

# Bank registration information

*The purpose of this document is to provide information and guidance to potential applicants for bank registration. It covers the policies and processes the Reserve Bank applies to bank registration, and the relevant laws and regulation.*

**Current as at: 20 October 2009**

**How to use this document**

This document provides information on the application process for registered bank status under the Reserve Bank of New Zealand Act 1989. It summarises relevant content of the Reserve Bank Act and the Reserve Bank's policies that apply to the registration and supervision of banks, known as the Banking Supervision Handbook.

Applicants are advised to refer to the Act and the Handbook for detailed guidance on the matters covered in this document. In the case of any inconsistency, the Act and the Handbook take precedence over this document.

Applicants are also asked to take into account that in considering any application or potential application for bank status, the Reserve Bank will treat each case on its own merits taking into account the circumstances that exist at the time, and will not necessarily be bound by the content of this document.

Lastly, this document is not intended to be a substitute for legal advice and applicants for registration are recommended to retain their own advisers.

<b>Contents</b>	
Purposes of registration	<ul style="list-style-type: none"> <li>• Legislative objectives</li> <li>• Interpretation of objectives</li> <li>• Access to the Act</li> </ul>
Description of registration process	<ul style="list-style-type: none"> <li>• Factors taken into account</li> <li>• Communications with applicant</li> <li>• Internal Reserve Bank processes</li> <li>• Time required to determine application</li> <li>• Fees payable</li> <li>• Formal registration process</li> <li>• Public notification</li> <li>• Naming issues</li> <li>• Unsuccessful applications</li> </ul>
Policy documents	<ul style="list-style-type: none"> <li>• Access to policy documents</li> <li>• Explanation of policy documents</li> </ul>
Orders in Council	<ul style="list-style-type: none"> <li>• Access to Orders in Council</li> <li>• Explanation of Orders in Council</li> </ul>
Disclosure statements	<ul style="list-style-type: none"> <li>• Key Information Summary</li> <li>• General Disclosure Statement</li> <li>• Supplementary Disclosure Statement</li> <li>• Sign-off by directors and local CEO</li> </ul>
Key quantitative and qualitative requirements	<ul style="list-style-type: none"> <li>• Minimum capital</li> <li>• Capital adequacy</li> <li>• Connected lending</li> <li>• Adequate liquidity</li> <li>• Controls and systems</li> <li>• Ownership</li> <li>• Financial market standing</li> <li>• Suitability of directors and senior managers</li> </ul>
Other relevant issues	<ul style="list-style-type: none"> <li>• Credit ratings</li> <li>• Independent reports</li> <li>• Implementation of suitability checks</li> <li>• Draft disclosure statement</li> <li>• Location of customers</li> <li>• Legal form of applicant</li> <li>• Business plan</li> <li>• Start-up applicants</li> </ul>
Conditions of registration	<ul style="list-style-type: none"> <li>• Standards conditions</li> <li>• Non-standard conditions</li> <li>• Access to standard conditions</li> </ul>
Contacts	<ul style="list-style-type: none"> <li>• Reserve Bank staff contacts</li> <li>• Initiating discussions on possible registration</li> </ul>

## **Purposes of registration**

The Reserve Bank's powers and responsibilities for registering and supervising banks are set out in Part 5 of the Reserve Bank of New Zealand Act 1989. Section 68 of the Act states that the Reserve Bank's powers under this Part of the Act shall be exercised for the purposes of -

- (a) Promoting the maintenance of a sound and efficient financial system; or
- (b) Avoiding significant damage to the financial system that could result from the failure of a registered bank.

The Reserve Bank registers banks to help achieve the first of these purposes, and supervises banks for both of these purposes.

It is notable that the protection of depositors' interests is not a purpose imposed on the Reserve Bank by the Act. In other countries this is often stated as a specific purpose. However, by promoting the maintenance of a sound and efficient financial system the Reserve Bank indirectly protects the interests of depositors.

The Reserve Bank interprets its legislative purposes as permitting it to register an entity, if it considers that registration will be consistent with promoting the soundness or efficiency of the financial system. The Reserve Bank does not impose quotas of any kind on registration, or restrict foreign ownership. Applicants who meet the required qualitative and quantitative standards will be registered.

The Reserve Bank of New Zealand Act can be accessed at:

<http://www.rbnz.govt.nz/about/ourlegislation>

## Description of registration process

### *Factors taken into account*

The Act prescribes what factors the Reserve Bank must take into account when determining an application. Only the factors listed in the Act can be taken into account. These factors are listed in Sections 73, 73A, 73B and 78 of the Act and are:

- That the business of the applicant will comprise to a substantial extent, the borrowing and lending of money, or the provision of financial services;
- The incorporation and ownership structure of the applicant;
- The size and nature of the applicant's business;
- The ability of the applicant to carry on its business in a prudent manner, in particular:
  - Capital in relation to the size and nature of the business
  - Loan concentration and risk exposures
  - Separation of the business from other interests of the owner
  - Internal controls and accounting systems
  - Risk management systems and policies
  - Outsourcing arrangements;
- The standing of the applicant in the financial markets;
- The suitability for their positions of the directors and senior managers;
- The standing of the owner of the applicant in the financial markets;
- In the case of applicants that are not locally incorporated:
  - The law and regulatory requirements in the applicant's home jurisdiction that relate to:
    - priority of claims of creditors
    - disclosure
    - accounting and auditing standards
    - duties and powers of directors
    - licensing, regulation and supervision of the applicant
  - The nature and extent of public disclosure;

- In the case of applicants that are subsidiaries of overseas incorporated entities:
  - The law and regulatory requirements in the owner's home jurisdiction that relate to:
    - disclosure
    - accounting and auditing standards
    - duties and powers of directors
    - licensing, regulation and supervision of the owner
  - The nature and extent of public disclosure;
- Other matters prescribed by regulation:
  - Currently the only such matter is the policies, systems and procedures to detect and deter money laundering and the financing of terrorism.

### *Communications with applicant*

The registration process usually starts with potential applicants informally expressing interest in possible registration to the Reserve Bank. The Reserve Bank will then invite representatives of the potential applicant to meet with appropriate Reserve Bank staff.

The purpose of such meetings is to allow the potential applicant to give the Reserve Bank an initial explanation of their business, their plans, and reasons for seeking registration, and for the Reserve Bank to answer any questions that the potential applicant may have about the registration criteria or processes. Depending on what issues arise, several meetings may be desirable.

These meetings may also help to identify the issues that may be of particular significance in respect of the potential application, including any registration criteria that the potential applicant might have difficulty meeting and potential conditions of registration that may be imposed if the application is successful. As a result of these meetings the potential applicant will be in a better position to decide whether it wishes to proceed to submit a formal application.

If necessary, the Reserve Bank will also respond in writing to any written communications from the potential applicant that ask for information or clarification.

It is then up to the potential applicant to decide whether it wishes to proceed to a formal written application. During the formal determination process, the Reserve Bank may seek from the applicant further information or clarification of information in the application, and this will usually be done in writing.

The Reserve Bank will also communicate with the applicant about the conditions of registration that may be imposed if the application is successful.

When the determination process is complete, the Reserve Bank will communicate the outcome to the applicant.

### ***Internal Reserve Bank processes***

After receipt of a formal application the Reserve Bank begins the formal determination process. This usually involves a member of the staff of the Banking Oversight section of the Prudential Supervision Department being assigned to process the application. That person would normally have been involved in meetings with the applicant prior to the formal application being submitted.

That person will produce a written report on the application that examines the application in respect of each and every factor that the Act says must be taken into account. During the process of producing that report the analyst will consult with other Reserve Bank staff, and seek further information from the applicant, as appropriate. The finished report, which will contain a recommendation to the Governor on whether to register the applicant, and what conditions of registration to impose, will be reviewed by the Head of Financial Stability. When the Head of Financial Stability considers the report and recommendations are satisfactory, it will be submitted to the Governor for a decision.

### ***Time required to determine an application***

The Reserve Bank will process an application and make a decision as soon as practicable. The length of time it takes to process applications will vary, and the time taken with any specific application will depend on the complexity of the application.

The applications that do not present any complicating issues are likely to be processed within 1-2 months. Issues that may result in more time being necessary to complete the processing include, for example, complications in relation to corporate structure or governance, and having to obtain external expert reports. For more complex applications the processing time may take several months.

### ***Fees payable***

The registration fee is payable at the time a formal written application is submitted to the Reserve Bank. The fees are:

- Applications from either a subsidiary or a branch of an overseas bank or a subsidiary of a New Zealand registered bank - \$21,000 (incl GST);
- All other applications - \$36,000 (incl GST).

### ***Formal registration process***

When the Reserve Bank has finished the determination process and decided to register an applicant, it will write to the applicant informing it that it will be registered, the date on which the registration will come into effect, and the conditions of registration imposed on the registered bank (see below for notes on conditions of registration). The name of the

newly registered bank will be entered into the list of registered banks on the Reserve Bank's website.

Upon registration the registered bank becomes subject to the disclosure and supervisory regime that applies to registered banks and that is set out in the Act.

### ***Public notification***

Shortly after the date of registration the Reserve Bank will arrange for a notice to be published in the *New Zealand Gazette* to give formal public notice of the registration. The Reserve Bank is also likely to issue a press statement on the day of registration, notifying the news media of the registration.

### ***Naming issues***

The principal legal benefit of registration is for a registered bank to have a company name, or trading name, that includes the word "bank" or its derivatives. Only a registered bank, or certain other non-financial institutions that are exempted, may carry on any activity in New Zealand using a "bank" name. That is, in New Zealand, it is the ability to use the word "bank" in a name that is regulated, not the ability to carry on any banking business. Other financial institutions are free to carry on any banking business, including deposit taking, without being registered as a bank, provided they do not use a "bank" name. Naming issues are dealt with in Part IV of the Act.

Locally incorporated applicants need to be particularly aware of the restrictions contained in Part IV. In practice, what these restrictions mean is that any locally incorporated applicant must lodge its application while having a legal name that does not include the word "bank". The Reserve Bank would approve the registration of this entity that does not have a "bank" name. Following registration, the registered bank may (but is not required to) change its name to include the word "bank". When the Reserve Bank is notified of the change of name, it will amend the name of the registered bank in the Register of Banks. This may occur on the day of registration, so that the registered bank can commence trading using a "bank" name from the day of registration.

### ***Unsuccessful applications***

If the Reserve Bank declines an application there is no appeal process available to the applicant. The Reserve Bank would, unless there was sufficient reason not to, inform an unsuccessful applicant of the reasons for the unsuccessful outcome. The Reserve Bank would consider a further application from an unsuccessful applicant when the problems identified in the unsuccessful application had been remedied.



## **Policy documents**

The Reserve Bank has produced a series of policy documents that relate to bank registration and supervision. These documents are accessible (in PDF form) from the Reserve Bank's website at:

<http://www.rbnz.govt.nz/finstab/banking/regulation/0094291.html>.

### ***BS1***

The Statement of Principles is a document with which an applicant should be familiar. It sets out the Reserve Bank's policies in respect of the registration and supervision of banks. Of particular interest to an applicant for registration will be the explanation of how the Reserve Bank interprets and implements the registration criteria set out in the Act.

### ***BS2/BS2A/BS2B***

The Capital Adequacy Framework sets out how a registered bank must calculate its capital adequacy ratios. The applicant will need to calculate what capital adequacy ratios is either currently has, or will have at the time of registration.

### ***BS3***

This documents sets out what information should be contained in a formal written application for registration, based on the criteria the Reserve Bank must take into account.

### ***BS10***

Prior to registration the Reserve Bank must be satisfied that the proposed directors, local chief executives and senior managers reporting to the chief executive, are all suitable for their positions. These people must supply the Reserve Bank with their CVs and permission for the Reserve Bank to check their criminal record. The procedures for this are contained in BS10.

### ***BS13/BS13A***

The Liquidity Policy documents set out how a registered bank must calculate its one-week and one-month mismatch ratios, and its one-year core funding ratio. The applicant will need to calculate what values of these ratios it currently has, or will have at the time of registration.

***Other BS documents***

Other policy documents will be of less direct relevance to the application process. But an applicant should be familiar with these documents so that they understand the obligations on registered banks.

**Orders in Council**

The Orders in Council are regulations that apply to all registered banks. They define what information must be disclosed by banks and how that information is disclosed. There are four Orders in Council - two apply to branches of overseas banks and two to locally incorporated banks. Disclosures relating to quarters ending on the annual balance date and half-year balance date are generally more extensive than disclosures relating to the other two quarters (referred to as “off-quarters”) – thus there are different Orders for these dates.

The disclosure regulations that apply to registered banks are accessible (in PDF form) from the Reserve Bank’s website at:

<http://www.rbnz.govt.nz/finstab/banking/regulation/0094291.html>

## **Disclosure statements**

Registered banks must publish quarterly disclosure statements as required by the Orders in Council. There are three parts to each quarterly disclosure statement as described below.

### ***Key Information Summary***

The KIS is intended for use by non-expert customers of banks, particularly retail customers. It contains a limited amount of key data that will provide some basic information about a bank. Generally a KIS is 1-2 pages. The KIS must contain information on:

- Ownership
- Credit rating
- Government guarantees
- Profitability
- Size
- Capital adequacy
- Asset quality
- Exposure concentrations
- Exposures to connected persons.

### ***General Disclosure Statement***

The GDS is intended for use by all customers of banks, and contains detailed financial and prudential information. This includes information about:

- Corporate issues
- Ownership
- Directors
- Conditions of registration
- Guarantees
- Credit ratings
- Financial performance
- Financial position
- Risk weighted assets and capital adequacy
- Asset quality
- Exposure concentrations
- Exposures to connected persons
- Fiduciary activities
- Insurance business
- Risk management policies
- Exposures to market risk.

### ***Supplementary Disclosure Statement***

The SDS contains supplementary information (which may be voluntarily included in the GDS avoiding the need for a SDS). The supplementary information comprises:

- Supplementary risk management information
- Parent bank financial statements (branches only)
- Guarantee documents (if any)
- Bilateral netting agreements (if any).

### ***Sign-off by directors and New Zealand CEO***

Each quarterly GDS must contain an attestation by, or on behalf of, each director, and the New Zealand CEO of overseas incorporated registered banks, that each such person believes:

- The disclosure statement contains all the information required by the Order in Council
- The disclosure statement is not false or misleading
- The registered bank has complied with its conditions of registration
- Exposures to connected persons were not contrary to the interests of the registered bank
- The registered bank has systems in place to monitor and control risks and that those systems are properly applied.

It is permissible for directors or the New Zealand CEO to appoint another person to sign-off disclosures statements on their behalf, although the director retains legal responsibility for the accuracy of the attestation. The directors of overseas domiciled banks often appoint the New Zealand branch chief executive to sign on their behalf.

## Key quantitative and qualitative requirements

There are both qualitative and quantitative criteria that an applicant must meet to be successful with an application. The quantitative criteria are small in number, reflecting that disclosure is an important component of the supervision regime. The Reserve Bank requires a high standard to be achieved in respect of the qualitative criteria.

### Quantitative criteria

#### *Minimum capital*

The minimum absolute level of capital is \$30 million. However, the Reserve Bank would normally like to see a significantly greater level of capital held by applicants. The Reserve Bank will need to be satisfied that the level of capital appears adequate to cover the likely nature and mix of the proposed business, and possible losses during the first few years of registration.

#### *Capital adequacy*

All applicants must have capital adequacy ratios of at least 8% total capital and 4% tier one capital, calculated in accordance with policy document BS2/BS2A/BS2B. These documents are based on the requirements of the Basel Capital Accord.

#### *Connected lending*

Locally incorporated applicants have limits imposed on the amount of connected lending they are permitted to have. These limits are dependent on the credit rating of the applicant – see Conditions of Registration for locally incorporated banks and policy document BS8. The limits are:

Credit rating	Connected exposure limit (% of tier 1 capital)
AA/Aa2 and above	75
AA-/Aa3	70
A+/A1	60
A/A2	40
A-/A3	30
BBB+/Baa1 and below	15

#### *Adequate liquidity*

A locally-incorporated applicant must have one-week and one-month mismatch ratios of at least 0%, and a one-year core funding ratio of at least 65%, calculated in accordance with policy documents BS13 and BS13A. The Reserve Bank plans to increase the standard 65% minimum for the one-year core funding ratio to 75% by July 2012. An

overseas-incorporated bank is normally also subject to minimum liquidity ratios applying to its New Zealand branch, but these are determined on a case-by-case basis.

## **Qualitative criteria**

### ***Controls and systems***

The Reserve Bank will want to be sure that the applicant has adequate financial, IT and management systems and controls in place which are appropriate for the nature and level of the business that the applicant would expect to undertake as a registered bank. The applicant will be expected to demonstrate to the Reserve Bank that its systems are adequate. Policy document BS13 sets out the Reserve Bank's expectations for a registered bank's framework for managing liquidity risk in particular.

### ***Ownership***

The ownership of the applicant is an important issue. The Reserve Bank will assess the integrity, financial strength, and suitability of the owner. The ability and willingness of the owner to support the registered bank in times of stress will be important. The Reserve Bank has no particular preferences or restrictions in respect of the domicile of the owners. If the applicant is in widespread ownership, its ability to gain access to additional capital if required will be considered.

### ***Financial market standing***

Financial market standing is basically about an applicant's reputation and track record in the financial market. A variety of issues may be taken into account in assessing financial market standing, and will include whatever the Reserve Bank considers relevant in the circumstances. Larger applicants with a longer history are easier to assess, and more likely to be able to demonstrate good financial market standing, but the Reserve Bank will adjust its assessment to be consistent with the applicant's circumstances.

### ***Suitability of directors and senior managers***

The Reserve Bank will assess the suitability for their positions of the proposed bank's directors, New Zealand chief executive, and in the case of locally incorporated banks senior managers that report to the chief executive. The Reserve Bank is looking for evidence that the persons holding these positions have appropriate experience, integrity and skills. In the case of directors, the Reserve Bank will also assess the skills of the board of directors as a whole. A suitable range of skills on the board, rather than a concentration in a particular area, would be an advantage.

## **Other relevant issues**

There are a number of issues that impact on the registration process and the determination of applications that are not covered in the policy documents, and are related to the interpretation of the registration criteria and implementation of the determination process, as described below.

### ***Credit ratings***

All registered bank are required to have, and disclose, a credit rating from at least one of the rating agencies approved by the Reserve Bank (S&P, Moody's, Fitch). In the case of an unrated applicant, the applicant must ensure that it has a published credit rating from the date of registration. The Reserve Bank will accept, prior to registration, an indicative rating from a rating agency, which the agency says it will confirm upon registration. Unrated applicants should, therefore, communicate with approved rating agencies early in the registration process.

### ***Independent reports***

During the determination process the Reserve Bank may decide it needs advice from independent experts on specific aspects of the application. This is most likely to be in the areas of financial systems and controls, IT systems, and home jurisdiction accounting standards. A decision on whether to seek such reports will be made on a case by case basis. For example, a report on systems and controls may be required in the case of applicants with no operating track record, and a report on home accounting standards may be required when the applicant is from a jurisdiction with which the Reserve Bank has insufficient familiarity.

The terms of reference and the appointment of the independent expert would be agreed between the Reserve Bank and the applicant. The applicant would pay for the report.

### ***Implementation of suitability checks***

The process of checking the suitability of directors and senior managers normally involves the following:

- If the person has been resident in New Zealand – a New Zealand criminal record check.
- If the person has been employed in a financial institution in a foreign country – a request for any relevant information from that country's banking supervisor.
- Review of CV and other information indicating skill, integrity and experience.

### ***Draft disclosure statements***

As the publication of disclosure statements is a fundamental requirement for a registered bank, and a published disclosure statement must be available from the date of registration, the Reserve Bank will require evidence of the applicant's ability to produce a disclosure statement. This normally takes the form of the applicant submitting a draft disclosure statement to the Reserve Bank prior to registration. (The Reserve Bank does not approve disclosure statements, but will offer advice on draft disclosure statements if they do not appear to be compliant with the disclosure regulations).

### ***Location of customers***

The Reserve Bank would normally expect that a significant majority of a registered bank's business and customers would be in New Zealand. This is consistent with the Reserve Bank's legislative objectives. The Reserve Bank would not be likely to approve an application where New Zealand was, in effect, being used as a 'country of convenience' for bank registration purposes.

### ***Legal form of applicant***

If a bank licensed in a foreign country seeks registration it may be necessary for it to apply in the form of a locally incorporated subsidiary rather than as a branch. This will be the case where:

- disclosure, accounting and auditing standards in the home jurisdiction are not considered to be equivalent to New Zealand standards; or
- the total liabilities (net of related party liabilities) of the bank in New Zealand will exceed \$15 billion total; or
- the bank will have retail deposits exceeding \$200 million and is domiciled in a jurisdiction whose laws subordinate New Zealand depositors of the bank.

### ***Business plan***

In order to help assess whether the applicant is able to carry on its business in a prudent manner, the Reserve Bank will require some business plan information from the applicant. This will include information about the applicant's proposed product range and marketing strategy, and financial projections (usually for the first three years of post-registration trading).



***Start-up applications***

Start-up applicants may find it more difficult to achieve registration. Such applicants, by their nature, have no track record and unproven systems and controls. It will, therefore, be more difficult for start-up applicants to demonstrate sufficient financial market standing, adequate systems and controls and likely financial outcomes. A history of successfully operating as a financial institution is likely to be an advantage in respect of the registration process. However, the financial market standing or financial strength of the applicant's owner may help to mitigate any lack of a track record by the applicant.

## Conditions of registration

Section 74 of the Act permits the Reserve Bank to impose conditions on any bank that it registers. Normally the Reserve Bank imposes a set of standard conditions of registration on each bank it registers. These standard conditions differ for branches of overseas banks and locally incorporated banks. From time to time the Reserve Bank amends these standards conditions of registration. The current standard conditions of registration are contained in Appendix 1 of the document Statement of Principles (BS1), and can be viewed at:

[www.rbnz.govt.nz/finstab/banking/regulation/3272066.pdf](http://www.rbnz.govt.nz/finstab/banking/regulation/3272066.pdf)

In addition to the standard conditions of registration, the Reserve Bank may also impose non-standard conditions. These non-standard conditions are specific to the bank in question. They may cover, for example, issues such as corporate governance and capital.

Prior to registration the Reserve Bank will consult with the applicant on the conditions of registration it proposes to impose upon registration. Following registration the Reserve Bank must consult on any further proposed changes to the bank's conditions of registration and take into account any submission from the bank.

Every registered bank must include its conditions of registration in its disclosure statements.

## **Contacts**

The registration and supervision of banks is undertaken by the Banking Oversight section of the Prudential Supervision Department.

In the first instance enquiries can be made to the Manager, Banking Oversight. Currently this is:

Peter Brady

Tel: 04 4713814

Fax: 04 4723262

Email: [peter.brady@rbnz.govt.nz](mailto:peter.brady@rbnz.govt.nz)

Subsequently, responsibility for communicating with the applicant, and the processing of any application, may be allocated to a member of the Banking Oversight team.