provide a more specific exception relating to the Chair.

2.2.7. Fitness and propriety of the directors and senior managers

The Consultation Paper proposed a set of requirements 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. The requirements aim to ensure the suitability of members of the deposit taker's board and senior managers, and in this way support good governance and ultimately financial stability.

Our proposed fit and proper requirements for Group 1 deposit takers build on the legislative framework in 3 main areas:

- requirements for approving the deposit takers' directors and senior managers
- requirements relating to regular review to ensure ongoing suitability
- requirements for a deposit taker to set out a Fit and Proper Policy.

The following subsections discuss the main issues raised by respondents regarding fit and proper requirements, and our response to each one.

Respondents were generally supportive of the policy intent and proposed requirements, with some proposed amendments and clarifications sought. We discuss the main themes raised by respondents grouped in each of the 4 key issues listed below.

2.2.8. Content of the fit and proper policy

Respondents were generally supportive of the proposed requirements to regulate the fit and proper policy. Some respondents sought clarifications on the policy intent or how we expected them to comply in practice with specific requirements, and/or suggested some amendments to streamline the policy.

Financial position – requirement 2(c)(i)

Respondents requested clarification on what we expect the "financial position" assessment to include in practice. For instance, if a credit check would be sufficient, or if we would require additional checks or information.

Personal information and privacy risks – requirement 4(b)

Respondents questioned whether it was necessary for us to receive extensive personal information, since we would also receive the certificate. Some respondents suggested that we rely only on the certificate. They considered there would be privacy risks involved, and the information would be highly personal in nature.

Provisions that the entity's fit and proper policy must include – requirement 19

Respondents suggested that the provisions that the deposit taker's fit and proper policy must include (under requirement 19) be simplified or consolidated where possible, using a more principles-based approach. They considered this would provide flexibility on how those matters are addressed by the fit and proper policy.

They also requested clarification on how the provisions regarding disclosure of information can be "adequately explained" in practice to the relevant employees (requirement 19f), other than giving them a copy of the policy.

Matters only the appointee could advise on and a deposit taker could not verify externally

Respondents requested clarity on requirement 2, as they considered some suitability concerns could not be verified externally, and only the applicant could advise on them. These would include:

- influence over an at-risk, deteriorating, or dissolved entity
- professional or occupational malpractice; refusal of admission to, or expulsion from, a professional body
- market participant regulatory non-compliance, sanctions applied by a regulator of another similar industry or previous questionable business practices.

Comment

Financial position – requirement 2(c)(i)

Financial position is one of the suitability concerns that the entity must assess about the appointed person. The policy intent is that the onus be on deposit takers to analyse these general concerns or dimensions, instead it of being a tick-box exercise. We would expect that a credit check will be a necessary condition to meet the requirement.

However, we also note that the principles-based approach means the deposit taker is responsible for assessing financial position and what is appropriate for specific roles. For instance, there could be cases where there may be apparent concerns, not shown however by a credit check. In this sense, that may not be sufficient in every case to meet the requirement. Fit and proper assessments are done by nature on a case-by-case basis.

Personal information and privacy risks – requirement 4(b)

The Reserve Bank receiving and/or sourcing personal information about the appointees is not a significant departure from the status quo. Personal information is handled according to information security and privacy considerations.

Receiving the information from entities, besides the certificate, is key to the more intensive supervisory regime brought in by the DTA, as it moves the fit and proper process from a "non-objection" to an "approval" regime.

While some information will unavoidably be personal, it is not intended to be made public. Managing or governing an institution that takes deposits from the public entails a certain level of scrutiny to support good governance and ultimately financial stability.

Provisions that the entity's fit and proper policy must include – requirement 19

We acknowledge the request for consolidation of the seven provisions that the fit and proper policy must include. We will take this into account when drafting the Governance Standard. However, we note each provision has a distinct policy intent, even if they are closely related.

This intent is *what* the policy must include. Deposit takers still have some flexibility on *how* they include such provisions, and what they mean according to their size and business nature.

Regarding clarification on how provisions about disclosure of information can be "adequately explained" in practice, we have clarified the intent of requirement 19(f).

Instead of stating:

> *The fit and proper policy must include provisions: […]*

We will state:

> The deposit taker must have processes in place to ensure that that require *all provisions of the* fit and proper *policy encouraging the disclosure of information, and the related procedures, are adequately explained to directors and employees of the deposit taker who are likely to have information relevant to fit and proper assessments.*

This change is consistent with the wording changes mentioned above in the responsibilities of the board section of the Governance Standard, and enables flexibility and proportionality in how each deposit taker complies with the requirement. We envision that giving relevant employees a copy of the policy is a minimum necessary condition; but not necessarily sufficient.

Matters only the appointee could advise on and a deposit taker could not verify externally

For some of these cases the appointee must first disclose the issue to the deposit taker. After this, the issues could be verified externally with the relevant institution or source.

We also clarify that requirement 18(a) *(that the fit and proper policy must encourage any person to disclose information relevant to a fit and proper assessment*), also applies to the person subject to that fit and proper assessment.

We intend to include a requirement for the deposit taker's fit and proper policy to include an obligation for the proposed appointee to disclose any suitability concerns to the deposit taker.

Response

We detail our response to each of the individual sub-issues above. While the first two sub-issues are about clarifying our intent, the last two propose amendments to requirements and a new requirement, respectively.

2.2.9. Assessment processes

Respondents generally agreed with the proposals. Part of the feedback related to the processes that the entity needs to run to perform a fit and proper assessment and submit the request for approval to us. Feedback on the first sub-issue suggested that processes should be in supporting documents rather than in the fit and proper policy. On the second issue, respondents requested clarifications and amendments regarding the fit and proper certificate.

Processes in supporting documents rather than in fit and proper policy – requirement 13

Regarding requirement 13, respondents suggested that the informational requirements (what information will be obtained, and how) are better set out in supporting standards or procedures and not in the board-approved fit and proper policy.

Certificate template and who submits it to the Reserve Bank – requirement 3

Respondents suggested to amend requirement 3 to include:

- Who (specifically) must provide the certificate to the Reserve Bank, to ensure consistency across deposit takers
- That the Reserve Bank will provide a template of the fit and proper certificate, to ensure consistency and compliance with the requirements.

Comment

Processes in supporting documents rather than in fit and proper policy – requirement 13

We acknowledge it may be relatively easier to change a process document than a board-approved policy. However, this is in part the reason why these processes should be part of the fit and proper policy.

We remain of the view that there is value in having these details stated in the policy rather than in other supporting documents. This supports process consistency and transparency, which are key for the policy's effectiveness. We note that APRA requires these same processes to be part of the fit and proper policy.[14]

Certificate template and who submits it to the Reserve Bank – requirement 3

On the first point, we consider that we do not need to prescribe who, within the deposit taker, will be operationally responsible for submitting the fit and proper certificate to the Reserve Bank. Our hybrid principles-based approach aims to provide flexibility to cater for different organisational structures and ways of compliance.

We do not consider that consistency across deposit takers, in this specific respect, is necessary. In many cases, respondents have asked for a more principles-based approach, to enable a greater degree of flexibility and proportionality in compliance. This is a case where our approach aligns with that request. This does not mean that the board loses oversight and ultimate responsibility for the policies and procedures in place.

On whether the Reserve Bank should provide a template of the fit and proper certificate, we consider that it would provide some certainty for industry, and it would streamline the process for the Reserve Bank. We intend that the contents of the certificate will form part of the Governance Standard. The specific form (template) of the certificate may be provided in a separate document, different to the standard and guidance.

Response

The informational requirements (what information will be obtained, and how) proposed in requirement 13 will need to be part of the deposit taker's board-approved fit and proper policy, as originally proposed.

While we do not intend to prescribe who will be operationally responsible for submitting the fit and proper certificate, we consider there is value in providing a template.

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[14] *See* Prudential-Standard-CPS-520-Fit-and-Proper-(July-2017)_0.pdf, paragraph 40)b), page 13.

2.2.10. Regular review and ensuring ongoing suitability

Some respondents requested clarifications on the requirements relating to ensuring ongoing suitability, and/or suggested minor amendments. This feedback is split into three sub-issues, relating to the three-yearly reassessment, the obligation to ensure the certificate remains correct, and the case of an existing director or senior manager being assessed as no longer fit and proper, respectively. We discuss each sub-issue below.

Ensuring ongoing suitability: three-yearly reassessment

Respondents requested clarifications on the proposed re-assessment every three years, and the process involved. One queried our expectations on data collection and what information we expect to receive for the three-yearly reassessments.

Ensuring the certificate and information remains correct - requirement 5

Respondents suggested amending requirement 5 from an obligation to ensure that the certificate and information remain correct, to instead require the deposit taker to have policies and processes in place to ensure this. Some respondents suggested amending it to require "reasonable efforts to ensure" that the information remains correct.

They also considered the proposed wording could be interpreted as requiring the board to make the necessary enquiries and directly manage the fitness and propriety of directors and senior managers.

Existing director or senior manager being assessed as no longer fit and proper

Respondents requested clarifications on cases where an existing person is assessed as no longer being fit and proper. One of them queried the alignment between the proposed requirements 15(a) and 6.They considered the former requires that an existing director or senior manager who is assessed as no longer being fit and proper does not continue to hold the position, while the latter appears to allow the person to remain in the position (and requires a notification to RBNZ including the reasons and actions being taken).

They suggested there should be flexibility for the person to remain in the position if the matter causing them to be assessed as not fit and proper could be resolved within a reasonable timeframe.

Comment

Ensuring Ongoing suitability: three-yearly reassessment

Our intent is for the deposit takers' internal re-assessment to be of the same nature as that for the initial appointment. However, the fitness reassessment is likely to be in the nature of an update, so we expect the compliance costs to be much lower than for the initial appointment.

The propriety tests would involve running the same checks (e.g., financial and criminal checks) again. The compliance cost in this case would be partially similar to that for the initial appointment. Some checks would not need to be run again. For instance, if a person worked in the UK between 2015 and 2020, the initial checks and documentation would already cover that jurisdiction and time period.

Deposit takers will need to notify us that they have run the re-assessment, and its result, in the manner specified by us. This notification will be similar in form to the fit and proper certificate. However, while deposit takers will need to source the relevant information and documentation for their assessment, in the case of re-assessments the notification to the Reserve Bank will not need to be accompanied by such information and documentation. This will avoid unnecessary compliance costs.

Ensuring the certificate and information remains correct - requirement 5

We agree with the suggested change. We will amend the proposed requirement and frame it as an obligation for deposit takers to have processes in place to ensure that the certificate and information provided remain correct for all its directors and senior managers.

This framing is aligned with the approach and wording changes under the "Responsibilities of the board" section. It also aligns with the oversight role of the board.

We also clarify that the policy intent is not to require the board to make the necessary enquiries and/or directly manage the fitness and propriety of directors and senior managers. This is also aligned with the clarifications and amendments for the board's responsibilities.

Existing director or senior manager being assessed as no longer fit and proper

We clarify that the policy intent is for cases where the reasons for the assessment are relatively minor and can be resolved in a timely manner. The fit and proper approval process includes the option of our approval subject to conditions, including where there may be suitability concerns. The proposed requirements 14 and 15(b) deal with cases when suitability concerns are identified, and require the certificate to describe how they will be addressed or managed.

The above situation refers to an initial appointment and assessment process. The issue raised by the respondents refers to a subsequent assessment (regular and/or ongoing re-assessment).

The policy intent is to have the same approach for re-assessments as for the initial assessment. This is, to retain flexibility for the person to remain in the position, provided the issue causing the assessment is below a materiality threshold, and can be resolved within a reasonable timeframe.

We will frame requirements 6 and 15 to reflect this and avoid any apparent inconsistencies.

As with the initial assessment, the first and main onus is on the deposit taker to assess the issue's materiality.

Response

We have clarified above the notification process and requirements relating to the re-assessment.

Also, following feedback, we have amended the requirements relating to the obligation to ensure the certificate remains correct, as well as requirements where an existing person is assessed as no longer fit and proper.

2.2.11. Fit and proper interviews

Respondents provided feedback on this topic. Some respondents proposed that we should only interview proposed appointees in exceptional circumstances, rather than for every appointment. They also queried the value and purpose of interviews.

An industry body queried whether we seek to conduct interviews in every case. They suggested the standard be drafted as giving us a general right to interview, rather than interviews being a default position.

Status Quo

Interviews are not part of our current toolkit for licensing nor supervising banks. However, the NBDT Act enables us to conduct interviews,[15] so this would not be a framework change for current non-bank deposit takers. However, we acknowledge it has not been common practice to conduct interviews before the non-objection.

Internationally, prudential regulators from some jurisdictions such as the United Kingdom and the European Union can conduct interviews as necessary.[16] In the European Union, interviews are a mandatory requirement for new appointments to the positions of CEO and chair of the management body at stand-alone banks and top banks of groups.[17] They use interviews to collect, complement and verify information, probe the appointee's practical experience and institution and market knowledge, explore propriety issues and set out expectations.

DTA

The DTA sets a more intensive regulatory and supervisory regime, with more reliance on regulatory discipline relative to the previous emphasis on market discipline.

Interviews would support the main DTA purpose, and in particular the following DTA additional purposes:[18]

- (a) to promote the safety and soundness of each deposit taker
- (b) to promote public confidence in the financial system.

The new emphasis on the soundness of individual deposit takers, in particular for the systemically important ones (due to the wider implications for the stability of the financial system), also supports the use of interviews.

The change from a non-objection to an approval regime may be seen as "raising the bar" for suitability assessments, enabling a more active engagement with us.

Purpose

A purely desk-based fit and proper assessment may sometimes be insufficient to make an informed decision. There are elements or criteria that could be hard to assess based solely on a CV

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15 *See* section 16(1) of the Non-bank Deposit Takers Act 2013.
16 *See* Senior Managers Regime | Bank of England.
17 *See* the EU's Guide to fit and proper assessments.
18 Section 3(2) of the DTA

or other documentation, such as the appointee's understanding of the entity's issues, prudential obligations, and relevant market conditions.

Interviews would be an additional way to gather information, as well as to supplement and fact-check the information received via documentation. They may also serve to test the appointee's practical experience, their knowledge of the entity and its issues, and general market developments. This could include discussing the prudential obligations applicable to the deposit taker.

Additionally, interviews could be used to explore particular skills gaps and follow-up areas for supervision, discuss any issues that the entity may be facing, specific concerns, and/or issues of integrity and propriety, for instance when suitability concerns arise during the process. Interviews would also provide an opportunity to meet with the appointee and set out supervisory expectations.

The fit and proper interviews have a different focus to regular job interviews and are no substitute for them. The deposit taker is responsible for their own recruitment process. The focus of fit and proper interviews is on regulatory and supervisory questions, to complement and fact-check information to assist us in assessing suitability.

In summary, the above considerations point to the general purpose of supporting us in making an informed decision on a fit and proper assessment.

Clarifications on policy proposal

We clarify that our policy intent is to allow us to conduct interviews as part of fit and proper assessments, as drafted in requirement 4(b). However, this is a tool we intend to enable, but not necessarily to mandate, for every role and entity. It would be subject to a risk-based and proportionate approach to supervision.

In other words, we envision the requirement will give us a general right to interview, rather than being a default position for every appointment.

We intend to clarify how we will use interviews, their scope, and in which cases an interview would be more likely to be required through guidance.

We also clarify that interviews will not mean that we take any ownership of the appointments. The onus remains on the deposit takers. Interviews are not a substitute for the deposit taker's recruitment process, and the nature of the interviews and the Reserve Bank's fit and proper assessment are different to the ones run by the deposit taker.

This was made explicit in the proposed requirements discussed in the Consultation Paper, in particular in the first outcome: "*The primary responsibility for ensuring that current and proposed directors and senior managers meet the fitness and propriety tests rests with the deposit taker*", and proposed requirement 1.[19]

[19] Requirement 1: A deposit taker must ensure that its current and proposed directors and senior managers meet the fitness and propriety criteria set out in this Governance Standard and their Fit and Proper Policy to perform their duties.

Response

We have clarified the purpose of interviews, and that we envisage enabling the use of interviews, but not necessarily to use them for every appointment. We will have a risk-based and proportionate approach to supervision.

2.3. Approach for Group 2 deposit takers – our response to submissions

2.3.1. Responsibilities of the board

The issues, comments and responses detailed in the Group 1 section also apply to Group 2. In some policy areas, Group 2 respondents reiterated the points raised by the Group 1 respondents. These include points relating to the prescriptiveness and focus of the requirements, consistency of the requirements with the directors' due diligence duties under the DTA and internal governance matters.

The specific concerns raised by Group 2 deposit takers relate to the application of the proportionality framework and the board performance assessment requirements.

2.3.2. Proportionality

Similar to the responses from Group 1 deposit takers, respondents considered that the level of prescription does not allow deposit takers to implement the requirements in a way that is appropriately aligned to their size and complexity.

Groups 2 respondents linked the prescriptiveness of the requirements to the proportional application of the requirements. They considered that the current hybrid principles-based approach that includes prescriptive requirements will result in removing flexibility for deposit takers to apply the requirements in a proportionate manner. They added that, although deposit takers are already meeting the baseline requirements in a less formal manner, this will still create disproportionate compliance costs.

Separately, respondents pointed out that some deposit takers do not have board subcommittees, an internal audit function, nor do they directly hire employees. Instead, they operate through a secretarial agreement – which means that the few "FTEs" they use are effectively employees of a different organisation. In effect, they are outsourcing their labour force, including their General Manager.

Comment

We consider that the approach of setting out the same outcomes and requirements for all deposit takers remains appropriate. The boards of all deposit takers must be guided by a common set of principles and appropriate high-level requirements supporting these principles to help ensure exercise of prudent governance.

We are mindful of the compliance cost associated with the requirements, particularly for the smaller deposit takers. This is why we have taken our hybrid principles-based approach which enables compliance commensurate with the size and nature of a deposit takers business. Naturally,

deposit takers that have more established governance policies and processes will incur lower transition and compliance costs in complying with the requirements once they enter into force.

The key consideration that guided our view in formulating the proposed board responsibility requirements is whether the costs are necessary or not. This means that we sought to set out requirements that we consider to be the minimum necessary requirements relating to board responsibilities to support prudent deposit taker governance.

Additionally, for the most part, we note that to the extent that there are gaps in existing practice, the costs associated with the requirements are generally one-off. Once the deposit taker has set out the required policies and processes and starts to implement them, it will be a matter of calibrating and updating them moving forward, if necessary. This will enhance governance practice to the benefit of any deposit takers not currently meeting the requirements.

However, we agree that there is scope to adjust the level of prescriptiveness of some of the proposed requirements in the Consultation Paper to accommodate the heterogeneity of deposit takers and to allow for greater flexibility. These include requirements relating to the conduct and frequency of controls testing, assurances and audits. We also consider that some of the requirements included in the Consultation Paper are more appropriate as guidance points than as part of the Governance Standard.

We consider that outcomes and requirements relating to the board's responsibilities (considering the revisions detailed in section 2.7) can accommodate secretarial arrangements.

Response

In drafting the Governance Standard, we will simplify or generalise some requirements to take into account the differences in the organisational structures, scale of operations, size and nature across deposit takers. We will also remove parts that we consider to be better suited as guidance.

2.3.3. Board's performance assessment

The other issue that Group 2 respondents have identified relates to the board performance assessments (which is an internal governance issue). The comments relate to the annual internal assessment of board performance and the requirement to engage external reviewers. The respondents sought greater flexibility in the conduct of these assessments and reviews.

Comment

We understand the comments relating to the frequency and specificity of the type of reviews/assessments. As noted above, generally, we agree that there is merit in enabling greater flexibility on the frequency of reviews.

We also agree that the deposit taker can have the reviews/assessments done internally or externally so long as the board ensures that these are conducted with a sufficient degree of independence and free from conflicts of interest. This flexibility recognises differences in the organisational structures of deposit takers and that smaller deposit takers may not necessarily have board committees nor internal audit capacity.

Response

In drafting the Governance Standard, we will ensure that the requirements relating to board performance reviews/assessments appropriately reflect our position of giving deposit takers greater flexibility on the type and frequency of these reviews/assessments.

We also agree to differentiate the frequency of reviews/assessments – that is, at least every year for Group 1, at least every two years for Group 2, and at least every three years for Group 3. We consider that these minimum frequencies would make the application of the requirements more proportional across deposit takers.

2.3.4. Structure and composition of the board

At a high level, our approach for the structural and compositional requirements for Group 1 and 2 was to adapt existing requirements in BS14 with some enhancements to reflect lessons from the governance thematic review.

Requiring separate audit and risk committees for Group 2

Two Group 2 entities, one Group 1 entity and an industry body suggested that Group 2 entities should be allowed to maintain a combined committee for these subject matters. This is the current approach of some Group 2 deposit takers (rather than having separate committees for each subject area).

Requiring a majority of independent directors

Overall, respondents were supportive of our proposed approach to shift from a requirement of 50/50 independent directors to a requirement of a majority of independent directors. One Group 2 deposit taker opposed this, noting they currently purposely maintain alignment with the existing requirement. They argue that the existing requirements provide sufficient independence for their activities and their specific operating model.

Respondents also sought clarification on whether our proposed approach to require a majority of independent directors would also apply to maintaining *quorum*.

Comment

Requiring separate audit and risk committees for Group 2

The purpose of our proposed approach to requiring separate committees for Group 1 and 2 was to ensure that sufficient governance attention is given to both audit and risk matters, in particular that sufficient attention is devoted to risks facing deposit takers. The range of activities associated with supporting audit has the potential to crowd out risk matters, particularly as the size and complexity of a deposit taker grow. Many banks already comply with this approach (all Group 1 and some Group 2 deposit takers).

This approach is consistent with the Basel Corporate Governance Principles which state that systemically important banks (e.g., Group 1 deposit takers) should be required to maintain both committees and strongly recommends that requirements for other banks should be based on their size, risk profile and complexity.

Group 2 contains deposit takers that vary in size and complexity. Using the proportionality framework's measure of total assets, Group 2 entities range from around $2.2 billion in total assets to $37.4 billion. In line with the Basel Corporate Governance Principles and taking into account the DTA principles, in particular sections 4(e), 4(f) and 4(g), we consider that the size and complexity of the larger deposit takers in Group 2 warrants maintaining separate audit and risk committees.

We acknowledge the feedback from respondents. However, we place more weight on the fact that strong governance of risk management is important to the prudent management of all deposit takers. In particular, as the nature of risks facing the deposit taker sector grows, for example, ICT/cyber risks, AI and geopolitical risks. It is important that strong governance is provided to support risk management.

Respondents were concerned about the compliance burden of maintaining an additional committee. We acknowledge this concern; however, we consider that there are opportunities to mitigate this by considering the frequency and timing of when a risk committee may meet. For instance, for smaller Group 2 deposit takers, it may be appropriate for a risk committee to meet less frequently or for shorter periods.

This approach is also desirable over alternatively requiring dedicated time devoted to risk within a joint committee. While this flexibility is provided to Group 3, in this instance we consider that the risk of crowding out discussion on risk is higher. It is also difficult to prescribe what would be sufficient minimum time devoted to risk. We consider that separating into two specific meetings ensures dedicated focus and purpose.

We note that APRA requires authorised deposit-taking institutions (**ADIs**) in Australia (excluding foreign ADIs) to maintain both an audit and risk committee.

Requiring a majority of independent directors

The Basel Corporate Governance Principles suggest that a board should include a sufficient number of independent directors.

The purpose of our independence requirements is to ensure that the board always acts in the best interests of the deposit taker, benefits from diverse perspectives and exercises independent decision making. This proposal is intended to further support the balance in favour of independent decision making.

This issue appears to be related to the existing practice of one individual deposit taker. We have considered whether we should build in scope for flexibility on this requirement. We do not consider that this is necessary or desirable. The approach we have proposed will better enable sound and independent governance. It will also mitigate risks in the current policy which may mean that independence requirements cannot be met in the absence of a single individual independent director. We are open to considering transitional requirements for existing deposit takers that may not meet the requirements. This can be addressed through our consultation on the exposure draft of the Governance Standard.

Response

We will keep our proposed requirement to maintain separate audit and risk committees for Group 2 deposit takers.

We will also maintain our proposal to require a majority of directors to be independent.

2.3.5. Fitness and propriety of the directors and senior managers

The Consultation Paper proposed a set of requirements 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. The requirements aim to ensure the suitability of members of the deposit taker's board and senior managers, and in this way support good governance and ultimately financial stability.

Our proposed fit and proper requirements for Group 2 deposit takers build on the legislative framework in three main areas:

- requirements for approving the deposit takers' directors and senior managers
- requirements relating to regular review to ensure ongoing suitability
- requirements for a deposit taker to set out a fit and proper policy.

The following subsections discuss the main issues raised by respondents regarding fit and proper requirements, and our response to each one.

2.3.6. Requirements' prescriptiveness and proportionality

Respondents were generally supportive of the policy intent and proposed requirements, with some proposed amendments and clarifications sought. One respondent supported consistent fit and proper requirements across all groups of deposit takers. Two respondents supported an industry body's submission, while the industry body referenced the same feedback as for Group 1 deposit takers.

For this overlapping feedback, see the section for Group 1 deposit takers. Below, we discuss the different and specific feedback raised by respondents regarding Group 2.

One respondent was supportive of the policy intent, but considered that the requirements were prescriptive and wouldn't allow deposit takers to apply a proportionate approach, for instance when documenting a policy according to their size and scale. They suggested reframing the requirements using "should" rather than "must", and that guidance could be used to ensure expectations around minimum requirements are clear.

Comment

Our approach is a hybrid principles-based approach, combining high-level principles and prescriptive requirements. The proposals place some specific requirements on the deposit takers' fit and proper policies, such as documenting the policy and processes.

However, these requirements say "what" the policy must include, not "how" it must do so. Each deposit taker's policy would be adapted to their different organisational structures, size and business nature. We consider there is flexibility for entities to comply in a manner that is consistent with their size and business nature, allowing for proportionality in the manner of compliance.

The legal language of the requirements will be consulted on in the exposure draft of the Governance Standard. We note that requirements impose prudential obligations (that deposit

takers must comply with), while guidance is generally used for clarifications and to facilitate compliance with those requirements.

Response

We expect the deposit taker's fit and proper policy and processes to be tailored to their size and structure; the principles-based requirements are sufficiently high-level to allow for these adaptations.

2.3.7. Listed issuer parent companies

A respondent considered that if we wished to replicate the approval approach under the DTA for parent companies, in the case of listed issuer parent companies, existing NZX Listing Rules requirements needed to be considered. They referenced NZX LR 3.20.1(a), that states the requirement for the announcement regarding any decision made to change a "Director or Senior Manager of the Issuer" to be made "promptly and without delay", regardless of "whether such change is effective at a later date".[20]

Comment

The proposed fit and proper requirements on deposit takers do not prevent the deposit taker from announcing they have proposed the appointment, as long as they clarify that it is subject to the Reserve Bank's approval.

Response

The sub-sections above clarify our policy intent, the way proportionality could work in practice, and specific cases raised. For other issues raised by Group 2, see Minor and technical issues in section 2.6.

2.4. Approach for Group 3 deposit takers – our response to submissions

2.4.1. Responsibilities of the board

The issues, comments and responses detailed in the previous sections (Groups 1 and 2 sections) all apply to Group 3. In some policy areas, Group 3 respondents reiterated the points raised by the Groups 1 and 2 respondents. These include points relating to the prescriptiveness of the requirements with regard to the proportionality framework, focus of the requirements and board performance.

Regarding the prescriptiveness, we emphasise that we do not consider the board responsibility requirements to be more prescriptive than international standards. This is in response to the comment of a Group 3 deposit taker that the Governance Standard requirements "are more detailed and prescriptive in nature in a number of areas when compared to international standards".

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[20] *See* NZX Listing Rules 1.9 - January 2025, pages 63-64.

2.4.2. Remuneration

One issue that Group 3 respondents raised that is group-specific relates to remuneration. A Group 3 respondent noted that for credit unions, the remuneration pool is voted on by members, which is then allocated as base rate for directors and a weighting for roles, and agreed with the committees and the board.

Comment

Given our response regarding Group 1 (see section 2.2.5 above), we consider that the framing of the proposed outcome and requirements can be modified – that is the board is responsible for ensuring that a deposit taker has a remuneration policy in place as opposed to establishing this policy itself. We also reiterate that we use the term 'policy' in a general sense in this context. A deposit taker can have one or multiple remuneration policies as it sees fit for its needs. This allows the requirement to accommodate different practices in establishing remuneration policies.

Response

As above, we will ensure that in drafting the Governance Standard, these flexibilities in setting out the deposit taker's remuneration policy are appropriately reflected.

2.4.3. Structure and composition of the board

Tenure limits for being considered independent

Respondents, particularly in Group 3, raised concerns about the length of tenure limits (being too short/not necessary) and the loss of institutional knowledge which can be a valuable resource, particularly in smaller entities.

We also received feedback relating to the nine-year period and how this would be counted for a director appointed chair beyond their initial term. Feedback included the view that a longer period could be appropriate, as well as a transition period.

Comment

Most comments we received were supportive of our proposed approach. We acknowledge the concerns about the value of institutional memory. Our proposals would not mean that institutional memory be lost – it does not require that a director must leave the board. Rather, only that directors in place beyond the nine-year period would not be considered independent. Deposit takers could plan to ensure institutional memory is retained if this is weighted highly for retaining individual directors.

We acknowledge the concerns from smaller deposit takers about the challenges in attracting directors. However, we consider that because of the importance of independent governance this change is warranted. Deposit takers will have a long lead-in time to consider succession planning. We will also provide for transitional provisions for existing directors.

Our consultation proposals already provided that the Reserve Bank could approve exceptions to the nine-year limit. We consider this sufficient for managing any specific issues that may arise relating to individual directors.

Response

We will keep our proposed approach.

2.4.4. Fitness and propriety of the directors and senior managers

The Consultation Paper proposed a set of requirements 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. The requirements aim to ensure the suitability of members of the deposit taker's board and senior managers, and in this way support good governance and ultimately financial stability.

Our proposed fit and proper requirements for Group 3 deposit takers build on the legislative framework in 3 main areas:

- requirements for approving the deposit takers' directors and senior managers
- requirements relating to regular review to ensure ongoing suitability
- requirements for a deposit taker to set out a fit and proper policy.

The following subsections discuss the main issues raised by respondents regarding fit and proper requirements, and our response to each one.

2.4.5. Requirements' prescriptiveness, tailoring and proportionality

Respondents were generally supportive of the policy intent, while raising feedback on proportionality, the level of prescription, and some specific issues like documentation or how the requirements would apply to specific cases of individual entities. One respondent supported consistent fit and proper requirements across all groups of deposit takers.

Prescriptiveness, tailoring and proportionality

Two respondents considered the requirements for what to include in the deposit taker's fit and proper policy were too prescriptive, leading to more compliance burden. One of them considered international practice as less prescriptive and suggested a more principles-based approach.

Another respondent expected the requirements for a fit and proper policy to be tailored to their size and structure, noting it was more a question of how the standard was applied, rather than worded.

Another respondent noted that there were no differences in the fit and proper requirements between the three groups of deposit takers.

Requirement to have a fit and proper policy

One respondent requested that, given their small size, we could rely upon existing documentation that sets out fit and proper requirements rather than requiring an additional policy.

Comment

Prescriptiveness, tailoring and proportionality

Our approach is a hybrid principles-based approach, combining high-level principles and prescriptive requirements. The proposals place some specific requirements on the deposit takers' fit and proper policies, such as describing the matters to assess for each particular position, and the process to run the assessment.

However, these requirements say "what" the policy must include, not "how" it must do so. Each deposit taker will need different skill sets for each position, according to their size and business nature. Their processes would also be adapted to their different organisational structures. We consider there is flexibility for entities to comply in a manner that is consistent with their size and business nature, allowing for proportionality in the manner of compliance.

We expect the deposit taker's fit and proper policy and processes to be tailored to their size and structure; the requirements are sufficiently high-level to allow for these adaptations. The proposed requirements also set a minimum baseline of compliance with good governance practices, so we do not consider we can lower these requirements.

Requirement to have a fit and proper policy

Having policies and recorded processes in place is generally good business practice, not only in the financial sector. It provides for transparency, consistency and accountability, and enables incremental innovations.

We expect all deposit takers to be currently running an internal process for fit and proper assessments. This requirement is in part about formalising existing practice, while ensuring a minimum level of compliance with good governance practices.

While the proposed requirements are high-level, we expect that the entities' fit and proper policies will be more detailed, as they will need to apply and comply with those requirements in a way that is tailored to their specific case.

Response

While the requirement to have a fit and proper policy is a minimum baseline requirement, we expect the hybrid principles-based approach will enable sufficient flexibility for deposit takers to implement the policies and comply in a way that is suitable to their size and business nature.

2.4.6. Credit Unions: directors elected at annual general meeting

One respondent raised concerns about how to comply in practice with the requirement to have Reserve Bank's approval before the appointment of elected Directors. Given their organisational structure, some directors are elected at the Annual General Meeting (**AGM**) and require voting from the member base.

The requirement to have our approval beforehand would be difficult to implement due to the current process of a) the successful directors are not identified until voting closes (the day before the AGM), and b) the term of elected directors ends of the day of the AGM, and for new directors starts the day after the AGM.

They noted that all director candidates are pre-screened with all the fit and proper checks, including the requirement to complete our assessment. However, this is not submitted until the successful candidate is identified.

The respondent suggested that elected directors are also allowed the 90-day interim appointment, and they noted they were comfortable with the pre-approval from us for board-appointed directors.

Comment

We note that s 26(1) of the DTA establishes that a licensed deposit taker must obtain the approval of the Reserve Bank before a new director or senior manager is appointed. We also note that the option of interim appointments is enabled by the DTA only for senior managers, not for directors. This means that the respondent's suggestion of interim appointments for directors is not available.

We propose to address the case of entities with this organisational structure through two alternative approaches.

First, by allowing 'pre-approval' of a reasonable number of candidates that are being put forward for election as director. As we understand that impacted deposit takers currently run their internal fit and proper assessment before the election, we would be able to receive the corresponding fit and proper certificates before the election as well, with enough time for us to assess the proposed candidates.

Following the relevant process, we would be able to issue the approval (or non-approval) for the candidates in advance of the election. In that way, the deposit taker would be able to appoint the elected directors after the election, as they would already have the required approval.

This procedure would be available for deposit takers of any group that have this governance model. It would only be available for elected directors, not for board-appointed directors. We would expect only a reasonable number of candidates could be submitted for this pre-election approval. It could potentially be subject to other restrictions as well. We expect these procedural details will come later as part of the DTA implementation.

Second and alternatively, impacted deposit takers that would not wish to run the test for the candidates 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.

In this way, they would 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.

Response

We are giving careful consideration to the above issues and welcome feedback on our proposed approach. We are proposing two different options for deposit takers with elected directors, so they can choose the option that best suits their needs.

We may issue guidance to support the requirements where this can be helpful to support compliance. This would be published for consultation alongside the exposure draft of the Governance Standard.

2.5. Approach for branches of overseas deposit takers – our response to submissions

2.5.1. Responsibilities of the New Zealand branch CEO

Respondents who have provided feedback relating to the responsibilities of the NZ CEO of branches raised issues relating to the personal liability of the NZ CEO in relation to the NZ CEO's due diligence duties under section 94 of the DTA in ensuring that the branch conducts all of its business lawfully and ethically. They also raised issues relating to the deposit taker's remuneration policy.

We note that discussions on the prescriptiveness of the requirements above (Groups 1-3 sections) also apply to branches.

Section 2.8 outlines the changes to the proposed outcomes and requirements.

2.5.2. NZ CEO's due diligence duties in the DTA

Similar to the comments raised regarding the potential personal liability of the directors (above), respondents considered that some of the proposed requirements for the NZ CEO of branches (such as requirement 4 under Outcome 1) could be read as implying personal liability of the NZ CEO for any breach of law by the branch. They suggested that this should be reframed to: (i) address prudential obligations and (ii) ensure that the relevant requirements are stipulated as requirements to exercise due diligence, consistent with the scope of due diligence duties under section 94 of the DTA.

They noted that branches rely on the overseas deposit taker or group for a number of functions and need further detailed guidance on what is expected of the NZ CEO to achieve the due diligence requirements without extending personal liability of the NZ CEO. They clarified if this could be outlined in the form of an attestation that the NZ CEO is satisfied that the branch's internal processes and controls have supported the NZ CEO in achieving the due diligence requirements.

Comment

We do not agree that some proposed requirements (such as requirement 4 under Outcome 1) extend the due diligence duties of the NZ CEO beyond what is set out by section 94 of the DTA.

Similar to our comment above on the responsibilities of the board of locally incorporated deposit takers, the requirements seek to complement the other requirements by clarifying the NZ CEO's governance responsibilities and what these responsibilities mean in practice to prudently govern the deposit taker and support public trust in, and the stability of, the financial system.

As mentioned above, the due diligence guidance will provide further clarity on what this means in practice and on how the prudential standards link with the due diligence duty. We also note that

section 157 of the DTA informs on the application of pecuniary penalties for contravention of the NZ CEO's due diligence duty.

Separately, we understand that branches rely on their parent or group for a number of functions. The proposed requirements generally mandate the NZ CEO to ensure that the processes and policies are in place to meet the desired objectives and outcomes.

We also clarify that branches do not need to have separate policies or frameworks to comply with the proposed requirements if there are existing parent or group policies or frameworks that the NZ CEO can attest to be adequate to meet the requirements and the intended policy outcomes.

Response

We will ensure in drafting the Governance Standard that the framing of the requirements is clear on our intent. The proposed requirements generally mandate the NZ CEO to ensure that the processes and policies are in place to meet the desired objectives and outcomes.

We will provide further guidance on the due diligence duties and the Governance Standard to clarify our expectations relating to these requirements, where appropriate.

2.5.3. Remuneration

A respondent commented that the responsibilities for the NZ branch CEO should also include specific governance requirements over remuneration policies and practices for branch employees, particularly senior managers (as is the case for other deposit takers).

Comment

We agree with the suggestion to include obligations relating to remuneration. We consider that it is necessary to be explicit on this obligation in conjunction with the NZ CEO's responsibility in ensuring that the selection, appointment, evaluation, retention and departure of employees support prudent management of a branch.

Response

We will ensure in the drafting of the Governance Standard to reflect this point. We will also explicitly link the NZ CEO's remuneration obligation with the objective to prudently manage the branch.

2.5.4. Fitness and propriety of the directors and senior managers of branches

The Consultation Paper proposed similar requirements for branches as for locally-incorporated deposit takers, where relevant. However, the DTA sets a different framework for branches, which is summarised below.

The main difference is that branches do not have to get our approval before appointing a new director or senior manager (that is, section 26 of the DTA does not apply to branches). Instead, branches are required to notify us after the appointment and provide a Fit and Proper Certificate. They must do so no later than 20 working days after the appointment (section 30 of the DTA).

The fit and proper requirements for branches apply to directors (of the overseas-incorporated entity) and senior managers (of the branch in New Zealand). As previously noted, senior managers for branches are defined in section 6 of the DTA, as the New Zealand CEO and New Zealand CFO.

The main policy issues raised by respondents are:

- whether to request the same fit and proper certificate and documentation for branches as for locally-incorporated deposit takers
- the proposal to allow reliance on the parent's fit and proper policy, but filling the gaps regarding NZ requirements, if any (see section 2.6 on Minor and technical issues)
- the proposal to include a requirement to notify the Reserve Bank of a director or senior manager ceasing to meet the (applicable) fit and proper requirements.

We discuss each of these issues below.

2.5.5. Fit and proper certificate for branches

An industry body noted that we proposed to require branches to provide the same form of fit and proper certificate and accompanying documentation as for New Zealand deposit takers. They generally considered that we should allow branches to rely on the fit and proper requirements from their home jurisdiction.

Another respondent suggested that requirements to provide documentation should be tailored according to the DTA approach to branches. They considered it should not be required for the director nor the branch to provide additional signed documentation to us.

Another respondent suggested that fit and proper certification requirements should be reframed as a requirement to confirm that the home jurisdiction requirements have been met and should align with ensuring relevant directors or senior managers are subject to the fit and proper requirements of the jurisdiction they reside in.

We also note that respondents were generally supportive of having NZ fit and proper requirements applying to the branch senior managers, but not to directors, as they would already be subject to requirements in the home jurisdiction.

Another respondent considered that requiring overseas banks to apply New Zealand fit and proper standards would effectively re-impose Reserve Bank approval requirements on the appointment.

Comment

The DTA establishes a requirement for branches to notify us after an appointment, by providing us with a fit and proper certificate (section 30 of the DTA). Our initial policy position on this point is to not depart significantly from the status quo, unless required by the DTA.

We acknowledge that requiring branches to provide us a specific (template) form of certificate and documentation (e.g., criminal and financial checks) for overseas directors could entail some compliance costs, especially for small branches relative to the parent's size.

We also clarify that we do not propose requiring any documentation be signed by directors.

Status Quo

For branches, BS10 establishes that the conditions of registration for branches include requirements to provide:

- curriculum vitae
- NZ and overseas (if applicable) criminal records
- results of overseas fit and proper assessments (if applicable).

These documentation requirements apply to directors at the point of licensing, and to the NZ Chief Executive both at the point of licensing and for every new appointment of a person to that role.

Proposed requirements

We proposed that overseas licensed deposit takers (branches) would be subject to a similar fit and proper certificate and accompanying documentation that apply to Group 1 deposit takers, with some adaptations due to the differences emanating from the DTA. The fit and proper certificate will be to notify us of an appointment, not to request an approval. We detail the specifics of the certificate for branches below.

To clarify the relationship with a branch home jurisdiction, we propose to make the following clarifications:

- the fit and proper certificate must confirm that both the home jurisdiction requirements and the entity's fit and proper policy's requirements have been met
- the branch must provide us documentation on the residence of its senior managers
- a branch must have a New Zealand CEO-approved fit and proper policy for the purpose of ensuring that only fit and proper persons are appointed to, and continue to hold, positions as directors or senior managers.

The requirements immediately above refer to the notification process. However, as part of the jurisdiction and institution assessments, we may assess the home jurisdiction's fit and proper requirements (see sections 18(1)(a) and 18(2)(a) of the DTA).

Requirement 4(a) for branches will set out the required documentation. The following text shows how we have revised this requirement:

> Requirement 4(a): When ~~requesting the Reserve Bank's approval for an appointment~~, **providing a fit and proper certificate to the Reserve Bank under section 30 of the DTA**, the deposit taker must provide the following documentation regarding the person:
>
> - CV
> - criminal records (including any foreign records)
> - financial checks
> - foreign fit and proper assessments (if any)

- conflict of interest disclosure. If there was any actual or potential conflict, the entity must inform whether the conflict is manageable, and explain how it will be managed
- any other documentation used to underpin the deposit taker's fit and proper assessment, including the matters referred to in requirement 2
- ~~a letter signed by the appointee, consenting to the Reserve Bank running the background checks necessary for the assessment~~
- ~~any other information subsequently requested by the Reserve Bank~~
- the **branch** Fit and Proper Policy (upon request from the Reserve Bank).

If any of the above documentation requirements are not part of the home jurisdiction's fit and proper requirements, we may waive such requirement.

These requirements will apply to all appointments, both at the point of licensing and afterwards.

We consider that the proposed changes balance the potential compliance costs (section 4(c) of the DTA) with the need to ensure prudent governance of deposit takers (section 4(f) of the DTA) operating in New Zealand. While some documentation requirements increase relative to the status quo, other requirements (such as approval for the chief executive) are lower.

Response

Considering industry's feedback, we have clarified our policy intent and modified some of our proposed requirements, as detailed in the subsections above.

2.5.6. Ensuring ongoing suitability

A respondent suggested that rather than requiring periodic re-testing of New Zealand fit and proper requirements, branches should instead be subject to an obligation to notify the Reserve Bank of a director ceasing to meet those requirements.

Comment

We clarify that we did not propose that branches be subject to periodic fit and proper re-assessments. Paragraph 236 of the Consultation Paper proposed that requirement 17 (relating to reassessments of directors and senior managers) does not apply to branches. This is consistent with the ex-post notification requirement that the DTA sets for branches.

We note that branches are also subject to section 32 of the DTA, which requires a deposit taker to notify the Reserve Bank if a director or senior manager is not, or is not likely to be, a fit and proper person.

Response

Considering industry's feedback, we have clarified our policy intent and modified some of our proposed requirements, as detailed in the subsections above.

2.6. Minor and technical issues

In this section, we address certain discrete technical topics that were included in the consultation or that have been raised by respondents.

Table 2.3: Minor and technical issues for the Governance Standard

Issue	Response
Group 1	
One respondent suggested that the Standard imposes requirements that consider elements of a Bank Executive Accountability Regime (BEAR) regime but without such a framework.	We clarify that there is no intent to apply a regime similar to BEAR to New Zealand deposit takers.
There should be a consistent approach to fit and proper across regulators, e.g. FMA FAP and CoFI licences	As signalled in the Consultation Paper (paragraph 144), we will work with the FMA when it comes to supervising some of the requirements, including fit and proper assessments. This is to be consistent with the approach proposed in the MBIE's recent consultation on fit-for-purpose financial services reform.
We should be aware of the requirements of the Protected Disclosures (Protection of Whistleblowers) Act 2022 and whether this would have any impact on the obligation to share information with the Reserve Bank, particularly if there were concerns around the fitness and propriety of individuals raised through the whistleblower channel.	Any potential impacts or interactions will be considered and addressed in the exposure draft of the Governance Standard.
Employment agreements and transition for existing persons Two respondents raised issues related to the transition of existing directors and senior managers to the new regime. This includes the potential need to update employment agreements, and compliance with the entity's employment policy and employment legislation. They requested clarifications on our expectations on how the review process will operate and how entities should manage a transition due to an existing director or senior manager being assessed as no longer fit and proper.	Further to the general clarifications in the relevant section, we clarify that we expect deposit takers to comply with employment legislation. Regarding the update of employment agreements, we expect that this response to submissions gives enough clarity for entities to prepare and sign any new employment agreement according to the published policy intent. For existing employment agreements, as for existing frameworks and systems, each deposit taker will need to assess if any changes are needed to comply with the standards when they come into force. We do not intend for existing directors and senior managers of all groups of deposit takers to be due for an assessment on the day the standards commence. There will

Issue	Response
	be a transition for existing persons, to allow industry and us to manage the transition in an orderly and staged manner. We may also work with industry on a transition period to avoid a one-off spike in resourcing needs. We also welcome further engagement with industry to better understand their needs on this issue.
Suitability concerns: materiality test and long past dated events – Requirement 2 A respondent suggested we consider providing guidance with a materiality test or disclosure exception for long past dated events, to prevent the requirement from being too onerous in practice.	The amendments proposed in the immediate above sub-section partially address the compliance cost of this requirement. Any materiality guidance will be found in the document that replaces the current "Guidance on reporting by banks of breaches of regulatory requirements"21 under the DTA. Regarding a disclosure exception for long past dated events, we consider there could be merit in taking that recommendation on board. We will take this into consideration when drafting the Governance Standard. If there were time limits/longstop periods, they could potentially be different for each suitability concern (see requirement 2).
Group 2	
Non-objection vs. approval A respondent considered that any "fit and proper" requirements should be limited to non-objection rather than approval.	The DTA establishes a Reserve Bank approval requirement before appointments of directors and senior managers can be made.
Group 3	
Other employment arrangements One respondent raised that they do not directly employ people but operate under a secretarial arrangement. Their practice historically has been to seek Reserve Bank approval for the person appointed by the secretary to act as General Manager of the entity.	At this point and with the information provided, we would consider that the person appointed to the position mentioned above would continue to be subject to a fit and proper assessment and to the Reserve Bank's approval.
Branches	

[21] *See* RBNZ's Guidance on reporting by banks of breaches of regulatory requirements, January 2021.

Issue	Response
NZ CEO-approved (branch) fit and proper policy applying to (overseas deposit taker's) board directors. Some respondents requested clarification on whether the fit and proper policy set by the NZ CEO, for the NZ branch, would apply to the appointment of directors of the overseas deposit taker's board.	We confirm that it is not the policy intent that, when appointing a director of the overseas deposit taker's board, the NZ-branch fit and proper policy would apply. Branches do not have to get our approval before appointing a new director or senior manager. Instead, the DTA requires branches to notify us after the appointment and provide a Fit and Proper Certificate. They must do so no later than 20 working days after the appointment (see section 30 of the DTA). The NZ CEO-approved branch fit and proper policy applies to directors only in relation to this post-appointment notification process (and requirement). The notification will be in the form of a fit and proper certificate. See issue on fit and proper certificates above.
Which fit and proper policy applies in the case of a dually employed senior manager One respondent requested clarification on which fit and proper policy would apply where the CFO (or equivalent role) for the NZ branch is also a senior manager of the locally incorporated subsidiary.	Each deposit taker is subject to fit and proper requirements, and each deposit taker must comply with them. This means that at the time of each appointment, the deposit taker must run the fit and proper process according to its policy. In the case of a locally incorporated deposit taker, the proposed appointment will be subject to RBNZ's approval. In the case of the branch, the Reserve Bank must be notified after the appointment. We also clarify that the roles at different entities will be different, and as such, the fitness requirements for both positions (skills, experience, knowledge, etc) could be different. Ongoing testing and/or update of relevant information may also apply for the first appointment, at the time of the second appointment. These comments relate to fit and proper requirements. Any entity in this situation should be aware of other requirements applicable to this situation, for instance relating to conflicts of interest and separation between the dual-operating branch and the subsidiary.
Requested clarification on whether branch fit and proper requirements mean an obligation to have a formal NZ CFO appointed	No, the requirements do not mean an obligation to have a formal NZ CFO appointed. But the fit and proper requirements would still apply to the most senior officer resident in NZ that is in charge of that function.
Reliance on parent's fit and proper policy Two respondents suggested branches should be able to rely on the parent's fit and proper policies and procedures, as	We agree to allow branches to rely on their group's (overseas deposit taker's) fit and proper policies and procedures, as long as the NZ CEO is satisfied that they are compliant with the requirements in the standard. In the case of gaps in the policy, we consider the branch should have a document addressing the NZ requirements that are missing

Issue	Response
allowed for the case of risk management frameworks under the proposed Risk Management Standard (para 569 of the consultation paper). One of them noted they already comply with the group's fit and proper policy and procedures, which in turn meets the requirements under section 81 (Fit and proper persons) of the DTA. Another respondent considered it would be a significant compliance burden to have a branch fit and proper policy that only applies to one to two people (NZ CEO and CFO).	in the group's policy, but without needing to duplicate the entire policy. Requiring a NZ-specific policy on this area would entail unnecessary compliance costs, not be proportionate and be relatively detrimental to competition. See issue on directors above for further details.

2.7. Annex 1 - Responsibilities of the board: Outcomes, requirements, and changes

The text below and the changes to the requirements we consulted on aim to make clear our policy intent. However, the final wording of the requirements in the exposure draft of the Governance Standard could be different, while still maintaining the policy intent.

Table 2.4: Responsibilities of the board

Revised requirements (revisions in red text)	Discussion	Application		
		Group 1	Group 2	Group 3
Outcome 1: Oversight, prudent management and strategic direction **The deposit taker's board is ultimately responsible for prudently governing the deposit taker and for ensuring the safety and soundness of the deposit taker.**		Yes	Yes	Yes
Requirement 1: The board must set out and keep updated ~~update~~ its own charter. The charter must: • set out clearly the responsibilities and powers of the board as a collective and of the individual directors in governing the deposit taker and overseeing the management of the deposit taker, including the board's responsibility for delegated authorities • set out the board leadership roles, board size and the structure and composition of board committees, where applicable ~~its use of the risk, audit, remuneration and any other committees to effectively carry out its oversight function and other responsibilities~~ • set out board governance processes, including the delegation of authority ~~define the scope and depth of the board's functions and the way they carry out their duties, including overseeing the delegated authorities~~ ~~• set out clearly the board's responsibilities for the authorities/powers that it has delegated~~	Section 2.2.22.3.2 (Group 1) Section 2.3.2 (Group 2)	Yes	Yes	Yes

Revised requirements (revisions in red text)	Discussion	Application		
		Group 1	Group 2	Group 3
• set out ~~how the risks relating to~~ processes for managing conflicts of interests ~~of directors are identified, reported and managed.~~				
Requirement 2: The board must set the strategic direction of the deposit taker and oversee the management of the deposit taker in line with this direction.		Yes	Yes	Yes
Requirement 3: The board must ensure that the deposit taker has risk management policies in place, ~~framework is~~ consistent with the requirements of the Risk Management Standard.	Section 2.2.2 (Group 1)	Yes	Yes	Yes
Requirement 4: The board must ensure that processes are in place to support the timeliness, quality and integrity of financial and non-financial reports, and the independence of the internal and external audit.[22]	Section 2.2.2 (Group 1)	Yes	Yes	Yes
Outcome 2: Risk culture and values **The deposit taker's board establishes a risk culture and values to support the safety and soundness of the deposit taker.**[23]	Section 2.2.4 (Group 1)	Yes	Yes	Yes
~~Requirement 1: The board must set out the deposit taker's risk culture and values and ensure alignment with the deposit taker's risk management framework. The board must also ensure that:~~ ~~• the risk culture and values are communicated throughout the deposit taker~~ ~~• legitimate issues raised are addressed appropriately, and staff who raise concerns are protected from detrimental treatment or reprisals.~~	Refer to the Risk Management Standard (no longer within the Governance Standard)			
~~Requirement 2: The board must ensure that processes are in place to support the conformity of its actions as a collective and the actions of individual directors conform to the~~	Refer to the Risk Management			

[22] BS14 and the FMA handbook are explicit on this responsibility (*see*: BS14 Section 14(1) and the FMA handbook Principle 4). This is also part of the directors' attestation in their public disclosures.

[23] This responds to the findings of the 2017 IMF FSAP and 2023 Governance Thematic Review. *See* also BCBS CGP, Principle 1 BCBS (2015), Guidelines: Corporate governance principles for banks and Basel Core Principles, Principle 14 BCBS (2024), Core Principles for effective banking supervision.

Revised requirements (revisions in red text)	Discussion	Application		
		Group 1	Group 2	Group 3
~~culture and values that it sets out, and that the deposit taker conducts its business lawfully and ethically.~~	Standard (no longer within the Governance Standard)			
Outcome 3: Skills and experience of the directors and senior managers **The deposit taker's board and senior managers have the appropriate skills and experience, individually and collectively, to govern and manage the deposit taker prudently.**[24]		Yes	Yes	Yes
Requirement 1: The board must ensure that the selection process for directors and senior managers is consistent with the board-approved fit and proper policy.[25]		Yes	Yes	Yes
Requirement 2. The board must ensure that processes are in place to ~~be assured~~ ensure that the skills and experience of directors and senior managers are appropriate for the deposit taker's size, complexity and risk profile.	Section 2.2.2 (Group 1)	Yes	Yes	Yes
Requirement 3: The board must ensure~~, on an ongoing basis,~~ that processes are in place to ~~be assured~~ ensure that the skills of the directors and senior managers remain appropriate to manage the deposit taker prudently.	Section 2.2.2 (Group 1)	Yes	Yes	Yes
Outcome 4: Internal governance **The deposit taker's board establishes internal governance systems that support prudent management of the deposit taker. The board must ensure that processes are in place to ensure that ~~D~~irectors have a sound understanding of what is expected of them collectively and individually ~~and how their performance will be assessed~~.**[26]	Section 2.2.2, 2.2.3 and 2.2.4 (Group 1)	Yes	Yes	Yes

[24] *See* BCBS CGP, Principle 2, BS14 section 17 lines 1-3, the FMA handbook, Principle 2; relevant guidelines of the BCBS jurisdictions that we scoped; and the findings of the 2023 Governance Thematic Review

[25] BCBS CGP provides some potentially useful pointers in assessing the collective suitability of the board in complying with this requirement.

[26] *See also* BCBS CGP, Principles 1, 2 and 3; Basel core principles, Principle 14; BS14, section 17, line 6; FMA handbook, Principle 3; and the findings of the 2023 Governance Thematic Review

Revised requirements (revisions in red text)	Discussion	Application		
		Group 1	Group 2	Group 3
Requirement 1: The board must set out and keep updated ~~update~~ its own structure, and the structure and purpose of any board committee. The board must also ensure that: • the board committees support the board's collective obligations in governing the deposit taker • the board's accountabilities in delegating authorities to senior managers and/or board committees are clear • there is clear information on what constitutes breaches of the delegated authority and how these breaches will be managed • processes are in place to ~~be assured~~ ensure that directors have the capacity to perform their responsibilities and allocate sufficient time to discussing concerns that they assess to be materially relevant to the safety and soundness of the deposit taker.	Section 2.2.2 (Group 1))	Yes	Yes	Yes
Requirement 2: The board must ensure that the deposit taker's internal processes: • set out the obligations of senior managers and the reporting lines between the board, board committees and senior managers • are aligned with the deposit taker's strategic direction and risk culture and values • set out the flow, type and structure of information between the board, board committees and senior managers.		Yes	Yes	Yes
Requirement 3: The board must ~~set out and update~~ ensure that board meeting procedures are in place. The board must challenge the senior managers in managing the deposit taker. Directors must also challenge each other's views in governing the deposit taker. The challenge could be in the form of questioning, debating or asking for additional information or advice.	Section 2.2.2 (Group 1)	Yes	Yes	Yes

Revised requirements (revisions in red text)	Discussion	Application		
		Group 1	Group 2	Group 3
Requirement 4: The board must ensure it conducts ~~an annual internal assessment of its performance and periodically engage in an external~~ regular reviews of its performance and that ~~is~~ processes are in place to make certain that the reviews are free from any conflicts of interest. Performance assessments must cover the performance of the board as a collective, board committees and individual directors. ~~The frequency of external reviews must reflect the size of the deposit taker and the nature of the deposit taker's business.~~ The reviews must be done no less than annually by Group 1, two-yearly by Group 2 and three-yearly by Group 3.	Section 2.2.2 and 2.2.4 (Group 1) Section 2.3.3 (Group 2)	Yes, Frequency is at least every year	Yes, Frequency is at least every 2 years	Yes, Frequency is at least every 3 years
Requirement 5: The board must establish a policy on board renewal ~~including how the board will renew itself to ensure it remains open to new ideas and independent thinking~~. The board must also ensure that there are succession plans for the board, board committees and senior managers ~~formalised, clear and updated and executed appropriately~~.	Section 2.2.4 (Group 1)	Yes	Yes	Yes
Outcome 5: Remuneration **The deposit taker's board ~~establishes~~ must ensure that a remuneration ~~strategy~~ policy is in place and that is consistent with the deposit taker's strategic direction and risk management framework and supports the safety and soundness of the deposit taker.** [27]	Section 2.2.5 (Group 1) Section 2.4.2 (Group 3)	Yes	Yes	Yes
Requirement 1: The board must ensure that the deposit taker's remuneration ~~strategy~~ policy is transparent and communicated clearly throughout the deposit taker. The remuneration policy must cover all forms of remuneration, notwithstanding its form (such as salary, incentives and other benefits).	Section 2.2.5 (Group 1)	Yes	Yes	Yes

[27] This is in line with BCBS CGP, Principles 3 and 11; Basel core principles, Principle 14; FMA handbook, Principle 5; and the findings of the 2023 Governance Thematic Review

Revised requirements (revisions in red text)	Discussion	Application		
		Group 1	Group 2	Group 3
Requirement 2: The board must ensure that the remuneration ~~strategy~~ policy is aligned with the deposit taker's strategic direction, risk strategy and values, promotes good performance and reinforces the deposit taker's desired risk culture.	Section 2.2.5 (Group 1)	Yes	Yes	Yes
Requirement 3: The board must ensure that recommendations relating to the remuneration ~~strategy~~ policy are free from conflicts of interest. Directors must not ~~be involved in deciding~~ approve their own remuneration package.	Section 2.2.5 (Group 1)	Yes	Yes	Yes
Requirement 4: The board must ensure that there is a process for ~~a~~ regular reviews of the remuneration ~~strategy~~ policy ~~review process is conducted~~ and that such reviews consider ~~it informs on~~ how the remuneration ~~strategy~~ policy has contributed to the performance of ~~the individual directors, the board and~~ the deposit taker in achieving the outcomes outlined in the deposit taker's strategic direction.	Section 2.2.5 (Group 1) Section 2.4.2 (Group 3)	Yes	Yes	Yes

2.8. Annex 2 - Responsibilities of the NZ branch CEO: Outcomes, requirements, and changes

The text below and the changes to the requirements we consulted on aim to make clear our policy intent. However, the final wording of the requirements in the exposure draft of the standard could be different, while still maintaining the policy intent.

Table 2.5: Responsibilities of the NZ Branch CEO

Revised proposals (revisions in red text)	Discussion
Outcome 1: Oversight, prudent management and strategic direction **The New Zealand branch CEO is responsible for overseeing the branch and ensuring that it complies with its prudential obligations in New Zealand.**	
Requirement 1: The New Zealand branch CEO must ensure that senior managers' responsibilities are clear, ~~updated~~ kept updated, and support the prudent management of the deposit taker.	Minor revisions for clarity
Requirement 2: The New Zealand branch CEO must ensure that the deposit taker's strategic direction and risk management framework in New Zealand are clear and support prudent management of the branch; and any deficiencies are addressed sufficiently.	Minor revisions for clarity
Requirement 3: The New Zealand branch CEO must ensure that ~~the~~ there are processes in place to obtain assurance ~~be assured~~ that financial and non-financial reporting such as disclosures, assurances and attestations, among others, relating to the operations and stability of the branch are accurate and delivered within expected period.	Section 2.5.2
Requirement 4: The New Zealand branch CEO must ensure that processes are in place to support the branch in ~~to conduct~~ conducting all of its business lawfully and ethically.	Section 2.5.2
Outcome 2: Internal governance and risk management ~~culture and values~~ **The New Zealand branch CEO is responsible for ensuring that the branch has a robust governance and risk management framework that provide clear lines of responsibility.**	Minor revisions to make the terms used in the outcome consistent with the requirements supporting this outcome.
Requirement 1: The New Zealand branch CEO must ensure that the branch's governance arrangements, including information about the business relationship with the head office and the banking group, are clear, updated and support the prudent management of the deposit taker; and that ~~the~~ remedial measures ~~that have been~~ undertaken to address any deficiencies are sufficient.	Minor revisions for clarity

Revised proposals (revisions in red text)	Discussion
Requirement 2: The New Zealand branch CEO must ensure that the responsibilities relating to the branch's risk management, and the reporting lines between the branch, head office and the group relating to risk management, are clear, updated and communicated throughout the branch ~~deposit taker~~.	Minor revisions for clarity
Requirement 3: The New Zealand branch CEO must ensure that ~~the~~ there are processes or policies in place relating to remuneration, selection, appointment, evaluation, retention and departure of employees, that ~~are clear in place,~~ support prudent management of the branch ~~deposit taker~~ and are communicated throughout the branch ~~deposit taker~~.	Section 2.5.3
Requirement 4: The New Zealand branch CEO must ensure that the arrangements or policies relating to segregation of duties and conflicts of interest within the branch are clear and communicated throughout the branch ~~deposit taker~~. ~~The New Zealand CEO must also ensure that the performance of multiple functions by its employees does not and is not likely to prevent those employees from discharging any particular functions prudently.~~	Section 2.5.2
Requirement 5: The New Zealand branch CEO must ensure that any conflict of interest is identified, reported and managed.	
Requirement 6: The New Zealand branch CEO must ensure that there is a clear and transparent policy on the delegation of powers/authorities, accountabilities in delegating powers/authorities, information on what constitutes breaches of the delegated authority, and how these breaches will be managed~~, are transparent and clear~~.	Section 2.5.2

Chapter 3

Deposit Takers Risk Management Standard

Summary of Submissions and Policy Decisions

Non-technical summary of responses and decisions

This section outlines our responses to the consultation feedback received in relation to the Risk Management Standard. In the proposed standard we set out requirements for deposit takers in New Zealand to have integrated risk management frameworks (**RMF**), policies and processes. The Risk Management Standard is intended to provide deposit takers with good incentives for effective and comprehensive management of risk and controls.

This table summarises the key issues raised in the feedback with additional feedback discussed below.

Table 3.1: Risk Management Standard – key issues and responses

Deposit Taker Group	Key issue	Response
All deposit takers	**Material risk definition** Some respondents proposed that we develop a principles-based material risk definition, supported by guidance, as opposed to a prescriptive definition. Others suggested aligning the material risk definition with APRA's definition.	We consider there to be advantages in creating a minimum benchmark across all deposit takers and confirm that they do their own analysis to identify risks that are material to them. We also consider that this approach leaves scope for proportionality. We will proceed with the proposal in the Consultation Paper.
	Processes for capital adequacy and liquidity risk management (and related points for risk-specific standards) Respondents stated that including risk-specific requirements in the Risk Management Standard was too prescriptive and risks overlap with other risk-specific standards. This could add unnecessary complication and costs. Instead, requirements for material risk types should be captured in the respective risk-specific standards.	We will not have risk-specific requirements in the Risk Management Standard and instead leave those to be addressed in the other risk-specific standards. Wherever feasible we intend to draft the standards to avoid duplication or overlap to avoid unnecessary compliance costs. Many requirements in the risk-specific standards will rely on the Risk Management Standard except where bespoke risk-specific requirements are necessary to meet the purposes of the DTA.
	Restrictions on discretionary benefits for risk management function members Several respondents noted that the requirement is overly prescriptive and could be more principles-based. Some respondents asked for further clarification on how it would work in practice.	We will take a principles-based approach to drafting this requirement, instead of directly prescribing the parameters for discretionary benefits. This will require deposit takers to have a clear policy for determining the discretionary benefits for members of the risk management function. The policy should consider and articulate the role of the deposit taker's financial performance in this process.
	Assurance, audit and review requirements	We will require annual review of the two board-approved documents required for an

Deposit Taker Group	Key issue	Response
	Respondents sought less prescriptive requirements that allowed for a risk-based approach, emphasised correctly assigning ownership and responsibility, and sought clarification on review triggers and scope.	RMF, and a three-yearly comprehensive review of the RMF. We also specify the respective responsibilities and scope for each of the annual, three-yearly, and event-based review types.
Group 2	**Proportionality** Respondents' feedback generally covered themes of insufficient proportionality applied for Group 2 deposit takers requirements that would result in disproportionate compliance costs.	We agree that requirements for Group 2 deposit takers should be proportionate and result in less compliance costs than for Group 1 deposit takers, given their comparatively more limited size. We expect this can be achieved to some extent through each Group 2 deposit taker's RMF being commensurate with its size, nature and complexity. We will issue guidance for consultation that will set expectations around proportionality. For example, guidance regarding expectations for the frequency and sophistication of respective deposit taker's stress testing frameworks.
Group 3	**Proportionality** Respondents' feedback generally covered themes of insufficient proportionality applied for Group 3 deposit takers requirements that would result in disproportionate compliance costs.	We consider our requirements for Group 3 deposit takers are consistent with the minimum level of good risk management practice to promote the safety and soundness of deposit takers, and financial stability. Our assessment suggests the Risk Management Standard is largely consistent with the existing requirements for NBDTs in the NBDT Act and expectations in the Risk Management Programme Guidelines. While some requirements are an uplift, we expect that the guidance and time available until the DTA fully commences in 2028 should be sufficient for an NBDT to be able to comply with the Risk Management Standard.

3.1. Introduction

The Risk Management Standard chapter of the Consultation Paper covered our proposed minimum risk management requirements for deposit takers in New Zealand.

We consider that our Risk Management Standard captures the essential foundational elements of effective risk management. Risk management is an important part of an organisation's internal controls, alongside corporate governance and policies such as audit and compliance. By helping deposit takers better prepare for risk, risk management and controls contribute to the stability of the financial system, which helps promote the main purpose of the DTA. It also promotes the safety and soundness of each deposit taker and in turn promotes public confidence in the financial system – some of the additional purposes of the DTA.

We have designed the requirements using a principles-based approach, where we set out requirements that target certain outcomes and give deposit takers the flexibility to choose their preferred approach for achieving these outcomes. This is aimed at increasing regulatory discipline, by setting out fundamental risk management requirements for every deposit taker, as well as a deposit taker's self-discipline, supporting sound and prudent risk management which draws on international best practice.

We will support the Risk Management Standard with additional guidance that will help deposit takers in how they comply with each requirement for the different deposit taker Groups. This aims to promote best risk management practice, better enable consistency in the treatment of similar deposit takers and to make the Risk Management Standard more user-friendly.

We consulted on our proposals for deposit takers in New Zealand to have integrated RMFs to identify, measure, evaluate, monitor, report on and control or mitigate all material risks.[28] We outlined the minimum elements that an RMF must have including, for example, a sufficiently independent and adequately resourced risk management function, and setting out the responsibilities of the board (or New Zealand Chief Executive Officer (CEO) in the case of branches), among others.

We proposed to apply the same requirements to Group 1 and Group 2 deposit takers in the Risk Management Standard. We note that all RMFs should be commensurate with the size, nature and complexity of the deposit taker. Where appropriate, we proposed similar requirements for Group 3 deposit takers and branches of overseas deposit takers. There were several requirements that we did not propose applying to Group 3 deposit takers or branches in recognition of their size, complexity and systemic importance, in line with the Proportionality Framework. We have supported this approach with a 'bottom up' analysis of the current requirements for NBDTs compared to the proposed requirements for Group 3 deposit takers.

This chapter sets out our response to the consultation feedback and our final policy decisions for the Risk Management Standard.

3.2. Approach for Group 1 deposit takers – our response to submissions

In the Consultation Paper, the overarching policy development approach was applied to all deposit takers. We proposed that the requirements for Group 1 deposit takers would apply to

[28] A risk management framework can be understood as the totality of systems, structures, policies, processes and people within an institution that identify, measure, evaluate, monitor, report on and control or mitigate all internal and external sources of material risk. This definition is from CPS 220, paragraph 20. See also ISO 31000. See also Basel CP15, Essential Criteria 2. See also CPS 220 paragraph 9 and paragraphs 19–20.

Group 2 deposit takers and largely to Group 3 deposit takers and branches, with some differences to take proportionality into account.[29]

Therefore, in this section, we are responding to submissions on the proposed approach for Group 1 deposit takers which is applicable to all deposit takers (including branches), unless stated otherwise in their respective sections, or the Minor and technical issues section. If a requirement is not discussed in this chapter, then we retain our original proposal in the Consultation Paper.

There are some areas of the Consultation Paper where we received minor or no feedback to address. Those areas are not present in this chapter and so we will proceed with our original proposals as set out in the Consultation Paper, or they are addressed in the Minor and technical issues section.

3.2.1. Policy development approach

For all deposit takers (including Group 1), we proposed using a balance of principles-based requirements that target certain outcomes alongside some complementary prescriptive rules. This was to capture essential foundational elements of effective risk management and provide deposit takers with the flexibility to tailor their risk management practices to their particular circumstances.

Our goal is for the Risk Management Standard to be a foundational and intersecting standard that sets out key principles on risk management across all material risks, providing a framework or architecture for effective risk management. Following Basel Core Principle 15 Risk Management Process,[30] the proposed requirements for risk management are based on the Three Lines Model.[31]

To support this goal, we will have guidance to help promote best practice, make the Risk Management Standard more user-friendly, further articulate our approach to proportionality and aid compliance.

Furthermore, we proposed deposit takers must have an integrated RMF that would include a board-approved risk management strategy (**RMS**) and risk appetite statement (**RAS**), among other prescriptive requirements. For example, we prescribed that an RMF must address all material risks and proposed a baseline non-exhaustive list of the risk categories that must be considered. This list included risks that are substantively covered in other separate risk-specific standards such as the Capital, Liquidity and Operational Resilience Standards.

3.2.2. Hybrid principles-based approach

Weighting of principles-based versus prescriptive requirements

Overall, respondents supported our principles-based approach to target outcomes and allow deposit takers the flexibility to choose the way in which they achieve them. However, most

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[29] *See* Section 1.3 on page 88, Section 3 on page 120, Table M on page 122, and Table N on page 129 (respectively), Chapter 3 of the *Deposit Takers Non-Core Standards Policy Proposals* consultation paper: https://consultations.rbnz.govt.nz/prudential-policy/deposit-takers-non-core-standards/user_uploads/deposit-takers-non-core-standards-consultation-paper-august-2024.pdf

[30] *See* Principle 15, page 39. BCBS. (2024). Core Principles for Effective Banking Supervision. https://www.bis.org/bcbs/publ/d573.pdf

[31] The Institute of Internal Auditor's Three Lines Model is a useful tool in facilitating good governance and risk management through identifying the structures and processes around an organisation's governing body, management and internal audit functions. For an overview, *see* Institute of Internal Auditors. (2020). The IIA's Three Lines Model - an update of the Three Lines of Defense. https://www.theiia.org/globalassets/site/about-us/advocacy/three-lines-model-updated.pdf

respondents noted that our balance was too heavily skewed towards prescriptive requirements compared to instead focusing more on high-level principles.

There was no consensus on to what degree we had proposed too many prescriptive requirements, but there was a theme that there was too much 'content' specified for the proposed RMF. Respondents suggested that the following areas could take a more principles-based approach (among others):

- non-exhaustive lists of material risk categories
- requirements on material risk types regulated by other standards
- process requirements for capital and liquidity (among other areas of overlap with risk-specific standards, such as stress testing or model risk)
- restricting discretionary benefits of the risk management function
- sound risk management culture requirements for the board
- information and data management requirements
- overall framing and approach to assurance, reviews and audits.

Overall capacity and capability across the financial system as a whole

Several respondents disagreed that the Risk Management Standard can support an uplift in risk management practice in New Zealand. Respondents noted that capability is not currently deep enough in New Zealand to support the delivery of RBNZ's proposed outcomes across the financial system. Additionally, the current capacity of the market would likely mean deposit takers will face resourcing bottlenecks to uplift their practices.

A Group 1 deposit taker suggested we support Group 3 deposit takers over the long term (post-2028), to uplift their capability to stress test material risks beyond the capital, liquidity and operational risks required.

Three Lines Model: roles and responsibilities, with a focus on Line 3

Some respondents suggested that the definitions of 'internal assurance' and 'internal audit' should be clearer, including that these are different functions.

Five respondents proposed that we should take a more risk-based approach overall with regards to audit and assurance. They stated that deposit takers should have flexibility to determine the appropriate scope of assurance and how that should be used to support the relevant outcomes in the Risk Management Standard.

Three respondents proposed the Three Lines definitions should only be included in guidance and not the Risk Management Standard. This would allow flexibility of interpretation for each deposit taker's circumstances.

Ensuring consistency of supervisory approach when applying principles-based requirements

Five respondents (across Group 1 and 2 deposit takers) raised the issue of ensuring consistent treatment of deposit takers when applying principles-based requirements. Respondents noted that guidance was necessary to clarify the requirements and supervisory expectations. A respondent

sought clarity on what the associated mechanisms for and consequences of non-compliance with a principles-based requirement would be.

Transitional arrangements

Five deposit takers (from across Groups 1, 2 and 3) suggested transitional arrangements were needed for the reasons listed below, which are specific to the Risk Management Standard.[32]

- NBDTs are starting with different states of maturity and should be given an additional two-year transition period following issuing the Risk Management Standard in 2028 to allow them to fully embed their RMFs.
- There is a lot of cumulative change proposed across all the DTA Standards. The associated remapping of existing compliance mechanisms to the new Standards will be a substantive exercise. As such, all review, audit and assurance requirements (including the Risk Management Standard's requirements) should come into effect at the end of an extended transitional period (beyond 2028) for all deposit takers.
- As the exact details of information and data management requirements relies on the final issued Risk Management Standard (that is, after exposure draft consultation) and the added context from guidance, there may not be enough time for deposit takers to implement the requirements by 2028. The time needed to design, develop and implement system changes may warrant transitional arrangements.
- The requirement for Group 2 deposit takers to have the same stress testing requirements as Group 1 requires a longer transition period otherwise compliance costs will be excessive. This is because Group 2 deposit takers do not have Australian parent banks to rely on.
- It is difficult to provide feedback on whether a transitional arrangement is needed without the added context that should come with guidance and the exposure draft.

Comment

Hybrid principles-based approach – weighting of principles-based versus prescriptive requirements

We view this feedback as largely relating to two key issues, whether a given policy proposal be:

- included in the Risk Management Standard, or instead be included in the guidance and therefore not be legally binding
- in scope for the Risk Management Standard or should be included in other standards, for example, a risk-specific standard such as Capital.

Respondents' feedback on these matters helps us to avoid prescriptive requirements becoming a detriment to deposit takers' flexibility, or our stated key policy outcomes in the Consultation Paper.[33] We note that the flexibility of a principles-based approach allows for a deposit taker's RMF to be commensurate with its size, nature and complexity.

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[32] For a broader discussion on transition arrangements please see chapter 1.

[33] *See* Table J, page 87, Chapter 3 of the *Deposit Takers Non-Core Standards Policy Proposals* consultation paper: https://consultations.rbnz.govt.nz/prudential-policy/deposit-takers-non-core-standards/user_uploads/deposit-takers-non-core-standards-consultation-paper-august-2024.pdf

Overall capacity and capability across the financial system as a whole

We recognise that the Risk Management Standard will represent an uplift in the regulation of some deposit takers' risk management practices relative to our existing approach for registered banks, which is 'light-touch' relative to international practice. NBDTs already must comply with risk management requirements under the NBDT Act and there are expectations set out in the Risk Management Programme Guidelines (the **Guidelines**).[34] While some deposit takers may have to undertake changes in existing practice to comply with the Risk Management Standard, we do not expect this to be the case for all deposit takers.

The intended policy outcome is that deposit takers' risk management practices are continually evolving and improving. We expect that this capability increase will occur over the medium and long term, rather than being a substantial one-off uplift before 2028.

Three Lines Model: roles and responsibilities, with a focus on Line 3

We agree that the Three Lines Model should not be applied rigidly in a one-size-fits-all approach, and that deposit takers should have the autonomy to allocate roles and responsibilities between business units. However, there are certain safeguards that should be in place to promote the operational independence of some functions that should in turn hold some specified functions. For example, the risk management function should have sufficient operational independence from risk-taking functions and be responsible for assisting the board and senior management in maintaining the RMF.

For other responsibilities, deposit takers will have greater flexibility in the allocation of responsibilities. For example, we do not intend to specify which functions should have responsibility for certain aspects of reviews of the RMF, only that they should have sufficient operational independence from the element of the framework that is under review.

Ensuring consistency of supervisory approach when applying principles-based requirements

We agree that consistency in treatment of similar institutions and, therefore, in the application of principles-based requirements is important. Under the current prudential regulatory regime, we use a variety of methods to achieve a consistent and graduated approach to supervision and enforcement. Methods include our internal decision-making processes, and published documents such as our Relationship Charter,[35] Statement of Prudential Policy (including Our approach to supervision),[36] and Enforcement Framework.[37]

Updating these processes and documents to account for the DTA, in addition to guidance, will help us build and maintain the best regulator-regulated supervisory relationships possible. This will support us in meeting the purposes of the DTA through compliance with prudential obligations.

Regarding the consequences and mechanisms for contravention of a DTA standard, sections 157-159 of the DTA outline how it can lead to a pecuniary penalty. This contrasts with the current regime (under the BPSA and NBDT Act) where a breach of a bank's conditions of registration or an NDBT's conditions of licence provides grounds for deregistration or delicensing, respectively. The

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[34] *See* RBNZ (July 2009), Risk management Programme Guidelines, https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/regulation-and-supervision/non-bank-deposit-takers/3697899.pdf

[35] *See* https://www.rbnz.govt.nz/regulation-and-supervision/cross-sector-oversight/our-relationship-charter-with-regulated-entities

[36] *See* https://www.rbnz.govt.nz/regulation-and-supervision/cross-sector-oversight/prudential-policy/our-approach-to-supervision

[37] *See* https://www.rbnz.govt.nz/regulation-and-supervision/cross-sector-oversight/enforcement

DTA allows a proportionate and risk-based response which depends on an application by us to the court, so clearly envisages a supervisory rather than enforcement response commensurate to the seriousness of the case.

Transitional arrangements

As noted earlier regarding the New Zealand market's risk management capacity and capability, we recognise that the Risk Management Standard may be an uplift in regulation in some areas for some deposit takers relative to our existing approach. All deposit takers already have some degree of existing risk management practices and that is in part to comply with existing prudential requirements. For example, as noted above NBDTs already must comply with risk management requirements under the NBDT Act and there are expectations set out in the Guidelines.[38] Therefore, deposit takers may have to change their existing practice to comply with the Risk Management Standard's requirements, but we do not expect this to be the case for all deposit takers in all areas.

We consider that the principles-based approach allows deposit takers the flexibility to comply with the Risk Management Standard commensurate with their size, nature and complexity, and this is complemented by our graduated approach to supervision and enforcement.

Response

Hybrid principles-based approach – weighting of principles-based versus prescriptive requirements

We are adopting a balanced approach to risk management under the DTA, combining principles-based flexibility with targeted supervisory engagement. This enables deposit takers to tailor their RMF to their size, nature and complexity, while allowing us to guide and uplift practices across the sector in response to evolving risks.

Our Consultation Paper ruled out relying solely on non-enforceable guidance or rigid prescriptive rules. The former lacks impact; the latter risks reducing risk management to a compliance exercise. Instead, we are implementing a hybrid model: flexible standards supported by clear guidance and ongoing dialogue with supervisors.

This approach ensures alignment with the DTA's purpose and fosters meaningful, scalable improvements in risk management. Key decisions on the balance between flexibility and prescription are outlined below, with further detail in section 3.2.4 regarding the boundary between standards.

Overall capacity and capability across the financial system as a whole

We believe deposit takers have sufficient time to build the necessary capacity and capability ahead of the 2028 implementation. We expect ongoing investment in risk management capability to ensure continuous improvement and alignment with evolving best practices.

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[38] See RBNZ (July 2009), Risk management Programme Guidelines, https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/regulation-and-supervision/non-bank-deposit-takers/3697899.pdf

Three Lines Model: roles and responsibilities, with a focus on Line 3

Although it will not form part of the Risk Management Standard, we will consider including a depiction of the Three Lines Model and indicative allocations of responsibilities between the three lines in guidance to support the Risk Management Standard.

Ensuring consistency of supervisory approach when applying principles-based requirements

Our documents outlining our relationship charter and graduated approach to supervision and enforcement, will be updated in due course to account for the DTA fully commencing and the standards coming into effect in 2028.

We will release guidance for the Risk Management Standard alongside the exposure draft for consultation, to clarify our expectations which will assist deposit takers to comply with the principles-based requirements.

The DTA allows for proportionate responses to non-compliance as contravention of a standard can lead to us applying for a pecuniary penalty to be imposed by the courts.

Transitional arrangements

Our view is that there is sufficient time for deposit takers to undertake any required changes ahead of 2028 to meet our largely principles-based requirements. We are not providing any transitional arrangements specific to the requirements in the Risk Management Standard.

3.2.3. Approach to material risks

We did not define material risk itself in the Consultation Paper but we proposed that the RMF must address all material risks and we set out a list of the categories of risk that deposit takers must consider, at a minimum when identifying material risks.[39]

Seven respondents proposed that the RBNZ should develop a principles-based material risk definition, supported by guidance, as opposed to a prescriptive definition. This would allow deposit takers flexibility based on their client, product and service segments.

Three respondents proposed aligning the material risk definition with APRA's definition.

One respondent noted that some risks only manifest themselves as cross-cutting risks and questioned how these should be categorised within the proposed risk categories.

Comment

We proposed that deposit takers would be required to identify risks and then assess those risks to determine whether they are material. This links to the proposed requirement to have an RMF that will identify, measure, evaluate, monitor, report on, and control or mitigate all material risks on a timely basis.

We proposed to set out a list of the risk categories that deposit takers must consider, at a minimum, including but not limited to:

- operational risk, including cybersecurity risk and risks arising from the business strategy

[39] *See* Basel CP15, Essential criteria 2 and 11, and Additional criterion 1, and CPS 220, paragraph 26.

- credit risk, including large exposure risk
- liquidity risk
- interest rate risk
- concentration risk
- market risk
- model risk (for example, the risk that a model for calculating capital would not perform adequately)
- other cross-cutting risks that relate to risks listed above (such as climate-related risks) that, singularly or in combination with different risks, may have a material impact on the deposit taker.

We note that there are slight differences between APRA's approach and our approach, in that APRA has an overlapping - but slightly different - list of what must form part of the RMF.

We also note that not all risks in our proposed list will be material to all deposit takers. However, we will require deposit takers to consider whether they are material or not.

Some risks are interrelated with other risks. For example, APRA requires consideration of insurance risk, whereas in our approach, insurance risk could be considered a part of operational risk.

It will also be the responsibility of the deposit taker to determine which risk category, or categories, are most appropriate for a given risk.

We believe that there are advantages in creating a minimum benchmark across all deposit takers. Deposit takers should do their own analysis to identify risks that are material to their banking business (which may sit outside the proposed list of minimum risk categories).

We also consider that this approach leaves scope for proportionality, as larger and more complex deposit takers are likely to face a broader set of risks and utilise a relatively more sophisticated RMF to achieve positive outcomes.

Response

We will draft the Risk Management Standard on the basis of the approach consistent with the proposal in the Consultation Paper. We also plan to provide further guidance on this approach.

3.2.4. Processes for capital adequacy and liquidity risk management (and related points for risk-specific standards)

In the Consultation Paper, we emphasised the importance of capital adequacy and liquidity risk management to effectively manage a deposit taker's risk and best enable its soundness. We noted the quantitative and qualitative requirements proposed in the Capital and Liquidity Standards, and that these would be cross-referenced (among others, such as model risk) in the Risk Management Standard. We proposed requiring deposit takers' RMFs to include internal processes for assessing their overall capital adequacy and liquidity in relation to their RMS and RAS.

As described earlier, respondents stated that including capital adequacy and liquidity risk process requirements in the Risk Management Standard were too prescriptive. Respondents were

concerned that overlap between the Risk Management Standard and other risk-specific standards would add unnecessary complication and costs as it detracts from deposit takers focusing on risk management. Instead, requirements for material risk types should be captured in the respective risk-specific standards. For example, Internal Capital Adequacy Assessment Process (**ICAAP**) requirements should only be contained in the Capital Standard. One respondent also specifically raised that including stress testing requirements in multiple standards could cause confusion.

Comment

We agree it is desirable to avoid duplication or overlap between standards which could cause confusion and potentially unnecessary compliance costs. However, there may be areas where some overlap or duplication is unavoidable.

Our goal is for the Risk Management Standard to be a comprehensive and intersecting standard that sets out key principles on risk management across all material risks, providing a framework or architecture for effective risk management. This means that we should not (for the most part) need to duplicate many baseline risk management requirements in other risk-specific standards. For example, our three-yearly comprehensive review requirement of the RMF, including its constituent elements (see section 3.2.8 below), means that risk-specific standards can rely on the Risk Management Standard rather than replicate a similar periodic review requirement.

However, some areas may warrant bespoke requirements for risk-specific reasons. The model risk requirements for banks accredited to use the internal ratings-based approach for capital adequacy warrants bespoke requirements in the Capital Standard. Another example is the contingency funding plan requirement for liquidity risk management in the Liquidity Standard. These bespoke requirements are necessary for capital adequacy and liquidity risk management considering their significance to a deposit taker's overall soundness (and financial stability more broadly) relative to other material risk categories.

Response

We will not have risk-specific requirements in the Risk Management Standard and instead leave those to be addressed in the risk-specific standards. This includes ICAAP requirements in the Capital Standard and qualitative liquidity risk management requirements in the Liquidity Standard.

Wherever feasible we intend to draft the standards to avoid duplication or overlap to avoid unnecessary compliance costs. Many requirements in the risk-specific standards will rely on the Risk Management Standard except where bespoke risk-specific requirements are necessary to meet the purposes of the DTA.

3.2.5. Responsibilities of the board

We proposed imposing responsibilities on boards by imposing requirements on deposit takers. Collectively, these requirements would place a responsibility on the board to have a deposit taker with effective risk management and a strong control environment. We set out three overarching requirements for a deposit taker to have:[40]

[40] *See* paragraphs 422, 424-425 and Table L, pages 100-101, Chapter 3 of the *Deposit Takers Non-Core Standards Policy Proposals* consultation paper: https://consultations.rbnz.govt.nz/prudential-policy/deposit-takers-non-core-standards/user_uploads/deposit-takers-non-core-standards-consultation-paper-august-2024.pdf

- a board-approved risk management strategy (RMS)
- a board-approved risk appetite statement (RAS)
- its board establish a sound risk management culture throughout the deposit taker (among other additional related requirements).

Under section 72 of the DTA, we are empowered to make standards for deposit takers and deposit takers have a corresponding obligation to comply (section 73 of the DTA). Section 93 of the DTA states every director of a licensed deposit taker must exercise due diligence as a means of providing assurance that the deposit taker complies with its prudential obligations.[41]

For discussion on the responsibilities of the New Zealand CEO of a branch and section 94 of the DTA, please see section 3.5.2.

3.2.6. Board to establish a sound risk management culture

Respondents were supportive of the RMS and RAS requirements, noting that most deposit takers would already have these.

On the risk management culture requirements, many respondents agreed with our intent but strongly disagreed with it being a prescribed board responsibility. Many sought more detail and further clarity on what these requirements would entail in practice. Respondents also noted in feedback on the Governance Standard that we had duplicated risk culture requirements in both standards.[42]

Respondents submitted that it is inappropriate for a board to be responsible for establishing a good risk management culture and the processes for monitoring and reporting risks (among others). The prescriptive requirements stray into senior management's responsibility for the deposit taker's operations when the board should be focused on strategic issues and the oversight of management. Many respondents pointed out that senior management and the deposit taker's processes are best placed to set a sound risk management culture as these affect the day-to-day operations.

Alternatives suggested by respondents included:

- Aligning with the wording in APRA's CPS 220 paragraph 9(b):

  "…the Board must ensure that: …it forms a view of the risk culture in the institution, and the extent to which that culture supports the ability of the institution to operate consistently within its risk appetite, identify any desirable changes to the risk culture and ensures the institution takes steps to address those changes…"[43]
- Amending the requirements so that senior management establishes the necessary processes and policies, and the board is responsible for approving them. These processes and policies include, for example, the business strategy and objectives, the Remuneration Policy (as proposed in the Governance Standard), and the proposed RMS and RAS.

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41 *See* section 93, Deposit Takers Act 2023, https://legislation.govt.nz/act/public/2023/0035/latest/LMS495636.html

42 *See* Outcome 2, Requirements 1 and 2 in Table B, pages 35, Chapter 1 of the Deposit Takers Non-Core Standards Policy Proposals consultation paper: https://consultations.rbnz.govt.nz/prudential-policy/deposit-takers-non-core-standards/user_uploads/deposit-takers-non-core-standards-consultation-paper-august-2024.pdf

43 *See* APRA. (2017). Prudential Standard CPS 220 Risk Management, paragraph 9(b), page 3 https://www.apra.gov.au/sites/default/files/Prudential-Standard-CPS-220-Risk-Management-%28July-2017%29.pdf

- Requiring the deposit taker's senior management to demonstrate to its board that the deposit taker has an effective risk management culture.

Consistency with section 93 of the DTA

All Group 1 deposit taker respondents emphasised that board responsibilities should not expand on the existing director duties under section 93 of the DTA. Some respondents saw the proposed board requirements as expanding director liability through the standards and contrary to the purpose of the DTA. This issue was also raised in the context of both the Governance and Operational Resilience Standards.

Other respondents noted that the proposals were too prescriptive and strayed into senior management's operational responsibilities.

Comment

Board to establish a sound risk management culture

We agree with respondents' feedback that a sound risk management culture is desirable, and that the responsibilities of the board and senior management should not be confused. We acknowledge the need to be clearer as it is not our intention to have a board involved in the deposit taker's day-to-day operations.

We agree that a deposit taker's management and risk management processes are the best tools to enable a sound risk management culture. Although, there remains a role for both a deposit taker's board and senior management in establishing a sound risk management culture. This aligns with how the BCBS defines 'risk culture' as a deposit taker's:

> "…norms, attitudes and behaviours related to risk awareness, risk-taking and risk management, and controls that shape decisions on risks. Risk culture influences the decisions of management and employees during their day-to-day activities and has an impact on the risks they assume."[44]

The duplication of risk culture requirements between the Governance and Risk Management Standards was unintended and we will correct this. The outcome and requirements are virtually the same and therefore do not need to be repeated. Removing this duplication avoids any potential confusion and unnecessary compliance costs.

Consistency with section 93 of the DTA

Our understanding and the intent of our proposals was not to use secondary legislation (that is, a standard) to amend the duties of directors under section 93 of the DTA. The difference between the Risk Management Standard's requirements and section 93 obligations is that the Risk Management Standard's requirements apply to the deposit taker as a whole, while section 93 sets obligations for individual directors to demonstrate that they have taken appropriate measures to support the deposit taker's compliance. This will be clarified further in guidance on the director duties under section 93 of the DTA.

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[44] *See* paragraph 10.1 (22), page 10 of the BCBS Core principles for effective banking supervision, https://www.bis.org/bcbs/publ/d573.pdf

We acknowledge the need to clearly delineate between the responsibilities of the board relative to senior management and it is not our intention to have a board involved in the deposit taker's day-to-day operations. We emphasise our intention to make this distinction clear as part of our exposure draft consultation (alongside any relevant guidance).

Response

Board to establish a sound risk management culture

We consider it important that the Risk Management Standard sets out enforceable requirements for both a deposit taker's board and its senior management for enabling a sound risk management culture. Feedback from respondents on the unintended consequences of our requirements for boards emphasises the need for careful drafting so that responsibilities are appropriately assigned. We will incorporate this feedback as part of our exposure draft consultation (alongside relevant guidance).

The three alternatives suggested by respondents (as listed earlier) largely align with our intentions and key policy outcomes. We intend to consider APRA's CPS 220 by largely aligning with their approach in principle (the exact form will depend on the exposure draft consultation). We will clarify that the responsibilities of senior management are to develop the necessary processes and policies for establishing a sound risk management culture, and that the board is responsible for approving them. We will not require senior management to attest to the deposit taker's risk culture but may use this in guidance as an example of how a deposit taker may demonstrate its compliance.

As noted in the Governance Standard chapter, we will only have risk management culture requirements in the Risk Management Standard. This will be reflected in the Risk Management Standard exposure draft for consultation.

Consistency with section 93 of the DTA

We will proceed with the requirements regarding the board's responsibility for the deposit taker's risk strategy, appetite and culture. We will also make sure we clearly delineate between the responsibilities of the board and senior management. This will be reflected in the exposure draft consultation.

We consider our requirements as complementary to directors' duties under section 93 of the DTA rather than contrary to it. The requirements support a deposit taker's board to demonstrate it is meeting its obligations. We suspect that, absent some of our prescriptive requirements, deposit takers would eventually develop similar mechanisms to demonstrate directors' compliance with the DTA.

3.2.7. Risk management function: restricting the linking of any discretionary benefits for function members to financial performance

We proposed requiring deposit takers to have adequate risk management functions with sufficient independence, among other things, to perform their duties effectively. Additionally, we proposed restricting the linking of a deposit taker's financial performance to any discretionary benefits that might apply to members of the risk management function.

Some respondents asked for clarification as to whether employees in the risk management function can receive any discretionary benefits.

Some respondents requested further guidance on whether financial performance can still be used to determine the overall size of the discretionary benefits pool for the whole organisation.

Several respondents noted that the requirement is overly prescriptive and could be more principles-based. Suggestions included:

- to be explicit that discretionary benefits cannot be directly linked to financial performance targets of any kind (for example, sales, profitability).
- that a good culture backed by good policies, systems and processes makes prohibition unnecessary.

One respondent suggested that it would be more appropriate to include all remuneration requirements in the Governance Standard, given we have already proposed it should include requirements relating to a deposit taker's remuneration policies. Another example provided was to not include the Chief Risk Officer (**CRO**) and risk management function's remuneration policy in the RMF as this would create a conflict of interest.

Comment

We remain of the view that there should be some form of restriction on linking the discretionary benefits of risk management function members to the deposit takers' financial performance. This restriction will support the risk management function's independence, acting as an appropriate check and balance to risk-taking functions, and supporting the sound governance and prudent risk-taking of deposit takers.

However, we agree with respondents' views that any such restriction needs to allow flexibility for the deposit taker's remuneration framework to meet business needs, and to allow for members of the risk management function to receive discretionary benefits.

Response

We will take a principles-based approach to drafting this requirement. This will require deposit takers to have a clear policy for determining the discretionary benefits of members of the risk management function that sets out the role of the deposit taker's financial performance in this process. We will also consider whether it would be more appropriate to include this requirement in the exposure draft of the Governance Standard.

3.2.8. Review and Internal control frameworks

For our review requirements, we proposed that the RMF, including its policies and processes, be regularly reviewed to determine if it should be updated to reflect changes in risk appetite or market conditions. We specified as a minimum that reviews must be done at least annually for the 2 primary board-approved documents and three-yearly for the remaining elements of the RMF.

We otherwise sought feedback on the breadth and frequency of reviews including on event-based triggers and the role of internal audit.[45]

Relatedly, for our internal controls and assurance requirements, we proposed requiring deposit takers to have adequate internal control frameworks and to undertake regular reviews to assure the effectiveness of them (as part of an audit plan).[46]

Regular review of the risk management function by the internal assurance function (including internal audit)

Three respondents recommended that the risk management function should not be subject to regular review by the internal assurance function. Instead, only the RMF should be subject to assurance. Otherwise, the proposal would result in unnecessary compliance costs and distract from targeted review activities. There is also a risk of significant increased compliance costs from this requirement and the potential systems development work under the Risk Management Standard's proposed Information and data management requirements.

Assurance, audit and review requirements

Respondents provided a range of views on the appropriate frequency and breadth of review requirements. The main areas of feedback raised are Table 3.2 below.

Table 3.2: Main areas of feedback on assurance, audit and review requirements

Theme of feedback	Summary of feedback
Allow for a risk-based approach to selecting areas for review.	Respondents emphasised that any review requirements should be less prescriptive and, instead, regular reviews be required where there is a risk-based need (as determined by the deposit taker). For example, prescribing a rolling annual review cycle of the RMF's elements might mean other areas in greater risk-based need of review are deprioritised in order to be compliant. Allowing for an element of expert judgement from audit professionals would better reflect a principles-based approach. It could also allow for more flexibility (and proportionality) for Group 2 and 3 deposit takers (for example, timeframes for review could be better targeted).
Three-yearly review is more appropriate than annual review.	A consistent theme in the feedback was that requiring annual review was inappropriate. Respondents noted it risks confusion or conflict with similar requirements in other standards. Instead, a rolling three-yearly review cycle was

[45] *See* Section 2.5 Review, paragraphs 449-450, page 106, Chapter 3 of the *Deposit Takers Non-Core Standards Policy Proposals* consultation paper: https://consultations.rbnz.govt.nz/prudential-policy/deposit-takers-non-core-standards/user_uploads/deposit-takers-non-core-standards-consultation-paper-august-2024.pdf

[46] *See* Section 2.10 Internal controls and assurance, paragraphs 521-533, pages 116-117, Chapter 3 of the *Deposit Takers Non-Core Standards Policy Proposals* consultation paper: https://consultations.rbnz.govt.nz/prudential-policy/deposit-takers-non-core-standards/user_uploads/deposit-takers-non-core-standards-consultation-paper-august-2024.pdf

Theme of feedback	Summary of feedback
	recommended for allowing for more flexibility (closely related to the taking a risk-based approach point above). Three-yearly review also aligns with the current outsourcing requirements under BS11 and APRA's CPS 220.
Ownership and responsibility for reviews must be correctly assigned.	Respondents noted the different roles under the Three Lines Model. As regards the board, senior management and internal audit when it comes to reviewing and updating the RMF and its constituent elements, respondents wanted us to be clear about where ownership should sit.
Clarify the event-based triggers for a review and the scope of such reviews.	Respondents suggested that we refine the definition of 'event-based review' as our example trigger points could be inappropriate. For example, reviewing the RMF based on breaches or significant deviations is inappropriate as they do not necessarily indicate framework weakness. Respondents also sought clarity on whether an event-based trigger would require a review of the entire RMF or only the relevant elements. One example offered was that a liquidity breach should not trigger a review of unrelated OBR testing requirements.
The cumulative impact of review, internal controls and assurance requirements across all the standards is overly burdensome.	This point was particularly raised for the Risk Management and Operational Resilience Standards. One respondent suggested that all such review requirements should be consolidated into a single standard (but not the Risk Management Standard) rather than spread across standards.

Comment

Regular review of the risk management function by the internal assurance function (including internal audit)

As a deposit taker increases in size and complexity, we consider it necessary that it has appropriate assurance mechanisms in place for both the adequate design of an RMF and for its effective implementation. This will promote the safety and soundness of deposit takers, and the stability of the financial system through effective risk management. Effectively, our intent is for a deposit taker to be able to answer the key question, 'How do you gain assurance that your RMF is being effectively followed and applied within your organisation?'

The feedback suggests that some deposit takers' existing audit plans incorporate this assurance already and therefore we should consider how (if at all) we prescribe a baseline of assurance. Existing audit plans covering this aspect is encouraging and supports our understanding that this

requirement should not result in unnecessary compliance costs if the requirement is appropriately targeted.

Assurance, audit and review requirements

The overall feedback from respondents suggests that we must carefully consider how we draft review requirements to avoid unintended consequences and unnecessary compliance costs, and to best enable us to achieve our intended key policy outcomes.

We largely agree with the feedback on allowing flexibility and our intention is to allow this to the extent possible (see key policy outcome 3) while still maintaining an acceptable baseline of assurance (see key policy outcome 7).[47]

Response

Regular review of the risk management function by the internal assurance function (including internal audit)

Instead of reviewing the risk management function, we will require that deposit takers must have their internal assurance function review the methodology for implementing the RMF to confirm that it is followed adequately. This must be done every three years and may be completed separately or as part of the three-yearly comprehensive review of the RMF (see below).

This provides flexibility as to how a deposit taker may set their three-yearly cycle of review (that is, to align it or not with the three-yearly comprehensive review of the RMF).

Assurance, audit and review requirements

We will require annual review of the two primary board-approved documents within the broader RMF, and a three-yearly comprehensive review of the RMF.

We provide more detail below for each type of review. We state where we require a deposit taker 'must' do something and these will be contained within the Risk Management Standard. Other parts are left to the discretion of the deposit taker (that is, 'may' do) and we will consider outlining and supporting these aspects through guidance. Regardless of review type, we will proceed with requiring that the results of reviews must be reported to the deposit taker's board Risk Committee as per the Consultation Paper.[48] We consider this is an acceptable balance between allowing deposit takers' flexibility and ensuring an acceptable baseline of assurance.

Note the below is our policy position and may not reflect the exact wording used in the exposure draft of the Risk Management Standard.

For more discussion on the cumulative impact of the DTA Standards please see the discussion in Chapter 1 on introductory issues.

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[47] See Table J, page 87, Chapter 3 of the *Deposit Takers Non-Core Standards Policy Proposals* consultation paper: https://consultations.rbnz.govt.nz/prudential-policy/deposit-takers-non-core-standards/user_uploads/deposit-takers-non-core-standards-consultation-paper-august-2024.pdf

[48] *See* paragraph 451, page 120, Chapter 3 of the *Deposit Takers Non-Core Standards Policy Proposals* consultation paper: https://consultations.rbnz.govt.nz/prudential-policy/deposit-takers-non-core-standards/user_uploads/deposit-takers-non-core-standards-consultation-paper-august-2024.pdf

Annual Review of the RMS and RAS

Annually, all deposit takers must conduct a review of the board's RMS and the RAS (the **annual review**). The annual review must be conducted within the parameters below.

- The annual review must be conducted by someone with sufficient operational independence.
- The deposit taker's board must make sure that the annual review recommendations are implemented in a timely manner. We do not anticipate every annual review to recommend significant changes considering the strategic nature of the RMS and RAS.

Periodic 'deep dive' review guidance

Deposit takers may, at their discretion, conduct periodic 'deep dive' reviews of specific elements of their RMF (a **periodic review**). For any periodic review, deposit takers should consider their approach to the parameters below.

- Deposit takers may determine who conducts a periodic review. We would recommend that the reviewer is someone with sufficient operational independence.
- Deposit takers may determine the review cycle frequency of any periodic review. For example, investing in such periodic deep dive reviews on a rolling annual basis may be helpful for deposit takers when conducting their three-yearly comprehensive review (see below).
- Deposit takers may determine how periodic review recommendations are addressed.

Three-yearly Comprehensive Review of the RMF

Every three years, all deposit takers, must conduct a comprehensive review of all elements of the RMF (the comprehensive review). The comprehensive review must be conducted within the parameters below.

- The comprehensive review must be conducted by someone with sufficient operational independence.
- The deposit taker's board must make sure that the comprehensive review recommendations are implemented in a timely manner.

Deposit takers may draw on the conclusions of the annual review or any periodic reviews or both. Therefore, a deposit taker may find that investing more in periodic reviews may lead to less resource being required for a comprehensive review (and vice versa).

Event-based review guidance

All deposit takers may, at their discretion, conduct a review of its RMF or constituent elements in response to a material event outside of the required annual and three-yearly review cycles or any other periodic review cycle (an **event-based review**). For any event-based review, deposit takers should consider their approach to the parameters below.

- The deposit taker may determine what is a material event that triggers an event-based review, and the scope and who conducts an event-based review.
- The deposit taker may determine how recommendations arising from an event-based review are addressed or not.

3.2.9. Internal controls and assurance: compliance and internal assurance functions

We proposed that deposit takers must have a compliance function as well as an internal assurance function. Both must be independent and adequately resourced among other prescribed requirements. For Group 1 and 2 deposit takers, we proposed not allowing the functions to be entirely outsourced. We noted the risks and opportunities of not allowing outsourcing and sought feedback on this approach.[49] We proposed allowing deposit takers to combine the compliance function with the risk management function.[50]

Group 1 and 2 deposit takers largely agreed with the intent of requiring compliance and internal assurance functions but sought clarification on some points which we address below. One respondent (consultancy firm) suggested the prescriptive approach risks undermining the benefits of deposit takers owning their compliance processes. The respondent suggested requiring the deposit takers' boards to explicitly seek attestations that their deposit taker has the means to comply.

Outsourcing of the compliance and internal assurance functions

Two respondents advised that restricting outsourcing of internal audit or assurance functions is contrary to common practice. These functions are commonly outsourced when there is a need for extra capacity or specialist advice.

Combining risk management, compliance, and internal assurance functions

One respondent sought clarification on how to guarantee independence of the internal audit of the risk management function where current practice combines the internal assurance, compliance, and risk management functions.

A respondent sought clarity on our expectation that larger deposit takers (such as Group 1 and 2) would separate the risk management and compliance functions, and how we distinguish between the two functions. They noted it is common practice to combine them as a second line of defence reporting to the CRO.

Comment

We consider our approach to require Group 1 and 2 deposit takers to have compliance and internal assurance functions balances deposit takers' flexibility to achieve the Risk Management Standard's outcomes against enabling us to have meaningful supervisory engagements on risk management to support better practices. As noted in the Consultation Paper, we expect that many deposit takers already have these functions in some form and formalising this in the Risk Management Standard meets our objective of the Risk Management Standard to provide an overarching framework for risk management. (Also see discussion on our hybrid principles-based approach in section 3.2.1.)

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[49] *See* Section 2.10 Internal controls and assurance, paragraphs 521-533, pages 116-117, Chapter 3 of the *Deposit Takers Non-Core Standards Policy Proposals* consultation paper: https://consultations.rbnz.govt.nz/prudential-policy/deposit-takers-non-core-standards/user_uploads/deposit-takers-non-core-standards-consultation-paper-august-2024.pdf

[50] *See* Section 2.10 Internal controls and assurance, paragraph 526, page 116, and See also Section 2.9 Risk management function, paragraph 500, page 113 of Chapter 3 of the *Deposit Takers Non-Core Standards Policy Proposals* consultation paper: https://consultations.rbnz.govt.nz/prudential-policy/deposit-takers-non-core-standards/user_uploads/deposit-takers-non-core-standards-consultation-paper-august-2024.pdf

Outsourcing of the compliance function or internal assurance function or both

Our intention is for deposit takers to have dedicated and independent compliance and internal assurance functions with adequate resourcing that can reasonably be expected to perform their roles effectively.

We agree with respondents' feedback that it could be prudent for deposit takers to supplement their dedicated in-house functions through outsourcing when extra capacity or specialist advice is needed. Allowing some outsourcing would allow deposit takers the flexibility needed to be responsive to a rapidly changing risk environment.[51] Partly outsourcing these functions also aligns with APRA's approach in CPS 220[52] and CPS 510,[53] and Basel Core Principle 26 Internal control and audit.[54] Requiring some level of a dedicated in-house compliance and internal assurance function with flexibility to contract-in additional resource is not uncommon in the sector locally or internationally.

Combining risk management, compliance, and internal assurance functions

A compliance function is complementary to a risk management function as part of a deposit taker's second line of defence. The internal assurance function is a Line 3 role and would typically not be combined with Line 2 functions (that is, risk management or compliance functions) under the Three Lines Model. Combining Line 2 and Line 3 functions could create a conflict of interest to the detriment of sound risk management practice.

We consider it necessary to require these functions to be appropriately independent including their reporting lines. Additionally, we may describe our view of the Three Lines Model in guidance (see section 3.2.1 for more discussion) to assist deposit takers when structuring their risk management, compliance and internal assurance functions appropriately. It is for the deposit taker to satisfactorily demonstrate to us how its structure of these three functions meets the independence requirements in the Risk Management Standard.

In the Consultation Paper, we outlined the respective roles and responsibilities of the risk management and compliance functions with reference to international practice. We will clarify the distinction between these Line 2 functions in the exposure draft and, if necessary, guidance. We would expect that a deposit taker's risk management and compliance practices would become increasingly sophisticated as it becomes larger (that is, commensurate to its size and complexity). This would likely mean deposit takers would naturally choose to separate the functions as their size increases. Our approach allows deposit takers flexibility, so long as the roles and responsibilities of each function (combined or otherwise) are sufficiently allocated.

Response

We will proceed with requiring Group 1 and 2 deposit takers to have compliance and internal assurance functions as described in the Consultation Paper (noting the point below on outsourcing). We consider this is consistent with the minimum expectations for the prudent

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[51] *See* key policy outcomes 1 and 3 in Table J, page 87, Chapter 3 of the *Deposit Takers Non-Core Standards Policy Proposals* consultation paper: https://consultations.rbnz.govt.nz/prudential-policy/deposit-takers-non-core-standards/user_uploads/deposit-takers-non-core-standards-consultation-paper-august-2024.pdf

[52] *See* CPS 220, paragraph 43.

[53] *See* CPS 510 Governance, paragraphs 90–91.

[54] *See* Basel Core Principle 26 Internal control and audit, in BCBS. (2024). Core Principles for effective banking supervision. https://www.bis.org/bcbs/publ/d573.pdf

management of a deposit taker to promote its safety and soundness and will contribute to financial stability.

Outsourcing of the compliance and internal assurance functions

We will not prohibit tasks performed by compliance and internal assurance functions being outsourced by Group 1 and 2 deposit takers. We intend to draft the requirements to clearly describe that deposit takers must have dedicated and adequately resourced in-house compliance and internal assurance functions that can reasonably be expected to perform their roles effectively. Additionally, as we proposed in the Consultation Paper for the risk management function,[55] we will draft the requirement so that a deposit taker would be able to engage the services of an external service provider to perform part of the compliance function or internal assurance function (that is, to partly outsource a function) if it can demonstrate to us that the function still complies with the Risk Management Standard, as well as the proposed Outsourcing Standard.

We may use guidance to set out our expectation that any outsourcing should be temporary and used where needed for capability building, capacity issues or specialised targeted reviews. This is of particular importance for Group 1 deposit takers where we would not want them outsourcing, for example, all technology audits indefinitely but understand they may want support from their parent or third-party providers (among others) where needed for such scenarios.

Combining risk management, compliance, and internal assurance functions

We will proceed with allowing deposit takers to combine their risk management and compliance functions and encourage deposit takers through guidance to consider separating them as is commensurate with their size, nature and complexity. We will proceed with our independence requirements for the compliance and internal assurance functions and support this with guidance where necessary.

3.2.10. Reporting and notification: approach to breach reporting and defining 'material breach'

We proposed requiring deposit takers to provide us with a copy of the deposit taker's RMS and RAS, both on adoption and following any material revisions. We also proposed requiring deposit takers to notify us of material changes made to the RMF, as well as after certain events such as significant breaches or material deviations.

For context, the current breach reporting requirements for banks include six-monthly reporting on all breaches (material and non-material), in addition to supervisors' expectations that banks informally notify us of any potential or actual breach (regardless of materiality) as soon as practicable.

Respondents separately raised the following related points concerning breach reporting under the Risk Management Standard and the DTA more broadly.

One respondent asked whether we intend to update breach reporting requirements alongside the DTA Standards.

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[55] *See* Section 2.9 Risk management function, paragraph 501, page 113, Chapter 3 of the *Deposit Takers Non-Core Standards Policy Proposals* consultation paper: https://consultations.rbnz.govt.nz/prudential-policy/deposit-takers-non-core-standards/user_uploads/deposit-takers-non-core-standards-consultation-paper-august-2024.pdf

Another respondent suggested we define what constitutes a 'material' breach or deviation.

One respondent noted that carrying over the current breach reporting requirements and applying them to the proposed standards could result in additional compliance costs (including time and effort) incommensurate with the materiality and impact of insignificant incidents.

Comment

For more discussion on breach reporting and materiality thresholds please see section 1.7 in chapter 1 relating to Introductory Issues.

Response

Regarding defining the materiality threshold for Risk Management Standard requirements, we will follow the broader supervisory approach which will be developed as part of the upcoming implementation phase ahead of the DTA Standards coming into force in 2028. This includes using guidance where appropriate. See also our related response on defining material risk in section 3.2.3.

3.3. Approach for Group 2 deposit takers – our response to submissions

3.3.1. Proportionality

We proposed requiring Group 2 deposit takers to comply with the same risk management requirements as Group 1 deposit takers. We noted our expectation that smaller deposit takers or deposit takers with less complex business arrangements would be able to implement the requirements in a proportionate manner. We designed the requirements to be sufficiently flexible for deposit takers to be able to tailor their risk management practices to their circumstances when complying with the proposed requirements.

Several respondents discussed our proposed approach to applying proportionality to Group 2 deposit takers. The feedback generally covered themes of insufficient proportionality applied to the requirements that would result in disproportionate compliance costs. Respondents stated the requirements were too prescriptive, too closely aligned to requirements for Group 1 deposit takers, or too aligned with the comprehensive level of international practice (such as, APRA's CPS 220 or the Basel Core Principles).

Alternative options proposed by respondents were that Group 2 deposit takers could either face fewer prescriptive requirements than Group 1 deposit takers, or that some requirements could be tailored for Group 2 deposit takers to lower associated compliance costs. Specific suggestions for implementing this included requiring different materiality thresholds, less frequent reviews, and a narrower scope of stress testing.

Comment

We agree that requirements for Group 2 deposit takers should be proportionate and result in less compliance costs than for Group 1 deposit takers, given their more limited size and complexity. We intend to take into account the practices of APRA and the Basel Core Principles. We expect that this can be achieved to some extent through each deposit taker's RMF being commensurate with

the deposit taker's size, nature and complexity. This proportionate approach is also a part of international practice which we can adapt to the New Zealand context.

This will be supported through guidance for the Risk Management Standard, which will form part of the exposure draft consultation. We expect that the currently underway risk management thematic report (due to be completed in December 2025) will support the development of this guidance.[56]

In particular, we would not expect a Group 2 deposit taker's stress testing programme to be as sophisticated as that of a Group 1 deposit taker. It may also be the case that Group 2 deposit takers undertake stress testing less frequently than Group 1 deposit takers. However, we are of the view that stress testing against all material risks is fundamental for the continued prudent management of a Group 2 deposit taker.

Response

We will continue to work with deposit takers through both the risk management thematic review and exposure draft consultation to provide greater clarity on expectations for Group 2 deposit takers, relative to Group 1 deposit takers.

We will consult on guidance that will provide Group 2 deposit takers with further information on the expectations around proportionality. For example, we intend to include guidance around the frequency and sophistication of stress testing and periodic reviews for Group 2 deposit takers.

3.4. Approach for Group 3 deposit takers – our response to submissions

3.4.1. Proportionality

We proposed taking the same approach to Group 3 deposit takers as for Group 1 and Group 2, except for the stress testing, risk management function, and the internal controls and assurance requirements. We considered those particular requirements to have compliance costs that are not easily scalable, meaning that it would not be proportionate to apply the Group 1 requirements to Group 3 deposit takers. We considered the remaining applicable requirements constitute the minimum levels of risk management practices for a prudent deposit taker including Group 3 deposit takers and noted that many of the requirements are already a feature of the current NBDT regulatory regime.

We acknowledged that the principles-based nature of the requirements will be more important to Group 3 deposit takers, as they allow deposit takers flexibility to comply in a manner that is proportionate to their size, nature and complexity.

Several respondents discussed our proposed approach to applying proportionality to Group 3 deposit takers. The feedback generally covered themes of insufficient proportionality applied to the requirements that would result in disproportionate compliance costs. Respondents stated the requirements were too prescriptive, too closely aligned to requirements for Group 1 and 2 deposit

[56] *See* the *Thematic review on risk management* https://www.rbnz.govt.nz/regulation-and-supervision/cross-sector-oversight/thematic-reviews/thematic-review-on-risk-management

takers, and too closely aligned with the comprehensive level of international practice (such as, APRA's CPS 220 or the Basel Core Principles).

Most Group 3 deposit takers that commented on estimating compliance costs stated that quantifying estimated compliance costs for principle-based requirements is difficult without the added context of guidance or the exact drafting of the Risk Management Standard or how we might enforce them. Although, respondents were clear that they expected an overall and disproportionate increase in compliance costs.

One industry association for corporate trustees (that is, those who currently supervise NBDTs) provided a comprehensive estimate of compliance costs for NBDTs including risk management requirements. This largely covered the cumulative costs of the DTA Standards and other financial market regulatory changes affecting NBDTs (for example, the conduct of financial institutions regulations).

Additionally, two respondents suggested that we should take a 'bottom-up' approach to proportionality that starts with NBDT's current practices and prudential regime rather than applying proportionality 'top-down' (that is, from Group 1 down to Group 3). Otherwise, the approach could potentially result in unnecessary compliance costs, erode competition, and decrease the diversity of institutions in the deposit taking sector.

One respondent interpreted the proposals as implying that all deposit takers would need an enterprise risk management system that costs $90,000 in Year 1 and $60,000 per year thereafter.

One industry group respondent proposed that it would be more proportionate for Group 3 deposit takers to consider a narrower set of material risk categories. They also raised that stress testing is less relevant in general for Group 3 deposit takers.

Two other respondents' suggested changes to make requirements more proportionate for Group 3 deposit takers, which included:

- removing the requirement for a dedicated internal assurance function (regardless of being able to outsource it), as most Group 3 deposit takers are too small to justify the compliance costs when also required to have a compliance function
- requiring that the responsibilities for compliance and internal assurance are separately assigned to persons who are not conflicted in performing the respective function.

One respondent suggested that having a dedicated CRO is a minimum requirement for a prudent deposit taker, even if they can undertake other activities that are not in conflict with their risk management role. They proposed that this requirement should apply to all licensed deposit takers, including Group 3 and branches.

Comment

We do not view acquiring an enterprise risk management system as being a necessary step to complying with the Risk Management Standard. We consider our requirement to have adequate risk management information systems as broadly equivalent to the current requirements for NBDTs, as it will be commensurate to the deposit taker's size, nature and complexity. We note that some deposit takers may choose to acquire or maintain this tool to support effective risk management practices in their organisation.

We do not view requiring Group 3 deposit takers to have a dedicated CRO to be a proportionate requirement. We note that we will require all Group 3 deposit takers to have an executive responsible for risk management.

We agree that requirements for Group 3 deposit takers should be proportionate and result in less compliance cost than for Group 1 and Group 2 deposit takers, given their relatively more limited size and complexity. We expect that this can be achieved to some extent through each deposit taker's RMF being commensurate with the deposit taker's size, nature and complexity.

This will be supported through guidance for the Risk Management Standard, which will form part of the exposure draft consultation. We expect that the ongoing risk management thematic report will support the development of this guidance.

In developing the proposals for the Risk Management Standard, we completed a thorough assessment of the current requirements in the NDBT Act[57] and expectations in the Guidelines.[58] Overall, we view the requirements for Group 3 deposit takers as largely formalising and consolidating existing requirements and expectations for NDBTs. A summary of this analysis can be found below at Table 3.3.

We note that there are some areas where there is an uplift for existing NDBTs relative to the existing NBDT Act and Guidelines. These include:

- a broader list of minimum risk categories to consider in developing and maintaining a deposit taker's RMF
- clearer expectations of which requirements should sit with the board
- a specified three-yearly minimum frequency for comprehensive review of a deposit taker's RMF
- specific requirements relating to stress testing, and that these be conducted against capital, liquidity and operational risks
- requiring a specific executive to be responsible for risk management, rather than it being a general senior management responsibility
- requiring independent and adequately resourced compliance and internal assurance functions (but allowing them to be entirely outsourced unlike Group 1 and 2 deposit takers).

Table 3.3: Analysis of current NBDT Act requirements and Guidelines against policy proposals

Area of the Risk Management Standard	Relevant existing NBDT Act requirement or Guidelines and comment
Risk management framework	NBDT Act s27(1).
Material risk categories: credit, liquidity, operational, interest rate, concentration, market, model, and cross-cutting.	NBDT Act s27(2)(b): credit, liquidity, market, operational. Broader list of categories to consider, but definitions of material risk are broadly similar.

[57] *See* sections 27-29, Part 2 of the Non-bank Deposit Takers Act 2013, https://www.legislation.govt.nz/act/public/2013/0104/latest/DLM3918915.html

[58] *See* RBNZ (July 2009), Risk management Programme Guidelines, https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/regulation-and-supervision/non-bank-deposit-takers/3697899.pdf

Area of the Risk Management Standard	Relevant existing NBDT Act requirement or Guidelines and comment
Responsibilities of the Board: Board-approved risk management strategy Board-approved risk appetite statement Board sets risk culture	Not specified as Board responsibilities by the Act or Guidelines, obligations sit on the NBDT as a whole.
Policies and processes: Measurement of risk Identification of problem assets Appropriate contingency arrangements	Included in NDBT Guidelines, no notable uplift relative to existing expectations.
Review: Annual review Comprehensive review	Included in NBDT Guidelines, though specified frequency is "regularly and when whenever this is a significant change in its business". Setting a minimum frequency of three-yearly for a Comprehensive Review therefore more prescriptive.
Stress testing: Group 3 deposit takers will be required to conduct stress tests relating to credit, liquidity, operational risks.	Not specified, although the Guidelines state that "the risk management programme should include contingency plans for managing stress events".
Information and data management: Deposit taker must have management information systems adequate for measuring, assessing and reporting on the size, composition and quality of exposures on a deposit-taker-wide.	In NBDT Guidelines, the risk management programme "must set out appropriate and auditable documentation and record keeping requirements".
Risk management function: Not required to have an individual whose full-time role is as CRO, though there must be an appointed executive that has the same responsibilities as a CRO.	Not specified that there should be a distinct risk function. "Operational staff should understand the risks they encounter in conducting their part of the NBDT's business." There are collective responsibilities of senior management as a whole.
Internal controls and assurance: Group 3 deposit takers must have independent and adequately resourced compliance and internal assurance functions, though these may be outsourced.	The risk management programme "should describe the processes, systems and procedures to…controls risks" that are identified by the NBDT.
Reporting and notification:	NBDT Act s28 requires NBDTs to "submit a copy of its risk management programme for trustee

Area of the Risk Management Standard	Relevant existing NBDT Act requirement or Guidelines and comment
Deposit takers must provide the Reserve Bank with "a copy of its risk management strategy and risk appetite statement, as well as CRO reports and exposure reporting." It must also notify us of material changes to the risk management framework.	approval". This also applies if the programme is amended following a periodic or event-based review.

Response

We consider our requirements for Group 3 deposit takers to be consistent with the minimum expectations for the prudent management of a deposit taker to promote its safety and soundness, and financial stability. While we note that some requirements do represent an uplift relative to the existing NBDT regime, we expect that the issuing of guidance and the time until the standards commence in 2028 should be sufficient for an existing NBDT to comply with the Risk Management Standard.

We will continue to work with deposit takers through both the risk management thematic review and exposure draft consultation to provide greater clarity on expectations for Group 3 deposit takers, relative to the existing requirements under the NBDT Act and Guidelines.

3.5. Approach for branches of overseas deposit takers – our response to submissions

3.5.1. Tailoring of requirements for branches

Review – audit requirements

One respondent proposed that branches should not be subject to audit requirements and could instead rely on a New Zealand CEO attestation of appropriateness of framework and completion of appropriate audit and reviews.

Reporting and notification

One respondent noted that reporting of RMF components to the host regulator is inconsistent with international practice for branches and disproportionate.

Conflicts of interest policy for dual-operating groups

In the Consultation Paper we proposed that dual-operating groups would need to have conflicts of interest policies that specifically address situations where the New Zealand CEO of the branch is also an employee of the subsidiary, as well as potential conflicts of interest between related parties (both as part of ongoing risk management requirements and in a stress situation). Two respondents requested further information on situations in which these conflicts might be expected to arise.

Leveraging group frameworks and functions

Four respondents requested further guidance on how dual-operating groups could leverage group RMFs to reduce duplication and avoid unnecessary compliance costs that do not enhance effective management of risk.

One respondent also raised the question of whether dual-operating branches could also outsource their internal assurance or compliance functions (or both) to the locally incorporated subsidiary within the group, as well as the overseas deposit taker.

Comment

Review – audit requirements

Our view is that auditing of a branch's RMF is a necessary step to guarantee compliance with the Risk Management Standard. Demonstrating this to us (rather than relying on an attestation) both supports effective risk-based supervision of all deposit takers and is consistent with our broader supervisory approach under the DTA.

For clarity, we will allow branches' audit functions to be resourced by the home entity, so long as adequate resources are devoted to the risk associated with the New Zealand business.

Reporting and notification

Our view is that the reporting of a branch's RMF to their supervisor is a necessary step for providing regulatory assurance regarding compliance with the Risk Management Standard and this best supports effective risk-based supervision of all deposit takers.

Conflicts of interest policy for dual-operating groups

The second consultation paper in the Review of policy for branches of overseas banks identified this potential conflict of interest and signalled that we would undertake further policy work as part of developing the DTA Standards.[59]

Section 93 of the DTA applies due diligence requirements to the director of a locally incorporated subsidiary, while section 94 of the DTA applies due diligence requirements to the New Zealand CEO of a branch. Dual-operating groups should consider situations where one individual may have due diligence obligations in respect to both licensed deposit takers in the group. Their conflicts of interest policy should consider potential situations where the interests of the two deposit takers may not be aligned (either in normal times or in a crisis situation) and how these conflicts will be managed.

Leveraging group frameworks and functions

A locally incorporated deposit taker may leverage the overseas bank's RMF if the local board judges that this will meet the deposit taker's obligations at both a deposit taker and whole-of-group level. Likewise, a branch may leverage the overseas bank's RMF if the New Zealand CEO judges that this will meet the branch's obligations at a branch level. Therefore, it may not be necessary for a dual-operating group to maintain four complete and separate RMFs (that is, at the

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[59] *See* section 4.3 of the second consultation paper of the *Review of policy for branches of overseas banks*: https://www.rbnz.govt.nz/-/media/4d4f122724aa415fb899efe75e430208.ashx

group, New Zealand group, subsidiary and branch levels). It may be that some components can be leveraged, while some components need to be considered separately at a local level. Judging the extent to which it is appropriate to leverage group frameworks will be a responsibility of the deposit taker's board or New Zealand CEO, or both, as relevant.

Any functions that can be outsourced to the overseas deposit taker can also be outsourced to the locally incorporated subsidiary within a dual-operating group. Two necessary pre-conditions for this are that the New Zealand CEO assesses that these functions are able to fulfil any prudential obligations on the branch and that any conflicts of interest between the branch and subsidiary are appropriately managed.

Response

We consider that our policy is appropriately tailored to account for branches' and dual-operating groups' situations. We will consider whether the guidance document to support the Risk Management Standard should include specific guidance for branches or groups or both to support both compliance and the outcomes of the policy.

3.5.2. Responsibilities of the New Zealand CEO: consistency with section 94 of the DTA

We proposed the board responsibilities set out for Group 1 deposit takers would sit with the New Zealand CEO for branches, in line with the due diligence obligations in section 94 of the DTA, rather than the board of the deposit taker.

All respondents that provided feedback on this topic were supportive of the approach. One respondent emphasised that any requirements should be consistent with section 94 of the DTA (the same point was raised regarding section 93 and the responsibilities of the board, see section 3.2.5).

One of these respondents noted the limitations in practical power of its New Zealand CEO compared to its board as many parts of risk management were decided at a group level.

Another respondent suggested that having a dedicated CRO is a minimum requirement for a prudent deposit taker, even if they can undertake other activities that are not in conflict with their risk management role. They proposed that this requirement should apply to all licensed deposit takers, including Group 3 and branches.

Comment

Please see the earlier discussion in section 2.4 regarding the responsibilities of the board and consistency with section 93 of the DTA, as this is applicable to the responsibilities of the New Zealand CEO. This will also be clarified further in guidance on the New Zealand CEO duties under section 94 of the DTA.

We acknowledge that practices between branches and their wider overseas deposit taker or group will differ. Our requirements and other new duties under the DTA may require branches to adapt their operations. Our understanding is this should not carry significant compliance costs and respondents have not contradicted this.

We do not view requiring branches to have a dedicated CRO to be a proportionate requirement. We note that we will require all branches to have an executive responsible for risk management.

Response

We will proceed as described in the Consultation Paper and this will be reflected in the exposure draft consultation.

3.6. Minor and technical issues

In this section, we address certain discrete technical topics that were included in the consultation or that have been raised by respondents.

Table 3.4: Minor and technical issues for the Risk Management Standard

Issue	Response
All deposit takers	
Inconsistent lists of risk types used in the Consultation Paper Paragraph 417 was highlighted as using a list of risk types that includes 'concentration risk' as a separate category whereas paragraph 409 includes it as part of 'credit risk'.	We will proceed on this basis set out in paragraph 417 of the Consultation Paper which includes concentration risk as a separate risk category as this is the correct (and more comprehensive) list (see section 3.2.3).
Reporting and notification requirements under the DTA Clarification was sought on the intent of providing the RMS and RAS to us. For example, would it be required under the Disclosure Standard or through periodic private reporting under the s99 information gathering powers of the DTA.	We received support for requiring deposit takers to provide us with a copy of its board-approved RMS and RAS. This requirement makes the obligation transparent and enables us to treat deposit takers consistently when supervising them. In the Consultation Paper, we proposed making these reporting requirements under the Risk Management Standard. To clarify, any reporting requirements will be made using disclosure and reporting powers under s88 of the DTA. However, where the requirement itself may be contained will be resolved as part of the exposure draft consultation stage.
Documenting the RMF versus its individual elements Clarity was sought on whether the RMS needs to be a separate document to the RMF. Additionally, whether the internal control frameworks requirements require separate documentation.	The RMF can be understood as the totality of systems, structures, policies, processes and people within an institution that identify, measure, evaluate, monitor, report on and control or mitigate all internal and external sources of material risk.[60] The RMS and internal control frameworks are necessary but not sufficient elements of an RMF. In the Consultation

[60] This definition is from CPS 220, paragraph 20.

Issue	Response
	Paper, we outlined the other elements which are the minimum required to comply. We do not prescribe the exact way an RMF (or its individual elements) is documented, only that it is appropriately documented. A deposit taker may choose how best to achieve this as is commensurate to its size, nature and complexity.
Reporting of stress test results The results of stress tests should be able to be reported to a board's sub-committee rather than the board itself.	The results of stress tests are an important factor in assessing whether a deposit taker is within its risk appetite, which is a responsibility of its board. We are therefore of the view that it is important that a deposit taker's board has the opportunity to consider the results of stress tests.
Group 1 and 2 deposit takers	
Estimating the compliance costs of principle-based requirements is difficult absent more information Respondents noted that they could not quantify or estimate the compliance costs of principle-based requirements without the added context of guidance or the exact drafting of the Risk Management Standard or how they might be enforced. Areas identified as likely to be impacted included: the one-off implementation costs (capital outlays for technology and resources to enact change), and the ongoing resource costs for new uplifted processes and systems.	All deposit takers already have some degree of RMFs, processes and policies and we do not expect our proposed requirements to place unnecessary compliance costs on deposit takers. The requirements are designed to be sufficiently flexible for deposit takers individual circumstances to comply with the proposed standard, and do not need to substantially change practices that are already working well. However, we recognise that there is variance in current practice and some deposit takers will need to make changes to comply with requirements. We will bear this in mind when developing guidance and the exposure draft. For more, please see related discussions in section 3.2.1 on using a principles-based approach, the capacity and capability of New Zealand's risk management marketplace, and transitional arrangements. Also see section 3.3.1 on proportionality for Group 2 deposit takers.

Branches	
Review requirements: 'reporting to board' should be 'reporting to New Zealand CEO' Clarity was sought on whether the requirement to report reviews to a deposit taker's board Risk Committee (as per paragraph 451 of the Consultation Paper) would instead apply to the New Zealand CEO for branches.	Yes, this is correct. Where proposed requirements relate to the board or board committee of a deposit taker, for branches, these obligations would instead sit with the New Zealand CEO, (as per section 94 of the DTA). This aligns with the Governance Standard.
Clarity on which requirements will apply to branches Clarity was sought on which requirements do and do not apply to branches, with specific reference to paragraph 503-506 of the Consultation Paper.	We will allow the risk management function of branches to be resourced by the overseas deposit taker, so long as adequate resources were devoted to the risk associated with the New Zealand business. Similar to our proposed approach to Group 3 deposit takers, we do not consider that it is appropriate or proportionate to require branches to have a dedicated risk management unit overseen by a CRO.
Duplication of home supervisor responsibilities Clarity was sought on whether some reporting requirements for branches would duplicate home supervisor responsibilities, with particular reference to capital and liquidity management.	Home-host supervisor co-operation is an important part of our approach to effectively supervising branches of overseas deposit takers in New Zealand. While we rely on the home supervisor to monitor the capital and liquidity position of the overseas deposit taker as a whole, it is important that we have a robust understanding of the New Zealand operations of the deposit taker. We view this is as being complementary to the actions of the home supervisor, rather than duplicative.

Chapter 4

Deposit Takers Operational Resilience Standard

Summary of Submissions and Policy Decisions

Non-technical summary of responses and decisions

This section outlines our responses to the consultation feedback received on the Operational Resilience Standard. The Operational Resilience Standard focuses on helping to ensure that all deposit takers operating in New Zealand have an appropriate level of operational resilience. In particular, it sets out requirements that will help ensure that deposit takers adequately manage their operational risk practices and remain resilient through operational disruptions.

We have carefully considered the respondents' feedback, in particular relating to concerns from Group 3 deposit takers about the compliance costs of the proposals. We consider there is scope to simplify or recalibrate some of the requirements which will make compliance easier and more proportionate for smaller deposit takers. This table summarises the key issues raised in the feedback across all deposit takers with additional feedback discussed below.

Table 4.1: Operational Resilience Standard – Key issues and responses

Deposit Taker Group	Key issue	Response
Group 1	Responsibilities of the board and senior managers	We agree with respondents that the board should focus on strategic direction and oversight rather than the actual preparation of documentation or processes. To the extent necessary, we will clarify this split in relevant requirements.
	Board's responsibility in approval processes	We will ensure clarity on areas where the board must retain responsibility in approving the relevant processes, and on the framework for the board to delegate responsibilities, when drafting the Operational Resilience Standard. Our approach will be in line with the Governance Standard.
	Processes in conducting controls testing, reviews, assurances and audits	We agree that testing, review and assurance should be risk- and circumstances-based (and commensurate with the nature of the risk and the size and nature of the deposit taker's business) rather than specifying a particular review period, unless necessary. Audit and review requirements will be framed consistently across the standard.
	Level of detail and alignment with APRA's standards	Where appropriate, we have revised the requirements to either make them more general or simpler. This is intended to help make them flexible enough to cover the full range of deposit takers. Where appropriate, we will also align our requirements with APRA's (particularly APRA's CPS 230) as well as with the other existing policies, including the Guidance on Cyber Resilience and related standards.
	Definition of critical operations and other related terms	We will ensure in drafting the Operational Resilience Standard and related standards that the definitions of related terms are sufficiently clear to avoid confusion.
	Reporting requirements	We will ensure that the requirements are clear and in line with international practice (where appropriate) in drafting the Operational Resilience Standard. Where appropriate, we will provide further

Deposit Taker Group	Key issue	Response
		guidance in the accompanying Guidance document to help support compliance. These include the tolerance thresholds to determine materiality of the impact on the deposit taker financially, how to assess the materiality of the changes in material service provider (MSP) arrangements, information and communications technology (ICT) incidents and business continuity plan (BCP) activation.
	Material Service Providers (MSPs) – Interaction with the Outsourcing Standard	We will seek to integrate the requirements relating to MSPs across the Operational Resilience and Outsourcing Standards. However, we note that there is further detailed work to be undertaken to support this approach. A final outcome will be reflected in our exposure drafts for both standards
Group 2	Appropriateness of the approach for Group 2	We do not agree that there are modules of the Operational Resilience Standard that should not apply to Group 2. However, we will endeavour to make some of the requirements more general or simpler to accommodate differences in the business characteristics across deposit takers, where appropriate.
	Prescriptiveness of some requirements	We will amend some of the requirements relating to control testing, reviews, audits and assurances. The amendments will be in line with our view that these requirements must be risk- and circumstances-based (and commensurate with the nature of the risk and the size and nature of the deposit takers business) rather than specifying a particular review period.
Group 3	Appropriateness of the approach for Group 3	We consider that the Operational Resilience Standard should apply to Group 3. We have removed some detailed requirements for Group 3 to simplify compliance. We will also endeavour to make some of the requirements more general or simpler to accommodate differences in the business characteristics across deposit takers, where appropriate.
Branches	Consideration for the overseas deposit taker or group policies	In complying with the Operational Resilience Standard, branches can leverage relevant policies or frameworks of the overseas deposit taker or wider group, including those that they are required to maintain in other jurisdictions. These include documentation relating to the results of control testing, audits, reviews and assurances that cover systems, processes and plans required under New Zealand law. The New Zealand CEO of the branch will need to be able to demonstrate the adequacy of the overseas deposit taker or group's assessment, policy or framework in meeting the requirements of and the intended policy outcomes for the New Zealand branch.
	Applicability of some requirements	We consider that the Operational Resilience Standard should apply to branches. However, we will streamline the details of some of the requirements for branches, such as the requirements relating to the assessment of risk profile, effectivity of information security controls and BCPs for critical operations, and frequency of business

Deposit Taker Group	Key issue	Response
		continuity exercises. These will be in addition to the changes discussed in the prior sections that will make other requirements more general and simpler. All these changes should help facilitate compliance of branches to the requirements of the Operational Resilience Standard.

4.1. Introduction

Our proposed Operational Resilience Standard seeks to set out requirements that will help ensure that deposit takers adequately manage their operational risk practices and remain resilient through operational disruptions. Our objective for the standard is to promote sound, effective and efficient operational risk practices that enhance the operational resilience of each deposit taker.

We consulted on a proposed standard that set out requirements in four key areas:

- **Operational Risk Management:** requirements to manage operational risk through identification and assessment of the deposit taker's operational risk profile, effective operational risk controls and reporting relating to operational risk incidents.
- **Material Service Providers:** requirements to manage risks arising from the use of external service providers to provide critical operations to the deposit taker's business. This area also relates to our proposed Outsourcing Standard (and potentially the Crisis Preparedness Standard in the future). We will aim to avoid any unnecessary changes for deposit takers that are also required to comply with the Outsourcing Standard.
- **Information and Communications Technology:** requirements to manage risks arising from the use of information and communications technology, including cyber risks.
- **Business Continuity Planning:** requirements to support the operational resilience of critical functions through business disruptions.

Our Consultation Paper proposed that the Operational Resilience Standard apply to all Groups of deposit takers. It was designed using a hybrid principles-based approach, in which requirements target outcomes and give deposit takers the flexibility to choose the way in which they achieve these outcomes (thus, helping to ensure requirements can be applied proportionately).

Some respondents highlighted the common interests between our proposed requirements and those of the Financial Markets Authority (FMA). We will continue to work with the FMA in supervising the Operational Resilience Standard requirements to avoid duplication in areas of shared interest.

4.2. Approach for Group 1 – our response to submissions

Feedback for Group 1 broadly supported our proposed approach to the Operational Resilience Standard. Respondents raised issues relating to the framing of some requirements and interactions with other standards. Key issues were raised relating to the:

- balance in the responsibilities of the board and senior management

- conduct of internal control testing, assurances and audits
- prescriptiveness and flexibility of requirements
- terminology and definitions
- reporting requirements
- interactions between the Operational Resilience Standard and the Outsourcing Standard.

4.2.1. Responsibilities of the board

Balance in the responsibilities of the board and senior managers

Respondents noted that there needs to be an appropriate division of responsibilities between the board and management of deposit takers. They considered that some of the requirements (such as requiring the board to "establish" processes to detect, mitigate and respond to operational risks) are responsibilities of senior managers rather than the board.

Comment

We agree with respondents that the board should focus on strategic direction and oversight rather than the actual preparation of documentation or establishment of the processes. The proposed requirements were not intended to make the board take direct responsibility for preparing documentation or establishing processes. In general, our intention is that the board should have oversight of this work, but senior managers should be actually undertaking it.

However, there are some areas where we think board approval is important to ensure effective oversight of key policies and the processes and appropriate management of operational risk.

Response

In drafting the Operational Resilience Standard, our policy intent is to ensure that the standard is clear on the areas where we expect the board to be responsible (for example, approving and/or overseeing operational risk management practices rather than actually establishing and applying them). This is in line with DTA section 78(a)(iii).

Section 4.7 sets out the specific policy changes we will make to the requirements to ensure this clarity (noting that the precise wording will be determined during drafting of the Operational Resilience Standard).

4.2.2. Board's responsibility in approval processes

Respondents sought clarification about whether the requirement to have board-approved processes (for example, process relating to operational risk management framework and BCPs) can be delegated to a board committee. Respondents added that deposit takers are likely to have a number of BCPs for the different component parts of their operating models, and it would not be practical for the board to approve all of them.

Comment

We set out in our Consultation Paper specific areas where we consider that the board should approve and oversee key policies for the management of operational risks for deposit takers. Approvals in these areas need to be retained by the board. However, board committees may have

a role in making recommendations to the board on policies requiring board approval (should the board want to make use of committees in this way).

More generally, we note that as a part of good governance, it is the board's responsibility to ensure that there is a policy in place on when and how authorities are delegated, and that the board remains responsible for these delegated authorities. This approach is consistent with the rules around the delegation of powers in section 130 of the Companies Act 1993.

Furthermore, we understand that deposit takers can have multiple BCPs. The BCP-related requirements in the Operational Resilience Standard are referring to the BCPs that accompany the delivery of the deposit taker's critical operations (and not to all BCPs of the deposit taker). We also consider it essential that BCPs for critical operations are board approved.

Response

We will clarify that the board must retain responsibilities in approving the relevant processes and in setting out the framework for delegation of authorities in drafting the Operational Resilience Standard, in line with the Governance Standard.

4.2.3. Controls testing, reviews, assurances and audits

Respondents raised specific issues relating to the requirements on controls testing, reviews, assurances and audits under the Operational Resilience Standard. Specifically:

- **Testing of controls**. Respondents noted that the extent of testing of controls should be commensurate to the materiality of the risk those controls address, and that there should be flexibility to allow for modern control testing methods. They also added that a risk-based approach to the review processes should be considered, that the requirement to review the "operational risk management processes and systems" needs to be clarified as it seems very broad, and that it is challenging to perform annual reviews of the entirety of a deposit taker's operational risk management processes and systems.
- **Assurance**. Respondents noted that the requirements should focus on the suitability of assurance of operational risk management processes and systems, instead of how often the assurance is conducted and by whom. Assurance for a regulator is different from assurance for customers and the specific reference to customers in the requirement should be removed.
- **Audit**. Respondents noted that involving the internal audit team in operational matters risks compromising the independence of the internal audit function. It can also be burdensome (for example, in cases when the internal audit team is tasked with reviewing MSP arrangements that involve outsourcing of a critical operation).
- **Reviews**. Respondents noted that the requirements relating to reviews should be consistent across standards (that is, whether they are performed by external or internal auditors or by a suitably qualified independent reviewer) and that the required frequencies can be excessive.

Comment

In the Consultation Paper, we proposed that the deposit taker must design internal controls that provide assurance to its customers and the Reserve Bank that it is efficiently and effectively mitigating its operational risks. We proposed that internal audit team reviews any proposed MSP arrangement that involves the outsourcing of a critical operation and BCPs for critical operations.

We also proposed specific frequencies for review of risk management processes and systems, reporting of MSP compliance with the service provider management policy to the board and review of BCPs for critical operations.

We agree that the requirements should focus on providing assurance to the Reserve Bank as prudential regulator and that controls should be proportionate to the significance of the risk they seek to manage. We note that under the Operational Resilience Standard, deposit takers will have flexibility in designing controls and in determining the frequency of the control tests (so long as these achieve the intended policy outcome and are appropriate to the size and nature of the deposit taker's business).

We also agree that review and assurance should be a risk-based review as opposed to a whole system review. Deposit takers should have the flexibility to focus reviews on priority risk areas, and adjust the frequency of reviews where necessary.

We see the merits of giving the deposit takers the option to have the reviews done by internal audit team, external auditors or any suitably qualified independent reviewers, including the review of MSP arrangements. This is intended to provide flexibility dependent on the scale of internal audit, recognises the cost of using of external auditors in some cases, and allows for standardising review/audit requirements, where appropriate.

We also consider it appropriate to give deposit takers the opportunity to determine the appropriate frequency of reviews taking into account the nature of the risk and the size and nature of the deposit taker's business.

We emphasise that the reviews are intended to help ensure that operational risk management processes and systems remain fit-for-purpose.

Response

We will amend the review requirements in drafting the Operational Resilience Standard to clarify that they must be of appropriate frequency, risk-based and proportionate to the nature of the risk being managed and the size and nature of the deposit taker's business. Audit and review requirements will be framed consistently across the standard.

4.2.4. Prescriptiveness and flexibility of the requirements

Level of detail and alignment with APRA's standards

Respondents commented on a set of interrelated issues relating to the level of detail around some requirements. They also noted the issues relating to alignment with other standards and APRA's Operational Risk Management Standard. Specifically:

- **Prescription:** respondents viewed some aspects of the Operational Resilience Standard as too prescriptive and not sufficiently principles based.
- **Alignment with other standards:** respondents considered that there should be clearer and more consistent definitions across standards. The interface between the Operational Resilience Standard and the Outsourcing Standard (discussed further below) was noted as an area needing further clarity. In particular, respondents noted the similar concepts of "critical

operations" in the Operational Resilience Standard and "basic banking services" and "critical service providers" in the Outsourcing Standard.

- **Alignment with APRA's standards:** respondents noted the alignment between the Operational Resilience Standard and relevant APRA's standards (such as CPS 230 and CPS 234) but were of the view that closer alignment would be desirable to reduce compliance costs and avoid inconsistent requirements. A lack of full alignment with APRA's critical operations definition was also identified as an issue.

Comment

We agree that there is scope to lessen the level of prescription of some of the requirements in the Operational Resilience Standard, improve the consistency of the terms used across standards and refine some of the definitions to make them clearer. Our approach in designing the Operational Resilience Standard purposely combined a principles-based approach with some more specific requirements. We agree though that there are areas where we can revisit some of these specific requirements to address unnecessary prescription to make them applicable across deposit taker groups (for example, requirements 3.1 and 3.2).

We acknowledge that there are areas of overlap in requirements between the Operational Resilience Standard and the Outsourcing Standard, and agree that there are opportunities to clarify the relationship between these standards. This is discussed further below.

We considered APRA's Operational Risk Management Standard in designing our proposals and we will consider the scope for greater alignment with APRA's requirements when drafting the Operational Resilience Standard.

Response

We will revise some of the requirements to make them more general or simpler. This is intended to help make them flexible enough to cover the full range of deposit takers.

Where appropriate, in preparing an exposure draft of the Operational Resilience Standard and the related guidance document, we will further align our requirements with APRA's (particularly APRA's CPS 230). We will also look to further clarify the interface between the Operational Resilience Standard and other standards (as well as existing policies like our current Guidance on cyber resilience).

4.2.5. Terminology and definitions

Some respondents considered that the definition of the term "critical operations" needed further refinement. Comments focused on two main issues:

- **Processes or activities, functions, services**: respondents suggested that the definition should focus on processes as opposed to activities, functions, services to ensure a cross-functional view of all critical end-to-end processes are included within critical operations. It was noted, for instance, that it is the provision of transactional, savings and deposit accounts that are critical operations, rather than the products themselves. It was pointed out that the focus on processes also aligns with APRA's definition (the intention of which is to capture not only those service providers that are directly carrying out critical operations, but also those that are only contributing to the provision of critical operations).

- **Overlap with the definition of other terms**: respondents pointed out the definitions of "basic banking services" and "critical services" (in the context of critical service providers) in the Outsourcing Standard (that were carried over from the Outsourcing Policy, BS11), and "critical operations" in the Operational Resilience Standard seem to overlap. Respondents asked the Reserve Bank to clarify its approach in this regard and to consider aligning the definitions of these terms for consistency or having one definition moving forward to avoid duplication.

Separately, respondents suggested that the relationship with the other relevant terms used in other policies also needs to be clearer. These include terms such as: "core business functions" and "critical services" (Guidance on cyber resilience), "material business lines" (*BPR151: AMA operational risk*) and "systematically important activities" (DTA).

They also suggested that there was a need for greater clarity about the relationship between other terms, such as "critical service provider" (Guidance on cyber resilience, Outsourcing Policy (BS11), Standards for FMIs) and "material service provider" (Operational Resilience Standard), and between the terms "outsourcing" (Outsourcing Standard) and "use of material service providers" (Operational Resilience Standard).

Comment

In the Consultation Paper, we proposed to define the term "critical operations" as follows:

> Critical operations are activities, functions and services undertaken by a deposit taker or any of its service providers which, if disrupted or suddenly discontinued, could be reasonably expected to have a material impact on the continued operation of the deposit taker and its role in the financial system. Critical operations include but are not limited to transactional, savings and deposit accounts, credit services, payment clearing and settlement services.

We note that the first limb of our definition is in line with the BCBS, who defined critical operations as encompassing critical functions (as defined by FSB) and including activities, processes, services and their relevant supporting assets the disruption of which would be material to the continued operation of the bank or its role in the financial system.[61] Meanwhile, the second limb of the definition is based on Outsourcing Policy (BS11) Sections A2.1.a.i to A2.1.a.iv. The intent of the second limb is to set out a minimum threshold and to draw from our existing frameworks.

We understand the need to have consistent terminology and definitions across our policies where possible. We also acknowledge that there is scope to further rationalise some of our existing definitions. As outlined below, we will seek to further integrate the MSP components of the Operational Resilience Standard and the Outsourcing Standard. This will include consideration of the critical operations definition, in particular the minimum list of critical operations.

We will consider providing further clarification in guidance that we will consult on in due course.

[61] *See* BCBS (2021), Principles for Operational Resilience; FSB (2013), Recovery and Resolution Planning for Systemically Important Financial Institutions: Guidance on Identification of Critical Functions and Critical Shared Services.

Response

In drafting the Operational Resilience Standard and related standards we will use common definitions where appropriate, and otherwise seek to be clear about the reasons why different definitions continue to be necessary.

4.2.6. Reporting requirements

Clarity on the matters that need to be reported

Respondents raised specific issues relating to the different reporting requirements. Respondents noted that given that there are separate notification requirements for operational risk, MSP, ICT and BCP, clear guidance and definitions for material incidents under each category are needed.

It was suggested that these obligations to provide notification within a certain time should allow for initial notification with a set of minimum required information, with additional information to be provided as soon as possible thereafter.

- **Material operational risk incidents**: respondents considered that guidance is needed on the definition of "material operational risk incident". They also queried how the tolerance levels or thresholds for critical operations would be relevant to materiality. They pointed out that while the notification requirement is based on a material financial impact, the guidance on materiality is tied to tolerance thresholds for critical operations, which will not always driven by financial metrics.
- **Reporting changes in MSP arrangements**: respondents sought clarity on the purpose of requirement 2.4, if the Reserve Bank will provide non-objection and the criteria the Reserve Bank will use to object to the MSP changes. They also wanted to clarify what constitutes "material change", the reporting timeframe and the application of the requirement (for example, if it only applies to critical operations being provided by the deposit taker and not to the services provided by another MSP).
- **Material ICT incidents:** respondents sought clarification on what the reporting requirement means (requirement 3.6 of the Consultation Paper) and suggested allowances for reporting because when an issue occurs, deposit takers need to prioritise responding to the issue as opposed to preparing detailed reporting. More specifically, they wanted clarity on the trigger for reporting when entities become aware of an incident or a material control deficiency.
- At least one respondent further suggested the following: clarifying that malicious threats refer to both internal and external threats to ensure holistic protection, separating the requirements for a cyber related event compared to a technology system related outage as these 2 types of incidents are very different, clarifying the overlap of the ICT incident notification requirement with the existing privacy breach reporting requirement and removing the requirement to report all incidents periodically if "cyber incidents" are replaced with the broader "ICT incidents".
- **BCP activation:** respondents wanted clarity on the application of the BCP reporting or notification requirement (requirement 4.11 of the Consultation Paper)—that is, if it refers to disruptions linked to critical operations. They identified that there are situations when preventative actions ensure continuity and the risks to critical operations are low.

Comment

The reporting requirements set out in the Consultation Paper are outlined in Table 4.2 below:

Table 4.2: Operational Resilience Standard reporting requirements

Operational risk management, MSP, ICT and BCP
1.7. The deposit taker must notify us as soon as possible and, in any case, no later than 72 hours, after becoming aware of an operational risk incident that it determines to be likely to have a material financial impact on the deposit taker or a material impact on the ability of the deposit taker to maintain its critical operations. Materiality for operational incidents should be interpreted consistent with tolerance thresholds for critical operations.
2.4. The deposit taker must notify us of new or material changes to existing MSP arrangements.
3.6. Notification obligation: The deposit taker must notify us as soon as possible and, in any case, no later than 72 hours, after becoming aware of a material ICT incident, and no later than 10 business days after it becomes aware of a material information security control weakness that the deposit taker expects it will not be able to remediate in a timely manner. We may request additional information from the deposit taker regarding the incident reported as a part of ongoing supervisory engagement relating to the incident.
4.11. The deposit taker must notify us as soon as possible and, in any case, no later than 72 hours, after activating its business continuity plan. The notification must describe the critical operations affected, the nature of the disruption, the action being taken, the likely impact on business operations and the expected timeframe to return to normal operations.

Material operational risk incidents

We note that a deposit taker has flexibility to define what would constitute a "material operational risk incident" given its context. We agree though that this can be clarified further and that critical operations are not always tied to financial metrics. The intended coverage of the reporting requirements are incidents that a deposit taker determines likely to have a material impact on its financial position or its ability to maintain its critical operations. We will clarify that material operational risk incidents can be a material ICT incident or a material non-ICT incident.

Reporting changes in MSP arrangements

We will clarify that this notification requirement is intended to keep the Reserve Bank informed of the nature of deposit takers' MSP arrangements. This will enable us to understand the risks facing individual deposit takers as well as systemic risks that could arise from multiple deposit takers relying on particular service providers.

Separately, we agree that there is a need to set out an explicit time by which reporting is required. We note that the Reserve Bank may ask for additional information relating to the material MSP changes, in line with its information-gathering powers under the DTA. We further clarify that the deposit taker has the discretion to determine material changes. This requirement also does not involve a non-objection application process.

Material ICT incidents

We understand respondents' concern above about having to balance the need to promptly respond to an incident with the need to comply with the reporting requirement. Similar to the existing Cyber resilience data collection, we are open to allowing deposit takers to provide the Reserve Bank with the information that is available to them at the time the report is made, which they may then update or change in subsequent reporting until the incident is resolved. We are also considering preparing a reporting template that deposit takers may choose to use in reporting incidents.

We will also clarify that:

- the counting of 72 hours and 10 business days for incident reporting starts after the materiality of the ICT incident and information security control weakness has been respectively identified by the deposit taker
- 72 hours mean 72 consecutive hours and not 72 business hours
- the cyber data collection requirements will not be automatically converted to ICT reporting requirements; we will consider the feedback received in this regard and consult on the details of any periodic reporting requirement under the Operational Resilience Standard if and when this is necessary.

We consider that there is going to be an overlap with the privacy breach reporting requirements under the Privacy Act 2020. However, given the difference in the regulatory frameworks and purposes of these requirements, these overlaps cannot be completely avoided.

BCP activation

We will clarify that the requirement to report BCP activation refers to BCPs for critical operations and not all BCPs. Similar to the ICT reporting requirement, we are open to receiving initial notification that informs the Reserve Bank of the available information regarding the incident when the report is made (with the deposit taker then having the power to update or change this information before the incident is resolved).

Response

We will ensure that the requirements are clear and in line with international practice where possible in drafting the Operational Resilience Standard. We will provide further guidance in the Guidance document supporting the Operational Resilience Standard, where appropriate to assist deposit takers. This guidance may cover the tolerance thresholds to determine materiality of the financial impact on the deposit taker and its ability to maintain its critical operations, assessment of the materiality of changes to MSP arrangements and ICT incidents, and BCP activation.

4.2.7. Material Service Providers – Interaction with the Outsourcing Standard

Greater clarity on the interface between the Operational Resilience Standard and Outsourcing Standard

Respondents sought a clearer indication of how the interface between the proposed Operational Resilience Standard and Outsourcing Standard would work, noting that the Outsourcing Standard

largely carries over the requirements set out in the Outsourcing Policy (BS11). Respondents noted the importance of addressing overlaps between these two standards (in particular, across definitions, compendium and reporting, and business continuity requirements). They also sought a clearer separation between the operational continuity focused aspects of the two standards, and the recovery and resolution focused aspects of the two standards.

Comment

We recognised in our consultation paper the relationship between the proposed requirements relating to MSPs in the Operational Resilience Standard, and some of the requirements in the Outsourcing Standard. We also noted our aim to avoid any unnecessary change for deposit takers that are required to comply with the Outsourcing Standard. We acknowledge respondents' request for more clarity about the interface between these two standards, and initial thoughts about how this interface should work.

Where appropriate, we agree that it is desirable to contain requirements relating to MSPs in one standard. In addition, we support in principle the aim of having a clear distinction between operational continuity requirements, and recovery and resolution requirements, in these two standards. We also acknowledge the value in minimising overlaps between these two standards, and harmonising the definitions and requirements, where appropriate.

Response

We will seek to consolidate the requirements relating to MSPs in the Operational Resilience Standard where appropriate. Table 4.3 below sets out at a high level how we will envision this to work. We note that there is further detailed work to be undertaken on this topic before we can confirm our detailed approach, but we expect that this detailed approach will be reflected in the exposure drafts of the two standards when they are released for consultation.

Table 4.3: High-level approach to the interface between Operational Resilience and Outsourcing Standards.

Original proposal and feedback	Response and decision
Outcome 2: Comprehensive MSP management There is overlap with the existing Outsourcing Standard relating to definitions, compendium and reporting, and business continuity requirements.	We will retain requirements in both standards, but seek to align approaches in each standard where this is consistent with the respective purposes of each standard.
2.1. Oversight of MSPs: Service provider management policy Respondents sought clarity regarding the definition of MSP, and whether MSPs are also critical service providers, as defined in the Outsourcing Policy (BS11).	We intend for the MSP requirements in the Outsourcing Standard to fit within the board-approved service provider management policy in the Operational Resilience Standard. Where appropriate, we will seek to align our key definitions across the two standards, including definitions relating to critical operations and critical service providers.

Original proposal and feedback	Response and decision
2.2. MSP registers The MSP register and the material changes notification requirement are similar to the Outsourcing Policy (BS11) outsourcing arrangement compendium, annual review and Reserve Bank access to the compendium on request.	Deposit takers will be required to maintain a register, but we will combine requirements across the two standards (namely, the register under the Operational Resilience Standard and compendium under the Outsourcing Standard). As part of the guidance accompanying the standards, we will also provide an accompanying template which will ensure greater consistency in reporting. We will also consider how review requirements may be better aligned.
2.3. Due diligence and risk assessments: BCP arrangements Respondents sought greater clarification for the meaning of requirements.	Where appropriate, we will align requirements relating to due diligence and regular risk assessments for MSPs, and BCP arrangements. We will consider further whether it is possible to align requirements in the two standards relating to prescribed contractual terms.
2.4. Reserve Bank oversight Respondents sought further clarification around the process of Reserve Bank notification for new or material changes and non-objection.	Deposit takers must notify the Reserve Bank of new or material changes to MSP arrangements as soon as possible (and in not more than 20 business days). Reserve Bank approval with non-objection for proposed arrangements will not be required. Note that the Outsourcing Policy (BS11) currently requires a bank to obtain non-objection from the Reserve Bank before the bank enters into an outsourcing arrangement unless the outsourcing arrangement meets one of the exemption criteria. We will consider whether there is scope to align the approach to this and MSP reporting requirements.
2.5. Risk assessments before providing a critical operation One respondent requested more clarity regarding focus of this requirement.	The risk assessment requirement remains as proposed. The focus of this requirement is to capture links through the financial system by requiring deposit takers to conduct a risk assessment ahead of providing a critical operation.
2.6. Internal audit: Reviewing MSP arrangements Respondents requested a rationale for explaining why a deposit taker's internal audit function is assigned responsibility for conducting any MSP arrangement reviews.	Deposit taker frameworks will require regular reviews. We will be keeping this requirement standardised – with all independent reviews under the Operational Resilience Standard to be performed by external or internal auditors, or a suitably qualified independent reviewer. We also do not intend to prescribe review frequency or scope, and instead will be leaving this to the deposit taker to determine given the size and nature of its business.
2.7. Internal audit: Reporting to the board Respondents noted that a regular review requirement may be more appropriate with a deposit taker setting its own assurance level in line with self-identified risks.	We think it is appropriate that a deposit taker set its type and frequency of internal assurance in line with the risks it has self-identified. There will be a regular review requirement, with reporting provided to the deposit taker's board.

Our next step is to carry out further analysis and confirm our detailed approach to the interface between the Operational Resilience and Outsourcing Standards.

4.3. Approach for Group 2 – our response to submissions

4.3.1. Application of the Operational Resilience Standard to Group 2

Generally, feedback for Group 2 supported the intent of the Operational Resilience Standard. However, respondents had specific concerns relating to the proportionality of our proposed approach for Group 2. The subsequent sections detail the main issues that were raised by the Group 2 respondents. These include issues relating to the appropriateness of applying Operational Resilience requirements to Group 2, and prescriptiveness of the proposed requirements and other requirement-specific concerns.

We note that most of the issues discussed in the Group 1 section of this chapter are also applicable to Group 2 (and we intend to adopt the same approach to these issues for Group 2 as we are for Group 1).

Appropriateness of applying operational resilience requirements to Group 2

A respondent queried if the requirements for the four key areas (namely, Operational risk, MSP, ICT and BCP) need to apply to Group 2 given that they are already subject to relevant requirements and guidance. More specifically, the respondent cited the requirement to attest to having systems in place to monitor and adequately control operational risk, and the existing Guidance on cyber resilience. It was also pointed out that a Group 2 deposit taker would be subject to the requirements of the Outsourcing Standard if it meets the necessary threshold (net liabilities exceeding $10 billion).

Comment

As we observed in our Consultation Paper, internationally, the focus on operational risks and resilience has grown in recent years. Operational risks have become more complex – particularly because of the increasing digitalisation of financial services. Greater reliance on technology by deposit takers means that the impact of an operational failure can be greater than in the past and could undermine the stability of the financial system.

These risks are demonstrated through a range of events that have occurred in recent years, including cyber events that have impacted New Zealand deposit takers, and operational continuity challenges arising from the COVID-19 pandemic or from natural disasters. We do not consider it would be credible for a modern prudential framework to not set out requirements for managing operational risk for all deposit takers.

In this context, we do not agree that there are modules of the standard that should not apply to Group 2. Risks relating to the use MSPs for critical operations are relevant for the safety and soundness of all deposit takers and the wider financial system.

Response

We do not agree that there are modules of the Operational Resilience Standard that should not apply to Group 2. However, as discussed in the section on Group 1, we will endeavour to make some of the requirements more general or simpler to accommodate the different size and nature of deposit takers' businesses.

4.3.2. Prescriptiveness of some requirements

Similar to the feedback for Group 1, feedback for Group 2 noted the prescriptiveness of some of the requirements. The comments mainly related to the complexity of the requirements, and the conduct and frequency of controls testing, reviews and audits.

- **Complexity of requirements**: respondents suggested that the framing of the requirements should be sufficiently principles-based and outcomes-focused that they can be implemented in a manner that is proportionate to the size and nature of different deposit takers' businesses (thereby avoiding unnecessary compliance costs and potentially undermining market competition). It was also suggested that we consider the New Zealand banking sector cloud framework for consistent cloud risk management in the banking sector, and that inconsistencies with international standards should be minimised. Another respondent queried if a breach of one principle for one supplier will be regarded as a breach of the Operational Resilience Standard.
- **Conduct and frequency of controls testing, reviews, audits and assurances**: respondents reiterated the need to consider a risk-based approach to testing, reviews and audits; and to remove the reference to customers in the assurance process. They also sought for a more flexible frequency such as refocusing the requirements on ensuring suitable assurance as opposed to stipulating the frequency of assurance, differentiating the frequency of testing, reviews, audits for the different groups, or making them periodic.

Comment

We agree that there is scope to make the framing of some of the requirements less prescriptive without compromising their purpose, including removing the reference to customers in the assurance requirements. We also agree that the New Zealand banking sector cloud framework is relevant in this context. We will consider this framework in developing the Guidance document that will clarify our views on what is considered as acceptable practices.

As noted in the Group 1 response above, we consider that deposit takers should have the flexibility in designing its controls, conducting risk-based reviews and selecting the type of audit. We also agree that deposit takers should have the option to determine the frequency of these exercises, where appropriate, so long as these are in line with the intended policy outcomes and are commensurate with the size and nature of the deposit taker's business.

Response

We will amend some of the requirements relating to control testing, reviews, audits and assurances so that these requirements are risk-based and periodic, commensurate with the nature of the risk and the size and nature of the deposit taker's business rather than specifying a particular review period.

4.4. Approach for Group 3 – our response to submissions

4.4.1. Application of the Operational Resilience Standard to Group 3

Appropriateness of the approach for Group 3

Some Group 3 respondents did not support applying the Operational Resilience Standard to Group 3. The view was expressed that the operational risk matters should be addressed through a Group 3 risk management programme. Respondents considered that our policy proposals would add unnecessary compliance costs with without creating any additional value beyond the Risk Management Standard. However, another group and individual submissions did support the Standard applying to Group 3. We discuss below the comments relating to proportionality and Group 3.

Respondents considered that the proposed hybrid principle-based approach to the Operational Resilience Standard did not sufficiently take into account the Proportionality Framework when applying the same requirements across all groups of deposit takers. Group 3 respondents considered that further simplification of requirements was required for Group 3 to manage the additional compliance costs of the standard.

Other respondents considered that the same requirements should apply across all groups, acknowledging that the deposit takers would be able to comply in a manner commensurate with the size and nature of their business.

Comment

We have taken a hybrid principles-based approach to many of our proposed requirements. This combines principles-based requirements with more specific requirements to support clarity in supervision. Our expectation is that deposit takers will be able to comply with the requirements in a way that reflects their size and the nature of their business.

We acknowledge the concerns raised by some respondents on applying the Operational Resilience Standard to Group 3. However, we do consider that the standard should apply to Group 3. As mentioned in the previous section, we do not consider it to be credible for a modern prudential framework to not set out requirements for managing operational risks for all deposit takers that we regulate considering the potential impact if the risks are not adequately mitigated.

We note our proposed requirements build off the existing risk management guidelines for non-bank deposit takers (NBDTs) as outlined in Table 4.4 below.

Table 4.4: Relevant existing NBDT guidelines

Area of the standard	Relevant existing NBDT guidelines and comment
Operational risk management	*Risk Management Programme Guidelines for NBDTs*[62] Operational risk should be covered within existing risk management programme, including making use of quantitative

[62] *See* RBNZ (2009), NBDT Risk Management Guidelines.

Area of the standard	Relevant existing NBDT guidelines and comment
	and qualitative assessments of risk to support decision-making. The guidelines set out expectations for review.
Material service providers	No existing guidelines.
Information and Communications Technology	*Guidance on Cyber Resilience*[63] Guidance applies to NBDTs. Requirements consistent with the Guidance.
Business continuity planning	*Risk Management Programme Guidelines for NBDTs* The guidelines set out expectations for contingency planning for managing stress events.

All four areas across the Operational Resilience Standard are appropriate to apply to Group 3. Particularly given the scope of the existing requirements, we do not think it would be credible to completely remove operational resilience requirements for Group 3.

We acknowledge though that the proposed approach reflects some uplift in formal expectations for Group 3, particularly the requirements relating to MSPs. Given the size and scale of Group 3, and the use of external service providers to provide critical operations in some cases, we consider it appropriate that the MSP requirements apply.

We have reflected on the feedback relating to the proportionality of our requirements. Overall, we consider that our approach remains appropriate. We agree though that some adjustments could be made on the more detailed requirements to make them simpler for Group 3 to comply with the expected outcomes in each area of the standard. The specific areas are outlined in the following sections of our response relating to Group 3. We have also looked at how we can clarify some aspects of our proposals for all deposit takers.

Response

The Operational Resilience Standard should apply to Group 3. We have removed some detailed requirements for Group 3 to simplify compliance. We will also endeavour to make some of the requirements more general or simpler to accommodate differences in the business characteristics across deposit takers, where appropriate.

Operational Risk Management

We will simplify the requirements for how Group 3 must maintain a comprehensive assessment of their operational risk profile (requirement 1.2 in the Consultation Paper). We will streamline the detailed steps under this requirement for Group 3. We think these steps remain good practice for Group 3, but this approach will allow a simpler approach for these deposit takers.

[63] *See* RBNZ (2021), Guidance on cyber resilience.

Information and Communications Technology

As outlined above for Group 1, we have simplified the specific requirements for all deposit takers relating to the content of deposit takers' ICT policy. We also will simplify the audit and assurance requirements for information security controls for Group 3 (requirement 3.3. in the Consultation Paper). We will not specify specific processes that must be undertaken for providing assurance of the information security controls.

Business Continuity Planning

We will simplify the required contents of the BCP for critical operations of Group 3 (requirement 4.2 in the Consultation Paper). Requirements relating to the register, triggers and actions to maintain critical operations within tolerance thresholds through disruptions will remain. However, specific requirements relating to an assessment of the execution risks of Group 3's BCPs and their communications strategies will be removed. This is the only requirement wherein we have opted to set out specific frequency for the process because we consider it vital to have a minimum in this case. We, however, considered to reduce the minimum frequency of the testing of the BCP from annually to at least every two years for Group 3.

4.5. Approach for branches of overseas deposit takers – our response to submissions

Feedback for branches is broadly supportive of the Operational Resilience Standard. They mainly sought clarification on how they can reconcile compliance with the requirements in the standard and compliance with the policies of the overseas deposit taker or their group in another jurisdiction. There were also comments regarding the applicability of some of the requirements to branches.

4.5.1. Application of the Operational Resilience Standard to branches

Consideration for the overseas deposit taker or group policies

Respondents noted that branches do not necessarily have their own framework or policies and rely on the operational processes—including reviews, audits and BCPs—that have been approved and set out by the overseas deposit taker or their group. By extension, a respondent suggested that some of the requirements should not apply to branches, including the requirement to review operational risk management systems, notify the Reserve Bank of MSP changes, review and audit MSP arrangements, and provide assurance on or review the BCPs.

Comment

For branches, references to a board-approved requirements must be read as requiring approval by the New Zealand Chief Executive Officer (NZ CEO) as mentioned in the Consultation Paper.

We expect branches to comply with our operational resilience requirements. Branches face the same forms of operational risks as other legal structures of deposit takers. However, as a part of a larger deposit taker, we do not expect branches to replicate an entirely separate operational risk framework the overseas deposit taker or group may already have. We expect that branches would leverage the overseas deposit taker's or group's documentation of the results of control testing,

audits, reviews and assurances that involve their systems, processes and plans (although in these cases it needs to be clear on how the New Zealand branch operations are covered).

In other words, branches are not necessarily required to have separate documentation from the overseas deposit taker or the group nor conduct tests, audits and reviews independent of the overseas deposit taker or the group. This same principle also applies to reporting requirements. We are open to receiving internal reports, including those generated by the overseas deposit taker or the group concerning operational risk incidents, MSP changes, ICT incidents and BCP activation that relate to the operations of the branch in New Zealand.

However, this documentation or these assessments must clearly demonstrate appropriate focus on the branch operations (for example, assessing materiality of incidents with respect to the branch operations). The NZ CEO must also demonstrate to the Reserve Bank the adequacy of the overseas deposit taker's or the group's assessment, policy or framework in meeting the requirements of the Operational Resilience Standard and the intended policy outcomes for the New Zealand branch.

Response

In complying with the Operational Resilience Standard, branches can leverage the overseas deposit taker's or group's policy or framework to comply with the requirements. This includes documentation relating to the results of control testing, audits, reviews and assurances that involve their systems, processes and plans. The NZ CEO of a branch will need to be able to demonstrate to the Reserve Bank the adequacy of the overseas deposit taker or the group's assessment, policy or framework in meeting the requirements of the Operational Resilience Standard and the intended policy outcomes for the New Zealand branch.

4.5.2. Applicability of some requirements considering the scale of branch operations

Some respondents requested that scope of this standard for branches should be reconsidered given the scale of branches' operations. A respondent specifically mentioned that some requirements should not apply to branches. These include the requirements to review operational risk management processes and systems, notify the Reserve Bank of material changes to existing MSP arrangements, review proposed MSP arrangement involving a critical operation and report to the deposit taker's board on compliance of MSP arrangements. The respondent also mentioned the requirement for the deposit taker's internal audit team to review the BCP and provide periodic assurance to the board that the BCP sets out a credible plan to maintain critical operations.

Comment

Our view is that the Operational Resilience Standard requirements should generally apply to branches as these are fundamental to help ensure the branches' operational resilience through disruptions. However, we agree that there is scope to simplify the details or lower the frequency of some of the requirements, considering the scale of branches' operations.

For instance, relative to the proposals in the Consultation Paper, we think that branches can have less detailed requirement in assessing its risk profile, ensuring that its information security controls are effective and designing its BCPs for critical operations. Branches can also have lower minimum frequency of business continuity exercises.

We note that these changes are in addition to those mentioned in the previous sections that will make some of the requirements more general and simpler.

Response

We consider that the Operational Resilience Standard should generally apply to branches. However, we will streamline the details of some of the requirements for branches, such as the requirements relating to the assessment of risk profile, effectivity of information security controls and BCPs for critical operations, and frequency of business continuity exercises. These will be in addition to the changes discussed in the prior sections that will make other requirements more general and simpler. All these changes should help facilitate compliance of branches to the requirements of the Operational Resilience Standard.

4.6. Minor and technical issues

In this section, we address certain discrete technical topics that were included in the consultation or that have been raised by respondents.

Table 4.5: Minor and technical issues for the Operational Resilience Standard

Issue	Response
Group 1	
Assessment of the deposit taker's risk profile	
The word "comprehensive" in requirement 1.2 is unnecessary and could add unnecessary obligations.	No change necessary. The concept of "comprehensive" assessment is necessary to emphasise the need for a deposit taker to be thorough in its operational risk assessment. Ultimately what constitutes the "comprehensiveness" of the assessment is a judgement for deposit takers.
The requirement to "identify and document the processes and resources needed to deliver critical operations…" is a BCP consideration and should be removed from operational risk management.	We disagree that this is only a BCP consideration. The purpose of this requirement is to identify and document processes on how critical operations will be delivered. It is a part of ensuring the ability of the deposit taker to consistently deliver its critical operations as business as usual. The BCP requirements will support continuation of the delivery of critical operations during disruptions.
Deposit takers should have sufficient flexibility in managing their risk profile; identifying all critical operations, interdependencies, associated risks, obligations and controls would seem to require a centralised management system (requirement 1.2).	These requirements do not specify the way in which deposit takers should implement them, including the type of systems required—centralised or not. There won't be any changes in this regard.
Guidance is needed to clarify the required extent of assessment and evidence, which should align with CPS 230 where possible.	We intend to issue guidance to support implementation of the standard. Where appropriate, we will align our requirements with the relevant APRA requirements.

Issue	Response
Clarity of MSP requirements	
Clarify if the line "each MSP arrangement" means technical non-compliance even in relation to a single MSP arrangement.	Deposit takers must comply with all the requirements in this standard and compliance must be aligned with the intended policy outcomes.
Clarify the treatment of "fourth party" service providers (considered in CPS 230).	We agree that this needs to be clarified. We will amend our requirements to specify the treatment of fourth party service providers so that we do not leave a potentially significant gap in this standard (see requirement 2.1 in Table 4.7, section 4.7).
Specify the timing requirements in relation to due diligence activities that are required prior to contracting (requirement 2.3).	Due diligence is a requirement prior to contracting, in line with CPS 230 sections 53(a)-53(b). We don't consider that timeframes need to be specified. The appropriateness of timing of due diligence prior to contracting will depend on the type of service that will be contracted out in relation to the overall operations of the deposit taker.
Clarify the interpretation of "orderly exit from the arrangement is practicable" as some "critical operations" are dependent on global operators, for which there may be limited alternatives and costly to exit.	We understand the concern that some "critical operations" are dependent on global operators, for which there may be limited alternatives and costly to exit. The requirement only emphasises that deposit taker must show that it has viable options when there is a need to exit from the arrangement and it can exit the arrangement in an orderly manner. We understand that the term "practicable" with respect to BCP arrangements and orderly exit can be vague. We will make this clearer in the drafting of the Operational Resilience Standard.
Clarify if the exit planning for MSP arrangements is consistent with the current threshold for application of the Outsourcing requirements.	These are separate requirements. As outlined above, we are going to work to integrate the Operational Resilience and Outsourcing Standards, where appropriate.
Clarify the interpretation of "provision of critical operations" in the context of MSPs.	We will clarify in the Guidance document the application of MSP requirements relating to assessment of the provision of critical operations in the context of MSPs.
Clarify the treatment of the relationship between the group, subsidiaries and branches.	We clarify that all MSPs are captured by the MSP requirements regardless of relationship (that is, regardless of whether the service providers have direct relationships with the deposit taker, indirect relationships via a related party or no relation to the deposit taker in any way). We will clarify in the Guidance document where necessary the application of MSP requirements in the context of groups, subsidiaries and branches, effective management of risks arising from the use of

Issue	Response
	MSPs, and other matters relating to compliance to the requirements.
Clarify if the focus of requirement 2.5 is on business case/proposal for any material change in risk or on the potential risks of a third-party failure on the entity.	Requirement 2.5 aims to ensure that a deposit taker that could be a provider of another party's critical operations has undertaken risk assessments to understand the implications for their business. This requirement seeks to ensure that a deposit taker is aware of the risks and is prepared for these risks before it takes on the role of an MSP to another party.
Consider avoiding application of MSP requirements where it is not practical to do so (for example, financial market infrastructure arrangements).	Deposit takers are required to assess what constitutes a critical operation for their business. We do not consider it necessary to specify exemptions (although we will consider further how the rules should apply in the context of FMIs).
Clarity of ICT-related requirements	
ICT risk is a sub-set of operational risk and this should be clearly articulated.	We agree that the requirements relating to the management of ICT risks is a subset of the requirements relating to operational risk management. Where appropriate, we will provide further details on the how ICT risk links with operational risk in the Guidance document supporting the standard. As an aside, we will make the usage of terms consistent (that is, changing the term strategy to policy) and clarify the scope of the policy that is required.
Organisations should document what standard (internal or external) they will be measuring or auditing their information security against.	We do not consider it necessary to require deposit takers to document the standard that they will be measuring or auditing their information security against. The responsibility of the deposit taker is to ensure that the way the audit process is conducted supports the intended policy outcome.
Clarity of BCP requirements	
Clarify if there are explicit tolerance thresholds for reporting of BCP events and if these thresholds should be proportionate to the board-approved risk tolerance thresholds.	We consider that deposit takers are better placed to determine their tolerance thresholds. This is consistent with our intention to keep the requirements flexible to facilitate compliance. Notification is required when a BCP is activated for a disruption determined to be outside the deposit taker's tolerance thresholds. We agree that BCP arrangements should be proportionate to the board-approved risk tolerance thresholds or to the disruption in relation to the board-

Issue	Response
	approved risk tolerance thresholds. We consider that this intent is captured by this requirement, in conjunction with the other BCP requirements in this standard.
Clarify if deposit takers have to set out BCPs to any disruption and not just those that breach the threshold.	We clarify that our requirements only cover BCPs for critical operations. It is not based on the type of disruption. These BCPs must enable the deposit taker to maintain its critical operations through defined tolerance thresholds or levels in the event of an operational disruption, and must include "actions the deposit taker would take to maintain its critical operations within tolerance thresholds through disruptions". The deposit taker may set out BCPs for not critical operations, but these are not required.
Clarify the coverage of "execution risks" in requirement 4.2.	Where appropriate, we will provide further guidance regarding some of the details, including execution risks, in the Guidance document.
Group 2	
Clarity on overlapping requirements	
There is potential overlap between the ICT and BCP requirements on the one hand, and the standard condition relating to cyber resilience on the other hand which deposit takers will be subject to under part 6 of the Financial Markets Conduct Act 2013.	The Operational Resilience Standard requirements are necessary for ensuring the operational resilience of deposit takers through disruptions. We are committed to working with the FMA to avoid duplication in areas of shared interest.
Consider removing requirement to report all incidents periodically when reporting of cyber incidents is replaced by reporting of ICT incidents.	We will consider the feedback received in this regard and consult on the details of any periodic reporting requirement under the Operational Resilience Standard if and when this is necessary.
Clarify the specific activity or triggers that would constitute "activating its business continuity plan".	The BCPs that the requirements are referring to are the BCPs for critical operations (and not all BCPs) as mentioned above. As to what constitutes "activating BCPs for critical operations", this is expected to be defined by the deposit takers in the BCPs themselves (refer to requirement 4.2).

4.7. Annex - Outcomes and requirements

The table below shows how we have revised the detailed requirements based on feedback to the consultation.

The text below indicates our policy position, but the actual drafting of the requirements in the Operational Resilience Standard will likely be different. Revisions to the text that we consulted on are shown in red text.

Table 4.6: Operational risk management

Consulted outcomes and requirements	Discussion	Application			
		Group 1	Group 2	Group 3	Branches
Outcome 1: Prudent operational risk management The deposit taker's board has a clear understanding of the operational risks that the deposit taker faces on an ongoing basis and must ~~establish~~ approve and oversee the processes to detect, mitigate and respond to these risks.	Sections 4.2.1 and 4.2.2 (Group 1)	Yes	Yes	Yes	Yes
1.1. The deposit taker's board must ~~approve~~ ensure that the deposit taker has an operational risk management framework in place that is consistent with the other requirements of this ~~section~~ Standard and oversee the deposit taker's risk profile.	Sections 4.2.1 and 4.2.2 (Group 1)	Yes	Yes	Yes	Yes
1.2. The deposit taker must maintain a comprehensive assessment of its operational risk profile. To do so, it must also: • maintain appropriate information systems to monitor operational risk • compile and analyse operational risk data • identify and document the processes and resources needed to deliver critical operations (including people, technology, information, facilities and service providers, the interdependencies across them, and the associated risks, obligations, key data and controls)	Section 4.2.4 (Group 1) Section 4.3.2 (Group 2) Section 4.4.1 (Group 3)	Yes	Yes, All	Yes, (All excluding bullet 4)	Yes, (All excluding bullet 4)

Consulted outcomes and requirements	Discussion	Application			
		Group 1	Group 2	Group 3	Branches
• assess the impact of its business and strategic decisions on its operational risk profile and operational resilience, as part of its business and strategic planning processes, including in the implementation of new products and services.					
1.3. The deposit taker must design internal controls that ~~provide assurance to its customers and us that it is efficiently and~~ are effectively mitigating its operational risks, ~~to align~~ in line with its risk appetite and to comply with all prudential obligations.	Section 4.2.3 (Group 1) Section 4.3.2 (Group 2)	Yes	Yes	Yes	Yes
1.4. The deposit taker must regularly monitor, review and test the internal controls for effectiveness. The frequency of this testing must be commensurate with the ~~maturity~~ materiality of the risk being controlled.	Section 4.2.6 (Group 1)	Yes	Yes	Yes	Yes
1.5. The deposit taker's operational risk management processes and systems must be subject to ~~annual~~ regular risk-based reviews by external or internal auditors or by a suitably qualified independent reviewer to ensure that they remain fit for purpose.	Section 4.2.3 (Group 1) Section 4.3.2 (Group 2)	Yes	Yes	Yes	Yes
1.6. ~~A report on the~~ results of testing the internal control environment must be provided to the deposit taker's senior managers. The issues identified during testing must be addressed in a timely manner.	Section 4.2.3 (Group 1)	Yes	Yes	Yes	Yes
1.7. The deposit taker must notify ~~us~~ the Reserve Bank as soon as possible and, in any case, no later than 72 hours, after becoming aware of an operational risk incident that it determines to ~~be~~ likely ~~to~~ have a material financial impact on the deposit taker or ~~a material impact~~ on the ability of the deposit taker to maintain its critical operations.	Section 4.2.6 (Group 1)	Yes	Yes	Yes	Yes

Consulted outcomes and requirements	Discussion	Application			
		Group 1	Group 2	Group 3	Branches
~~Materiality for operational incidents should be interpreted consistent with tolerance thresholds for critical operations.~~					

Table 4.7: Material Service Providers

Consulted outcome and requirements	Discussion	Application			
		Group 1	Group 2	Group 3	Branches
Outcome 2: Comprehensive material service provider management The deposit taker has appropriate measures in place to oversee and effectively manage the risks arising from the use of material service providers (MSPs).		Yes	Yes	Yes	Yes
2.1. The deposit taker must maintain a board-approved service provider management policy that includes: • the identification and risk management of its MSPs • approach to managing its MSP arrangements ~~(for example, entry, monitoring and exit)~~ • responsibilities for managing its MSP arrangements • approach to managing the risks associated with any fourth parties that MSPs rely on to deliver a critical operation to the deposit taker.	Section 4.6 (Minor and technical issues)	Yes	Yes	Yes	Yes
2.2. The deposit taker must maintain a register of its MSPs.		Yes	Yes	Yes	Yes

Consulted outcome and requirements	Discussion	Application			
		Group 1	Group 2	Group 3	Branches
2.3. For each MSP arrangement, the deposit taker must: • conduct due diligence and regular risk assessment of reliance on the service provider • ensure that appropriate and adequate ~~the~~ associated BCP arrangements are in place ~~practicable~~ and it can execute these if needed • ensure that it can conduct an orderly exit from the arrangement ~~is practicable~~ if needed.	Section 4.6 (Minor and technical issues)	Yes	Yes	Yes	Yes
2.4. The deposit taker must notify ~~us~~ the Reserve Bank of new or material changes to existing MSP arrangements as soon as possible and not more than 20 business days after entering into or materially changing an agreement.	Section 4.2.6 (Group 1)	Yes	Yes	Yes	Yes
2.5. The deposit taker must conduct a risk assessment before providing ~~a critical~~ an operation ~~(and therefore a material service)~~ to another party that is critical to that party.	Section 4.6 (Minor and technical issues)	Yes	Yes	Yes	Yes
2.6. The deposit taker~~'s internal audit~~ must review any proposed MSP arrangement that involves the outsourcing of a critical operation.	Sections 4.2.3, 4.2.4 and 4.2.7 (Group 1)	Yes	Yes	Yes	Yes
2.7. The deposit taker~~'s internal audit~~ must regularly provide reporting to ~~the deposit taker's~~ its board (or to a designated board ~~Audit~~ committee) on compliance of MSP arrangements with the service provider management policy~~, every 3 years or after a material incident with an MSP has occurred~~.	Sections 4.2.3, 4.2.4, 4.2.6 and 4.2.7 (Group 1) Section 4.5.1 (Branch)	Yes	Yes	Yes	Yes

Table 4.8: Information, Communications and Technology

Consulted outcome and requirements	Discussion	Application			
		Group 1	Group 2	Group 3	Branches
Outcome 3: Responsive ICT ~~strategy~~ policy The deposit taker has a board-approved ICT ~~strategy~~ policy that ~~protects against risks to~~ is commensurate with its exposures to vulnerabilities and threats to maintain the security of its ICT systems, ~~and ensures the security of its~~ including critical operations and information.	Section 4.2.4 (Group 1) Section 4.3.2 (Group 2) Section 4.4.1 (Group 3)	Yes	Yes	Yes	Yes
3.1. Governance: The ~~deposit taker~~ board must ensure that the deposit taker ~~have an updated board-approved~~ has an ICT policy ~~strategy and framework~~ in place and oversee its implementation. The board ~~Directors~~ and senior managers must have a sound understanding of the risks to the deposit taker's ICT systems~~, and~~. The board, together with the senior managers, must ensure that all parties with ICT-related obligations have the experience and resources to perform their ~~required~~ tasks ~~required by the ICT strategy and framework~~ effectively. ~~The board-approved ICT strategy and framework must include information on the:~~ ~~• deposit taker's objectives for the ICT strategy and framework~~ ~~• responsibilities of the board and senior managers in managing the deposit taker's ICT risk~~ ~~• risk tolerance thresholds approved by the board, consistent with the board-approved risk appetite statement (see the Risk Management Standard)~~ ~~• deposit taker's ICT resilience targets and implementation plan~~ ~~• defining the ICT threats and the vulnerabilities information that must be reported to the board~~	Sections 4.2.1 and 4.2.4 (Group 1) Section 4.3.2 (Group 2) Section 4.4.1 (Group 3) Section 4.6 (Minor and technical issues)	Yes	Yes	Yes	Yes

Consulted outcome and requirements	Discussion	Application			
		Group 1	Group 2	Group 3	Branches
~~• responsibilities of all personnel in ensuring security of its ICT systems~~ • ~~level of awareness and skills required from all personnel to keep the deposit taker's ICT systems secure.~~					
3.2. ICT systems and tolerance thresholds: The deposit taker must set out its tolerance thresholds. ~~and the classification of all the elements in the~~ It must identify and classify elements of the deposit taker's ICT systems based on criticality and establish security controls. ~~The~~ It must also establish processes to detect, monitor, respond to and recover from material incidents affecting the deposit taker's ICT systems ~~must also be clear, adequately communicated throughout the deposit taker and appropriately enforced. These include processes relating to:~~ ~~• system accounts, access privileges, linkages across functions/elements and roster of key personnel that support the ICT system~~ ~~• security controls and monitoring~~ ~~• ICT system vulnerabilities assessments, including security controls effectiveness tests and assurances~~ • ~~detection of anomalous activities, reporting of these activities and analysis of the information collected.~~	Section 4.2.4 (Group 1) Section 4.4.1 (Group 3) Section 4.6 (Minor and technical issues)	Yes	Yes	Yes	Yes
3.3. Information security assurance and assurance audit: The deposit taker must ensure that the information security controls are effective. It must set out: • the processes that ensure that the information security control assurance is provided by personnel appropriately skilled in providing such assurance • the processes in assessing the information security control assurance provided by a related party or third party.	Sections 4.2.3 and 4.2.4 (Group 1) Section 4.3.2 (Group 2)	Yes, All	Yes, All	Yes, Topline requirement excluding the bullets	Yes, Topline requirement excluding the bullets

Consulted outcome and requirements	Discussion	Application			
		Group 1	Group 2	Group 3	Branches
~~The deposit taker must set out the qualifications of the personnel providing the assurance and the parameters considered in assessing the information security control assurance.~~	Section 4.4.1 (Group 3)				
3.4. Information sharing: The deposit taker must set out the channels, processes and protocols relating to information sharing and exchange. The information sharing processes ~~cover~~ must identify all types of information that can be shared, the circumstances when sharing is permitted and the appropriate information transmission mechanisms ~~that are available to all the personnel, communicated throughout the deposit taker and appropriately enforced~~.	Sections 4.2.3 and 4.2.4 (Group 1) Section 4.3.2 (Group 2) Section 4.4.1 (Group 3)	Yes	Yes	Yes	Yes
3.5. Third-party service providers: The deposit taker must ~~set out its processes in vetting~~ assess the suitability and capability of third-party service providers that will perform critical ICT operations ~~functions~~ for the deposit taker. The ~~types of functions/activities~~ critical ICT operations that are outsourced and the information/data that the third-party service provider collects, stores and/or can access must be identified and documented ~~(see the Outsourcing Standard for the outsourcing functions/activities that are covered)~~. The deposit taker must be comfortable with the potential risk associated with the prevailing practices including those related to data storage, processing and transmission as well as the potential jurisdictional and legal risk, compliance issues and oversight limitations associated with ~~outsourcing~~ third party service providers.	Revisions for clarity	Yes	Yes	Yes	Yes
3.6. Notification obligation: The deposit taker must notify ~~us~~ the Reserve Bank as soon as possible and, in any case, no later than 72 hours, after becoming aware of a material ICT incident, and no later than 10 business days after it becomes aware of a material information security control weakness that the deposit taker expects it will not be able to remediate in a timely manner. ~~We~~ The Reserve Bank may request additional	Revisions for clarity	Yes	Yes	Yes	Yes

Consulted outcome and requirements	Discussion	Application			
		Group 1	Group 2	Group 3	Branches
information from the deposit taker regarding the incident reported as a part of ongoing supervisory engagement relating to the incident.					

Table 4.9: Business Continuity Planning

Consulted outcome and requirements	Discussion	Application			
		Group 1	Group 2	Group 3	Branches
Outcome 4: Robust business continuity planning The deposit taker has a board-approved business continuity plans (BCPs) that enables it to maintain its critical operations through defined tolerance thresholds ~~levels~~ in the event of an operational disruption.	Revisions for clarity	Yes	Yes	Yes	Yes
4.1. The deposit taker must develop and maintain a board-approved BCPs for critical operations, which sets out how the deposit taker would identify, manage and respond to a disruption ~~outside tolerance thresholds~~. ~~This plan~~ These BCPs must be regularly tested with severe but plausible scenarios.	Revisions for clarity	Yes	Yes	Yes	Yes
4.2. The deposit taker's BCPs for critical operations must include: • the register of critical operations and associated tolerance thresholds • triggers to identify a disruption to critical operations and prompt activation of the plan and arrangements to direct resources in the event of activation • actions it would take to maintain its critical operations within tolerance thresholds through disruptions	Revisions for clarity	Yes, All	Yes, All	Yes, All excluding bullets 4 and 5	Yes, All excluding bullets 4 and 5

Consulted outcome and requirements	Discussion	Application			
		Group 1	Group 2	Group 3	Branches
• an assessment of the execution risks, required resources and preparatory measures, including key internal and external dependencies needed to support the effective implementation of the BCP actions • a communications strategy to support the execution of the plan.					
4.3. The deposit taker must identify, and maintain, a register of its critical operations. ~~Critical operations include but are not limited to transactional, savings and deposit accounts, credit services, payment clearing and settlement services.~~	Revisions to avoid repetition; 'Critical operations' is defined upfront	Yes	Yes	Yes	Yes
4.4. For each critical operation, the deposit taker must establish board-approved tolerance thresholds that are consistent with the deposit taker's risk appetite statement (required under the Risk Management Standard), for the: • maximum period of time the deposit taker would tolerate a disruption to the operation • maximum extent of data loss the deposit taker would accept as a result of disruption • minimum service levels the deposit taker would maintain while operating under alternative arrangements during a disruption.		Yes	Yes	Yes	Yes
4.5. The deposit taker must maintain the capabilities required to execute the BCP, including access to people, resources and technology.		Yes	Yes	Yes	Yes
4.6. The deposit taker must monitor compliance with its tolerance thresholds and report any failure to meet tolerance thresholds, together with a remediation plan, to its board.		Yes	Yes	Yes	Yes

Consulted outcome and requirements	Discussion	Application			
		Group 1	Group 2	Group 3	Branches
4.7. The deposit taker must have a systematic programme for testing its BCP that covers all critical operations ~~and includes an annual business continuity exercise~~. The testing must be tailored to the material risks facing the deposit taker and must test the effectiveness of the BCP in a range of severe but plausible scenarios. A business continuity exercise must be conducted no less than annually by Groups 1 and 2 and 2-yearly by Group 3 and branches.	Section 4.2.4 (Group 1) Section 4.3.2 (Group 2) Section 4.4.1 (Group 3)	Yes, frequency every year	Yes, frequency every year	Yes, frequency every 2 years	Yes, frequency every 2 years
4.8. The deposit taker must ~~review and~~ update its BCPs for critical operations, ~~at the minimum, an annually basis~~ regularly as necessary to reflect any changes in legal or organisational structure, business mix, strategy or risk profile~~.~~ ~~The plan must be updated~~ or for any shortcomings identified as a result of the review and testing of the BCPs.	Sections 4.2.2 and 4.2.4 (Group 1) Section 4.3.2 (Group 2) Section 4.4.1 (Group 3)	Yes	Yes	Yes	Yes
4.9. The deposit taker~~'s internal audit~~ must review the BCPs for critical operations on a regular basis ~~no less frequently than every 3 years~~.	Sections 4.2.2 and 4.2.4 (Group 1) Section 4.3.2 (Group 2) Section 4.4.1 (Group 3)	Yes	Yes	Yes	Yes
4.10. The ~~internal audit function~~ deposit taker must provide periodic assurance to ~~the deposit taker's~~ its board that the BCPs for critical operations set~~s~~ out a credible plan for how ~~the deposit taker~~ it would maintain its critical operations within tolerance	Revisions for clarity	Yes	Yes	Yes	Yes

Consulted outcome and requirements	Discussion	Application			
		Group 1	Group 2	Group 3	Branches
thresholds through disruptions, and that testing procedures have been conducted and are adequate.					
4.11. The deposit taker must notify ~~us~~ the Reserve Bank as soon as possible and, in any case, no later than 72 hours, after activating its BCPs for critical operations. The notification must describe the critical operations affected, the nature of the disruption, the action being taken, the likely impact on business operations and the expected timeframe to return to normal operations.	Revisions for clarity	Yes	Yes	Yes	Yes

Chapter 5

Deposit Takers Outsourcing Standard

Summary of Submissions and Policy Decisions

Non-technical summary of responses and decisions

This section outlines our responses to the consultation feedback received in relation to the Outsourcing Standard, which aims to ensure that a deposit taker can continue to provide basic banking services to customers even if it has failed.

The table below summarises the key issues raised by submitters and our responses.

Table 5.1: Outsourcing Standard – Key issues and responses

Deposit Taker Group	Key issue	Response
Group 1	Respondents agreed with our proposal to apply the Outsourcing Standard to Group 1.	We will proceed with this approach.
	Respondents were interested in seeing greater alignment in the scope and requirements of the proposed Operational Resilience Standard and Outsourcing Standard.	We will seek to better integrate the requirements in the Outsourcing and Operational Resilience Standards where possible (noting that there is further detailed work to be undertaken on where alignment is possible and how it should work). Our detailed approach to alignment between the two standards will be reflected in the exposure drafts for consultation.
	Respondents disagreed with our consultation proposal to move from next 'business day' to next 'calendar day' in relation to meeting daily clearing, settlement and other time-critical obligations after a failure.	We will carry over the BS11 'business day' approach instead of proceeding with our consultation proposal to use a 'calendar day' approach. However, we may revisit this issue in the medium to long-term following full implementation of the DTA in mid-2028.
	Respondents voiced their concerns with the reasonable assurance review requirement in BS11.	We acknowledge the concerns of respondents. We will monitor the outcome of current reasonable assurance reviews under BS11 and assess whether changes are necessary prior to consultation on the exposure draft.
	Respondents emphasised the importance of having a single Crisis Management Standard, and suggested bringing forward the application of that Standard to align with the timing of other DTA Standards.	We propose to consult on the exposure draft of the Outsourcing Standard at the same time as undertaking a policy consultation on the proposed Crisis Preparedness Standard (we expect that Outsourcing Standard will be issued at the same time as the other Non-Core Standards, but shortly after that will be shifted into the proposed Crisis

Deposit Taker Group	Key issue	Response
		Preparedness Standard). We do not think it is feasible to bring forward the proposed timing of the Crisis Preparedness Standard.
	Respondents supported the proposal to consolidate existing BS11 guidance into a new guidance document for the Outsourcing Standard, but sought clarity on what parts of existing material would be incorporated into the new Standard and what would be left as guidance.	We plan to consult on new draft guidance alongside an exposure draft of the Outsourcing Standard and will continue to engage with stakeholders as this work progresses.
Group 2	Respondents generally agreed with our proposal to apply the Outsourcing Standard to Group 2 deposit takers over the $10 billion threshold before mid-2028. However, a concern was raised about the treatment of entities that are currently under the $10 billion threshold, but which cross that threshold before mid-2028.	We will assess the appropriate treatment of entities that are currently under the $10 billion threshold but which cross that threshold before mid-2028 on a case by case basis, but will aim to avoid imposing any unnecessary compliance costs.
Group 3	Respondents agreed with our proposal to not apply the Outsourcing Standard to Group 3.	We will not apply the Outsourcing Standard to Group 3.

5.1. Introduction

Our proposed Outsourcing Standard reduces the risk of adverse impacts on financial stability by, amongst other things, enabling a failed deposit taker to continue to provide basic banking services in the event of resolution.

We first introduced our outsourcing policy (BS11) in 2006. BS11 was updated in 2017 to ensure that in-scope banks (those that meet the current $10 billion net liabilities threshold) can continue essential operations and provide a basic level of banking services to their customers if they fail. If a bank is part of an overseas-based banking group, there is an added requirement for it to also develop a "separation plan" allowing it to be separated from that banking group.

In the Consultation Paper we proposed that the Outsourcing Standard would largely carry over the requirements in BS11 with minor adjustments. We also proposed that the Outsourcing Standard would apply to all Group 1 deposit takers, and to Group 2 deposit takers that have either already been required to implement BS11 or who reach the threshold for BS11 before the Outsourcing Standard comes into force in mid-2028.

5.2. Approach for Group 1 deposit takers – our response to submissions

5.2.1. Scope of the Outsourcing Standard requirements

We proposed in the Consultation Paper that the Outsourcing Standard would apply to the same class of deposit takers as BS11. That is, it would apply to all Group 1 deposit takers, and to Group 2 deposit takers that are over the $10 billion threshold in mid-2028.

Respondents generally agreed that the Outsourcing Standard should apply to Group 1 deposit takers.

Comment

We consider that the proposed scope of the Outsourcing Standard is appropriate given the need to balance the compliance burden of outsourcing requirements with the importance of achieving the purposes of the DTA (particularly protecting and promoting the stability of the financial system).

Response

We will proceed with our proposal that the Outsourcing Standard apply to all Group 1 deposit takers.

5.2.2. Interaction with the Operational Resilience Standard

Respondents were interested in seeing greater alignment in the scope and requirements of the proposed Operational Resilience Standard and Outsourcing Standard. For instance, respondents noted the overlap between the Material Service Provider requirements for the Operational Resilience Standard and similar obligations for the Outsourcing Standard. This issue is discussed in more detail in the Operational Resilience Standard chapter.

Comment

We consider that there is scope to better manage the interface between Outsourcing and Operational Resilience Standards. In particular, we are considering how best to minimise overlaps and (where possible) combine approaches between the two standards.

Response

We will proceed with work to better co-ordinate the interface between the Outsourcing and Operational Resilience Standards, and expect the outcome of this work to be reflected in exposure drafts of these standards. The scope of this work is discussed in more detail in the Operational Resilience chapter.

5.2.3. Interaction with the new Crisis Preparedness Standard

Respondents emphasised the importance of having a single Crisis Preparedness Standard (incorporating the OBR Pre-Positioning Standard and the Outsourcing Standard) instead of having multiple resolution-related standards. Some respondents to the consultation paper and the Crisis

management issues paper[64] also suggested we bring development of the Crisis Preparedness Standard forward so that the exposure draft is available at the same time as the OBR and Outsourcing Standards exposure drafts.

Comment

We are undertaking broader work on crisis management and resolution under the DTA, and the Outsourcing Standard is still an integral part of this work. We do not anticipate introducing new or substantial changes to this standard beyond what have consulted on.

In addition, the next stage of work on the Outsourcing Standard is developing an exposure draft, whereas work on the Crisis Preparedness Standard is still at the early policy development stage. We do not think that it is feasible to speed up work on the Crisis Preparedness Standard enough for an exposure draft to be ready at the same time as the exposure draft of the Outsourcing Standard. However, we do think there is scope to more closely co-ordinate the timing of the two workstreams.

Response

We will undertake a policy consultation on the Crisis Preparedness Standard at the same time as we are consulting on the exposure draft of the Outsourcing Standard.

In addition, we expect that shortly after the final Outsourcing Standard is issued, relevant requirements will be shifted into the Crisis Preparedness Standard.

Our proposed timeline for how these workstreams fit together is set out below in Table 5.2 below.

Table 5.2: Indicative timeline for Outsourcing and Crisis Preparedness Standards

Indicative timeline	Policy development processes
Q2/Q3 2026	• Exposure draft consultation on the Outsourcing Standard (and possibly OBR Standard)[65] • Policy consultation on the Crisis Preparedness Standard
Q2/Q3 2027	• Core and Non-core Standards issued
Q2/Q3 2027	• Exposure draft consultation on the Crisis Preparedness Standard (potentially including the issued Non-core Standard requirements) • Seek industry feedback on the commencement date of the Crisis Preparedness Standard
Q4 2028	• Core and non-core standards come into effect • Crisis Preparedness Standard issued

[64] Crisis Management Issues Paper August 2024

[65] Depending on broader crisis management framework and ongoing capital review work.

Indicative timeline	Policy development processes
To be confirmed (c.2029)	• Crisis Preparedness Standard comes into effect

5.2.4. Reasonable assurance review

BS11 requires a reasonable assurance review every three years to assess whether the deposit taker, its outsourcing arrangements and its separation plan are compliant with BS11.

Respondents suggested that a "reasonable assurance" review is not suitable in the context of BS11. They noted that a reasonable assurance review requires having a reliable, complete and consistent method of measurement or evaluation of factors that must be taken into account to complete the reasonable assurance review.

BS11 on its own does not provide sufficient criteria upon which to base a reasonable assurance engagement. BS11 relies on FAQs and other guidance for the interpretation of its requirements. For example, the requirements regarding Critical Service Providers are incorporated in the FAQs rather than BS11 itself. The exact status of these FAQs and guidance will need to be clarified. In particular, greater clarity is needed to reduce interpretation and subjectivity in performing an assurance engagement.

Comment

Reasonable assurance is the highest level of assurance, requiring an auditor to execute a positive opinion (i.e. forming a view that a deposit taker has complied in all material respects with the requirements of BS11). The requirements for compliance must be very clear and comprehensive to enable this type of review.

On the other hand, a limited assurance engagement is a level of assurance that carries a low risk (but higher than for a reasonable assurance) that the auditor expresses an incorrect conclusion. Limited assurance allows the auditor to express a negative conclusion (i.e. based on the evidence obtained from the procedures performed, they are not aware of any material non-compliance against the criteria in BS11).

We also note the long transition period and the extensive engagements with us throughout the 6-year transition period for banks to comply with BS11. To date, each of the large banks covered by BS11 have undergone an annual independent external review (IER), which was an advisory review. This IER assessed whether the outsourcing arrangements and separation plan meet the requirements of BS11

In light of the above, we are separately reviewing what an appropriate level of assurance requirement is under the Outsourcing Standard. In making this assessment, we will also consider the assurance requirements in other standards (and especially those standards that are crisis management related).

Response

We acknowledge the concerns raised by respondents around the type of review required, and are aiming to achieve reasonable BS11 outcomes while avoiding unnecessary compliance cost (in line with the principles in the DTA).

While we note and understand respondents' concerns on this issue, we are not making firm recommendations at this time, and instead are undertaking a separate review of the relevant assurance requirements in BS11. Subject to the outcome of this review, and progress on the first of the three-yearly reviews required under BS11, we may recommend a policy change in this area at a later point (but before the Outsourcing Standard is finalised).

5.2.5. Impact of SBI365: replacing 'business day' with 'calendar day'

BS11 provides that a bank must be able "to continue to meet its daily clearing, settlement and other time-critical obligations both before the start of the first business day after the day of failure and thereafter".[66] In the Non-Core Standards Consultation Paper we proposed to move from this 'business day' basis to a 'calendar day' basis, due to industry's adoption of SBI365 7-days-a-week settlement of payments.

Respondents disagreed with this recommendation. Respondents generally argued that the Outsourcing requirements (providing 'basic banking services') are broader than what SBI365 retail payment operations involves, and that the proposed requirement would go beyond updating retail payment files. The deposit taker would have to activate other functions such as corporate offices, branch facilities and other ancillary services on non-business days.

Comment

Given the potential costs, and other higher priority issues around DTA implementation, we agree with respondents and will carry over the status quo. This will help avoid unnecessary costs while the DTA is being implemented between now and mid-2028.

However, we may revisit this matter in the medium to long term (i.e. at some point after mid-2028).

Response

We will carry over into the Outsourcing Standard the current requirement to reopen on the next business day (but may revisit this matter in the medium to long term).

5.2.6. Treatment of informal guidance issued during the transition period

We proposed in the consultation paper that the Outsourcing Standard would be accompanied by a separate guidance document which will consolidate various pieces of existing BS11 guidance.

Respondents supported this approach, while seeking clarity on what parts of existing material would be incorporated into the new Standard and what would be left as guidance. They also requested that we discuss with industry the type and scope of information to be included in guidance before issuing a draft guidance document.

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[66] *See* Consultation Paper at para 891 onwards

A respondent also expressed a preference for FAQs and letters in current BS11 guidance to remain as non-binding guidance. During the six-year transition period, we received a number of interpretative questions relating to BS11 requirements. We responded to these questions via the issuance of FAQs and letters, along with any technical elaboration of the policy and interpretative guidance that was necessary.

Comment

We recognise that respondents are seeking greater clarity on how existing BS11 requirements and guidance (including FAQs and letters) will be translated to the proposed Outsourcing Standard and accompanying guidance.

Response

Along with the exposure draft of the proposed Outsourcing Standard, we plan to consult on an exposure draft of related guidance (which will incorporate content of existing FAQs and letters where appropriate). We will continue to engage with affected deposit takers while developing exposure drafts of this guidance.

5.3. Approach for Group 2 deposit takers – our response to submissions

5.3.1. Scope of Outsourcing requirements

We proposed in the Consultation Paper that the Outsourcing Standard would apply to the same class of deposit takers as BS11. That is, it would apply to all Group 1 deposit takers, and to Group 2 deposit takers that are over the $10 billion net liability threshold in mid-2028 (but not other Group 2 deposit takers).

Respondents generally agreed that the Outsourcing Standard should apply to Group 2 deposit takers that are already over the $10 billion threshold.

One respondent recommended that certain Group 2 deposit takers (i.e. those that are currently under the $10 billion threshold but that may cross that threshold before mid-2028) be exempted from having to comply with BS11 until at least mid-2028.

Comment

We consider that the proposed scope of the Outsourcing Standard is appropriate given the need to balance the compliance burden of outsourcing requirements with the importance of achieving the purposes of the DTA (particularly protecting and promoting the stability of the financial system).

In particular, we consider that entities that are already over the $10 billion threshold are of a sufficient size to justify imposition of outsourcing requirements, and note that they have already invested in the necessary systems and processes to comply with BS11.

We will monitor the likelihood of other deposit takers crossing the $10 billion threshold as we approach implementation for the Outsourcing Standard in 2028, and will assess on a case-by-case

basis the appropriate treatment of any deposit taker that may be affected (while at the same time seeking to avoid imposing unnecessary compliance costs).

The treatment of deposit takers that cross the $10 billion threshold after the Outsourcing Standard is implemented in 2028 will be considered as part of our separate work on implementing the new crisis management framework in the DTA.

Response

We will proceed with our proposal that the Outsourcing Standard apply to Group 2 deposit takers that are over the $10 billion threshold in mid-2028 (subject to the caveat that we will assess on a case-by-case basis the appropriate treatment of any deposit taker that is currently under the $10 billion threshold but crosses that threshold before mid-2028).

5.3.2. Other issues

Issue

Most of the issues discussed in relation to Group 1 deposit takers are also relevant to those Group 2 deposit takers that will be covered by the standard. Specifically:

- Interaction with the Operational Resilience Standard
- Interaction with the Crisis Preparedness Standard
- Reasonable assurance review
- Impact of SBI365: Replacing "business day" with "calendar day"
- Treatment of informal guidance issued in the transition period.

Comment

Our analysis of these issues for Group 1 deposit takers is set out earlier in this chapter. We consider that this analysis is also applicable to Group 2 deposit takers that will be covered by the standard.

Response

Our response to these issues for Group 1 deposit takers is set out earlier in this chapter. We consider that this response is also appropriate for Group 2 deposit takers that will be covered by the standard.

5.4. Approach for Group 3 deposit takers – our response to submissions

5.4.1. Scope of Outsourcing requirements

We proposed that the Outsourcing Standard does not apply to Group 3 deposit takers.

This approach was supported by respondents, one of which noted that for these deposit takers the risks associated with third party service providers will be addressed by other standards.

Comment

We consider that the compliance costs associated with the outsourcing requirements would be disproportionate for Group 3 deposit takers, given their smaller size and generally lower risk to the stability of the financial system.

Response

We do not propose to apply the Outsourcing Standard to Group 3 deposit takers.

5.5. Minor and technical issues

The following table notes certain other technical issues that were included in the non-core standards Consultation Paper or that have been raised by respondents in relation to the Outsourcing Standard. These issues will be considered further as we work on preparing exposure drafts of the outsourcing standard and related guidance.

Table 5.3: Minor and technical issues for the Outsourcing Standard

Issue	Response
Materiality thresholds Respondents do not consider that all outsourcing arrangements should be in scope by default, since some will not be material to the deposit taker achieving relevant outcomes should the outsourcing arrangement fail.	We do not currently propose to include broad materiality thresholds, but depending upon the outcome of further work on the interface between the Outsourcing and Operational Resilience Standards we may revisit the issue of materiality thresholds when preparing the exposure draft of the standard.
RBNZ oversight and compliance processes Respondents suggested that the RBNZ should not consider a deposit taker to be non-compliant if it is in a situation of renegotiating a relevant outsourcing contract. Relatedly, a respondent submitted that minor compliance issues such as being overdue by a short amount of time in renewal of a contract, or a data error, should not amount to a breach of outsourcing requirements.	We note the concern about compliance and will address this issue where appropriate through guidance or through the detailed content of the exposure draft. The approach in the Outsourcing Standard will align with how this type of issue is addressed in other standards, unless there is good reason to take a different approach.
Prescribed contractual terms transition Contracts and prescribed contractual terms relying on BS11 terms may need to change under DTA terminology.	We acknowledge this point, and note that terminology will need to be updated where necessary to reflect the DTA coming into force and the precise drafting used in the standard.

Issue	Response
Optionality of compendium fields Some of the compendium fields (e.g. physical address and upfront costs) should be treated as optional since maintaining the information is burdensome compared to the risks the policy seeks to address.	We acknowledge the concern raised, but are not proposing to change the status of the compendium fields.
Supervisory discretion It was submitted that BS11 is too inflexible and prescriptive in some respects and does not allow for supervisory judgement.	We are not proposing changes relating to these issues at present. However, we may revisit this issue if necessary as part of ongoing work on the interface between the Outsourcing and Operational Resilience Standards. Should any changes be made in this area, these will be reflected in the exposure draft.
Removal of burdensome requirements It was submitted that: • the Reserve Bank should take a more principles-based approach based on how critical an impact a service is for outsourcing policy outcomes. • the current requirements in BS11 should be replaced with a principles-based (pre-approval) exemption process. • the existing requirements should be adjusted to a yearly notification of changes with a focus on material changes.	We are not proposing changes relating to these issues at present. However, we may revisit this issue if necessary as part of ongoing work on the interface between the Outsourcing and Operational Resilience Standards. Should any changes be made in this area, these will be reflected in the exposure draft.
Cloud outsourcing A respondent noted the risks of increasingly prevalent cloud outsourcing in the financial sector which is not necessarily contemplated by BS11.	This issue will be dealt with in the proposed Operational Resilience Standard and guidance (amongst other things, the Banking Sector Cloud Framework will be considered when developing guidance to support the Operational Resilience Standard). We are not currently proposing any changes relating to this matter in the Outsourcing Standard. However, we may revisit this issue if necessary as part of further work on the interface between the Outsourcing Standard, and Operational Resilience and Crisis Preparedness Standards. Any changes in this area will be reflected in exposure drafts of the Outsourcing Standard or Crisis Preparedness Standard.

Chapter 6

Deposit Takers Lending Standard

Summary of Submissions and Policy Decisions

Non-technical summary of responses and decisions

This section outlines our responses to the consultation feedback received in relation to the Lending Standard. The Lending Standard provides borrower-based macroprudential policy tools, which are designed to reduce systemic risks to the stability of the financial system related to the residential property sector. Specifically, loan-to-value ratio (LVR) restrictions limit the size of the mortgage households can take out relative to the value of the property they are purchasing. Debt-to-income (DTI) ratio restrictions limit the amount of total debt households can take on relative to their income.

This table summarises the key issues raised in the feedback with additional feedback discussed below.

Table 6.1: Lending Standard – Key issues and responses

Deposit Taker Group	Key issue	Response
Group 1 and 2	Respondents suggested that the definition of residential mortgage lending should be consistent across the Lending Standard and Capital Standard and it should be clear on whether it includes community/government housing developments and small or medium enterprise (SME) lending.	The definition of residential mortgage lending set out in the Lending Standard will be consistent and align with other standards (i.e., the Capital Standard), which we will work on during the exposure draft. As part of this, we will consider if we can make the definition of residential mortgage lending clearer in terms of the included sub-classes of lending.
	Respondents suggested that the Lending Standard should allow flexibility for Group 1 deposit takers to also have a six-month measurement period where appropriate, rather than just a three-month measurement period.	We consider that the Lending Standard should provide the option to allow Group 1 deposit takers to have a six-month measurement period. The six-month measurement period would only be applied to the initial measurement period after a tightening of LVR or DTI settings, then subsequent measurement periods would revert to three-months for Group 1 deposit takers.
	Respondents supported setting out a set of LVR and DTI thresholds and speed limits into the Lending Standard. However, clarity is needed around how changing the settings will work in practice in terms of the table of LVR and DTI thresholds and speed limit, as well as notice periods for changing licence conditions.	We will proceed with including a set of LVR and DTI thresholds and speed limits in the Lending Standard (at the ranges proposed in the consultation). We will ensure that the layout of the set of LVR and DTI thresholds and speed limits is clear that they are not mutually exclusive. We also note that notice periods for changing licence conditions will align with the DTA (i.e., a minimum of seven days).

Deposit Taker Group	Key issue	Response
	Respondents supported excluding the option to apply the Lending Standard at an Auckland/non-Auckland level. However, some respondents questioned whether LVR/DTI data was still necessary at the Auckland/non-Auckland level.	We will proceed with our proposed approach of excluding the option to apply the Lending Standard at an Auckland/non-Auckland level. In the Lending Standard, we will not require deposit takers to report LVR and DTI data for Auckland/non-Auckland given that there will not be a related policy requirement. Similarly, we do not expect to require this data under the DTA Reporting Standard that we intend to consult on in due course.
Group 3	Respondents had mixed views on the proposal not to apply the Lending Standard to Group 3 deposit takers. Some respondents agreed that Group 3 deposit takers do not currently pose systemic risk to financial stability, so the Lending Standard did not need to apply to them. Other respondents disagreed and suggested that a concentration of higher risk lending can still lead to financial stability issues at a system level regardless of the size of deposit taker. There may be a perceived contagion risk if a number of Group 3 deposit takers get into difficulty.	We will proceed with our proposal that Group 3 deposit takers are not required to comply with borrower-based macroprudential policy measures in the Lending Standard. However, we will monitor Group 3 lending for any emerging risks (including analysis of key indicators) and can apply the Lending Standard to Group 3 deposit takers in the future if needed.

6.1. Introduction

Macroprudential policy is one part of our financial stability toolkit. Specifically, macroprudential policy is designed to reduce systemic risks in the financial system. The Lending Standard will provide the macroprudential policy tools relating to borrower-based measures (applying to residential property loans originated by deposit takers in New Zealand). Borrower-based measures limit how much a prospective borrower can borrow based on the size of their deposit or income. Other macroprudential policy tools are based on capital and liquidity metrics but will not form part of the Lending Standard.

Our macroprudential policy tools complement our microprudential policy tools, which are set out in our other proposed standards. Microprudential policy focuses on the risks to, and resilience of, individual deposit takers — for example, by requiring deposit takers to have processes in place to help them to respond to adverse events and regulatory capital to absorb potential losses. However, microprudential policy is not designed to address the build-up of systemic risks and the potential negative feedback loops that can emerge from interactions between entities across the

financial system. Macroprudential policy can mitigate these potential negative feedback loops, for example by reducing extremes in credit cycles and therefore the risk that the financial system amplifies a severe downturn in the real economy.

Residential mortgage lending makes up a large proportion of business for deposit takers. Given its size, if there is a high proportion of high-LVR or high-DTI lending in the residential property sector, then this can lead to risks to the stability of the financial system, especially if an adverse event occurs.

The Lending Standard will address the build-up of systemic risks to the financial system (related to the residential property sector) by limiting the proportion of high-LVR and high-DTI residential property lending that deposit takers can make (including loans secured by owner-occupied residential property and loans secured by residential investment property).

Specifically, the Lending Standard will comprise of LVR and DTI restrictions (known as borrower-based macroprudential policy measures), which are aimed at mitigating the adverse effects of risks to the financial system as a whole by limiting booms and busts in the residential property sector. These measures can also help to mitigate risks from the financial system that may damage the broader economy by limiting the negative feedback effects between falling house prices and the broader economy.

LVR and DTI restrictions complement each other as they target different aspects of systemic risk. LVR restrictions relate to one dimension of systemic risk related to the residential property sector — namely, the losses faced by deposit takers and borrowers in case of a default, known as loss given default. DTI restrictions relate to another component of systemic risk – namely, the borrower's capacity to service a loan, which in turn affects the probability of default.

For Group 1 and Group 2, we assessed the appropriateness of carrying over our current borrower-based macroprudential policy requirements that apply to banks (that is the LVR and DTI restrictions) into the proposed Lending Standard. Our assessment involved considering how borrower-based macroprudential policy aligns with the main and additional purposes of the DTA, while taking into account the relevant principles set out in the DTA.

For Group 3, we assessed whether it would be appropriate to apply the existing borrower-based macroprudential policy requirements to these deposit takers but have concluded this is not necessary at this time.

6.1.1. Classes of lending prescribed by regulations

As per section 83 of the DTA, we expect to recommend to the Minister of Finance that a regulation be made that outlines the class or classes of lending that the Lending Standard may apply to (such as residential mortgage lending, commercial property and rural lending). This regulation will need to be in place before the Lending Standard can come into force. At present, we expect to recommend that the Lending Standard only applies to residential mortgage lending; however, the Minister of Finance will ultimately decide whether to proceed with our recommendation.

Lending to the residential property sector makes up a large proportion of business for deposit takers in New Zealand, far outweighing lending to other sectors. Hence, lending to the residential property sector is the main source of potential systemic risk to New Zealand's financial system.

In the consultation, we asked if the Lending Standard should apply only to residential mortgage lending (which would align with our current macroprudential policy for borrower-based measures).

Respondents agreed with only applying the Lending Standard to residential mortgage lending, noting that it would be consistent with the current approach. However, some respondents stated the definition of residential mortgage lending should be clear in the Lending Standard. For example:

- It should be clear whether the definition includes community/government housing developments.
- The definition should have clear parameters for sub-classes of residential mortgage lending and should be consistent with the Capital Standard.

It was noted that the definition will likely be carried over from *BPR131: Standardised credit risk RWAs* but was also pointed out that there is a potential inconsistency with the definition of residential mortgage lending and small or medium enterprise (**SME**) lending in *BPR133: IRB credit risk RWAs*. Under the current definitions, lending can be classified as a residential mortgage loan if it is an exposure to a natural person or a SME, whereas the definition of SME provided in BPR133 specifically excludes residential mortgage lending.

Comment

We consider that it is appropriate for the Lending Standard to only apply to residential mortgage lending as this type of lending is the main source of potential systemic risk to New Zealand's financial system at present. This approach would also be consistent with our current macroprudential policy for borrower-based measures.

We acknowledge the feedback regarding clarity on the definition of residential mortgage lending and exactly what should be included in that definition. We also note that there may be some specific types and sub-classes of lending (such as community/government housing developments and SME lending) where deposit takers would benefit from further clarity on whether this constitutes residential mortgage lending.

The definition of residential mortgage lending in the current policy (i.e., BS19 and BS20) is taken from the Capital Adequacy framework to ensure consistency across policies. The capital and macroprudential frameworks have a similar intent in terms of addressing financial stability risks from lending secured by residential property. We will therefore take the same approach when drafting the Lending Standard and ensure that there is consistency in implementation across standards. We will consider this further during the exposure draft.

Response

The definition of residential mortgage lending set out in the draft Lending Standard will be consistent and align with other standards (i.e., the Capital Standard). We will consider if the definition of residential mortgage lending can be made clearer in terms of the sub-classes of lending it includes or excludes. We may supplement this with guidance.

Given the scope of the Lending Standard will be prescribed in regulations, we will need to ensure that the definition of residential mortgage lending in the final standard is consistent with those regulations.

6.2. Approach for Group 1 deposit takers – our response to submissions

6.2.1. Carrying over existing requirements

Our proposed approach set out in the consultation was to carry over the existing borrower-based macroprudential policy requirements for Group 1 deposit takers. This would entail carrying over the policy requirements for LVR and DTI restrictions as set out in BS19 and BS20, respectively. Furthermore, as BS20 had only recently been published, we felt that major changes to borrower-based macroprudential policy requirements did not need to be made at this time; hence our proposal to carry over the existing requirements. However, as we noted in the consultation, we will review the requirements over time and some technical adjustments to the wording of these requirements are likely as they are converted to the Lending Standard.

Respondents agreed with carrying over the existing borrower-based macroprudential policy requirements for Group 1 deposit takers. However, one respondent suggested that the Lending Standard should allow flexibility for Group 1 deposit takers to also have a six-month measurement period where appropriate, rather than just a three-month measurement period. A shorter measurement period can cause issues for the pipeline of loans pre-approved under existing LVR or DTI settings, which may then be tightened. This means that some pre-approved loans potentially may not get fully approved due to the tighter settings.

Comment

Given the nature of systemic financial stability risks, our view is that it is important to continue to apply borrower-based macroprudential policy to residential mortgage lending, particularly for the largest deposit takers. As stated in section 6.1.1, residential mortgage lending is the main source of potential systemic risk to New Zealand's financial system given that it makes up a large proportion of business for deposit takers.

We acknowledge the feedback that a three-month measurement period can potentially cause issues for pipelines of pre-approved loans if LVR or DTI settings are tightened. For example, some pre-approvals may be valid for more than three months. This means that some pre-approved loans may be restricted by the tighter settings when they become fully approved, even though these settings were not in place when the loan was pre-approved. This can disrupt borrowers and deposit takers.

We note that when tightening LVR settings previously, the period between when the tighter settings were publicly announced and when they were due to come into effect has generally been longer compared to a loosening of LVR settings. This has allowed for an adjustment period as the pipeline of pre-approved loans work through the system. However, this may have also encouraged an expansion of new high-LVR lending before the new setting took effect, contrary the intent of the policy change.

We consider that it is more efficient to have flexibility to allow Group 1 deposit takers to temporarily have a six-month measurement period. The six-month period would only apply to the initial measurement period after a tightening of LVR or DTI settings, then subsequent measurement periods would revert to three-month rolling periods for Group 1 deposit takers. This

would avoid the need for a lengthy notice period, while still encouraging deposit takers to reduce the supply of new high-LVR and high-DTI loans once we announce the tightening of settings.

Response

We will proceed with carrying over the existing borrower-based macroprudential policy requirements to Group 1 deposit takers when the Lending Standard comes into force (which includes a three-month measurement period). However, the Lending Standard will give the option for us to apply a six-month measurement period to Group 1 deposit takers in the initial measurement period after LVR or DTI settings are tightened.

6.2.2. Adjusting LVR and DTI settings

BS19 and BS20 do not set out the specific settings of LVR and DTI restrictions (that is, the thresholds and speed limits). Currently, settings are set out in each bank's conditions of registration, which are altered for each bank every time the calibration is adjusted.

The inclusion of regulatory settings in a standard is the default approach under the DTA, especially if the settings are going to apply to all deposit takers or a group of deposit takers with shared characteristics (as would be the case in the Lending Standard). This would mean that the Lending Standard would need to be amended each time that LVR and/or DTI settings were to be changed, which would add to the time taken to change the settings.

Given that we respond to changes in systemic financial stability risks associated with the residential property sector by changing LVR and/or DTI settings, we want to change the settings in as timely a manner as possible. As such, in the consultation, we proposed writing a set of possible LVR and DTI threshold and speed limit requirements into the Lending Standard.

Respondents supported setting out a set of LVR and DTI threshold and speed limit requirements in the Lending Standard and agreed with the reasoning in the consultation. However, respondents raised a few points around some of the practicalities of changing LVR and DTI settings:

- If the Lending Standard does not allow for the temporary removal of restrictions, it was suggested that the upper limits could be expanded so that essentially LVR and DTI restrictions are not binding in extraordinary circumstances (e.g., similar to the situation in the initial stages of the COVID-19 pandemic).
- It should be considered that notice periods (i.e., changing licence conditions to reflect changes in LVR and/or DTI settings) be longer than seven days. The consultation proposed a minimum of seven days, which aligns with DTA; however, it was pointed out that BS19 has a minimum of two weeks.
- If LVR and/or DTI settings are changed, there will need to be sufficient time given to adjust internal systems and the pipeline of pre-approved loans, especially if tightening the settings.
- The table of thresholds and speed limits needs to be clear that LVR and DTI thresholds and speed limits are determined separately (and reflects what is proposed in the consultation text in that they are not mutually exclusive).

Comment

There are significant lags in how quickly we can go from identifying a shift in systemic financial stability risks related to the residential property sector to changing LVR and/or DTI settings. This is due to data lags, the time needed to consult and the time it takes for deposit takers to implement the settings. Writing a set of LVR, DTI and speed limit requirements into the Lending Standard (and then stating which applies in licence conditions) will allow us to respond to systemic financial stability risks in a more timely manner compared to having to amend the Lending Standard each time.

In our view, the LVR and DTI thresholds and speed limits that we set out in Table I in the Consultation Paper will give sufficient flexibility given that they will give us a wider range of settings than what we have used in the past. We also consider that if LVR and DTI restrictions needed to be temporarily removed, this would be done via licence conditions. For example, we would remove LVR and DTI restrictions from licence conditions altogether for a period of time or include a range of dates where the restrictions would be suspended. As such, we do not think that the upper limits for LVR and DTI thresholds and speed limits (as set out in Table I) need to be extended to allow for a situation where LVR and DTI restrictions are essentially 'non-binding'.

The specific LVR and DTI threshold and speed limit requirements that apply to a deposit taker at any specific point in time will be set out in each deposit taker's licence conditions, where applicable. We acknowledge that BS19 currently gives banks at least two weeks' notice and a reasonable opportunity to make submissions on changes to their conditions of registration. However, BS20 gives a minimum of seven days' notice, which aligns with the DTA (this was a consideration when drafting BS20).

Notice periods relate to changing licence conditions after we publicly announce changes to LVR and/or DTI settings. If we decided to change LVR and/or DTI settings, there would be a date where the changes would come into effect, and we would likely consider an adjustment period depending on the change in settings (e.g., the date when tighter restrictions come into effect could be later compared to a loosening).This would be similar to our current approach but as stated in section 6.2.1, the Lending Standard will also include the option of having an initial measurement period of six-months for Group 1 deposit takers.

The set of LVR and DTI threshold and speed limit requirements set out in the consultation are not mutually exclusive and there can be numerous combinations – for example, there could be an LVR threshold of 80% and a LVR speed limit of 20%, whereas the DTI threshold could be six with a DTI speed limit of 15%. There will also be separate requirements for owner-occupiers and investors. We acknowledge that these points were not clear in the layout of Table I in the consultation, so we will ensure that the Lending Standard improves this layout.

Response

We will proceed with including a set of LVR and DTI threshold and speed limit requirements in the Lending Standard (at the ranges proposed in the consultation).

We note that we would still have the option to use LVR and DTI threshold and speed limit requirements not set out in the Lending Standard if market conditions warranted other settings. This would mean that the Lending Standard would need to be amended; hence lengthening the process when it comes to adjusting settings.

We will align with the DTA in terms of having a minimum seven-day notice period for changes to licence conditions that reflect changes in LVR and DTI settings. We also consider that a temporary removal of LVR and DTI settings can be done via licence conditions if required.

We will ensure that the layout of the set of LVR and DTI threshold and speed limit requirements is clear that they are not mutually exclusive. For instance, in the Lending Standard, the LVR thresholds, DTI thresholds and speed limits could be set out in separate tables.

6.2.3. Option to apply settings at an Auckland/non-Auckland level

The LVR framework (BS19) sets out separate definitions for Auckland and non-Auckland residential property. This gives the option to apply different LVR restrictions for Auckland and outside of Auckland. The DTI framework (BS20) does not set out separate definitions for Auckland and non-Auckland residential property.

In the Consultation Paper, we proposed to exclude the option to apply the Lending Standard at an Auckland/non-Auckland level. This differs from the current LVR policy. Different Auckland and non-Auckland LVR restrictions were briefly in place from November 2015. However, since October 2016, LVR restrictions have been applied only at the national level due to potential distortions across regions.

Respondents supported the proposal and agreed with the reasoning set out in the consultation. One respondent sought clarification about the ongoing reporting of Auckland and non-Auckland data and whether it would be needed going forward. This respondent also suggested that LVR and DTI reporting required under the Disclosure Standard should align with requirements in the Lending Standard.

Comment

The Auckland/non-Auckland split for LVR restrictions has not been used since October 2016 because of the 'spillover' effects that it can create across regions. For example, during the time that there were tighter LVR restrictions in Auckland, there was evidence that this led to greater amounts of high-LVR lending in areas outside Auckland, particularly to investors. Moreover, including the option to apply different DTI settings for Auckland/non-Auckland was not considered when developing BS20 due to the experience with these 'spillover' effects across regions. We consider that borrower-based macroprudential policy is better targeted at risks to the financial system as a whole.

We agree with feedback that LVR and DTI data for Auckland/non-Auckland is not needed given that it will not relate to a policy requirement going forward. We also agree that LVR and DTI reporting requirements should align with reporting requirements outlined in other standards (e.g., the Disclosure Standard) where applicable, which will make the reporting process more efficient for deposit takers.

Response

We will proceed with our proposed approach of excluding the option to apply the Lending Standard at an Auckland/non-Auckland level. As such, the Lending Standard will not set out separate definitions for Auckland and non-Auckland residential property

The Lending Standard also will not require deposit takers to report LVR and DTI data for Auckland/non-Auckland (as is currently required) given that there will not be a related policy requirement. Similarly, we do not expect to require this data under the DTA Reporting Standard that we intend to consult on in due course.

6.3. Approach for Group 2 deposit takers – our response to submissions

6.3.1. Carrying over existing requirements (and aligning the approach with Group 1 deposit takers)

In the consultation, we proposed to largely adopt the same approach to Group 2 deposit takers that we proposed to take for Group 1 deposit takers, except for a longer measurement period. Specifically, Group 2 deposit takers would be required to comply with LVR and DTI speed limits based on a six-month measurement period, rather than a three-month measurement period that Group 1 deposit takers would be subject to.

This aligns with the reasoning of the current policy. Larger deposit takers generally have lower volatility in their lending flows and can more accurately forecast these based on seasonality and other factors. Smaller deposit takers generally have more volatility in their lending flows, which makes it more difficult to comply with speed limits over a shorter timeframe, hence the longer measurement period.

We also note that the approach for Group 2 deposit takers regarding the mechanism for adjusting LVR and DTI settings (see section 6.2.2) and not including an option to apply the settings at an Auckland/non-Auckland level (see section 6.2.3) was the same as proposed for Group 1 deposit takers.

Respondents agreed with largely adopting the same approach to Group 2 deposit takers that we proposed to take for Group 1 deposit takers. They also agreed that the six-month measurement period is an appropriate way to apply the policy proportionately to Group 2 deposit takers.

Furthermore, respondents agreed that there should be a consistent approach across deposit takers in terms of setting thresholds and speed limits for LVR and DTI restrictions and not applying different settings across Auckland/non-Auckland. They supported the rationale outlined in sections 6.2.2 and 6.2.3 (respectively).

Comment

Large banks and small banks have been subject to the same borrower-based macroprudential policy requirements over time (as per BS19 and BS20), with the main difference being that small banks have had a longer measurement period.[67] Borrower-based measures are designed to target systemic financial stability risks related to the residential property sector, so we consider that it

[67] Specifically, the six largest banks are subject to three-month measurement periods and the rest are subject to six-month measurement periods, as the split is currently based on a threshold of new residential mortgage lending flows of $100 million per month.

makes sense to continue apply them in the same way for Group 1 and Group 2 deposit takers (albeit with a longer measurement period for Group 2 deposit takers).[68]

Response

We will proceed with applying the existing borrower-based macroprudential policy requirements to Group 2 deposit takers when the Lending Standard comes into force (which includes a six-month measurement period).

6.4. Approach for Group 3 deposit takers – our response to submissions

In the consultation, we proposed not to require Group 3 deposit takers to comply with the borrower-based macroprudential policy measures set out in the Lending Standard. This would align with the current treatment of NBDTs and reflects the fact that Group 3 deposit takers are likely to have only a limited impact on systemic risk to New Zealand's financial system. However, we stated that we will keep monitoring Group 3 lending activity and assess emerging risks.

Respondents had mixed views on this proposal.

Some respondents agreed that the Lending Standard should not be applied to Group 3 deposit takers. They stated that Group 3 as a sector was not systemically significant and if the Lending Standard were to be applied to Group 3 deposit takers, it would carry a great amount of regulatory burden for these deposit takers.

Some respondents disagreed on the basis that not applying the Lending Standard to Group 3 deposit takers may lead to them making a higher proportion of high-risk loans than Group 1 and 2 deposit takers. These respondents acknowledged that Group 3 deposit takers did not pose as much systemic risk to financial stability as Group 1 and 2 deposit takers. However, they suggested that a concentration of higher risk lending can still lead to financial stability issues at a system level regardless of the size of deposit taker and that there may be a perceived contagion risk if a number of Group 3 deposit takers get into difficulty. They also stated that LVR and DTI are key tools in assessing risk and that lending requirements should be consistent across all deposit takers.

One respondent commented on the refinancing exemption, noting that if the Lending Standard does not apply to Group 3 deposits takers, then a Group 1 or 2 deposit taker that refinances high-LVR or high-DTI loans from a Group 3 deposit taker will lead to an increase in high-LVR or high-DTI loans at a system level. This respondent also stated that presumably the refinancing exemption exists because the high-LVR or high-DTI loan would already be captured in the speed limit of the deposit taker where the loan originated, so would not lead to an increase in high-LVR or high-DTI loans at a system level.

Comment

Borrower-based macroprudential policy is targeted at reducing the build-up systemic financial stability risks related to the residential property sector, that can spillover and damage the broader

[68] We note that two banks currently subject to a three-month measurement period, will be included in Group 2 based on the Proportionality Framework. Therefore, these two banks will be subject to a six-month measurement period when the Lending Standard comes into force (as outlined in paragraphs 324 and 325 of the consultation paper).

economy. As stated in the consultation, the Group 3 sector is small and its level of residential mortgage lending does not materially impact the level of systemic risk to the financial system at this stage.

We also consider that the refinancing of high-LVR or high-DTI loans originated by Group 3 deposit takers into Group 1 or 2 deposit takers are only a small amount and do not cause concerns about systemic risk to financial stability. Furthermore, we acknowledge the feedback on potential concentration risk but consider that microprudential policy is better placed to address this type of risk.

As outlined in the consultation, borrower-based macroprudential policy works to complement our microprudential policy tools (which capture other types of risks). Microprudential policy supports financial stability by increasing the capacity of individual deposit takers to withstand adverse events and the risks that they face. Specifically, this means that deposit takers will have processes in place to help them to be better prepared for adverse events and to absorb potential losses as a result. In our view, our microprudential policies can sufficiently address the risks associated with Group 3 deposit takers.

Under the DTA the "desirability of taking a proportionate approach to regulation and supervision" is a principle we take into account when developing standards. This is a key consideration, especially when thinking through requirements for Group 3 deposit takers. We consider that the data and system requirements for borrower-based measures are onerous for small deposit takers and may create unnecessary barriers, particularly when weighed against our view that the Group 3 sector likely does not pose a systemic risk to financial stability.

We are aware that not applying borrower-based macroprudential policy to Group 3 deposit takers may lead to more high-LVR and high-DTI lending in the Group 3 sector (given that Group 1 and Group 2 deposit takers will be subject to the policy).

In this situation, some Group 3 deposit takers may also be experiencing high growth in general; hence they may get to a point where their total assets breach $2 billion (i.e., the threshold between Group 2 and Group 3). In which case, they would join Group 2 and be subject to borrower-based macroprudential policy. Therefore, in our view, the threshold between Group 2 and Group 3 can act as a safeguard against the risk that individual Group 3 deposit takers grow and start to pose some systemic risk. Nevertheless, we note that this is not necessarily sufficient to address potential systemic risks in the Group 3 sector as a whole, particularly in a situation where high growth in the Group 3 sector is driven by a large number of new entrants.

We will continue to monitor lending in the Group 3 sector, which will consist of analysis of key indicators based on data that we already collect (e.g., total residential lending in the Group 3 sector). Based on this monitoring, in future, we may deem that the Group 3 sector carries greater systemic financial stability risk than it has previously, and as such we may re-evaluate our approach to Group 3 deposit takers.

If we chose to require Group 3 deposit takers to comply with borrower-based macroprudential policy, the process would be the same as that of Group 1 and Group 2 deposit takers. Nevertheless, we would ensure that there would be adequate time for Group 3 deposit takers to transition to the requirements and get their systems ready.

Response

We will proceed with our proposal that Group 3 deposit takers are not required to comply with borrower-based macroprudential policy measures in the Lending Standard. However, we will monitor Group 3 lending for any emerging risks (including analysis of key indicators) and communicate our findings where appropriate. In the future, if we felt that Group 3 were starting to pose a systemic risk to financial system, we could consider applying the Lending Standard to Group 3 deposit takers, which would require Group 3 deposit takers to comply with borrower-based macroprudential policy. We would implement this via licence conditions (i.e. to apply the Lending Standard to an additional set of deposit takers) and allow for a sufficient transition period.

Chapter 7

Deposit Takers Related Party Exposures Standard

Summary of Submissions and Policy Decisions

Non-technical summary of responses and decisions

This section outlines our responses to the consultation feedback received in relation to the Related Party Exposures Standard. The Related Party Exposures Standard helps address the risks to financial stability posed by a deposit taker providing services to individuals, businesses, or other entities who are related to the deposit taker. Such parties may be considered a 'related party' (examples include a director, a senior manager, or a close family member). Exposures to related parties can take a variety of forms, such as loans, leases, deposits and other financial transactions.

This table summarises the key issues raised in the feedback with additional feedback discussed below.

Table 7.1: Related Party Exposures Standard – Key feedback and responses

Deposit Taker Group	Key issues	Response
All groups	Respondents were supportive of our proposal to base the related party definition on the BS8 connected person definition.	We will proceed with this proposal.
	Respondents supported our proposal to carry over the BS8 requirements, including: • Quantitative limits on net exposure based on the deposit taker's own credit rating. We also proposed adjusting the BBB+/Baa1 and below threshold to include deposit takers that are exempt from holding a credit rating. • Requiring related party transactions to not be on more favourable terms than for non-related parties.	We will proceed with this proposal.
Group 1 and 2	Respondents supported our proposal to carry over the BS8 requirements for credit risk mitigation and netting arrangements for calculating net exposures for Group 1 and 2 deposit takers.	We will proceed with this proposal.
Group 3	Respondents supported our approach to have the same requirements as Group 1 and 2 deposit takers, except to align the decision on whether Group 3 deposit takers can net exposures under the Related Party Exposures Standard with	We will proceed with this proposal. For the Related Party Exposures Standard, Group 3 deposit takers will have different approaches available to them depending on which credit risk mitigation approach they choose under the Capital Standard:

Deposit Taker Group	Key issues	Response
	agreed approach for netting by Group 3 deposit takers under the Capital Standard.	• If a Group 3 deposit taker uses the same credit risk mitigation approach as Group 1 and 2 deposit takers, they will be able to net exposures to related parties in the same manner as Group 1 and 2 deposit takers under the Related Party Exposures Standard. • If a Group 3 deposit taker chooses the 'simplified' credit risk mitigation approach only available to Group 3 deposit takers, they cannot net related party exposures under the Related Party Exposures Standard.

7.1. Introduction

Related party exposures are a deposit taker's exposures to natural or legal persons who are related to the deposit taker, its directors, or its management. Examples include a deposit taker's owners, other entities a deposit taker's owners may have significant influence over, or the close relative of a deposit taker's CEO.

These exposures can come from different arrangements with related parties, such as loans, leases, deposits, investments (which include investments in equities and bonds issued by related parties), undrawn lines of credit, bank guarantees of a related party's obligations to third parties and financial contracts (such as derivatives). In principle, any financial exposures that deposit takers enter into with related parties are considered related party exposures.

Current requirements are contained within the Connected Exposures Policy (**BS8**)[69] for registered banks and in the Deposit Takers (Credit Ratings, Capital Ratios, and Related Party Exposures) Regulations 2010 (the **NBDT Regulations**) for NBDTs.[70]

We proposed that the Related Party Exposures Standard is based on BS8. Between 2021 and 2023, we reviewed, consulted on, and made changes to, BS8. This review took into account the legislative framework in the DTA but also aligned with the governing legislation at the time (Banking Prudential Supervision Act 1989).

We propose using the BS8 definitions of "connected person" and "connected exposures" as the definitions of "Related Party" and "Related Party Exposures" for all deposit takers. This will ensure clear and consistent definitions apply across all deposit takers, and is aligned with international standards.

[69] Reserve Bank of New Zealand – Te Pūtea Matua. (2023). BS8 - Connected Exposures Policy. https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/regulation-and-supervision/banks/banking-supervision-handbook/bs8-connected-exposures-policy-oct-2023.pdf

[70] Deposit Takers (Credit Ratings, Capital Ratios, and Related Party Exposures) Regulations 2010. https://www.legislation.govt.nz/regulation/public/2010/0167/latest/DLM3032713.html

For Group 1 and Group 2 deposit takers we propose to largely carry over the current BS8 requirements because they were recently reviewed and remain appropriate under the DTA legislative framework. This avoids unnecessary compliance costs through needless changes. For Group 3 deposit takers we propose applying the BS8 requirements, with revisions to account for those deposit takers that are exempt from obtaining a credit rating among other relevant differences specific to Group 3. We do not propose to apply the standard to branches because the nature of their business and legal structure makes it inappropriate.

7.2. Approach for Group 1 deposit takers – our response to submissions

7.2.1. Definition of a Related Party

We proposed that the definition of a related party for Group 1 deposit takers is based on the current connected person definition in BS8. The current BS8 definition of connected person is intended to include a person ('A') if:

- A is a director or senior manager of the registered bank or of any person who has control of the registered bank
- A is a close family member of a director or senior manager of the registered bank or of any person who has control of the registered bank
- A is a subsidiary of the registered bank
- A has control of the registered bank
- A has significant influence over the registered bank
- the registered bank has control of A
- the registered bank has significant influence over A
- a director of the registered bank has control of A
- any other person who has control of the registered bank has either control of or significant influence over A or
- any other person who has significant influence over the registered bank and has control of A.

All respondents who had a view were supportive of the proposed approach to base the definition of related party on the definition of connected person in BS8. One respondent noted that there is a Related Party Disclosures Accounting Standard[71] and that using the same terminology for different types of standards could create confusion.

Comment

As the DTA empowers us to create a standard about the "exposures to related parties", we do not think it would be appropriate to use the phrase "connected person". We do not think this will be a material problem but will keep this under consideration.

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[71] Also known as NZ IAS 24, this Accounting Standard covers the public disclosure of related party relationships as they may affect the financial position of a company. It can be accessed at: https://www.xrb.govt.nz/standards/accounting-standards/for-profit-standards/standards-list/nz-ias-24/.

Response

We intend to proceed with the proposal to base the related party definition on the BS8 connected person definition, noting that there may be some minor wording changes in the exposure draft. We still consider this remains proportionate to the risks Group 1 deposit takers pose to financial stability. Additionally, the current BS8 definition aligns with international standards.

7.2.2. Exposure limits and risk management

We proposed carrying over the BS8 requirements for Group 1 deposit takers, including:

- quantitative limits on net exposure (as in Table 7.2 below)
- how exposure is calculated and associated technical requirements
- preventing abuses in transactions with related parties: by requiring that contracts and transactions not be on more favourable terms than for non-related parties.

Currently, BS8 sets requirements for credit risk mitigation and netting arrangements for calculating net exposures (consistent with the treatment of netting in our current capital adequacy requirements).[72] The exposure limit is on a net basis across aggregate exposures of the banking group to all connected persons[73] and is calculated as a percentage of Tier 1 capital.

Although it is a net limit, banks may choose to use gross exposure in calculations as a conservative alternative; that is, they have the option not to apply netting calculations. The applicable aggregate limit is then contingent on a bank's credit rating as per Table 7.2 below. For example, an A+ rated bank would be compliant if it lent amounts equivalent to 60% of its group Tier 1 capital to all connected persons, but no more.

Table 7.2: BS8 aggregate credit exposures limits[74]

Credit rating[75]	Connected exposure limit (% of the Banking Group's Tier 1 capital)[76]
AA/Aa2 and above	75
AA-/Aa3	70
A+/A1	60

[72] *See* Reserve Bank of New Zealand – Te Pūtea Matua. (2024). BPR131 Standardised Credit Risk RWAs. https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/consultations/banks/review-capital-adequacy-framework-for-registered-banks/bpr-documents/bpr131-standardised-credit-risk-rwas-apr-24.pdf
and Reserve Bank of New Zealand – Te Pūtea Matua. (2023). BPR132 Credit Risk Mitigation. https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/consultations/banks/review-capital-adequacy-framework-for-registered-banks/bpr-documents/bpr132-credit-risk-mitigation-oct-23.pdf

[73] This includes both bank and non-bank connected person exposures.

[74] *See* Reserve Bank of New Zealand – Te Pūtea Matua. (2023, October). BS8 Connected Exposures Policy, p. 6. https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/regulation-and-supervision/banks/banking-supervision-handbook/bs8-connected-exposures-policy-oct-2023.pdf

[75] The rating scales in this column are presented as "Standard & Poor's scale/Moody's Investor Services scale", noting that Fitch Ratings' scale is identical to Standard & Poor's.

[76] The aggregate credit exposures of the banking group to all connected persons must not exceed the rating-contingent limit outlined in the matrix at the end of each working day.

Credit rating[75]	Connected exposure limit (% of the Banking Group's Tier 1 capital)[76]
A/A2	40
A-/A3	30
BBB+/Baa1 and below	15

All respondents were supportive of this approach.

Response

We will proceed with the proposal to carry over the BS8 requirements for related party exposure limits and risk management for Group 1 deposit takers.

7.3. Approach for Group 2 deposit takers – our response to submissions

We proposed that Group 2 deposit takers have the same requirements proposed for Group 1 deposit takers:

- Group 2 deposit takers be subject to the same definition of related party (based on BS8's connected person definition) as Group 1 deposit takers
- The current requirements in BS8 apply to Group 2 deposit takers.

All respondents that had a view were supportive of this approach. Many respondents supported having alignment across all deposit takers. One respondent noted that the drafting of the Related Party Exposures Standard would be important to avoid confusion with the Related Party Disclosures Accounting Standard.

Comment

As stated in section 7.2.1 above, we do not think that using the same term "related party" will be a material problem, but we will keep this under review.

Response

We will proceed with the proposal for Group 2 deposit takers to be subject to the same requirements as Group 1 deposit takers.

7.4. Approach for Group 3 deposit takers – our response to submissions

7.4.1. Definition of a Related Party

In the Consultation Paper, we proposed that the BS8 connected person definition apply to Group 3 deposit takers. This will slightly change who is captured as a related party relative to the NBDT

Regulations, but it is in line with our preferred approach for all deposit taker groups to have a single, clear and consistent related party definition in the standard.

All respondents that had a view were in favour of the proposed approach. One respondent, who also supported adoption of the BS8 connected person definition, noted that the inclusion of entities controlled by a director of the NBDT would result in an aggregate exposure that would be outside the 15% limit based on their current director/lending profile. Another respondent also noted that changes may need to be made to ensure that all the members of mutual deposit takers (deposit takers that are owned by their members) are not unreasonably captured.

Comment

We note that BS8 captures entities controlled by a director while the NBDT Regulations do not, so there should be an offsetting effect because using the BS8 definition includes changes that will reduce other potential exposures.

We do not intend for ordinary members of mutual deposit takers to be caught by this definition. The BS8 connected person definition concerns those who have "control" or "significant influence" over a deposit taker. An ordinary member, dependant on the mutual deposit taker's rules, would ordinarily not meet this requirement. We note that there are mutual banks already adhering to BS8 and will invite feedback on this in the exposure draft.

Response

We will proceed with the proposal for the BS8 connected person definition to apply to Group 3 deposit takers.

7.4.2. Exposure limits, netting exposures and risk management

Exposure limits

In the Consultation Paper, we proposed aligning the appropriate exposure limits for Group 3 deposit takers with BS8. However, as no current Group 3 deposit takers hold a credit rating above BBB+/Baa1, this will mean all Group 3 deposit takers will continue to be subject to a 15% exposure limit in practice.

As illustrated by Table 7.3 below, we proposed adjusting the BBB+/Baa1 and below threshold to include deposit takers that are exempt from holding a credit rating.

Table 7.3: Related Party Exposures Standard proposed aggregate credit exposures limits[77]

Credit rating[78]	Proposed limit (percentage of the Deposit Taker group's Tier 1 capital)[79]
AA/Aa2 and above	75
AA-/Aa3	70
A+/A1	60
A/A2	40
A-/A3	30
BBB+/Baa1 and below or exempted from obtaining a credit rating	15

Netting exposures and risk management

We also proposed aligning the decision on whether Group 3 deposit takers can net exposures under the Related Party Exposures Standard with the agreed approach for Group 3 deposit takers' use of netting under the new Capital Standard.

On 31 March 2025, we announced that we would undertake a review of key capital settings. Given this decision, we did not publish a response to submissions on the Capital Standard as part of the *Deposit Takers Core Standards: Summary of Submissions and Policy Decisions for the Liquidity, Depositor Compensation Scheme and Disclosure Standards*[80] to enable a fulsome response in light of the review.

While we have not published any broader Capital Standard feedback discussion on the core standards, we think it is relevant to discuss our proposed position on credit risk mitigation for Group 3 deposit takers now as it will not be impacted by the review.

In the Capital Standard section of the Consultation Paper in relation to the core standards, we proposed adopting one of the following approaches to credit risk mitigation for Group 3 deposit takers:

- Exclude credit risk mitigation from the Capital Standard for Group 3, on the basis that it would simplify the requirements, reducing compliance costs.
- Replicate the approach for Group 1 and 2 deposit takers (i.e. to translate the existing approach to credit risk mitigation set out in *BPR131: Standardised Credit Risk RWAs* (**BPR131**)) to provide

[77] Based on a similar table found in Reserve Bank of New Zealand – Te Pūtea Matua. (2023). BS8 Connected Exposures Policy, p 6. https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/regulation-and-supervision/banks/banking-supervision-handbook/bs8-connected-exposures-policy-oct-2023.pdf

[78] The rating scales in this column are presented as "Standard & Poor's scale/Moody's Investor Services scale", noting that Fitch Ratings' scale is identical to Standard & Poor's.

[79] The aggregate credit exposures of the banking group to all connected persons must not exceed the rating-contingent limit outlined in the matrix at the end of each working day.

[80] Available on our website: Deposit Takers Core Standards - Reserve Bank of New Zealand - Citizen Space

flexibility for Group 3 deposit takers to take advantage of credit risk mitigation in the same way as Group 1 and 2 deposit takers and reduce risk weights if this is useful for them.

Following feedback from respondents, we revised our assessment and intend to enable Group 3 deposit takers to choose which credit risk mitigation approach best suits them. Group 3 deposit takers may either use the same credit risk mitigation approach as Group 1 and 2 deposit takers (as outlined above), or use a new alternative approach to credit risk mitigation that would only be available to Group 3 deposit takers.

This new addition to the standards will be based on the approach that is currently set out in the NBDT Regulations. For example, section 12 of the NBDT Regulations provides for deductions from risk weighted assets for transferred loan and sub-participation agreements. The addition of this approach in the Capital Standard will provide maximum flexibility for Group 3 deposit takers to choose the approach that best matches their business model and preferences.

In this context, some respondents also asked us to address section 13(2) of the NBDT Regulations, which sets out the way NBDTs classify on-balance sheet assets. In particular, if a loan is made against more than one form of security, it must be classified into the numbered class that refers to one of those forms of security and that has the highest risk weight.

Respondents were concerned that this means there are circumstances where they must use a higher risk weight, even when there is more security. We will consider this issue in the exposure draft for the Capital Standard and there will be an opportunity for stakeholders to engage further to ensure the risk and mitigants are accurately reflected.

This means for the Related Party Exposures Standard, Group 3 deposit takers will have two options that they could use for credit risk mitigation. The approach they choose will have implications for how they calculate capital requirements. The approach they choose will also have implications for whether they can net exposures to related parties under the Related Party Exposures Standard. Table 7.4 explains the credit risk mitigation approaches available to Group 3 deposit takers and the implications they have on whether they can net exposures under the Related Party Exposures Standard.

Table 7.4: Approaches available to Group 3 deposit takers

Credit risk mitigation approach used	Netting under the Related Party Exposures Standard
Use the same credit risk mitigation approach for Group 1 and 2 deposit takers, which is a more **complex approach**	For related party and for capital purposes, exposures are calculated after credit risk mitigation is taken into account. For some related party exposures, the deposit taker can also net their exposures to and from the related party under the Related Party Exposures Standard. This netting must comply with a detailed set of requirements. Deposit takers may choose to use gross exposure in calculations as a conservative alternative; that is, they have the option not to apply netting calculations. In this case, the applicable aggregate limit is then contingent on the deposit taker's credit rating as per Table 7.3 above.

Credit risk mitigation approach used	Netting under the Related Party Exposures Standard
	The same rules for netting exposures that we propose will apply to Group 1 and 2 deposit takers (discussed at section 7.2.2 above) will apply to qualifying Group 3 deposit takers. These Group 3 deposit takers will be able to net relevant exposures in the same way as Group 1 and 2 deposit takers.
Simplified approach that is based on the current credit risk mitigation approach available to Group 3 deposit takers under the NBDT Regulations	For related party and for capital purposes, exposures are calculated after credit risk mitigation is taken into account. However, unlike the approach above, the deposit taker cannot use a net measure of their exposure to a related party. The gross measure must be used at all times. This is a simpler calculation and is in line with the current approach that most Group 3 deposit takers use under the NBDT Regulations.

As set out in Table 7.4, a Group 3 deposit taker using the simplified approach would, for the purpose of risk-weighted asset calculation for credit exposure, reduce the value of the exposure by the amount of the eligible credit risk mitigation calculated in accordance with the Capital Standard. This would then be used for the purpose of calculating related party exposures.

A Group 3 deposit taker using the more complex approach that will be available to Groups 1 and 2 deposit takers could also reduce the value of the exposure by the amount of the eligible credit risk mitigation calculated in accordance with the Capital Standard.

In some cases, the Group 3 deposit taker may also be able to use the 'net' value of their exposure to a related party. This only applies in the limited set of circumstances described below, including those related to derivatives contracts. However, it is not solely limited to derivatives contracts and can apply to other transactions so long as carried out in a way that meets the specifications.

To calculate related party exposures associated with derivative transactions, a deposit taker must add up a large number of exposures to work out the maximum possible loss that they would face if the related party did not fulfil the contract at some future date. Some contracts could be an obligation to buy the underlying financial assets in the future ("long positions"); while some could be obligation to sell the underlying financial assets ("short positions"). Some deposit takers will have an agreement in place with their related party that allows for them to cancel out their long positions against their short positions. This cancelling out is generally called netting. An effect of this netting is that, if the contracts are terminated in the future, each party would only owe the other party the net amount of all of the contracts, rather than paying out each contract individually. This will not be available in the simplified approach to credit risk management.

All respondents that had a view were supportive of the approach to align the Related Party Exposures Standard with the Capital Standard.

Preventing abuses in transactions with related parties

Currently the NBDT regulations have no explicit requirements to manage conflicts of interest in contracts with related parties for NBDTs. Instead, we set out guidance on risk management requirements for NBDTs in our Risk Management Programme Guidelines.[81] These guidelines cover managing transactions with related parties and conflicts of interest.

To preventing abuses in transactions with related parties, BS8 requires contracts and transactions not be on more favourable terms than those used for non-related parties.

One respondent noted that having conflict of interest obligations spread across multiple standards could result in operational challenges to monitor compliance with these obligations.

Comment

The credit risk mitigation approach for Group 1 and 2 deposit takers is complex. Our proposed approach will provide maximum flexibility for Group 3 deposit takers to choose the approach that best matches their business model and preferences.

Preventing abuses in transactions with related parties

As discussed in the Introductory Issues chapter, while multiple standards may have conflict of interest obligations, they have different purposes for addressing conflicts of interest. In drafting standards (including the Related Party Exposures Standard) we will aim to avoid duplication of requirements across standards where possible, and otherwise ensure that overlapping requirements fit together in a coherent and consistent way.

Response

We will proceed with our proposals to:

- Align the definition of related party with the definition of connect person in BS8. This approach aligns the definition of related party for all deposit takers.
- Move to the same exposure limits as BS8 and adjusting the BBB+/Baa1 and below threshold to include deposit takers that are exempt from holding a credit rating. This also aligns the approach for all deposit takers.
- Align the ability of Group 3 deposit takers to net exposures under the Related Party Exposures Standard with the credit risk mitigation decision for Group 3 deposit takers under the new Capital Standard.
- Adopt the BS8 requirement to require contracts and transactions not be on more favourable terms than those used for non-related parties.

[81] *See* sections 10(1)(f) and (g) https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/regulation-and-supervision/non-bank-deposit-takers/3697899.pdf

Chapter 8

Deposit Takers Restricted Activities Standard

Summary of Submissions and Policy Decisions

Non-technical summary of responses and decisions

This section outlines our responses to the consultation feedback received in relation to the Restricted Activities Standard. The Restricted Activities Standard covers a range of restrictions or prohibitions on deposit takers' activities. These are designed to promote the safety and soundness of each deposit taker and protect and promote the stability of the financial system

This table summarises the key issues raised in the feedback with additional feedback discussed below.

Table 8.1: Restricted Activities Standard – Key issues and responses

Deposit Taker Group	Key issue	Response
All Groups	Respondents raised that the definition of "non-financial activities" should be future-proofed to not curb innovation as practice evolves in the sector	We will seek to define "non-financial activities" such that it does not unduly impede innovation in the financial sector.
	Respondents raised concerns with the practicalities and potential compliance costs of our proposals regarding authorisation of overseas branches and subsidiaries	We will proceed with the requirement that licensed deposit takers must notify the Reserve Bank before seeking approval from a host regulator to establish an overseas branch or subsidiary. We will not require applicants for a licence to undergo a separate authorisation process for any existing overseas branches or subsidiaries. However, licence applications will consider the application at a group level, as any overseas branches or subsidiaries would – directly or indirectly – be subject to prudential obligations.
Group 3	Respondents noted that some non-bank deposit takers (NBDTs) currently have arrangements that would breach our proposed restrictions on material non-financial activities, which could have unintended consequences.	We will introduce a time-limited grandparenting provision to allow NBDTs to temporarily maintain specific material non-financial activities provided they do not actively expand these activities. This would only apply to existing arrangements and not to any new arrangements entered into before the Standard commences.

8.1. Introduction

This chapter outlines the responses to the consultation on our proposed Restricted Activities Standard for deposit takers.

The Restricted Activities Standard will contribute to financial stability by restricting activities we have assessed as posing a risk to the safety and soundness of individual deposit takers and, in some cases, the stability of the financial system. It will also promote public confidence in the financial system.

The proposed restrictions are drawn from the current prudential regime for registered banks and are not currently features of the NBDT regime. The ability to make a restricted activities standard is granted under Part 3 of the DTA, which allows for these restrictions to be grouped into one standard.

For locally-incorporated deposit takers, we have identified existing restrictions that we consider should be in the scope of the proposed Restricted Activities Standard. These include:

- A restriction on deposit takers conducting insurance business
- A restriction on deposit takers conducting material non-financial activities
- Restrictions relating to locally-incorporated deposit takers setting up subsidiaries or branches overseas
- A restriction on the amount of assets a deposit taker may encumber when issuing covered bonds.

We proposed that the Restricted Activities Standard apply to Group 1, Group 2 and Group 3 deposit takers, as we consider a consistent approach across all deposit takers is necessary and desirable to manage the risks to the safety and soundness of individual deposit takers. We also proposed that restrictions around undertaking insurance business and material-financial activities apply to branches of overseas deposit takers.

Most of the feedback that we received from respondents is relevant to all three groups of locally-incorporated deposit takers. For ease, we respond to this feedback in this section on Group 1 deposit takers below. The subsequent section then discusses issues that relate only to Group 3 deposit takers. No issues were raised that were specific to either Group 1 or Group 2 deposit takers. Moreover, no issues were raised on the proposals for branches of overseas deposit takers.

8.2. Approach for Group 1 and 2 deposit takers – our response to submissions

8.2.1. Restriction on material non-financial activities

The Consultation Paper proposed that the Restricted Activities Standard carry over existing requirement in BS1 that restricts the ability of deposit takers to conduct material non-financial activities.

Respondents agreed that a restriction on the amount of non-financial activities is important as including both deposit taking and non-financial activities on the balance sheet affects the accuracy and usefulness of capital-adequacy measures, as well as the meaningfulness and comparability of disclosures.

Two respondents raised that the definition of non-financial activities should be future-proofed to not curb innovation as practice evolves in the sector. One of these respondents proposed that this

could be done by issuing guidance to support this requirement, which would allow the definition of non-financial activities to adjust as required.

Comment

We agree that the definition of non-financial activities should not unduly inhibit innovation. We generally view innovation in the financial sector as desirable, and recognise that a definition that is too focussed on traditional forms of financial activities has the potential to limit innovation in the future. Moreover, where a new activity is broadly financial in nature, we expect that capital-adequacy, requirements, disclosures and other prudential measures should be able to suitably address any risks to the safety and soundness of the deposit taker.

Our preference is to include this definition in the Restricted Activities Standard itself, to provide certainty around what the restriction applies to. We will consider supplementing this with guidance, though any guidance would not be binding in and of itself.

Response

We will proceed with our proposal and consider how to define of "non-financial activities" in the exposure draft such that the restriction does not unduly impede innovation in the financial sector.

8.2.2. Authorisation for overseas branches and subsidiaries

The Consultation Paper proposed carrying over requirements for registered banks to notify the Reserve Bank before seeking approval from a host regulator to establish an overseas branch or subsidiary.

Two respondents raised concerns that seeking approval from RBNZ before approaching an overseas regulator about establishing a branch or subsidiary might not always be practical.

One respondent raised concerns that, if existing branches and subsidiaries required a new authorisation from the Reserve Bank, this would lead to unnecessary compliance costs.

Comment

We note that the proposed notification requirement is already the existing policy for registered banks in BS1. Our experience is that a host supervisor would be unlikely to grant a licence to an overseas deposit taker without consulting their home supervisor. Therefore, we do not view this as an onerous step and it would support retaining a "no surprises" approach between licensed deposit takers and the Reserve Bank.

We do not intend to require bespoke authorisations for existing registered banks or licensed NBDTs that already have overseas branches or subsidiaries. However, these entities should expect that, when assessing a licence application under the DTA, we will consider the factors listed in section 17 of the DTA at a group level. For example, we will need to be satisfied that the applicant, along with any subsidiaries or branches of the applicant, has the ability to comply with the prudential obligations defined in section 6 of the DTA.

Response

We will procced with our proposal to require licensed deposit takers to notify the Reserve Bank before seeking approval from a host regulator to establish an overseas branch or subsidiary. We

will not require applicants for a licence to undergo a separate authorisation process for any existing overseas branches or subsidiaries.

8.2.3. Covered bond issuance

The Consultation Paper proposed carrying over the existing requirement for registered banks into the Restricted Activities Standard, which is that no more than 10% of the banking group's total assets may be beneficially owned by a covered bond special purpose vehicle (**SPV**).

One respondent suggested that RBNZ should consider whether the covered bond issuance limit could be relaxed in a crisis.

One respondent suggested that RBNZ should consult rating agencies to appropriately calibrate the limit for covered bond issuance.

Comment

Our existing restriction for registered banks aims to limit the amount of assets that a deposit taker can encumber through the use of covered bonds. Assets that are encumbered are not available to unsecured creditors (such as depositors) in a resolution or insolvency event. A high level of encumbered assets can increase incentives on unsecured creditors to "run" on the deposit taker during a stress event. The 10% limit seeks to balance this risk with the benefit of a more diversified funding base that includes covered bonds.

The existing restriction has been in place for over ten years, and we are not aware of any issues relating to the restriction. While we cannot rule out the possibility of adjusting the limit during a major liquidity stress, this is not our preferred policy response (e.g., we have previously adjusted the Core Funding Ratio). As such, we do not see merit in providing flexibility around the asset encumbrance limit in the Standard.

Response

We will proceed with our proposals relating to covered bond issuance.

8.3. Approach for Group 3 deposit takers – our response to submissions

8.3.1. Restrictions on material non-financial activities (existing arrangements for NBDTs)

While registered banks are currently subject to all of the proposed requirements in the Restricted Activities Standard, NDBTs are not currently subject to any of them. We have proposed that Group 3 deposit takers should be subject to the same restrictions as Group 1 and 2 deposit takers to promote the safety and soundness of deposit takers and to support a consistent regulatory regime.

Three respondents noted there are Group 3 deposit takers whose existing arrangements would not be compliant with the proposed requirements. In each case, this is because they own commercial property that is valued above 1% of their total assets. This property is both used by the deposit taker, which reduces their ongoing operational costs (relative to leasing commercial

property), and also leased to other businesses, which generates revenue for the deposit taker. One respondent noted in particular that a "one-size-fits-all" approach may not be appropriate for Group 3 deposit takers in developing the Restricted Activities Standard.

Respondents noted that, for these deposit takers to be compliant with the proposed requirement, they would have to divest themselves of property and increase their operational costs in the short-term, which is counterintuitive.

Comment

We remain of the view that it is important to restrict the proportion of a deposit taker's balance sheet that is comprised of non-financial activities. Ideally, we would not want deposit takers to undertake non-financial activities that exceeded the proposed materiality threshold. However, it is not our intention to cause short-term disruption to existing NBDTs, or to increase their short-term operational costs, unless this is warranted to promote the safety and soundness of those deposit takers.

As such, we see merit in enabling licensed NDBTs to temporarily maintain existing arrangements that would not meet the proposed requirement if it were currently in place.

However, we do not view it as appropriate or desirable for these deposit takers to increase their holdings of commercial property further or enter into new non-financial activities. Similarly, we do not want to see other deposit takers begin conducting a material amount of non-financial activity. Moreover, we would expect a deposit taker to exit, or reduce the materiality of, any grand parented arrangement in the future.

Response

We will include a time-limited grandparenting provision in the Restricted Activities Standard for specific non-financial activities in the case of licensed non-bank deposit takers that would not comply with the restriction if it were currently in place. This would only apply to existing arrangements and not to any arrangements that deposit takers enter into before the Restricted Activities Standard commences. The Restricted Activities Standard would also restrict deposit takers from actively expanding any grand parented activities. Moreover, the Standard will not include a general exemptions framework.

We expect that these grand parented activities - and the period for which grandparenting applies - will be noted in the Restricted Activities Standard and/or the conditions of licence for the relevant deposit takers.

8.4. Minor and technical issues

In this section, we address certain discrete technical topics that were included in the consultation or that have been raised by respondents.

Table 8.2: Minor and technical issues for the Restricted Activities Standard

Issue	Response
All Groups	
One respondent proposed that guidance should be issued to accompany the Restricted Activities Standard, particularly in relation to the definition of insurance business.	Our intention is that the drafting of the Restricted Activities Standard should give deposit takers enough certainty to comply with the requirements. When preparing the exposure draft of the Restricted Activities Standard, we will consider whether guidance would be useful.
Two respondents provided feedback on the appropriate materiality threshold. Both respondents stated a preference for a GAAP-based approach over a quantitative threshold. One of these respondents did note that either approach would likely lead to a similar outcome for their operating model.	We will proceed with a GAAP-based materiality threshold that is consistent with the existing approach in BS1.

Chapter 9

Deposit Takers Branch Standard

Summary of Submissions and Policy Decisions

Non-technical summary of responses and decisions

This section outlines our response to consultation feedback on the Branch Standard. The Branch Standard will apply specifically to licensed branches of overseas deposit takers, setting limits on their overall size and defining the types of customers they may serve.

This table summarises the key issues raised by respondents and a summary of our response.

Table 9.1: Branch Standard – Key issues and responses

Key issue	Response
Wholesale client definition	We are giving careful consideration to the "wholesale client" definition. We expect this to include provisions similar to those already used by deposit takers to avoid unnecessary compliance costs and unintended consequences, such as leaving businesses out of scope. We will also clarify that the definition will not limit bond/securities issuance by the overseas deposit taker to "wholesale clients" only. We will issue guidance to support the requirements where this can be helpful to support compliance. This will be published for consultation alongside the exposure draft of the Branch Standard.
Large corporate and institutional client definition	In response to feedback, we propose a slight change such that a large corporate and institutional client is a client that has one or more of the following: • Consolidated annual turnover of over NZ$50 million • Total assets of over NZ$75 million, or • Total assets under management of over NZ$250 million (for funds management entities only). There are several other factors in identifying large corporate and institutional clients that were brought to our attention through consultation. A summary of our response to these factors is included in section 9.2.2.
Equivalence assessment process	We will continue to work with industry to develop a process for jurisdiction and institution level assessments, which will allow supervisors to make informed decisions about non-standard requirements. We expect to give further clarity on this process before the DTA Standards commence in 2028.
Ongoing testing of thresholds	We are giving careful consideration to the drafting of the ongoing testing requirements for several thresholds, particularly the local incorporation threshold. We will issue guidance to support the requirements where this can be helpful to support compliance. This will be published for consultation alongside the exposure draft of the Branch Standard.

9.1. Introduction

Branches are an important part of New Zealand's financial system. They differ from locally-incorporated subsidiaries of overseas deposit takers in that they are incorporated outside New Zealand. They offer benefits to the New Zealand economy through the provision of products and services to wholesale customers. Unlike locally incorporated subsidiaries, branches are legally based offshore, making it impractical to apply the full suite of prudential regulations. Instead, we adopt a proportionate regulatory approach focused on their local operations to support financial stability. The Branch Standard will include certain requirements specifically for branches, primarily about how they conduct business in New Zealand.

While the Branch Standard will cover certain requirements that apply solely to branches, it does not contain all the requirements we will apply to branches. For example, any disclosure requirements for branches would be included in the Disclosure Standard (as outlined in the Deposit Takers Core Standards Consultation Paper).[82] Examples of requirements included in the Branch Standard include a size cap for branches and a requirement that they can only do business with wholesale clients.

Our Branch Standard will implement decisions made as part of our review of policy for branches of overseas banks (**the Branch Review**).[83] In section 6.1 of our November 2023 Branch Review Regulatory Impact Statement (**RIS**),[84] we stated our expectation that all existing branches will have to apply for a licence under the DTA if they plan to continue operating in New Zealand. If granted, they will have to meet all the relevant policy decisions described in the Branch Review RIS - and further refined in this chapter - by the time the standards commence. We state our rationale for each decision and give a complete description of the current approach and problem definition in the Branch Review RIS.

9.2. Approach for branches of overseas deposit takers – our response to submissions

9.2.1. Wholesale client definition

The Consultation Paper proposed that branches only be permitted to engage in wholesale business and that branches only be permitted to undertake business with wholesale clients, as defined in section 459(3) of the DTA.

In the Branch Review RIS, we had proposed to implement this decision using the "wholesale investor" definition in Clause 3(2) and 3(3), Schedule 1 of the Financial Markets Conduct Act 2013 (**FMCA**)[85]. Currently, different branches face different conditions of registration (**CoR**) in relation to their ability to conduct business with retail customers.

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[82] *See* Reserve Bank of New Zealand – Te Pūtea Matua. (2024). Deposit Takers Core Standards Consultation Paper. https://consultations.rbnz.govt.nz/dta-and-dcs/deposit-takers-core-standards/user_uploads/deposit-takers-core-standards-consultation-paper.pdf

[83] *See* Reserve Bank of New Zealand – Te Pūtea Matua. (2023). Review of policy for branches of overseas banks. https://www.rbnz.govt.nz/have-your-say/review-of-policy-for-branches-of-overseas-banks

[84] *See* Reserve Bank of New Zealand – Te Pūtea Matua. (2023). Review of policy for branches of overseas banks – Regulatory Impact Statement (RIS). https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/consultations/banks/overseas-branches/review-of-policy-for-branches-of-overseas-banks-ris.pdf

[85] See section 4.1 of the RIS.

Basis of definition

Most respondents supported in general the use of the "wholesale client" definition in section 459(3) of the DTA, with some clarifications sought or proposals regarding its scope.

One respondent proposed that we use the FMCA definition of "wholesale investor" instead. That respondent considered this would provide greater clarity, together with avoiding the risks of mistakes in applying different definitions.

Subsidiary of a "wholesale client", and "persons under control"

Two respondents suggested that a subsidiary of a "wholesale client" should be in scope. They suggested using a definition such as in clause 9, schedule 1 of FMCA, or in regulation 237B of the Financial Market Conduct Regulations 2014 (**FMCR**). Similarly, another respondent proposed that persons controlled by a "wholesale client" should also be considered "wholesale". For this, they proposed we should explicitly include the FMCA (clause 4(3) of schedule 5) and FMCR exemptions (clause 229W(2)(d)) (especially clause 9, schedule 1).

Certified eligible investors

One respondent noted that certified eligible investors can be wholesale clients under section 49A[86] and section 49(2)(g) of the Financial Service Providers Act 2009 (**FSPA**). The respondent noted that they expect to prepare certificates in advance of being exempted from the Depositor Compensation Scheme (**DCS**) in 2025. As such, they requested us to clarify whether additional elements will be required for such certificates, so branches could prepare a unified certificate for both the DCS exemption and the Branch Standard. The respondent's view was that allowing a unified certificate would reduce unnecessary compliance costs.

Bond issuance

Regarding bond issuances (and similar) by branches, one respondent requested clarification on whether they would need to ensure that bondholders (purchasers) meet the "wholesale client" status. They proposed that they only need to ensure that bonds are issued on a wholesale basis, but that the client definition should not restrict the ability of New Zealand investors to buy these bonds.

Comment

Basis of definition

We remain of the view that the DTA "wholesale client" definition would be more appropriate than the FMCA's "wholesale investor" definition. As described in the non-core standards consultation paper, the criteria in the DTA definition are broader than in the FMCA definition, it more effectively aligns with the broader policy intent of the DTA and the DCS, and is also simple to apply.

Subsidiary of a "wholesale client" and persons under control

The policy intent is that a subsidiary of, or person under control by, a "wholesale client" is also in scope for branches to do business with. The FMCA definition (our previous proposal in the Branch

[86] https://www.legislation.govt.nz/act/public/2008/0097/latest/DLM3080331.html#DLM3080331

Review) likely already provided for this. Changing to the DTA s459 definition in isolation would not automatically achieve the same outcome.

We agree that a subsidiary of, or persons under control by, a "wholesale client" should be in scope, as their parent or controlling entity already meets the size and sophistication tests. Otherwise, the scope of the definition would change according to different organisational structures, without an underlying substantial difference.

Certified eligible investors

Branches are exempt from the DCS unless the deposit taker provides a material amount of services to retail clients.

Branches may be required to demonstrate that they are only conducting business with wholesale clients beyond 2028 to be exempted from the DCS. In this scenario, we understand that branches may choose to prepare unified certificates. Once the Branch Standard and Guidance are at a more advanced stage, we expect to be able to provide enough information for branches to prepare a unified certificate, if that is their preferred approach.

Bond issuance

The policy intent of the "wholesale client" definition is to identify customers of branches. It is not intended to affect bond and securities issuances by branches to New Zealand wholesale investors that meet the relevant FMCA definitions.

Response

We are giving careful consideration to the drafting of the "wholesale client" definition. We expect this to include provisions similar to those already used by deposit takers to avoid unnecessary compliance costs and unintended consequences, such as leaving businesses out of scope. We will also clarify that the definition will not limit bond/securities issuance by the overseas deposit taker to "wholesale clients" only.

We will issue guidance to support the requirements where this can be helpful to support compliance. This will be published for consultation alongside the exposure draft of the Branch Standard.

9.2.2. Large corporate and institutional client definition

The Consultation Paper proposed to carry over our decision in the Branch Review to allow dual-operating branches, subject to further risk mitigation including only being permitted to conduct business with large corporate and institutional clients (LCIC).

We proposed that a large corporate and institutional client be defined as having one or more of the following:

- Consolidated annual turnover of over NZ$50 million
- Total assets of over NZ$75 million
- Total assets under management of over NZ$1 billion (for funds management entities only).

Previously, in the Branch Review third consultation paper (**C3**) we had proposed to implement this decision using the "large corporate and institutional customer" definition, with only a consolidated annual turnover and a net assets limb, both set at NZ$50 million.

There was overall support for the primary components of the LCIC definition listed above. We did receive feedback on a range of technical issues relating to the drafting and implementation of the LCIC definition. These are discussed in turn through this section with our comment on each, concluding with an overall summary of our response to feedback on the LCIC definition.

AUM – Calibration of threshold

Two respondents suggested lowering the Assets Under Management (**AUM**) threshold to NZ$250 million to avoid excluding a number of fund managers.

Comment

During the Branch Review, we judged that it was appropriate to have an additional limb in the LCIC definition for funds management entities. This recognises the role that these entities play in the financial system and their reliance on large and sophisticated products and services that branches are well placed to provide.

The RBNZ Funds Management Survey classifies entities as 'large' if they are above NZ$1 billion in total AUM. The originally proposed calibration of the threshold at NZ$1 billion would include 37 entities, representing 97% of total AUM – and leave out 30 entities.[87] The rationale for proposing a NZ$1 billion threshold was more related to capturing the majority of AUM, rather than about reflecting the financial sophistication of entities.

We judged that the AUM threshold for funds management entities should be higher than the total assets threshold for other businesses. This was based on several factors, including industry feedback from existing dual-registered branches about their assessment of who the 'largest' or 'most sophisticated' clients are.

The funds management sector has a different business nature from the companies captured by the other limbs of the definition. Part of this difference is reflected by the fact that their size is better measured by the AUM, rather than by their own assets. In other words, 'large' has a different meaning in this context than for most enterprises covered by the Annual Enterprise Survey[88].

Response

Following further feedback in response to this consultation, we considered lowering the proposed AUM threshold from $1 billion to $250 million. Our analysis of the Managed Funds Survey gives the following outcomes:

- NZ$1 billion threshold: 37 out of 67 entities
- NZ$250 million threshold: 52 out of 67 entities

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[87] Data as of Q3 2024. See Managed Funds Survey: https://www.rbnz.govt.nz/statistics/surveys/financial-institutions/managed-funds-quarterly-survey

[88] *See* Stats NZ Tatauranga Aotearoa. (2023). Annual enterprise survey: 2022 financial year (provisional). https://www.stats.govt.nz/information-releases/annual-enterprise-survey-2022-financial-year-provisional/

We consider that there is merit in lowering the threshold to NZ$250 million. This would also include some KiwiSaver funds. While there is no clear-cut line to split the entities by size around the NZ$1 billion mark, there is significant clustering at the lowest end of the distribution, with a number of smaller entities with AUM below NZ$250 million.

We agree with the proposal to classify funds management entities as large corporate and institutional clients if they have total assets under management of over NZ$250 million. It helps ensure the Branch Standard will:

- be proportionate and simple to administer (see section 4(a)(i) of the DTA).
- reduce unnecessary compliance costs (see section 4(c) of the DTA).
- support competition in this market segment (see section 4(b) of the DTA) and the deposit-taking sector comprising a diversity of institutions (see section 4(a)(iii) of the DTA).

The policy outcome for the LCIC definition will be substantively the same as in the consultation, with minor changes to the definition itself. This gives greater weight to the effect of this decision on the funds management entities, rather than its impact on branches.

Funds management entities that do not qualify as LCIC can still access services from stand-alone branches, locally incorporated deposit takers, and other types of entities. This will support maintaining competition within the sector, including where new entrants to the funds management sector are in a growth phase.

We have decided to set the total assets under management threshold for funds management entities at NZ$250 million. This threshold will be reflected in the exposure draft of the Branch Standard. A large corporate and institutional client will be defined as a client having one or more of the following:

- Consolidated annual turnover of over NZ$50 million
- Total assets of over NZ$75 million
- Total assets under management of over NZ$250 million (for funds management entities only).

9.2.3. AUM – Sources of information

An industry body requested clarification on whether we intended to provide guidance on the source(s) for determining AUM.

Comment

We intend to align the definition of AUM with existing concepts to avoid unnecessary compliance costs. We will consider whether there is merit in us providing detailed guidance on this point. There are different types of funds managers, some subject to different sets of rules. But generally, fund managers already report their AUM.

For instance, NZX requires listed issuers to release audited financial statements within three months of their balance date.[89] This includes information about AUM. Part 7 of the FMCA[90]

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[89] *See* NZX's listing criteria for Fund Securities: https://www.nzx.com/services/listing-on-nzx-markets/funds/admission-listing-criteria

[90] *See* Part 7 Financial Reporting of the Financial Markets Conduct Act 2013: https://www.legislation.govt.nz/act/public/2013/0069/latest/whole.html#DLM4702238

requires regulated entities (FMC reporting entities and registered schemes) to file audited financial statements with the Registrar.

Response

Where possible, we will use existing information, rules, accounting practices, and financial reporting, for simplicity and consistency of treatment. We are considering whether there is value in being prescriptive on this topic, given the role of generally accepted accounting practices, among other rules and conventions.

9.2.4. AUM – Restrictions on qualifying entities

An industry body requested clarification on whether there would be restrictions on qualifying entities (i.e. situations where fund management is not the entity's core business/ANZSIC code, and overseas funds managers).

Comment

This third limb of the LCIC definition was proposed to apply to "funds management entities only". There are two separate issues in this question. We will comment on each below.

Regarding fund management as the entity's core business, the policy intent was to capture those entities specifically, given that they were not captured by the turnover and assets limbs that were originally proposed. This was based on the fact that funds management entities can have large amounts of AUM, that are not recorded on their own balance sheets.

Response

Expanding the definition to other types of entities (with a different core business) would effectively overlap with and undermine the first two limbs of the definition, which aim to capture entities other than fund managers. These types of entities can already qualify as LCIC if they meet the turnover or total assets thresholds.

The second issue is about overseas fund managers. The policy position on this topic is the same one as for the more general case of a large global entity (that meets the LCIC definition) having a smaller subsidiary in NZ that does not meet the definition on its own. This case is discussed in the next sub-section.

9.2.5. Small NZ subsidiary relying on large global parent's balance sheet

Three respondents requested clarification on whether – and suggested that – a small subsidiary (or person under control) of a large global parent can rely on the parent's balance sheet to meet the LCIC threshold. They submitted that, if this was not the case, this would limit competition and the products/services available to these multinational companies (**MNC**).

They suggested that this would lead to an asymmetric treatment of MNC, compared to the case when they dealt with standalone branches. They also considered that local information may not always be available to assess the LCIC thresholds.

Comment

There are trade-offs between the points raised and the policy intent. The general policy restricts dual-operating branches to dealing with a smaller pool of clients relative to standalone branches. From a first-principles perspective, this intends to prevent the offshoring of financial products, services, and capabilities that are deemed strategic to NZ's financial system and economy.

Having these products, services, and capabilities onshore, offered by local subsidiaries, ensures the resilience of New Zealand's financial system, especially in times of global stress, when branches' withdrawals could leave New Zealand's financial system more vulnerable and underserved.

Dual-operating groups may see this as a cost relative to standalone branches. However, this cost could be offset by the ability to serve New Zealand retail (and all other) clients.

While we recognise that the branch of a dual-operating group can serve a smaller number of clients than a stand-alone branch, the dual-operating group as a whole can serve the full range of clients.

The decision on this topic depends heavily on what proportion of the dual-operating branches' clients are small subsidiaries of large global companies. If they were a small proportion, then we could have appetite to allow them to rely on their parents' balance sheet to meet the LCIC threshold.

The main trade-off is between the general policy intent, and ensuring consistency and more competition in the sophisticated, large clients' market segment.

Response

Given the information available and the balance of risks, we will allow small subsidiaries and persons under control of large global entities to use the scale of their parents' balance sheets to qualify as LCIC, consistent with the provision for "wholesale clients" for standalone branches.

9.2.6. Self-certification

Two respondents requested clarification on whether branches would be able to rely on a "safe harbour certificate" or "self-certification" from the customer confirming that they meet the LCIC definition.

One of the respondents suggested two different forms of certificate.

The first certificate would allow the client to certify that it satisfies one of the three tests in the definition of LCIC or it reasonably expects that it will satisfy one of the three tests on or before (i) the maturity date of any transactions entered into with the branch, or (ii) two years from the date of certification (whichever is later).

The second certificate would be for Special Purpose Vehicles (**SPV**), that require the relevant product or service from the branch in connection with a project financing or structured finance, to allow them to certify themselves as such.

Comment

The policy intent is to accurately identify LCIC without imposing unnecessary compliance costs relative to other options. We are seeking to achieve this without leaving genuine LCIC out of scope due to timing issues or the structure of their operations.

Response

As such, we agree that clients should be able to certify themselves as LCIC in the two cases identified above. More details regarding the specific case of SPVs are discussed below.

9.2.7. Forward-looking provision: timeframe to meet thresholds, including for SPVs

Three respondents raised a timing issue where some clients would not meet the LCIC threshold on Day 1 but are reasonably expected to do some within the near future. This case includes SPVs/project finance due to their specific features – assets and liabilities grow over time as the specific project (e.g. infrastructure) is built, and turnover may start only after the project is finalised.

However, this issue is not limited to these cases. It also includes regular companies or clients that are expected to meet the threshold in the near future due to growth or other forward-looking elements (e.g. mergers).

Respondents suggested two ways of addressing this issue: permitting businesses with subsidiaries of LCIC and allowing businesses that are ancillary to otherwise permitted businesses.

Comment

We generally agree that SPVs should be in scope, due to the specific nature of their assets and liabilities financing, and to the time the underlying investments take to mature. We also consider clients that are reasonably expected to meet the thresholds within a certain period of time should also be in scope, to provide reasonable flexibility to accommodate business growth, and avoid unnecessary compliance costs.

Response

Regarding the respondents' proposals, we will allow businesses with subsidiaries of LCIC. This is dealt with in the relevant subsection "Small NZ subsidiary relying on large global parent's balance sheet" of this chapter.

However, we will not allow businesses that are ancillary to otherwise permitted businesses, as such a provision would be too wide. This would be difficult to implement and supervise, and may undermine the general policy intent. We will instead aim to address this issue in a more specific way.

To bring clients in scope before meeting the LCIC threshold, we will allow businesses with clients that are reasonably expected to meet the thresholds within a certain period of time. This time period could be either:

- On or before the maturity date of any transactions, or
- Two years from the date of the certification (whichever is later).

We will adopt a principles-based approach and will not prescribe specific methods for branches to assess client eligibility against the threshold. Instead, branches will be required to maintain an appropriate process to ensure clients are reasonably expected to meet the threshold within the specified timeframe.

The client self-certification process will help to achieve the outcome, and we will consider whether guidance is necessary to support this. This approach provides branches with flexibility, while having a clear-cut line to supervise.

9.2.8. Ongoing testing requirements and related issues: timing and frequency, metrics' fluctuations, remediation period, existing transactions, off-boarding

Three respondents requested clarifications on the ongoing testing requirements for the LCIC definition and made suggestions on how these could function. They also provided feedback on a range of related issues, including: timing and frequency of testing, the process to deal with fluctuations in turnover or assets, the off-boarding process and remediation period, and the treatment of existing transactions in case of off-boarding.

Two of the respondents suggested that clients should be tested only once, either at the loan origination or point of onboarding. This would reduce the compliance costs associated with more frequent testing.

Comment

The policy intent is to ensure that clients meet the LCIC definition while avoiding unnecessary compliance costs. To implement the ongoing testing requirements, we propose that clients must be tested at the time of onboarding, i.e. at the time a customer enters into a transaction with the branch. This would align with how the FMCA definition is applied.

Response

The Branch Standard will allow clients to remain certified for two years or until the maturity date of the last transaction made while the certificate was effective, whichever is longer. This will apply to all limbs of the definition.

Clause 44 of Schedule 1 of the FMCA allows a person to certify themselves as a wholesale investor for 2 years and remain certified until the committed maturity date of any transactions with a dual-operating branch. We consider this approach would be simpler to administer and supervise.

Our approach is if a client falls below the threshold and no longer meets the LCIC definition, branches can continue to do business with them for 12 months from that date or until the next yearly financial statement of the client is released, whichever is shorter. This will provide a remediation period where a client may meet the threshold again, or confirm they are not meeting it over a sustained period.

If the client fails to meet the threshold after the remediation period, branches are required to offboard them within six months. In this event, existing transactions can continue until maturity. Any new transactions necessary to carry on the client's business will be permitted if they have a maturity date before the end of the off-boarding period (i.e. six months after the remediation

period). Transactions with longer maturity dates, or any new transactions after this period are not permitted.

This decision will enforce the client definition without being overly costly for branches and their clients.

9.2.9. Materiality range for reporting breaches of LCIC thresholds

One respondent suggested that we provide guidance on a materiality range for reporting errors or inadvertent breach of thresholds. This would allow for identification and transition of clients between the subsidiary and branch of a dual-operating deposit taker.

Comment

We consider the materiality of any breaches of the LCIC requirement will be assessed in accordance with the current guidance (*Guidance on reporting by banks of breaches of regulatory requirements*[91]) or any instrument that supersedes it.

Response

We do not intend to publish separate guidance on what constitutes a material range for a breach of the LCIC definition.

This does not change the transition and off-boarding process to deal with a breach of a threshold, as discussed above.

9.2.10. Reporting entities/groups with consolidated financial statements

A respondent requested clarification where New Zealand subsidiaries are part of a bigger New Zealand group or reporting entity and where a consolidated financial statement is the only source of total assets or turnover information. This is the case for some government agencies, Crown entities and state-owned enterprises, and may also apply to some corporate entities.

Response

We agree that, if the entity is part of a larger New Zealand group, they should be captured by the LCIC definition, since the New Zealand parent entity is already a LCIC. The organisational structure does not change the policy intent of having these entities in scope.

This approach does not cover the case of entities that are part of subsidiaries of large overseas entities. That case is covered by the relevant subsection "Small NZ subsidiary relying on large global parent's balance sheet".

9.2.11. Ancillary businesses

Two respondents suggested that business which is ancillary to otherwise permitted business should be allowed. They also suggested this should be the case if the business is ancillary to other business conducted by the locally-incorporated subsidiary. This was in part due to the timing issue

[91] *See* RBNZ's January 2021 "Guidance on reporting by banks of breaches of regulatory requirements": "https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/regulation-and-supervision/banks/guidance/bank-breach-reporting-guidance-jan-2021.pdf

of special purpose vehicles, and it was a suggestion that could also be met by allowing businesses with subsidiaries of LCIC.

Response

As we will allow businesses with subsidiaries of large global (and New Zealand) clients, we consider that a more general provision to allow ancillary businesses is not necessary and could lead to unintended consequences. It would be difficult to implement and supervise, and may undermine the general policy intent.

9.2.12. Off-shoring of non-banking activities

One respondent suggested that some non-banking activities should be permitted to remain domiciled offshore - for example, financial advisory services (typically offered by global banks) utilising offshore expertise. They considered it was not sensible to force this type of arrangement onshore to the subsidiary. Other examples given included investments or joint ventures in digital banking projects, sustainable finance or other kinds of innovation.

Response

As described in the subsection "Small NZ subsidiary relying on large global parent's balance sheet", the policy rationale for the LCIC definition is to prevent the offshoring of financial products, services, and capabilities that are deemed strategic to New Zealand's financial system and economy.

Overseas deposit takers can serve different types of customers, according to their operating model. Each operating model involves specific prudential requirements and client-based restrictions. These decisions were made as part of the Branch Review and published in November 2023.

9.2.13. Counterparties and Investors

One respondent requested clarification on the application of the LCIC definition to counterparties or investors rather than customers. They suggested that the definition should not unduly limit the ability of branches to transact with counterparties or investors meeting the relevant size definitions, and that any customer that meets one of the tests should be eligible to do business with a dual-operating branch regardless of the nature of their business, e.g. government agencies.

Response

The policy intent is not to limit the ability of branches to transact with counterparties or investors meeting the relevant size definitions. Entities that meet one of the thresholds will be able to do businesses with branches. The case of government entities is treated separately, as well as the case of investors purchasing bonds and securities offered by the branch.

9.2.14. Government agencies

A respondent requested clarification on whether government agencies would be eligible as LCIC.

Comment

Our intent is that government agencies be eligible as LCIC. We will provide guidance on this.

9.2.15. Bond issuances

Similarly to the case for the previous consultation question, three respondents suggested that bond issuances and similar activities by the overseas bank should not be limited to LCIC (i.e. New Zealand investors should be able to subscribe if they meet "wholesale investor" tests under the FMCA).

Response

The policy intent of the LCIC definition is about customers of branches. The policy does not intend to limit bond and securities issuances by branches to New Zealand wholesale investors that meet the relevant FMCA definitions.

9.2.16. Other topics

One respondent suggested that asset-rich, revenue-poor business should be in scope (e.g. construction, significant fixed assets). They also suggested the decision could lead to a distortion of the subsidiary vs. branch risk profile, if the subsidiary's business is more concentrated in smaller commercial businesses and certain industries.

Another respondent proposed that dual-operating branches could conduct any activity that would normally be available to an overseas deposit taker – otherwise it would be forced to onshore activities which the subsidiary is not set up to support, and disadvantage dual-operating branches relative to stand-alone ones.

A respondent also considered that the LCIC restriction should be limited to deposits and not lending. They considered that "protection" was only required for deposits, but not for loans, and that this would avoid unintended consequences.

Comment

A client that meets one of the three limbs of the LCIC definition qualifies as a LCIC. This includes the case of asset-rich, revenue-poor business, if the assets (in this example) meet the relevant threshold. Regarding the risk profile, we note that the subsidiary is able to serve the full range of customers.

The Branch Standard imposes restrictions on the clients that branches can serve, but the locally-incorporated subsidiary can serve the full range of clients. The particular distribution of clients within that framework is a decision for the dual-operating group.

The decision in relation to dual-operating branches being able to conduct any activity available to an overseas deposit taker, was made as part of the Review of policy for branches of overseas banks and announced in November 2023.[92] (See the published RIS for a complete analysis, and section 9.2.5 of this document for a summary of the policy rationale for this distinction.)

On the LCIC restriction being limited to deposits and not lending, the policy rationale of the LCIC client definition is not primarily related to DCS protection. It is about keeping strategic financial services and capabilities onshore to protect and promote New Zealand's financial stability, as discussed in section 9.2.5.

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[92] *See* https://www.rbnz.govt.nz/have-your-say/review-of-policy-for-branches-of-overseas-banks

We also note that the LCIC definition and associated restrictions are client-based, rather than product-based. (See the RIS referenced above for more details.)

Response

We remain of the view that limiting dual-operating branches to doing business with LCIC will promote the stability of the New Zealand financial system, by reducing the risk that critical services are "off-shored".

In response to feedback, we propose a slight change to the definition of LCIC such that a large corporate and institutional client is a client that has one or more of the following:

- Consolidated annual turnover of over NZ$50 million
- Total assets of over NZ$75 million, or
- Total assets under management of over NZ$250 million (for funds management entities only).

There are several other factors in identifying LCICs that were brought to our attention through consultation. A summary of our response to these factors is as follows:

- AUM should be calculated in line with current practice. We will consider including further detail on this in the guidance to accompany the standard.
- Clients whose primary business is funds management can be defined as LCICs by meeting the AUM threshold. If their primary business is not funds management, they can meet either of the first two criteria.
- In response to feedback on the practicality of implementing the definition, a subsidiary of an LCIC will also be defined as an LCIC, whether they are the subsidiary of a New Zealand company or an overseas company.
- Clients will be able to self-certify as being an LCIC.
- Dual-operating branches will be required to check that their clients still meet the criteria every two years, and if a client is found to no longer meet the criteria, they will have a one-year grace period, followed by a six-month period to off-board the client.
- The materiality of any breaches of the LCIC requirement will be assessed in a manner consistent with the broader DTA framework.
- This requirement will be fully client-based, that is dual-operating branches will be able to offer any products and services to an LCIC, and no products and services to a client who is not defined as such.
- The definition will treat government agencies in the same way as other clients.

These factors will all be accordingly considered when preparing the exposure draft of the Branch Standard.

9.2.17. Jurisdiction and institution assessments

We proposed in the consultation paper that branches may be subject to one or more non-standard requirements if they are judged to be appropriate risk mitigants following a jurisdiction or institution-level assessment, as described in the Branch Review RIS, section 4.5.

Under the current approach, these jurisdiction or institution-level assessments only take place when an overseas bank applies for registration as a branch. The Branch Review proposed that all branches should also undergo a jurisdiction and institution-level assessment at least once every five years.

Process

One respondent discussed the process for conducting equivalence assessments, with a particular focus on perceived inconsistencies between the existing approach and that in other comparable jurisdictions. They also proposed that the track record of the overseas deposit taker in New Zealand should be a factor for consideration in conducting equivalence assessments.

Another respondent suggested that APRA's Guidelines for Overseas Banks Operating in Australia is a useful reference document for both regulated entities and prospective new entrants, and that it could also be useful for RBNZ to publish a similar document for the New Zealand context.[93]

Types of non-standard requirements

One respondent suggested there could be more flexibility around the "1:1 ratio" that limits the total size of an overseas deposit taker's branch total assets to the size of the total assets of its locally-incorporated subsidiary. They suggested that it could for example be a "1:3 ratio".

Comment

Process

We remain of the view that the process outlined in the Branch Review RIS section 4.5 will be a useful basis for jurisdiction and institution-level assessments under the DTA. More work is required to develop this process. We expect to release a process document for overseas deposit takers after the exposure draft of the Branch Standard, but before the DTA Standards commence in 2028.

Types of non-standard requirements

Section 92 of the DTA sets out the factors that the Reserve Bank must have regard to when a standard provides for conditions of licence, such as those described in the Branch Review RIS, section 4.5. Consistent with this, the Branch Standard will either:

- Set an appropriate range or limit within which the requirement or matter may be specified by the condition, or
- Set out an appropriate manner for RBNZ to decide on the terms of the condition (for example, by specifying the matters that RBNZ must have regard to, or be satisfied of, when deciding what condition is to apply).

In situations where an overseas deposit taker is subject to the 1:1 limit and the jurisdiction or institution have been judged to be more equivalent with the regulatory and supervisory regime in New Zealand, it is possible that RBNZ will have the flexibility to either relax or remove the limit. That is, it could either be relaxed to a ratio such as 1:3, or removed altogether.

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[93] *See* APRA's Guidelines - Overseas Banks: Operating in Australia: https://www.apra.gov.au/sites/default/files/2021-08/Guidelines%20-%20Overseas%20Banks%20Operating%20in%20Australia.pdf:

Response

We will continue to work with industry to develop a process for periodic jurisdiction and institution level assessments, which will allow supervisors to make informed decisions about conditions of licence. We expect to give further clarity on this process before the DTA Standards commence in 2028.

9.2.18. Local incorporation threshold

There are a number of thresholds included in the proposed requirements. Several respondents queried how will we expect deposit takers to test these on an ongoing basis. In particular, one respondent suggested that guidance should be provided regarding the local incorporation threshold of NZ$15 billion in total assets, in particular the expectation that a branch's total assets will be calculated in line with the definition in section 158(2) of the DTA. The respondent also suggested that RBNZ should provide guidance on a materiality threshold for reporting errors or an inadvertent breach of thresholds.

Comment

Our view is that a branch exceeding NZ$15 billion in total assets would qualify as a material breach of a requirement and would be addressed accordingly with the DTA and our Enforcement Framework[94]. Total assets are generally a more stable metric, and branches should have risk management practices in place to ensure they do not regularly or substantially exceed the total assets threshold.

Dual-operating deposit takers can allocate assets differently between the branch and subsidiary. Standalone branches can consider local incorporation ahead of a time when they may breach the NZ$15 billion threshold. In both cases, the licensed deposit taker should be in regular contact with their supervisor and should act ahead of time if it is possible they may breach the threshold. This is consistent with the early and timely engagement with supervisors mentioned in the current guidance on reporting by banks of breaches of regulatory requirements.

Response

We are giving careful consideration to the drafting of the ongoing testing requirements for several thresholds, particularly the local incorporation threshold. We will issue guidance to support the requirements where this can be helpful to support compliance. This will be published for consultation alongside the exposure draft of the Branch Standard.

9.3. Minor and technical issues

In this section, we address certain discrete technical topics that were included in the consultation or that have been raised by respondents.

[94] *See* RBNZ's Enforcement Framework here: https://www.rbnz.govt.nz/regulation-and-supervision/cross-sector-oversight/enforcement

Table 9.2: Minor and technical issues for the Branch Standard

Issue	Response
One respondent noted that requiring notification to RBNZ of material changes in home regulatory requirements may result in unnecessary compliance costs.	Greater integration between home and host supervisors can help to support effective supervision of branches. Branches play an important role in the effective supervision of cross-border banks, for example as conduits for information about risks and risk mitigants in the two (or more) relevant jurisdictions. We will still include this requirement, but will consider how to draft it such that it minimises unnecessary compliance costs. For example, we might allow periodic reporting of changes that are immaterial for the New Zealand operations of the deposit taker.
One respondent suggested that branching can be an important pathway for overseas deposit takers (especially from Pacific Island countries) to act as remittance providers in New Zealand. They suggested a de minimis exception to branch policy (e.g., NZ$100 million) to provide financial products and services to New Zealand's Pacific community.	We understand that remittance transactions in the Pacific can be expensive due to the region's small size, remoteness and limited infrastructure. Banks in the Pacific struggle to access global financial services that enable money transfers to and within the region. See Our work in the Pacific - Reserve Bank of New Zealand - Te Pūtea Matua Under the Branch Standard, licensed overseas deposit takers will not be able to provide remittance services to retail customers. However, there are several pathways available for overseas banks to provide remittance services to retail customers. This includes the Individual Authorisations process. We will consider how these pathways can be taken forward under the DTA, albeit noting that this is outside the scope of the Branch Standard. Our current policy relating to authorisations of overseas banks can be found below. See Restrictions on use of the word 'bank' - Reserve Bank of New Zealand - Te Pūtea Matua
One respondent raised guidance relating to the due diligence requirement for branch CEOs, and the consistency of requirements for branches across standards.	We are considering these matters and plan to issue due diligence guidance for directors of locally-incorporated deposit takers and CEOs of branches. This will support compliance with sections 93 and 94 of the DTA. We will ensure consistency of branch requirements across the Non-Core Standards.

Annex A: Glossary

Term	Meaning
ADI	Authorised Deposit-Taking Institution
AMA	Advanced Measurement Approach
APRA	Australian Prudential Regulation Authority
AUM	Assets under management
Banking group	in relation to a registered bank,— (a) means the financial reporting group; or (b) if the Reserve Bank has, by notice in writing to the registered bank, after consultation with the registered bank, agreed to or required the inclusion or exclusion of any entity or any part of any entity, means the financial reporting group including or excluding that entity or that part of that entity, as the case may be.
Basel Core Principles	the Core Principles for Effective Banking Supervision issued by the Basel Committee for Banking Supervision
BCBS	Basel Committee for Banking Supervision
BCBS CGP	Basel Committee on Banking Supervision Guidelines – Corporate Governance Principles for Banks
Board	Board of directors
BPSA	Banking (Prudential Supervision) Act 1989
BPR	Banking Prudential Requirements
BPR100	BPR100 Capital Adequacy document
BPR131	BPR131 Standardised Credit Risk RWAs document
BPR151	BPR151 AMA Operational Risk document
Branches	Branches of overseas deposit takers. Has the same meaning as "overseas licensed deposit taker" in section 6 of the DTA.
Branch Review	Review of policy for branches of overseas banks
Branch Review RIS	Branch Review Regulatory Impact Statement
BSH	Banking Supervision Handbook, being superseded by the BPR
BS1	BS1 – Statement of Principles: Bank Registration and Supervision
BS7A	Disclosure requirements for banks in New Zealand
BS10	Review of Suitability of Bank Directors and Senior Managers
BS11	Outsourcing Policy for Banks
BS13	Liquidity policy for banks, implemented in 2010 by the Reserve Bank
BS13a	Liquidity policy for banks, Annex of Liquid Assets

Term	Meaning
BS14	Reserve Bank Corporate Governance document
BS17	The Reserve Bank's Open Bank Resolution (OBR) Pre-positioning Requirements Policy
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CoFR	Council of Financial Regulators
Company	Has the same meaning as in section 2(1) of the Companies Act 1993 and includes an overseas company within the meaning of that Act
Consultation Paper	Our Deposit Takers Non-Core Standards consultation paper published on 21 August 2024 and available here: Deposit Takers Non-Core Standards Consultation Paper
CoR	Conditions of Registration
Core Standards response document	Our Summary of Submissions and Policy Decisions for the Liquidity, Depositor Compensation Scheme and Disclosure Standards published on 1 May 2025 and available here: Deposit Takers Core Standards - Reserve Bank of New Zealand - Citizen Space
Covered bond	Means bonds that provide investors with a security interest over a pool of the deposit taker's assets (the cover pool).
Cover pool	See **Covered bond**
CPS 220	Australian Prudential Regulation Authority's Prudential Standard CPS 220 Risk Management
CPS 230	Australian Prudential Regulation Authority's Prudential Standard CPS 230 Operational Risk Management
CPS 234	Australian Prudential Regulation Authority's Prudential Standard CPS 234 Information Security
CRO	Chief Risk Officer
C2	Second consultation paper for the Branch Policy Review, released in 2022
C3	Third consultation paper for the Branch Policy Review, released in 2023
D-SIBs	Domestic systemically important banks
DCS	Depositor Compensation Scheme, has the same meaning as in Part 6 of the Deposit Takers Act 2023
DTA	Deposit Takers Act 2023

Term	Meaning
Dual operation	Where an overseas deposit taker operates both a branch and a locally-incorporated subsidiary in New Zealand
Dual-Operating branch	A branch where the overseas deposit taker also operates a locally-incorporated subsidiary licensed by the Reserve Bank of New Zealand
ESAS	Exchange Settlement Account System
Financial reporting group	For branches, means the New Zealand business of the registered bank and its subsidiaries as required to be reported in group financial statements under section 461B(2) of the Financial Markets Conduct Act 2013. For locally-incorporated deposit takers, has the same meaning as "group".
FMA	Financial Markets Authority
FMCA	Financial Markets Conduct Act 2013
FMI	Financial Market Infrastructures
Freeze/frozen	In relation to accounts or other liabilities, means all or part of the account or other liability for which the moratorium has not been waived and payment is suspended
FSAP	Financial Sector Assessment Programme
GAAP	Generally accepted accounting practice, has the same meaning as in section 8 of the Financial Reporting Act 2013
GFC	Global Financial Crisis
Governance Thematic	Governance Thematic Review Report 2023
Group	Has the same meaning as in section 6(1) of the Financial Markets Conduct Act 2013.
IADI	International Association of Deposit Insurers
ICAAP	Internal Capital Adequacy Assessment Process
ICT	Information and communication technology
IMF	International Monetary Fund
IMF FSAP	International Monetary Fund Financial Sector Assessment Program 2017
In-flight payments	Payments that have been initiated but not fully processed as at the time the deposit taker enters resolution
Insured balances	The account balances for which the depositor would have had an entitlement to compensation under the DCS if the Reserve Bank had issued a specified event notice, with a quantification time

Term	Meaning
	equivalent to the time at which the deposit taker was placed into resolution
Licensed NBDT	Has the same meaning as in section 4(1) of the NBDT Act
Local incorporation	means the process of becoming incorporated as a company in New Zealand under the Companies Act 1993.
Look-through	Means certain deposits where funds are being held on behalf of an eligible depositor
Locally-incorporated deposit taker	means a deposit taker that is incorporated as a company in New Zealand under the Companies Act 1993.
MBIE	Ministry for Business, Innovation and Employment
Moratorium	The moratorium provided for in the DTA, section 284, which prevents a person from taking certain actions against or in respect of a deposit taker in resolution
MoU	Memorandum of Understanding
MSP	Material Service Providers
NBDT	Non-bank deposit takers, has the same meaning as in section 5 of the NBDT Act
NBDT Act	Non-bank Deposit Takers Act 2013
NBDT capital regulations	Deposit Takers (Credit Ratings, Capital Ratios, and Related Party Exposure) Regulations 2010
NBDT liquidity regulations	Deposit Takers (Liquidity Requirements) Regulations 2010
New Zealand CEO	New Zealand Chief Executive Officer, as defined in the DTA
Non-D-SIBs	Banks that are not domestic systemically important banks
NZD	New Zealand Dollar
NZX	New Zealand's stock exchange
NZX code	NZX's Corporate Governance Code
OBR	Open Bank Resolution
OCR	Official Cash Rate
OIA	Official Information Act 1982
OIC	Order in Council
Proportionality framework	*Proportionality Framework for Developing Standards under the Deposit Takers Act*, published by the Reserve Bank on 14 March 2024
RBA	Reserve Bank of Australia
RB bill	Reserve Bank bill

Term	Meaning
Registered bank	Has the same meaning as in section 2(1) of the Banking (Prudential Supervision) Act 1989
Reserve Bank	The Reserve Bank of New Zealand – Te Pūtea Matua
Resolution manager	One or more persons appointed by the Reserve Bank under the DTA, section 357, to act as resolution manager, or the Reserve Bank if it has appointed itself as resolution manager, or if no other person holds office as resolution manager. Under the DTA, Part 7, the resolution manager has certain powers and duties in relation to a deposit taker in resolution
RIA	Regulatory Impact Assessment
RWA	Risk weighted assets
SBI	Settlement Before Interchange payment system
SBI365	Settlement Before Interchange 365 payment system
SDV	Single Depositor View
SME	Small and medium-sized enterprise
SoFA	Statement of Funding Approach
SPV	Special Purpose Vehicle
Standards	Refer to the four core Deposit Taker Standards to be made under the Deposit Takers Act 2023
SVB	Silicon Valley Bank
T-bill	Treasury bill
Unfreeze/unfrozen	In relation to accounts or other liabilities means all or part of the account or other liability for which the moratorium has been waived and payment has not been suspended
Uninsured balances	Customer account balances that are not insured balances

Annex B: Consultation questions

Introduction

Q1	What do you think the cumulative impact of the proposed standards will be on the relevant principles?
Q2	What do you think of the way we have taken into account the proportionality principle in developing the proposed standards?
Q3	What do you think the implications of the proposed standards will be on the deposit-taking sector comprising a diversity of institutions to provide access to financial products and services and on financial inclusion more generally? If possible, please provide specific feedback on how these requirements might impact the accessibility and affordability of financial services.
Q4	What do you think the impact of the proposed standards will be for the Māori economy, in particular on: a) the role of the financial system and deposit takers in supporting the Māori economy; and b) Māori customers, iwi and individuals and Māori businesses, trusts and entities?
Q5	What do you think the cumulative impact of the proposed standards will be on competition? How do you think competition should be factored into our broader analysis of the principles?
Q6	Do you think that this approach to developing standards is appropriate? Is there anything else we should take into account when developing the prudential framework?
Q7	What transitional arrangements would be appropriate? Are there any particular requirements that would take longer to comply with than others?

Governance Standard

Q8	Do you have comments on the proposed outcomes and requirements for the responsibilities of boards of Group 1 deposit takers?
Q9	Do you have comments on the proposed board size and composition requirements for Group 1 deposit takers?
Q10	Do you have comments on the proposed criteria for independence of directors for Group 1 deposit takers?

Q11	Do you have comments on the impacts of removing the independence exception for the chairperson of a board who is also a member of a parent board?
Q12	Do you have comments on the proposed requirements for board committees of Group 1 deposit takers?
Q13	Do you have comments on the proposed fit and proper requirements for the boards and senior managers of Group 1 deposit takers?
Q14	Do you have comments on our initial assessment of the impact of our proposals on Group 1 deposit takers?
Q15	Do you have comments on the proposed outcomes and requirements for the responsibilities of boards of Group 2 deposit takers?
Q16	Do you have comments on the proposed board size and composition requirements for Group 2 deposit takers?
Q17	Do you have comments on the proposed criteria for independence of directors for Group 2 deposit takers?
Q18	Do you have comments on the proposed fit and proper requirements for the boards and senior managers of Group 2 deposit takers?
Q19	Do you have comments on our initial assessment of the impact of our proposals on Group 2 deposit takers?
Q20	Do you have comments on the proposed outcomes and requirements for the responsibilities of boards of Group 3 deposit takers?
Q21	Do you have comments on the proposed board size and composition requirements for Group 3 deposit takers?
Q22	Do you have comments on the proposed criteria for independence of directors for Group 3 deposit takers?
Q23	Do you have comments on the proposed fit and proper requirements for the directors and senior managers of Group 3 deposit takers?
Q24	Are there alternative options that we could consider to deliver the outcomes of the proposed Governance Standard for Group 3 deposit takers?
Q25	Do you have comments on our initial assessment of the impact of our proposals on Group 3 deposit takers?
Q26	Do you have comments on the proposed outcomes and requirements for the responsibilities of the New Zealand branch CEO?

Q27	Do you have comments on the proposed fit and proper requirements for branch senior managers?
Q28	Do you have comments on our initial assessment of the impact of our proposals on branches?
Q29	Do you have comments on, or additional information relating to, the proposed requirements of the Governance Standard?
Q30	Are there areas of the proposed Governance Standard that need to be further clarified in the Guidance, and how do you think these aspects can be clarified?

Lending Standard

Q31	Do you agree that the Lending Standard should only apply to residential mortgage lending (with a regulation made under the DTA to enable that)?
Q32	Do you agree with our proposed approach to carry over the existing borrower-based macroprudential policy requirements to Group 1 deposit takers (which includes a three-month measurement period)?
Q33	Do you agree with including the proposed set of LVR and DTI threshold and speed limit requirements in the Lending Standard?
Q34	Do you agree with not including an option to apply the Lending Standard at an Auckland/non-Auckland level?
Q35	Do you agree with our proposed approach to carry over the existing borrower-based macroprudential policy requirements to Group 2 deposit takers (which includes a six-month measurement period)?
Q36	Do you agree that the proposal in section 2.2 should apply to Group 2 deposit takers?
Q37	Do you agree that the proposal in section 2.3 should apply to Group 2 deposit takers?
Q38	Do you agree with our proposed approach of not requiring Group 3 deposit takers to comply with borrower-based macroprudential policy requirements as set out in the Lending Standard?

Risk Management Standard

Q39	Do you agree with our proposed approach to developing the Risk Management Standard?
Q40	What do you think the compliance costs associated with the requirements in the proposed standard are likely to be? Is there another way that we can achieve our policy intent with lower compliance costs?

Q41	Are there certain requirements for which transitional provisions would be useful?
Q42	Do you agree with our proposed approach in relation to the requirement for deposit takers to have a risk management framework?
Q43	Do you agree with our proposed requirements relating to risk management at the deposit taker and group levels?
Q44	Do you agree with our proposed approach that the risk management framework addresses all material risks?
Q45	Do you agree with our proposal to set out a non-exhaustive list of material risk categories? If so, do you agree with our proposed non-exhaustive list of material risk categories?
Q46	Do you consider that we should define 'material risk' and what do you think would be an appropriate definition?
Q47	Do you agree with our proposed approach relating to the responsibilities of the board?
Q48	Do you agree with our proposal that deposit takers must have a board-approved risk management strategy?
Q49	Do you agree with our proposal that deposit takers must have a board-approved risk appetite statement?
Q50	Do you agree with our proposal to require the board to establish a sound risk management culture throughout the deposit taker and to issue guidance on the soundness and adequacy of risk management cultures? Do you think there is an alternative way we could achieve the desired policy outcomes?
Q51	Do you agree with our proposal relating to risk management policies and processes?
Q52	Do you agree with our proposal that the risk management framework be regularly reviewed and adjusted?
Q53	What do you consider to be appropriate for the breadth and frequency of the review requirement?
Q54	Do you agree with our proposal to require deposit takers to have appropriate internal processes for assessing their overall capital adequacy?
Q55	Do you agree with our proposal to require deposit takers to have appropriate internal processes for assessing their overall liquidity risk management?
Q56	Do you agree with our proposal relating to stress testing?

Q57	What stress testing would be appropriate for the different material risks that Group 1 deposit takers assess? Do you think our existing guidance is an appropriate starting point?
Q58	Do you agree with our proposed approach to information and data management?
Q59	Do you agree with our proposal to require deposit takers to have adequate risk management functions?
Q60	Do you agree with our proposal to restrict the linking of a deposit taker's financial performance to any discretionary benefits that might apply to members of the risk management function?
Q61	Do you agree with our proposal that the risk management function be subject to regular review by the internal assurance function?
Q62	Do you agree with our proposal to require Group 1 deposit takers to have a dedicated risk management unit overseen by a CRO or equivalent function?
Q63	Do you agree with our proposal to require deposit takers to have adequate internal control frameworks?
Q64	Do you agree with our proposal to require deposit takers to have a compliance function?
Q65	Do you agree with our proposed approach to require deposit takers to have an internal assurance function?
Q66	Do you agree with our proposal relating to reporting and notification requirements?
Q67	Do you agree with our proposal to take the same approach to risk management requirements for Group 2 deposit takers as we propose for Group 1?
Q68	What do you think the compliance costs associated with our proposed approach to Group 2 deposit takers are likely to be? Is there another way that we can achieve our policy intent with lower compliance costs for Group 2 deposit takers?
Q69	Do you agree with our proposal to take the same approach to risk management requirements for Group 3 deposit takers as we propose for Group 1 and Group 2 deposit takers, except for the requirements identified?
Q70	What do you think the compliance costs associated with our proposed approach to Group 3 deposit takers are likely to be? Is there another way that

	we can achieve our policy intent with lower compliance costs for Group 3 deposit takers?
Q71	Do you agree with our proposal to require Group 3 deposit takers to undertake stress testing covering material risks that are capital, liquidity and operational risks?
Q72	Do you agree with our proposal to not require Group 3 deposit takers to have a dedicated risk management unit overseen by a CRO or equivalent function, but to require that Group 3 deposit takers who do not have a CRO to have an executive responsible for risk management?
Q73	Do you agree with our proposal to require Group 3 deposit takers to have a compliance function, but allow this to be outsourced?
Q74	Do you agree with our proposed approach to require Group 3 deposit takers to have an internal assurance function, but allow this to be outsourced?
Q75	Do you agree with our proposal to take the same approach to risk management requirements for branches as we propose for Group 1 and Group 2 deposit takers, except for the requirements identified?
Q76	What do you think the compliance costs associated with our proposed approach to branches are likely to be? Is there another way that we can achieve our policy intent with lower compliance costs for branches?
Q77	Do you agree with our proposed approach to the requirement for branches to have a risk management framework?
Q78	Do you agree with our proposed requirements for risk management at the branch and group levels?
Q79	Do you agree with our proposal to apply the proposed requirements for responsibilities of New Zealand CEOs of branches of overseas deposit takers?
Q80	Do you agree with our proposal to not impose requirements for stress testing on branches?
Q81	Do you agree with our proposal to not require branches to have a dedicated risk management unit overseen by a CRO or equivalent function?
Q82	Do you agree with our proposal to require branches to have a compliance function, but allow this to be outsourced or resourced by the home entity?
Q83	Do you agree with our proposed approach to require branches to have an internal assurance function, but allow this to be outsourced or resourced by the home entity?

Operational Resilience Standard

Q84	Do you have comments on our proposed definition of 'critical operations'?
Q85	Do you have comments on our proposed operational risk management requirements for Group 1 deposit takers?
Q86	Do you have comments on the proposed material service provider management requirements for Group 1 deposit takers, in particular relating to potential interactions with our proposed Outsourcing Standard?
Q87	Do you have comments on our proposed ICT risk management requirements for Group 1 deposit takers?
Q88	Do you have comments on our proposed definitions?
Q89	Do you have comments on our proposed business continuity planning and management requirements for Group 1 deposit takers?
Q90	Do you have comments on our analysis and cost of compliance assessment?
Q91	Do you have comments on our proposal to apply the same requirements for Group 1 deposit takers to Group 2?
Q92	Do you have comments on our analysis and cost compliance assessment for Group 2?
Q93	Do you have comments on our proposal to apply the same requirements for Group 1 deposit takers to Group 3?
Q94	Are there alternative options that we could consider to deliver the outcomes of the proposed Operational Resilience Standard?
Q95	Do you have comments on our analysis and cost compliance assessment for Group 3?
Q96	Do you have comments on our proposed operational resilience requirements for branches?
Q97	Do you have comments on our analysis and cost compliance assessment for branches?

Related Party Exposures Standard

Q98	Do you agree with the proposed approach for Group 1 deposit takers?
Q99	Are there any developments or changes since our BS8 review that we should be aware of?

Q100	Do you agree with the proposed approach for Group 2 deposit takers?
Q101	Do you agree with the preference for Option A, that is, adopting the BS8 definition?
Q102	Do you agree that not continuing to include governance bodies 'overlapping by 40%' as part of the definition of related party is reasonable in light of the risks the standard seeks to manage?
Q103	Do you consider the inclusion of entities controlled by a director of the NBDT will result in aggregate exposures that remain within the 15% limit?
Q104	Do you agree the definition of family member, and adjusted thresholds for 'significant influence' and control are reasonable in light of the risks the standard seeks to manage?
Q105	Do you agree with the proposed approach for Group 3 deposit takers?
Q106	Do you agree that the calculation of aggregate net exposures in the Related Party Exposure Standard remains aligned with the Capital Standard for Group 3 deposit takers?
Q107	Is our evaluation of the impact of requiring Group 3 deposit takers to prevent abuses in transactions with related parties accurate?

Outsourcing Standard

Q122	Do you agree with the general approach of not making major changes to the Outsourcing Policy for Banks (BS11) in converting it to a standard?
Q123	Do you agree with our assessment of the requirements in the existing outsourcing policy, BS11, against the purposes and principles of the DTA?
Q124	Do you agree with replacing the term 'business day', as used in BS11, section B1.1(3), with 'calendar day' in the future Outsourcing Standard?
Q125	Do you agree to including, where appropriate, supervisory expectations, FAQs, letters, etc issued during the transition period as part of the guidance document that will accompany the Outsourcing Standard?
Q126	Do you agree with the proposal for the new Outsourcing Standard to apply only to deposit takers already required to implement BS11 or required to implement BS11 before the introduction of the Outsourcing Standard?

Restricted Activities Standard

Q127	Do you agree with our proposed approach to developing the Restricted Activities Standard?

Q128	What do you think the compliance costs associated with the restrictions and prohibitions in the proposed standard are likely to be? Is there another way that we can achieve our policy intent with lower compliance costs?
Q129	Do you agree with our proposal to restrict insurance business by deposit takers?
Q130	Do you agree with our proposed quantitative threshold of no more than 1% of the deposit-taking group's total assets? Do you think this limit remains appropriate, or is there a risk of this threshold being breached where insurance underwriting is incidentally undertaken during the course of deposit-taking business?
Q131	Do you agree with our proposal to restrict the conduct of material non-financial activities by deposit takers?
Q132	Do you agree with our proposal to maintain a materiality threshold? If so, what kind of materiality threshold would be more appropriate for achieving our policy intent, and what would be an appropriate measure?
Q133	Do you consider that there is a material risk that, in a scenario where a deposit taker assumes control of a non-financial business following an insolvency event, a quantitative materiality threshold of 1% of total assets or 5% of net income could be breached? If so, what do you think we could do to accommodate this risk within the proposed restriction?
Q134	Do you agree with our proposal to require deposit takers wanting to establish a branch or subsidiary overseas to notify us before approaching the host regulator?
Q135	What criteria do you consider would be appropriate in our assessment of whether to grant approval for a deposit taker to establish an overseas branch or subsidiary?
Q136	Do you agree with our proposal to limit to 10% the total proportion of a deposit taker's assets that may be encumbered for the purpose of covered-bond issuance?
Q137	Do you agree with our proposal to take the same approach to restricted activities for Group 2 deposit takers as we propose for Group 1 deposit takers?
Q138	What are the compliance costs associated with our proposed approach to Group 2 deposit takers likely to be? Is there another way that we can achieve our policy intent with lower compliance costs for Group 2 deposit takers?
Q139	Do you consider there is a risk that, in a scenario in which a deposit taker assumes control of a non-financial business in an insolvency event, the materiality threshold could be breached for a Group 2 deposit taker? If so,

	what do you think we could do to accommodate this risk within the proposed restriction?
Q140	Do you agree with our proposal to take the same approach to Group 3 deposit takers as to Group 1 and Group 2 deposit takers, by restricting insurance business by deposit takers?
Q141	Do you agree with our proposed quantitative threshold of no more than 1% of the deposit-taking group's total assets? Do you think this limit is appropriate, or is there a risk of this threshold being breached if insurance underwriting is incidentally undertaken during the course of deposit-taking business?
Q142	Do you agree with our proposal to take the same approach to Group 3 deposit takers as to Group 1 and Group 2 deposit takers, by restricting their ability to carry on material non-financial activities?
Q143	Do you consider that there is a risk that, in a scenario in which a Group 3 deposit taker assumes control of a non-financial business in an insolvency event, the materiality threshold could be breached? If so, what do you think we could do to accommodate this risk within the proposed restriction?
Q144	Do you agree with our proposal to take the same approach to Group 3 deposit takers wanting to establish a branch or subsidiary overseas as to Group 1 and Group 2 deposit takers, by requiring deposit takers to notify us before approaching the host regulator, and then seek our approval after the host regulator has agreed to the establishment of the branch or subsidiary?
Q145	Do you agree with our proposal to take the same approach to Group 3 deposit takers as to Group 1 and Group 2 deposit takers, by restricting to 10% the proportion of their assets that can be encumbered as a result of covered-bond issuance?
Q146	Do you agree with our proposal to take the same approach to branches as to Group 1, Group 2 and Group 3 deposit takers, by restricting insurance business by branches?
Q147	Do you agree with our proposed quantitative threshold of no more than 1% of total assets of the New Zealand business of the overseas deposit taker?
Q148	Do you agree with our proposal to take the same approach to branches as to Group 1, Group 2 and Group 3 deposit takers, by restricting the conduct of material non-financial activities by branches?
Q149	Do you agree with our proposal to maintain a materiality threshold? If so, what kind of materiality threshold would be more appropriate for achieving our policy intent, and what would be an appropriate measure?

Branch Standard

Q150	Do you have any comments on the proposal to use the 'wholesale clients' definition as per section 459(3) of the DTA, and its implications for branches and their customers?
Q151	Do you have any comments on the proposed definition of large corporate and institutional client and its implications for branches and their customers? Please provide details on the impact of the different limbs of the definition.
Q152	Do you have any comments on the proposed approach for branches of overseas deposit takers?
Q153	How can we make it easier for current and prospective branches to understand the requirements that will apply to them under the DTA?