

The Treasury

Reserve Bank Act Review Phase 2 Submission Information Release

October 2019

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FINANCIAL SERVICES FEDERATION

23 August 2019

Phase 2 of the Reserve Bank Act Review
The Treasury
P O Box 3724
Wellington 6140

By email to: rbnzactreview@treasury.govt.nz

**Safeguarding the future of our financial system: In-principle decisions and follow-up questions on: The role of the Reserve Bank and how it should be governed
Consultation Document 2A: Phase 2 of the Reserve Bank Act Review**

Thank you for the opportunity to submit on this Consultation Document. The Financial Services Federation (“FSF”) congratulates the writers on having developed such a comprehensive document for discussion. However, some FSF NBDT members are frustrated by the lack of direct outreach and consultation with them in relation to this review from RBNZ and Treasury despite requests to RBNZ for such engagement.

As outlined in the FSF’s response to Consultation Document 1 earlier this year, the FSF represents responsible and ethical finance, leasing and credit-related insurance providers. Of the FSF’s 60 members (a list of which is attached as Appendix A), only 3 still raise funds from depositors (Non-Bank Deposit Takers – “NBDTs”). Most of what follows in answer to the questions raised in the Consultation Document comes from the perspective of these 3 members rather than the wider membership of the FSF.

Questions for consultation

Chapter 1: Should prudential regulation remain with the Reserve Bank?

The FSF notes that no follow-up questions to those raised in Consultation Document 1 are raised in the consultation paper. In response to Consultation Document 1, FSF’s submission was that the status quo works well and that the RBNZ manages its monetary and prudential policy roles well in general. The FSF did not support the establishment of a New Zealand Prudential Regulation Authority or a New Zealand Financial Services Authority.

The FSF therefore notes favourably the in-principle decision by the Minister of Finance, the Hon Grant Robertson, not to separate the prudential regulation and supervision functions from the Reserve Bank and agrees with the rationale provided for this decision.

Chapter 2: What financial policy objectives should the Reserve Bank have?

2.A What other objectives should the Reserve Bank have?

- **Which of the objectives discussed in Chapter 2 should feature in the Reserve Bank Act, and why?**
- **Are there other objectives not covered in Chapter 2 that should be considered?**

Whilst the FSF argued to retain the Reserve Bank's existing "soundness" objective, it accepts the reasoning provided in the Consultation Paper as to why the Minister has taken the in-principle decision to replace this with the single high-level financial policy objective to: *"Protect and enhance the stability of New Zealand's financial system"*.

The FSF does not favour providing the Reserve Bank with too many detailed objectives because this would not allow them the flexibility they may require to deal with varying circumstances. The FSF believes the elements that make up financial stability as described in Figure 2B on page 19 of the Consultation Document are implied in the above high-level objective and therefore do not need to be spelled out and the Reserve Bank should be able to determine how it will achieve this high-level objective by using all the levers suggested as being elements of financial stability as it feels it needs to depending on the circumstances.

In its response to Consultation Document 1, the FSF supported the retention of "efficiency" as an objective of the Reserve Bank and therefore believes that including an objective to achieve financial system efficiency should continue. The FSF takes the view that requiring the RBNZ to minimise the regulatory burden on firms and use regulatory resources cost-effectively; facilitate effective competition in the financial sector; facilitate the development of New Zealand's capital markets; facilitate effective innovation in New Zealand's financial sector; and promote efficient credit allocation as part of an overall financial system efficiency objective is entirely for the RBNZ to be required to achieve.

The FSF submits that, taken together, the objectives of protecting and enhancing the stability of New Zealand's financial system and including a requirement to maintain financial system efficiency, are all the objectives that are required for the RBNZ to achieve. This is on the basis that the other objectives discussed under figure 2B of the Consultation Document are actually sub-objectives of one or other of these higher-level objectives.

For example, the objective to provide safeguards to protect particular groups in society is part of achieving financial stability and resilience of both the system and regulated entities as is the goal to share information and promote understanding which is part of maintaining confidence in the financial system. Likewise, the goal to co-ordinate policy with other regulatory agencies and support objectives of monetary policy are part of both the stability and efficiency

objectives and so too are the other objectives mentioned in the table such as supporting sustainable growth and supporting the economic objectives of government.

The FSF believes that maintaining higher-level objectives rather than getting into a more detailed set of objectives allows for more flexibility for the RBNZ to react as required depending on circumstances, and on government objectives.

2.B Should the Reserve Bank be given a more explicit climate change objective? If so, what would be your preferred mechanism for achieving this?

The FSF does not favour an explicit climate change objective being given to the Reserve Bank. This is not to say that the FSF does not understand either the physical risks related to the effects of climate change or the risks associated with the transition to a lower-carbon economy. Quite the contrary, the FSF views these risks very seriously and can quite understand the potential they have to create risks to New Zealand's financial stability. The FSF believes that, in achieving the Reserve Bank's higher-level objectives, climate change issues would naturally be taken into account whilst doing so.

2.C Where in the legislative hierarchy should any additional objectives sit – as “secondary objectives”, or as “considerations” that the Reserve Bank must look at?

The FSF does not support adding any additional objectives other than the high-level ones of to protect and enhance the stability of New Zealand's financial system and to achieve financial system efficiency as the FSF believes they cover everything that could be required of the Reserve Bank whilst providing sufficient flexibility that the RBNZ can adjust its focus as required depending on changing circumstances.

The FSF believes that putting in place too many prescriptive objectives would bog the Reserve Bank down and make them less agile and able to adapt as required.

2.D How should the Reserve Bank's objectives be specified? Do you see a role for a “financial policy remit”? If so, what should it include?

The FSF believes it would be entirely appropriate for the Minister of Finance to issue formal guidance to the Reserve Bank from time to time via a financial policy remit to clarify Government policy as opposed to changing primary legislation as Governments and Government policy changes.

The FSF believes the higher level objectives as already described in this response of protecting and enhancing the stability of New Zealand's financial system and achieving financial system efficiency are sufficiently broad as to allow for financial policy remits on more specific matters of key Government policy to be clarified through such a remit.

2.E What is your view on creating a new “Deposit Takers Act” that combines material from the NBDT Act with the Reserve Bank Act’s banking regulation material?

As mentioned in the introduction to this submission, the FSF currently has only 3 members who raise funds by accepting deposits from the public and who are therefore covered under the NBDT Act. As also mentioned in the introduction, FSF NBDT members are frustrated by the lack of direct contact with them from the RBNZ.

The FSF strongly opposes the suggestion of creating a new “Deposit Takers Act” which would merge the Reserve Bank Act’s content on the banking sector with the NBDT Act’s content to unify the deposit-taking regime. There are many reasons why the FSF takes this position which are summarised as follows:

- NBDTs are not banks. Those that are FSF members who are simple Non-Bank Deposit Takers, as opposed to a building society or credit union, do not offer similar products to those of banks. They are considerably simpler in their operations than banks as they effectively have only two products on offer – the term deposit and the term loan. They do not offer transactional products or more complex lending products such as credit cards or mortgages. They therefore do not require the same supervisory regime as that which applies to banks;
- NBDTs are much smaller entities than banks – in the case of the FSF’s NBDT members considerably so. They do not have large in-house teams dedicated to regulatory compliance and have therefore built up a relationship based on trust with their current supervisor who understands their structure and complexities. There is a very real risk that applying the same supervisory regime as that which applies to banks could be too large a compliance burden for these small entities to handle;
- Although small, the NBDT sector is quite diverse and finance companies, building societies and credit unions differ considerably in the nature and scope of their activities, as well as in their size. A “one size fits all” model is not appropriate as the ability to engage closely and to tailor supervisory activity ensures timely identification of issues as well as being cost efficient.

2.F Looking at the example of the Reserve Bank’s objective set, which elements do you support and which would you change, and why?

As previously stated, the FSF favours keeping the Reserve Bank’s objective set at a higher level.

Chapter 3: How should the Reserve Bank be governed?

3.A What factors are most important for achieving the establishment of an effective governance board with responsibility for all the Reserve Bank’s decisions outside of monetary policy?

The FSF supports the Minister's in-principle decisions to establish a new governance board to replace the single decision-maker model, under which the Governor has this responsibility; not to establish a Financial Policy Committee (FPC); and to give the Treasury responsibility for assessing the Reserve Bank's performance. All of these decisions are in line with the FSF's views as outlined in the response to Consultation Document 1.

The establishment of an effective governance board to set the organisation's strategy and oversee the actions of management would definitely be an improvement on the existing governance model where governance and management roles are combined in one individual.

The most important factor for achieving the establishment of an effective governance board will be in the composition of the board and ensuring that those people who are appointed as board directors bring sufficient diversity of views, independent challenge, and accountability.

3.B What is the appropriate degree of delegation from the board to the Governor? Are there any decisions that should be reserved for the board?

The FSF agrees with the approach discussed in the rationale for the decision to establish a new governance board. This is that the board's role is to oversee the actions of management whilst the management has delegated day-to-day responsibility for running the institution with the parameters set by the board. The FSF believes that in an effective board structure, management has the obligation to report to the board on its activities, and to seek guidance as to how they should achieve the organisation's strategy and the board should be required to consult with management when setting the strategy rather than just handing it down from on high.

3.C What approach should the Treasury adopt in monitoring the Reserve Bank? What should the Treasury's monitoring responsibilities be? Should the Treasury's monitoring responsibilities be different for the MPC?

The FSF believes that the approach to the Treasury's monitoring role for the Reserve Bank has been adequately described in the Consultation Document as are their responsibilities. The Consultation Document also acknowledges the importance of distinguishing between the Treasury's role as monitor (on behalf of the Minister) and the Treasury observer on the MPC.

3.D Do you think there is merit in reclassifying the Reserve Bank as an independent Crown entity?

The FSF believes that there is merit in reclassifying the Reserve Bank as an independent Crown Entity. The description given in the Consultation Document to the role of the monitor provides a useful structure for the Treasury to adopt in its role as monitor of the Reserve Bank which is how it approaches its role for the other Crown Entities for which it acts as monitor. It would seem appropriate for the sake of consistency, for a similar approach to be taken to the monitor

role and, on that basis, it would simplify things if the Reserve Bank were to be made a Crown Entity.

3.E For the new governance board:

- **What should the split of executive and non-executive members be?**
- **What skills and expertise should non-executive members have? Is there merit in having representation from the FMA and/or the Treasury?**
- **How should members be appointed and removed? Should the board be able to appoint the Governor as CEO?**

The FSF believes that the new governance board should be made up entirely of non-executive members and agrees that a fully non-executive board boosts accountability by providing a clear split between governance and management decisions. It is also best practice for the governance model of any entity. Clearly management reports to the board and can provide advice to the board and be involved in discussions. The FSF believes that in appointing the members of the board, it is important to aim for a reasonable level of diversity – not just in terms of gender, ethnicity, and the like, but in age, experience and skills.

The FSF does not see the need for an FMA or Treasury representative to be appointed to the Board. Whilst there is a close connection between the FMA's and the Reserve Bank's responsibilities, the FSF feels that this connection can be achieved at CEO and management level. The option to invite Treasury or FMA involvement with the board as required would still exist.

However, the FSF submits that the board should include representatives of the sectors the Reserve Bank supervises, for example a representative from the FSF who could provide the perspective of NBDTs, NDIs and credit-related insurance providers.

3.F Are there any aspects of the board's operation that would benefit from legislative clarity or guidance?

The FSF cannot think of anything further to add in this regard.

Chapter 4: How should the regulatory perimeter be set?

4.A What is the appropriate definition of "deposit taker"? Do you agree that the definition should be framed around entities that take retail "deposits" and lend? If not, what approach do you consider would be preferable?

The FSF supports the definition of "deposit taker" being changed to lenders that "*take deposits from the public*" rather than those that "*offer debt securities*" as described in the last paragraph of page 75 of the Consultation Document and agrees with the rationale provided therein to do so. Certainly, this definition more realistically captures what it is that NBDTs do which is to take retail deposits and lend.

Having said this, however, the FSF notes that the in-principle decision has been made to bring the bank and NBDT regulatory regimes together into a single “licensed deposit taker” framework and refers to the answer provided to question 2.E above which provides the FSF’s concerns with respect to this proposal.

The FSF also strongly agrees with the suggestion made on page 77 of the Consultation Document that different rules between different types of firms should be allowed for under whatever the new regime looks like. The FSF absolutely supports the concept of proportionality to ensure that the burden of rules and their enforcement is proportional to the issues being addressed and the expected benefits of regulation. The FSF is extremely concerned that there is a genuine risk, as articulated, in the Consultation Document, that the creation of a single licensed deposit-taker framework could mean the application of requirements designed for larger and more complex firms apply to smaller firms such as existing NBDTs and new deposit takers.

The NBDT market, which provides a viable alternative for small investors such as people wanting to supplement their pension income, has already shrunk significantly since the Global Financial Crisis came to an end. This is primarily because the regulatory hurdles put in the way of small businesses wanting to fund their lending activity in this way were considered too great and too costly to allow them to continue to raise funds via retail deposit. The FSF would not support any change to the current regime which further deterred existing NBDTs from carrying on their deposit-taking activity or from smaller new deposit takers entering the market.

4.B Should the Reserve Bank’s ability to monitor non-licensed entities be enhanced, for example through increased data reporting requirements? What do you consider would be the costs and benefits of such an approach?

The FSF did not support the suggestion that the Reserve Bank’s regulatory perimeter should be expanded to include such institutions as Non-Deposit-Taking Regulatory Institutions (NDLIs) when it was made in Consultation Document 1 and certainly does not do so now.

As they are not in the business of raising deposits from the public to fund their operations, they are clearly not “deposit takers” under either of the definitions discussed in the answer to question 4.A above. They are however lenders and as such they are regulated by the Credit Contracts and Consumer Finance Act 2003 (CCCFA) which is enforced by the Commerce Commission – as are deposit takers who are also lenders. It seems entirely sensible to the FSF that the deposit taking activity of a bank or NBDT should be regulated by the Reserve Bank but the FSF strongly submits that the lending activity of banks, NBDTs and NDLIs should be left to the Commerce Commission.

The CCCFA was significantly reviewed and improved in the wake of the Global Financial Crisis to the extent that clear Lender Responsibility Principles were written into the Act which came into force in June of 2015 together with the guidance for lenders as to how to meet these Principles that is contained in the Responsible Lending Code. The Commission has significantly increased

its enforcement activity against irresponsible lenders in recent times and the FSF believes they should be allowed to continue this work without interference from a second regulator.

The CCCFA is once again being reviewed with a view to strengthening a number of its provisions and to provide more prescription via regulation to ensure that all lenders do so responsibly. It is expected that the revised Act will be passed before the end of this year with it coming into force in 2020. The public is therefore amply protected (or will be) from poor lending practices under this regime.

4.C Should the Reserve Bank be given discretion to extend the perimeter within clearly specified parameters to avoid regulatory arbitrage (such as designating in entities with business models economically similar to deposit takers)? Do you agree that changes that are more significant may be more suited to legislative change, supported by pre-positioning?

Please see the answer provided to question 4.C above. The FSF believes there is more scope for regulatory arbitrage where there is a lack of clarity as to who is regulating what. Under the current model where the Reserve Bank regulates deposit takers and the Commerce Commission regulates lenders, it is absolutely clear who is the regulator responsible for what activity.

4.D Should tools that are not linked to licensing have a different perimeter? For example, it is common internationally for non-bank lending institutions to be subject to macro-prudential lending tools, even though they do not take deposits.

The FSF is not supportive of any proposal to bring NDIs into the scope of the Reserve Bank's regulatory perimeter for the reasons previously stated. Those lenders who were not subject to the Reserve Bank's LVR restrictions because they were outside of the regulatory perimeter at the time (for example) did so with a clear understanding of the risk they were taking on if they provided any credit that would have been outside of those restrictions and they have done so without incurring any further risk to their existing lending portfolio.

They provided a viable alternative to a small number of people who would otherwise not have been able to access finance because of the restrictions (who were primarily first home buyers) and have not suffered from any significant default or loss as a result.

Chapter 5: Should there be depositor protection in New Zealand?

5.A Are the interactions between depositor protection and the other parts of the financial safety net set out in Part 1 of Section 2 described appropriately?

The FSF notes that the in-principle decision to start developing a formal scheme to protect depositors in New Zealand has been made by the Minister and believes that the interactions

between depositor protection and the other parts of the financial safety net set out in Part 1 of Section 2 are described appropriately.

However, the FSF takes issue with the fact that the Consultation Document does not provide sufficient detail as to how the depositor protection would likely work in practice for the FSF to take a view as to whether or not the FSF is in support of its implementation. The FSF certainly agrees that the implementation of a depositor protection regime will increase costs for deposit-takers.

The FSF points out that it must be remembered that the NBDTs that are FSF members are all very small in size. Where table 5B of the Consultation Document talks about the value of insured deposits at \$58 billion should an insurance limit of \$10,000 (per depositor) be implemented, the FSF's NBDT members would represent approximately 0.1% of that amount. The FSF has serious concerns about the cost burden on such small deposit-takers.

This concern is compounded by the suggestion in Chapter 5 of Consultation Document 2B that industry-wide levies should also be imposed on deposit-takers to set up a deposit insurance scheme fund – again without any indication as to the cost to industry participants. Placing the burden of two deposit protection schemes or funds on small NBDTs such as the FSF's NBDT members would have the very likely outcome of putting them out of business so some very serious consultation would need to occur before the FSF could offer support to either of these proposals.

5.B What objectives should the depositor protection regime in New Zealand have? Should its objectives be:

- **To protect depositors from loss?**
- **To contribute to public confidence and financial stability?**
- **Both of these?**
- **Something else?**

The FSF understands that the objectives of protecting depositors from loss and contributing to public confidence and financial stability are the key objectives for a depositor protection regime. The key question for the FSF's NBDT members is what level of cost it will impose upon them and whether this will be so burdensome as to make continued deposit-taking activities unviable for them.

5.C The Minister has made an in-principle decision that the depositor protection regime should have a limit in the range of \$30,000-\$50,000. Given your answer to 5.B, what coverage level would be best within this range?

Given the small nature of the FSF's NBDT members' businesses, it is likely that a larger proportion of the deposits they hold will fall into this range than for larger institutions that attract larger deposits from a wider sector of the depositing public. It is therefore of concern to the FSF that they do not end up in the situation where a larger proportion of their deposit book

is covered by the depositor protection regime than those of larger institutions with a disproportionate cost falling to them as a result. The FSF believes that considerably more consultation as to the way in which a depositor protection regime might work and what it will cost would have to take place before the FSF could reasonably answer this and other questions about such a scheme. Coupled with this is also the need for further clarity on the proposed deposit insurance scheme fund as per the answer provided to question 5.A above.

5.D How would your preferred limit affect depositor wellbeing, public confidence, and depositors' responsibilities for their financial choices?

The FSF believes depositor wellbeing, public confidence and depositors' responsibilities for their financial choices are also served by the adherence to responsible lending obligations and enforcement of the CCCFA as well as a depositor protection regime.

5.E Do you think the New Zealand depositor protection regime should be supported by a preference for insured depositors? How would this affect the costs and benefits of a depositor protection regime in New Zealand?

The FSF supports the introduction of a depositor preference for the reasons outlined in Box 5A of the Consultation Document.

Thank you for the opportunity for the FSF to respond to the questions raised in the Consultation Document. Please do not hesitate to contact me if there is anything further you wish to discuss.

[1]

Lyn McMorran
EXECUTIVE DIRECTOR

Appendix A
FSF Membership List as at 31 May 2019

Debenture Issuers - (NBDT) Non-Bank Deposit Takers	Vehicle Lenders	Finance Company Diversified Lenders	Finance Company Diversified Lenders	Insurance	Affiliate Members
<u>Rated</u> Asset Finance (B)	BMW Financial Services ➤ Mini ➤ Alphaera Financial Services Branded Financial Services Community Financial Services European Financial Services Go Car Finance Ltd Honda Financial Services Mercedes-Benz Financial Motor Trade Finance Nissan Financial Services NZ Ltd ➤ Mitsubishi Motors Financial Services ➤ Skyline Car Finance Onyx Finance Limited Toyota Finance NZ Yamaha Motor Finance <u>Leasing Providers</u> Custom Fleet Fleet Partners NZ Ltd ORIX NZ SG Fleet Lease Plan	L & F Ltd ➤ Speirs Finance ➤ YooGo Avanti Finance Caterpillar Financial Services NZ Ltd CentraCorp Finance 2000 Finance Now ➤ The Warehouse Financial Services Flexi Cards Future Finance Geneva Finance Home Direct Instant Finance ➤ Fair City ➤ My Finance John Deere Financial Latitude Financial Pioneer Finance South Pacific Loans Thorn Group Financial Services Ltd Turners Automotive Group	Prospa NZ Ltd Personal Loan Corporation Metro Finance CentraCorp Finance 2000 Finance Now ➤ The Warehouse Financial Services Flexi Cards Future Finance Geneva Finance Home Direct Instant Finance ➤ Fair City ➤ My Finance John Deere Financial Latitude Financial Pioneer Finance South Pacific Loans Thorn Group Financial Services Ltd Turners Automotive Group	Autosure Protecta Insurance Provident Insurance Corporation Ltd Southsure Assurance Credit Reporting Equifax (prev Veda) Centrix <u>Debt Collection Agencies</u> Baycorp (NZ) Illion (prev Dun & Bradstreet (NZ) Limited) Experian Intercoll Receivables Management	AML Solutions Buddle Findlay Chapman Tripp EY Finzsoft KPMG Paul Davies Law Ltd PWC Simpson Western FinTech NZ HPD Software Ltd Total : 61 members



FINANCIAL SERVICES FEDERATION

23 August 2019

Phase 2 of the Reserve Bank Act Review
The Treasury
P O Box 3724
Wellington 6140

By email to: rbnzactreview@treasury.govt.nz

Safeguarding the future of our financial system
The Reserve Bank's role in financial policy: tools, powers, and approach
Consultation Document 2B: Phase 2 of the Reserve Bank Act Review

Thank you for the opportunity to submit on this Consultation Document. The Financial Services Federation ("FSF") congratulates the writers on having developed such a comprehensive document for discussion. However, some FSF NBDT members are frustrated by the lack of direct outreach and consultation with them in relation to this review from RBNZ and Treasury despite requests to RBNZ for such engagement.

As outlined in the FSF's response to Consultation Document 1 earlier this year, the FSF represents responsible and ethical finance, leasing and credit-related insurance providers. Of the FSF's 60 members (a list of which is attached as Appendix A), only 3 still raise funds from depositors (Non-Bank Deposit Takers – "NBDTs"). Most of what follows in answer to the questions raised in the Consultation Document comes from the perspective of these 3 members rather than the wider membership of the FSF.

Questions for consultation

Chapter 1: What prudential regulatory tools and powers should the Reserve Bank have?

1.A Do you agree that the broader Reserve Bank Act model strikes an appropriate balance between primary legislation and delegated powers? If not, why not?

The FSF agrees that the broader Reserve Bank Act model achieves the objective of striking an appropriate balance between primary legislation and delegated powers.

1.B Are there any areas of the Reserve Bank Act where changes to the model are required, such as the introduction of greater safeguards?

The FSF agrees with the assertion on page 29 of the Consultation Document that the Reserve Bank Act no longer reflects the good practice in modern regulatory regimes which provide clearer guidance to the regulator and a more fully developed set of checks and balances and would therefore support changes to the Act that introduced greater safeguards.

1.C Does the chapter appropriately identify the key issues with the current framework for setting prudential rules? If not, what is missing?

The FSF is satisfied that the chapter appropriately identifies the key issues with the current framework for setting prudential rules.

1.D What are your views regarding the potential options proposed for setting the core prudential instrument? Are there any other changes to the rule-making framework that should be considered?

The FSF supports proposed option 2: Standards as the most appropriate means to set the core prudential instrument. The FSF agrees with the rationale for introducing Standards as outlined in the Consultation Paper.

1.E What do you see as the costs and benefits of introducing enhanced process rights for administrative decisions? If you consider there is a case to introduce these rights, how should they be framed?

The FSF believes that, because it is a fact that both Reserve Bank rule-making and administrative decisions has increased in recent years, these are increasingly important to the financial firms regulated by the Reserve Bank. It would therefore seem entirely appropriate to the FSF that process rights should provide the ability to appeal these decisions in the interests of achieving natural justice. The FSF therefore supports the suggestion that a process requirement, such as the right to receive reasons, and to provide submissions, such as that available in the Financial Markets Conduct Act 2013 (FMCA) be adopted as part of the Reserve Bank's rule-making and administrative decisions process.

1.F Is there a case to change the breach reporting and liability models that apply to regulated entities in the Reserve Bank Act? If so, what models would be preferable?

The FSF supports the proposal to more fully empower reporting of breaches in the Reserve Bank Act in line with the similar provision applying to licensed entities under the FMCA.

1.G Is there a need to increase executive accountability?

It would appear from the Deloitte Review that whilst directors "appeared unanimously aware and mindful of their personal responsibilities under the attestation regime", the absence of guidance around risk culture and a degree of inconsistency and uncertainty regarding what banks are attesting to, would suggest to the FSF that there is such a need.

1.H If so, which of these models would be most effective in doing so, and why?

The FSF believes that Option 1: the enhanced status quo, would be the most effective in addressing these vulnerabilities, particularly as it would provide the guidance that appears to be missing in the current regime.

Chapter 2: What role should the Reserve Bank play in macro-prudential policy?

2.A Does the Reserve Bank’s framework document (Ovenden, 2019) present its expected macro-prudential strategy in enough detail to allow monitors to ensure the Reserve Bank is following the strategy and predict future macro-prudential actions?

The FSF believes the Reserve Bank’s framework document achieves this objective.

2.B What are your views on the conduct of macro-prudential policy in the past five years? It may be useful to read the recently released framework document (Lu, 2019) and the sub-questions below:

- **Are there any lessons to be learned from New Zealand’s experience with loan-to-value ratios (LVRs) to date?**
- **Do you think LVR policies that have greater impacts on certain buyers (e.g. investors) or regions than on others are appropriate?**
- **Has the Reserve Bank’s “speed limit” approach reduced risks without affecting too severely buyers who may need high LVR loans owing to special circumstances?**
- **Would a greater use of macro-prudential tools other than LVRs have been appropriate during the recent housing boom?**

The FSF has few, if any members, that lend money for housing. Those that do felt some impact when the LVR restrictions were imposed through their reliance on wholesale funding from banks even though the restrictions themselves did not directly apply to them.

It would seem to the FSF to be entirely appropriate that facilities that impact system stability are captured in this manner however those that do not touch the banking system (i.e. market issuance programmes, wholesale funds and the like) should not be captured as the market applies its own discipline to these vehicles. Should a fund of this nature take excessive risk it will be reflected in the price and or funding availability to limit any impact to stability of the asset class itself such as driving a housing price collapse, and any losses fall to wholesale investors who should know how to assess and price risk.

Should the Reserve Bank consider the use of macro prudential tools other than LVR restrictions, the FSF submits that the Reserve Bank needs to be careful that such the tools applied address the perceived risk in a non-competitive way such that market investors willing to pay for risk are not precluded from doing so unless there is a system stability issue that warrants the approach. The use of prescriptive tools (unlike LVR restrictions) can force a one-size-fits-all

approach to funding availability which does not serve an efficient competitive marketplace for consumers.

2.C Is it appropriate to regulate lending standards (e.g. LVRs)? How broad should these powers be (should they include other tools such as debt-to-income restrictions)?

- **Should lending standards apply only to deposit takers or to all lenders?**
- **Should there be special governance arrangements for these tools?**
- **Should the Reserve Bank reconsider its view that these tools should only be applied temporarily?**

In its response to the first consultation document, the FSF did not support the extension of the Reserve Bank's regulatory perimeter to NDIs on the basis that they do not fund their activities from deposits raised from the public and their lending activities are supervised by the Commerce Commission.

As stated in the response to question 2.B above, the FSF has very few members who provide mortgage finance to consumers. The vast majority of mortgage finance in New Zealand is provided by banks with only a very small proportion being provided by some NBDTs who are already within the Reserve Bank's regulatory perimeter and some NDIs. The biggest competitive advantage these lenders have over the registered banks is their higher LVR appetite and their products are priced accordingly. To apply the same lending standards to these institutions as apply to banks would be equivalent to removing that competitive advantage.

The FSF believes it should be remembered that, even if house prices fall during an economic downturn, homeowners only actually lose equity in their property if they sell it during that period. A fall in house prices or reduced equity does not automatically equate to borrowers not continuing to service their mortgages. Most people also view property ownership as a longer-term proposition. Core Logic reported on 20 March 2019 that the median length of ownership is 7.4 years.

Further, mortgage lending is considered to be the safest form of lending because homeowners are less likely to default on their mortgage repayments than those for any other lines of credit, because they wish to maintain the roof over their heads. The FSF also submits that it must be remembered that lending rules as a whole have been considerably tightened since the GFC with the review of the CCCFA of 2015 which introduced Lender Responsibility Principles and the Responsible Lending Code providing guidance as to how to meet these and which is due to be tightened even further with the review of the Act currently being undertaken and due to come into force in 2020.

2.D Other than lending standards, when the Reserve Bank makes time-varying use of standard prudential tools such as capital ratios, are there any concerns or reasons for wider political oversight?

The FSF submits that given that NBDTs represent a very small proportion of New Zealand's overall financial system, they therefore have very little impact on system stability. However, the introduction of time changing capital ratios would have a disproportionate impact on such smaller entities if applied as a one-size-fits-all approach.

Chapter 3: How should the Reserve Bank supervise and enforce prudential regulation?

3.A What do you think are the strengths and weaknesses of the Reserve Bank's current approach to supervision and enforcement?

The FSF notes that much of the commentary in Chapter 3 of the Consultation Document relates to the Reserve Bank's current approach to supervision and enforcement for registered banks rather than NBDTs. However, in the section of the Chapter headed "Resourcing for supervisory and enforcement activities", the FSF also notes that the Reserve Bank has one staff member responsible for the monitoring 24 licensed NBDTs with the note that the Reserve Bank does not currently have formal responsibility for supervising this sector as this is undertaken by trustees who are licensed by the Financial Markets Authority (FMA).

The FSF is not in favour of the in-principle decision made by the Minister of Finance to integrate registered banks and licensed NBDTs so that the Reserve Bank will likely assume formal responsibility for supervising these entities. The FSF has outlined its reasoning for this position in its response to Consultation Document 2A but essentially this view has been taken because NBDTs are not banks. Most of them are very small entities relative to most of the registered banks in New Zealand. Their activities are different to that of the banks – the FSF's 3 NBDT members simply raise funds via deposits from the public to fund their lending activities.

NBDTs have built up strong relationships with their trustee supervisors since the introduction of the NBDT Act in 2013. Their trustees understand the operations of the NBDTs they supervise and it seems to the FSF to be counter-productive to remove that function from the trustee to replace it with supervision by the Reserve Bank who will have to develop an understanding of the sector and the individual players in it and the way in which they differ from registered banks.

So, in answer to this question, the FSF's view is that the Reserve Bank's current supervisory and enforcement model, at least in respect to NBDTs, is working well and should not be changed.

3.B Do you think that the Reserve Bank's planned approach to the supervision and management of climate change-related risks is appropriate and adequate? Do you think that the Reserve Bank's approach to climate change would be different if it was given a more explicit climate change objective, as considered in question 2B of Consultation Document 2A?

The FSF supports the Reserve Bank's approach to date and their planned approach to the supervisions and management of climate change-related risks. The FSF did not support the

Reserve Bank being given a more explicit climate change objective in answer to question 2.B of Consultation Document 2A.

3.C In what areas do you think the Reserve Bank could improve its approach to supervision and enforcement? How could this be best achieved (e.g. through legislative change, resourcing, relationships with regulated entities)?

The FSF notes that the Reserve Bank has committed to consider some of the recommendations from the FSAP that would improve its three-pillar model but not necessarily be a significant departure from the current approach. The FSF supports the potential modifications to this approach outlined on page 85 of the Consultation Document. These being: undertaking more (third-party) independent verification; developing clearer, simpler, and more enforceable policies, supported by a greater range of enforcement tools; and deepening the understanding of best practice across the banking (and insurance) industry via targeted thematic reviews.

3.D Do you think the Reserve Bank should take a more intensive approach to verifying supervisory information? If so, which verification model do you favour?

It would appear to the FSF that in order for the Reserve Bank's supervisory approach to meet the FSAP recommendations, a more intensive approach will be required. It would seem desirable to the FSF for the Reserve Bank to do so in order to protect New Zealand's international reputation as a good place in which to do business and as a transparent and open economy.

However, it is difficult for the FSF to determine which verification model proposed in the Consultation Document would be the most favourable when the Consultation Document does not provide any specifics as to how these models would affect NBDTs. In spite of this, Option 1: the enhanced status quo would seem to the FSF to be the most favourable as it is the least resource-intensive option.

3.E What are the appropriate enforcement tools for the Reserve Bank? Which tools in particular should be added to the toolkit?

It is clear to the FSF from reading the Consultation Document that the Reserve Bank does require more enforcement tools to make their enforcement activity more effective. The suggestions in the Document of adding the ability for the Reserve Bank to issue statutory public notices, enforceable undertakings and infringement notices and to apply civil penalties seem entirely appropriate as this would make the Reserve Bank's sanctioning powers more in line with other financial sector legislation in New Zealand such as the FMCA and the CCCFA (currently under review, part of which relates to the ability for the Commerce Commission to have more enforcement tools at its disposal).

3.F Is the Minister's role in issuing directions and deregistration appropriate?

As noted in the Consultation Document the requirement for ministerial consent to issue directions is out of step with both international practice and other Reserve Bank legislation such as IPSA and the NBDT Act. Also, that the FSAP recommended that it be removed so it therefore seems to the FSF that this should be done.

The FSF submits that the same applies to the deregistration process.

Chapter 4: How should the Reserve Bank's balance sheet functions be formulated?

4.A Should more detailed principles for the Reserve Bank's LoLR function be set out in legislation? Do the principles and governance considerations in Chapter 4 seem appropriate? Would you add others?

The principles outlined in Chapter 4 for the Reserve Bank's LoLR function seem appropriate to the FSF and therefore should be set out in legislation. The FSF has no further suggestions for other functions that could be added.

4.B If the Reserve Bank were to launch an asset purchase programme (quantitative easing), do you believe it should be able to make its own decisions to purchase government debt, but require ministerial consent to purchase other assets? Are there other implementation issues around asset purchase programmes that should be considered?

It would seem reasonable to the FSF for the Reserve Bank to be able to make its own decisions to purchase government debt independent of the Government for the reasons outlined in the Consultation Document. The FSF also supports the suggestion that Treasury should have involvement in decisions to purchase corporate debt given that the Minister has made an in-principle decision to appoint the Treasury as the Reserve Bank's monitoring agent (as outlined in Consultation Document 2A). The FSF can see no further implementation issues around asset purchase programmes that should be considered.

4.C How much power should the Minister have in determining the scope and objectives of the Reserve Bank's foreign exchange interventions? Should the current arrangements – which will give some decision-making power to the Minister, the MPC and the new Reserve Bank governance board – be broadly retained, or should the Reserve Bank's autonomy be increased?

It appears to the FSF that the current arrangements which give some decision-making power to the Minister, the MPC and the new Reserve Bank governance are working effectively so the FSF submits that these should be retained.

4.D Do you have any other comments on the balance sheet functions described in Chapter 4?

The FSF has nothing further to add on the Reserve Bank's balance sheet functions.

Chapter 5: What features should New Zealand's bank crisis management regime have?

5.A What are the most important objectives for New Zealand's resolution authority? Should they be ranked in order of importance? Would the objectives suggested above strike the right balance between providing guidance and accountability for the Reserve Bank and flexibility for the Reserve Bank to deal effectively with a crisis?

The FSF believes that the objectives as set out in Table 5A of the Consultation Document are the most important for New Zealand's resolution authority and that they are appropriately ranked in the table in order of their importance. The FSF also believe that the objectives suggested in this table strike an appropriate balance between providing guidance and accountability for the Reserve Bank and flexibility for the Reserve Bank to deal effectively with a crisis.

5.B Is the proposed resolution authority function for the Reserve Bank specified appropriately? Do you see any alternatives to the Reserve Bank as resolution authority?

The FSF believes that the proposed resolution authority function for the Reserve Bank has been specified appropriately in the Consultation Document. The FSF does not see any viable alternatives to the Reserve Bank as resolution authority for the reasons stated in the Consultation Document.

The FSF does, however, note the risk of supervisory forbearance in the Reserve Bank having the roles of both prudential supervisor and resolution authority but believes that the Treasury's role as described in the Consultation Document will mitigate this risk.

5.C Should the current requirements for ministerial consent be replaced with an ability for the Minister to direct the Reserve Bank when public funds could be at risk? Are there additional circumstances in which the Minister should be able to direct the Reserve Bank on a resolution if public funds are not at risk?

The FSF supports the proposal for the current requirements for ministerial consent to be replaced with an ability for the Minister to direct the Reserve Bank when public funds could be at risk as outlined in the Consultation Document. The FSF also supports the proposals for appropriate consultation requirements for the Minister, the Treasury, and other relevant authorities and the suggested statutory requirement for the Reserve Bank to advise the Minister, the Treasury, and the FMA whenever the exercise of a recovery or early intervention power is being contemplated and to consult with the Minister, the Treasury, and the FMA on a

resolution strategy as soon as it appears that a regulated institution is likely to fail and may need to be placed into resolution.

The FSF does not have any views on additional circumstances in which the Minister should be able to direct the Reserve Bank on a resolution if public funds are not at risk.

5.D Should the Reserve Bank, as the resolution authority, have resolution powers (instead of only statutory managers having these powers)?

The FSF believes that the Reserve Bank, as the resolution authority, should have resolution powers in order to achieve resolution objectives and to provide clarity that a statutory manager would be appointed by, subject to the directions of, and responsible to the resolution authority (or that the resolution authority itself could act as the statutory manager).

5.E In principle, should the Reserve Bank have the power to “bail in” specified categories of unsecured liabilities (with details of eligible liabilities to be determined and subject to creditor property rights safeguards – see below) in order to recapitalise a failing large bank after its owners have absorbed maximum losses, and to minimise the need for taxpayer support? Alternatively (or in addition), should the recapitalisation of a failing large bank be funded through industry-wide levies?

The FSF does not support the proposal to provide the Reserve Bank with the power to “bail in” specified categories of unsecured liabilities in order to recapitalise a failing large bank after its owners have absorbed maximum losses, and to minimise the need for taxpayer support, unless the liabilities are those instruments (Hybrid) where this possibility is explicitly stated and priced by investors. This is because there is an inherent conflict between deposit insurance up to a limit of say \$30,000 and then a haircut for any balance beyond that. Depositors will share their maximum deposits as widely as possible to prevent losing any balance beyond that.

The FSF points out that the other issue here is that applying a haircut to deposits at one impacted bank could still trigger a run on the remaining unaffected banks when depositors realise others are losing (access at the very least) to their savings. Thus, this approach could create the very thing it is established to avoid, i.e. a run on a bank, and create a run on the remaining system.

The FSF also does not support the recapitalisation of a failing large bank being funded through industry-wide levies. The FSF believes that the Consultation Document is correct in its assertion that prudent and small banks (such as the FSF’s NBDT members) should not be required to pay for the failures of large and less-prudent banks. An industry-funded recapitalisation would also reduce the incentives for banks to manage their business prudently.

5.F Do you agree with the proposal to allow continuous disclosure-to-market requirements to be suspended temporarily, subject to conditions and safeguards? Are the suggested conditions and safeguards appropriate, or should there be others?

The FSF supports the proposal to allow continuous disclosure-to-market requirements to be suspended temporarily, in accordance with the recommendation of the FSB. The suggested conditions and safeguards seem to the FSF to be sufficient to prevent this proposed allowance to be misused.

5.G Should the resolution authority always be required to respect property rights (including the hierarchy of creditors in liquidation)? Or should it have discretion to override property rights as long as compensation is made available to creditors left worse off than they would have been in a liquidation? Or should no change be made to the protection of creditor property rights?

The FSF believes that the resolution authority should not have the discretion to override property rights as long as compensation is made available to creditors left worse off than they would have been in a liquidation. Investors in hybrid convertible notes, for example, would demand a different return to a senior secured creditor and would effectively price in the inherent risk. To then have this turned on its head by the resolution authority undermines the role of markets and makes pricing of instruments impossible, in the view of the FSF.

5.H Should an industry-funded resolution fund be established (alongside any deposit insurance scheme fund)?

The FSF is unable to answer this question unless or until the actual cost of such a fund to industry participants is made clear. As previously stated, the FSF has only three remaining NBDT members, each of which are very small. They already incur heavy compliance costs to allow them to continue to operate as an NBDT, but any further costs imposed on them may make their business unsustainable. The FSF submits that further reducing the consumer choice provided by small NBDTs is not in the consumer interest so care would need to be taken that larger institutions such as registered banks bore the significant brunt of the cost of such a fund.

Please also refer to the FSF's responses to the questions raised in Chapter 5 of the Consultation Document 2A in relation to the proposal to implement a deposit protection regime.

5.I Do any other aspects of cross-border resolution need to be considered in the design of New Zealand's crisis management framework?

The FSF does not have any members with cross-border relationships so therefore has nothing to say with regard to this question.

Chapter 6: How should the Reserve Bank coordinate with other agencies?

6.A What do you see as the main pros and cons of the existing coordination arrangements, and why?

Firstly, the FSF raised the point in the response made to Consultation Document 1 that, in the FSF's view, New Zealand operates a triple peaks model for financial sector regulation in reality and that the role of the Commerce Commission in regulating consumer credit provision and responsible lending is equal importance in safeguarding New Zealand's financial stability and public confidence in the financial system as that of the RBNZ and the FMA. The FSF is therefore pleased to see that the Commission has now been invited to attend CoFR due to its responsibilities in enforcing consumer credit laws.

The FSF finds it surprising therefore that when the Consultation Document discusses the increased regulatory pressures on regulated entities in New Zealand in recent years (on page 141 of the Document), the revised CCCFA and the introduction therein of Lender Responsibility Principles and the Responsible Lending Code, are not also included.

The FSF agrees with the challenges in managing processes to enhance co-ordination mechanisms outlined on page 141 of the Consultation Document and would add to that not just the ability for government agencies to identify regulatory gaps and emerging risks but also where there might be regulatory overlap occurring through competing (and often not complementary) pieces of legislation.

Further, with regard to the potential issue 3: system complexity, stewardship complexity and unclear roles raised on page 148 of the Consultation Document, the FSF points out that both the RBNZ and the FMA have a responsibility for the supervision of the AML/CFT processes and policies of their regulated agencies. So too does the Department of Internal Affairs (DIA) which supervises all NDIs as well as lawyers, accountants and real estate agents and other reporting entities. Stewardship for AML/CFT matters rests with the Ministry of Justice. The FSF believes that there is also a need for the three AML/CFT supervisors to appropriately co-ordinate their supervisory activities to ensure consistency across the sector.

6.B What would you change about current arrangements, and why?

As mentioned above, the FSF sees the model for financial sector regulation as that of a triple rather than twin peaks model. The importance of ensuring that lenders behave responsibly to ensure the stability of the financial system was amply displayed by the issues that arose with the finance company failures throughout the GFC and therefore Commerce Commission's role in ensuring New Zealand's financial stability cannot be underestimated.

As the FSF has already said, it is pleasing to see that the Commission is not being invited to attend the CoFR but questions why an MoU does not exist between the Commission and the RBNZ and FMA to make the relationship among the three organisations more defined. As an example if the Commerce Commission became aware that irresponsible lending practices were becoming a systemic problem within a large institution, that is something that should be being flagged to the RBNZ and the FMA sooner rather than later so that oversight of potential arrears and defaults can be monitored and action proactively taken to prevent a failure.

6.C Which, if any, of the options above for enhancing support for status quo coordination arrangements do you consider would be desirable, and why?

The FSF would support enhancing the status quo by considering the financial sector regulation model as being that of a triple peak one as opposed to a twin peaks model. By doing so and acknowledging the importance of the role of the Commerce Commission alongside that of the RBNZ and the FMA in supporting financial stability in New Zealand, their role is being given equal weight and the need to also co-ordinate with the Commission is made clearer.

The inclusion of the Commission in the CoFR is a step in the right direction in achieving this, in the view of the FSF as would the development of an MoU between the Commission and the RBNZ and FMA along similar lines to that in place already between RBNZ and FMA.

6.D Do you think that a high-level coordination objective would be an appropriate way to ensure that the Reserve Bank is coordinating with non-financial sector agencies (for example on climate change)?

The FSF does not see the need for any further high-level objectives for the Reserve Bank (as previously covered in the answers provided to the questions raised in Chapter 2 of the Consultation Document).

6.E Which is your preferred option for the structure of CoFR and why?

The FSF prefers Option 1: status quo enhancements for the structure of CoFR. As discussed in previous answers to the questions raised in this chapter of the Consultation Document, this is with the proviso that Commerce Commission continues to be included as a member of the Committee.

The FSF agrees with the pros outlined for this option. The expectation is clear that the three regulatory agencies, the RBNZ, the FMA, and the Commerce Commission, must work together and co-ordinate their activities to avoid regulatory gaps and overlaps and systems failures so therefore the concern regarding durability of this option is taken care of. Similarly, if such a failure were to occur, the first question that would be asked of the three regulators is why were they not co-ordinating their activities which takes care of the transparency issue.

Finally, this option is the least resource-intensive of the three proposals even though it should be clear to the agencies concerned that assigning resources to the CoFR is a priority for them.

6.F Do you agree with the analysis of the pros and cons of the different options?

Please see the answer provided to question 6.E above.

6.G Are there any other specific coordination mechanisms, bodies, or transparency requirements that the Review should consider?

The FSF is unable to think of any other specific co-ordination mechanisms, bodies, or transparency requirements for the Review to consider.

Chapter 7: How should the Reserve Bank be funded and resourced?

7.A Do you agree with the potential issues identified in the current funding model? Are there any additional issues with the current funding model?

The FSF submits that the potential issues identified in the current funding model outlined in the Consultation Document are very comprehensive and realistic and cannot think of any additional issues with the model.

7.B How should the Reserve Bank report its funding and spending? Do you have any comments on the transparency of, or accountability for, the Reserve Bank's funding and spending, including the possible channels to strengthen arrangements?

The FSF is generally satisfied with the current arrangements for the Reserve Bank's reporting on its funding and spending. The introduction of a formal governance board which will replace the Governor as the Reserve Bank decision-maker and have full responsibility for managing the Reserve Bank's and appointing the Treasury as the Minister's monitoring agent for the Reserve Bank will further strengthen this.

The FSF is also generally satisfied with the Reserve Bank's current transparency or accountability for their funding and spending however clearly other stakeholders hold different views on this matter. Whilst the FSF can understand the value that further measures such as imposing additional legislative reporting requirements; enabling the Controller and Auditor-General to conduct performance audits and inquire into the Reserve Bank's use of its resources; and clarifying the monitoring agent's role and expectations, might add to this process, the FSF cautions against instituting all of these measures as they themselves could become resource intensive when it has been widely acknowledged that the Reserve Bank is less well resourced than is considered optimal for it to conduct its supervisory functions.

The FSF believes this would certainly be true of the first of these proposed measures (imposing additional legislative reporting requirements) but believes that there is merit in considering further the second two of these proposals: enabling the Controller and Auditor-General to conduct performance audits and inquire into the Reserve Bank's use of its resources; and clarifying the monitoring agent's role and expectations.

To so enable the Controller and Auditor-General in this way seems to the FSF to be consistent with the proposal for the Reserve Bank to be treated as any other Crown Entity and, given the in-principle decision to make the Treasury the monitoring agent for the Reserve Bank, it would seem entirely sensible to clarify their role and expectations in this process.

7.C Given the in-principle decisions to change the Reserve Bank’s governance framework as outlined in Consultation Document 2A, what role should the Minister have in the Reserve Bank’s funding model? Should it be different for prudential and non-prudential functions?

The FSF submits that the preferred option for involving the Minister in the funding process would be that of the “Consult” model which would allow the Minister to convey society’s risk preferences by setting expectations and objectives. The proposed changes to the Reserve Bank’s governance provide a framework for a best practice governance model so it would seem entirely appropriate to the FSF for the Reserve Bank to have the sole accountability for its capability and outcomes under this model.

7.D Should the Reserve Bank continue to be fully funded from revenue (seigniorage and investment income) and fees, or should other funding sources be considered? In particular, should the Reserve Bank have the option to introduce an industry levy to fund the Reserve Bank’s prudential supervisory function?

The FSF strongly cautions against making any significant changes to the way in which the Reserve Bank is funded without robust consultation with those affected by any of these possible changes. For the FSF’s small NBDT members, they already incur significant fees and levies in order for them to be able to continue to provide their deposit-taking offering to the public. These include levies to the FMA and the cost of having a Trustee as supervisor.

The Consultation Papers 2A and 2B are already suggesting further fees, levies or charges that would fall to deposit-takers. These include the proposed deposit-protection regime together with the possible implementation of an industry-funded resolution fund. Should the proposal to move to the Reserve Bank becoming the supervisor for all deposit-takers under the single licensed deposit-taker framework become a reality, presumably there will be further charges to the deposit-takers to cover the cost of the Reserve Bank’s activities in this area (although presumably NBDTs would no longer have to pay the cost of Trustee supervision under this model).

The FSF’s very serious concern is that all these costs on top of each other will make the business of being a small NBDT unviable and that consumer choice and small level of competition in the market that they provide will then disappear.

Without having any actual numbers to consider, the FSF cannot provide a definitive answer to this question but again signals that considerable care needs to be taken to ensure that small NBDTs can continue to operate.

7.E Do you have any comments on the illustrative options in Figure 7C and Table 7B? Are there other options, combinations, or additional design features that should be considered?

The FSF reiterates what was said in answer to question 7.D above that it is not possible to comment on proposals until FSF members that are affected by them have some idea of the quantum of fees and levies that might be imposed on them. Also, that significant care needs to be taken that the imposition of such fees and levies does not drive currently viable businesses that are providing a realistic alternative deposit-taking option to consumers out of the market altogether.

Thank you for the opportunity for the FSF to respond to the questions raised in the Consultation Document. Please do not hesitate to contact me if there is anything further you wish to discuss.

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Lyn McMorran
EXECUTIVE DIRECTOR

Appendix A
FSF Membership List as at 31 May 2019

Debenture Issuers - (NBDT) Non-Bank Deposit Takers	Vehicle Lenders	Finance Company Diversified Lenders	Finance Company Diversified Lenders	Insurance	Affiliate Members
<u>Rated</u> Asset Finance (B)	BMW Financial Services ➤ Mini ➤ Alphaera Financial Services Branded Financial Services Community Financial Services European Financial Services Go Car Finance Ltd Honda Financial Services Mercedes-Benz Financial Motor Trade Finance Nissan Financial Services NZ Ltd ➤ Mitsubishi Motors Financial Services ➤ Skyline Car Finance Onyx Finance Limited Toyota Finance NZ Yamaha Motor Finance <u>Leasing Providers</u> Custom Fleet Fleet Partners NZ Ltd ORIX NZ SG Fleet Lease Plan	L & F Ltd ➤ Speirs Finance ➤ YooGo Avanti Finance Caterpillar Financial Services NZ Ltd CentraCorp Finance 2000 Finance Now ➤ The Warehouse Financial Services Flexi Cards Future Finance Geneva Finance Home Direct Instant Finance ➤ Fair City ➤ My Finance John Deere Financial Latitude Financial Pioneer Finance South Pacific Loans Thorn Group Financial Services Ltd Turners Automotive Group	Prospa NZ Ltd Personal Loan Corporation Metro Finance CentraCorp Finance 2000 Finance Now ➤ The Warehouse Financial Services Flexi Cards Future Finance Geneva Finance Home Direct Instant Finance ➤ Fair City ➤ My Finance John Deere Financial Latitude Financial Pioneer Finance South Pacific Loans Thorn Group Financial Services Ltd Turners Automotive Group	Autosure Protecta Insurance Provident Insurance Corporation Ltd Southsure Assurance Credit Reporting Equifax (prev Veda) Centrix <u>Debt Collection Agencies</u> Baycorp (NZ) Illion (prev Dun & Bradstreet (NZ) Limited) Experian Intercoll Receivables Management	AML Solutions Buddle Findlay Chapman Tripp EY Finzsoft KPMG Paul Davies Law Ltd PWC Simpson Western FinTech NZ HPD Software Ltd Total : 61 members