New disclosure regime for registered banks

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In this article, Geof Mortlock provides a general outline of new public disclosure requirements which have been developed for registered banks, under the Reserve Bank Act 1989. The article backgrounds the new requirements (which, for registered banks, will largely substitute for the prospectus disclosure regime established by the Securities Regulations 1983); explains the role of the Reserve Bank in administering the new requirements; and provides a brief explanation of the information which registered banks will be required to include in their disclosure statements, the first of which will be available to the public towards mid 1996.

I  Introduction

On 1 January 1996, a new public disclosure regime for registered banks came into force. The disclosure requirements are part of a new approach to the supervision of banks in New Zealand and will require all banks operating in New Zealand to publish quarterly disclosure statements. This article outlines the background to, and purposes of, the disclosure arrangements. It also summarises the main features of the disclosure requirements and outlines the Reserve Bank of New Zealand’s ongoing role under the new framework.

II  Background to and purposes of the disclosure requirements

The new disclosure requirements for registered banks are part of the changes which have been made to banking supervision arrangements in New Zealand. Under the new approach, the objectives of banking supervision remain unchanged - the Reserve Bank continues to have responsibility for registering and supervising registered banks for the purpose of promoting and maintaining a sound and efficient financial system. The Bank also continues to have responsibility for responding to a bank financial distress or failure situation, so as to minimise damage to the financial system. Where the new banking supervision arrangements depart from the old is in two main areas: the reduction in the extent of prudential regulation applied to banks; and the introduction of a new public disclosure regime for all banks operating in New Zealand.

Objectives of the disclosure regime

The disclosure regime has been designed with a number of objectives in mind.

(a) Promoting sound banking practices

One of the most important objectives of the disclosure framework is to strengthen the incentives for the directors and management of banks to maintain sound banking practices. Under the new disclosure arrangements, the financial condition and risk profile of banks will be more transparent than is currently the case. The market will therefore be better placed than it is now to monitor banks’ financial performance and risk management, and to compare one bank with another. This could be expected to sharpen the market disciplines on banks, given that they will have strong incentives to manage their affairs in such a way as to avoid the need to disclose adverse developments.

(b) Strengthening the role of bank directors

Another objective of the disclosure requirements is to reinforce, and provide a sharper focus to, the role of bank directors. Under the disclosure arrangements bank directors have an important role to play. They are required to sign the disclosure statements, certifying that the information contained in the statements is not false or misleading, and are required to sign a number of "attestations" as to their bank’s financial soundness and the adequacy of its risk management systems. These responsibilities reinforce the role of directors in overseeing, and taking ultimate responsibility for, the prudent management of their bank.

(c) Improved information for investors

A third objective of the disclosure regime is to provide improved information to depositors and other investors with which to assess the financial soundness of banks and to assist in comparing one bank with another. This is particularly important in New Zealand, given that banking supervision is directed at promoting and maintaining a sound and efficient financial system, rather than the protection of depositors, as in many other countries. It does not provide an assurance that a bank will not get into difficulty or
fail. And it does not provide any guarantee that, if a bank were to fail, depositors would recover all of their funds. For these reasons, it is important that investors have access to relatively high quality information, provided on a timely basis.

The Reserve Bank acknowledges that many investors are not necessarily well placed to assess the financial soundness of a bank or to compare one bank with another. Assessing the financial soundness of a bank can be a complex task, requiring the investor to interpret a wide range of complicated information. It is for these reasons that part of the disclosure requirements have been designed to provide non-expert investors with summarised information, in a relatively brief format, in order to assist them to improve their understanding of their bank. In addition, the Reserve Bank is planning to promote greater public understanding of the disclosure requirements and the terms used in banks' disclosure statements through a number of initiatives, including a pamphlet directed at the non-expert investor.

In designing the disclosure regime, the Reserve Bank was also mindful that investment advisers, financial analysts and the news media have a role to play in assisting non-expert investors to decide where to invest their money. Much of the information required to be disclosed by banks is therefore aimed at the "financial professionals", in their capacity as agents for the non-expert investor.

III Structure of the disclosure regime - some key features

Legal basis for the disclosure requirements

The disclosure requirements are contained in Orders in Council made pursuant to the Reserve Bank of New Zealand Act 1989. The Orders are made on the advice of the Minister of Finance, given in accordance with a recommendation from the Reserve Bank. The Reserve Bank may only recommend that an Order be made if it has consulted the Securities Commission, registered banks and other interested parties, and has had regard to any submissions made to it in respect of the disclosure proposals. The Orders in Council are administered by the Reserve Bank.

 Disclosure statements replace prospectuses

The disclosure arrangements replace existing Securities Act prospectus requirements for banks in respect of their debt securities. Banks will cease to be subject to debt security prospectus requirements from the time they publish their first disclosure statements. However, banks will continue to be subject to prospectus requirements in respect of offers of non-debt securities to the public. And banks will remain subject to the existing advertising requirements of the Securities Act.

Disclosures are quarterly and contain comprehensive financial information

Under the new arrangements, every bank must publish a disclosure statement every three months. The disclosure statements are required to contain a wide range of financial, corporate and risk-related information on both the registered bank and its "banking group". A banking group is generally the registered bank and its subsidiaries in New Zealand. Disclosure in respect of the banking group is important, given that there is always the potential for adverse developments in a bank's subsidiaries to impact on the bank. Accordingly, in order to gain a sound understanding of a bank's financial condition, it is important to understand the financial condition of the banking group.

Disclosure statements do not contain investment "product" information

Banks are not permitted to include information on the terms and conditions of investment products in their disclosure statements. The disclosure statements are therefore focused purely on providing information with which to assess the financial condition of the bank and banking group as issuers of securities. Information on the terms and conditions of investment products is contained in other material published by banks, including their prospectuses in respect of non-debt securities. It is intended that banks will be subject to the proposed investment product and adviser disclosure requirements, currently before Parliament. Those requirements are designed to provide the prudent but non-expert investor with clearly presented information on the terms and conditions, and key attributes, of a wide range of investment products. It is intended that the investment product and adviser disclosure requirements will be administered by the Securities Commission.

Form of disclosure statements

Disclosure statements are in two main forms: a brief "Key Information Summary", aimed at the non-expert investor, and a larger and more comprehensive "General Disclosure Statement", aimed at readers with greater knowledge of financial matters. In addition, banks are required

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to publish a Supplemental Disclosure Statement, containing information relating to guarantees and a bank’s conditions of registration, unless that information is contained in the General Disclosure Statement. The content of these disclosure statements is explained later in this article.

Some differences in the disclosure requirements for overseas incorporated banks

In most respects, banks incorporated in New Zealand and banks incorporated overseas (and therefore operating in New Zealand as a branch of the overseas bank) face very similar disclosure requirements. However, there are some differences between the disclosure rules, reflecting the fact that a branch bank is not a separate legal entity from the overseas bank of which it is part. Moreover, it would have been impracticable to require an overseas bank to disclose its global operations on the basis of the New Zealand disclosure requirements, particularly where the New Zealand branch is small relative to the bank as a whole. Reflecting this, the New Zealand branch of an overseas bank is only required to comply with the disclosure requirements on the basis of the bank’s operations in New Zealand and its New Zealand banking group. In addition, each branch bank is required to make available the most recent financial disclosures of the overseas bank’s operations, on the basis of the bank’s publicly available disclosures in its country of incorporation.

Briefer disclosures in the “off-quarters”

The disclosure requirements in respect of a bank’s “off-quarters” (the first and third quarters of a bank’s financial year) require less comprehensive disclosure than in respect of a bank’s end-of-year or half-year. In particular, the off-quarter disclosure statements will contain less comprehensive financial statements and less information of a “prudential” nature in the General Disclosure Statement than at the end-of-year or half-year. This reflects the Reserve Bank’s desire to keep banks’ compliance costs within reasonable bounds, while still providing the market with financial and risk-related information on a quarterly basis.

Period allowed for publication of disclosure statements

In respect of a bank’s end-of-year and half-year, banks must publish their disclosure statements not later than three months after the balance date or interim balance date. In their off-quarters, banks have only two months (from the off-quarter balance date) within which to publish their disclosure statements. The shorter time period allowed in the off-quarters reflects the briefer nature of the off-quarter disclosure statements. It also recognises that the off-quarter disclosure statements are not required to be audited. However, where a bank voluntarily engages an external audit in an off-quarter (to a level at least equivalent to that required at the half-year), then it is allowed the full three months to publish its disclosure statement.

Prior period information

A standard feature of the disclosure arrangements is the requirement for banks to disclose prior period information for most items - ie information for the same period one year earlier than the current period. This approach is consistent with generally applicable accounting practice.

Disclosure statements must not be false or misleading

The Reserve Bank of New Zealand Act requires disclosure statements to be not false or misleading. This requirement applies to information contained in the disclosure statement as at the date on which it is signed by the bank’s directors. Banks and their directors face potentially severe penalties, both criminal and civil, where a disclosure statement is found by a court to be false or misleading.

It is important to note that the “not false or misleading” statutory requirement does not apply where, subsequent to the date on which a disclosure statement is signed, the bank’s position changes to such an extent that the disclosure statement no longer accurately represents the financial condition of the bank or its banking group. However, directors may incur liability at common law if they allow their bank to continue to accept funds and to carry on business on the basis of a disclosure statement which has become false or misleading as a result of material adverse developments post-publication. Moreover, directors are required to comply with other statutory requirements, including those imposed by the Companies Act 1993.

Market risk disclosures

Amendments are being made to the disclosure requirements to provide for the disclosure of banks’ market risk positions. It is proposed that these amendments will come into force on 1 April 1996. They will require banks to publish information on exposures to changes in interest rates, foreign currency and equity prices, both as at the end of each quarter and in respect of peak exposures over a bank’s accounting period. The disclosures will be made

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IV Reserve Bank's role in the disclosure regime

As administrator of the disclosure requirements, and in its capacity as banking supervisor, the Reserve Bank has an ongoing role in relation to the disclosure regime. That role has a number of features:

(a) Ongoing review of disclosure requirements

The Reserve Bank will keep the disclosure framework under review and formulate amendments where appropriate, with a view to ensuring that the framework remains consistent with relevant Financial Reporting Act requirements and other contextual matters. The Bank has indicated that it will review the disclosure arrangements at the time that the Society of Accountants' draft accounting standard for financial institutions, Exposure Draft 73A (Disclosure of Information by Financial Institutions) ("ED73A"), is approved as a financial reporting standard. This is expected to occur within the next 12 to 18 months.

(b) Monitoring for compliance

The Reserve Bank will monitor each bank's disclosure statements to ensure that all banks are complying with the disclosure requirements. Where a bank appears to have not complied with a particular requirement, the Reserve Bank may require the bank in question to publish an addendum to its disclosure statement or a new disclosure statement.

(c) Powers in relation to false or misleading disclosure statements

The Reserve Bank has a number of powers available to it where it considers that a bank's disclosure statement may be false or misleading. These powers include the ability to require a bank to publish a correction to a disclosure statement or to publish a new disclosure statement. In addition, the Reserve Bank can initiate a prosecution against a bank and its directors where the Bank has cause to believe that a disclosure statement is false or misleading. The Bank will place considerable reliance on bank directors and auditors to ensure that disclosure statements are not false or misleading, but will consider using its powers if there is cause to believe that a disclosure statement may be in breach of this statutory requirement.

The Reserve Bank's role does not, in any sense, provide a guarantee that a bank's disclosure statement will not be false or misleading. It would not be possible, or appropriate, for the Bank to provide this assurance. That responsibility lies with each bank's directors.

V The Key Information Summary

The Key Information Summary is aimed at the non-expert investor and is designed to contain a brief summary of key financial and other information on the registered bank and its banking group. The information required to be contained in a Key Information Summary varies slightly depending on whether the bank is locally incorporated or incorporated overseas. In both cases, it is designed to provide non-expert investors with a meaningful basis for assessing the financial soundness of a bank and to assist them to compare one bank with another.

The Key Information Summary is required to be displayed in each bank branch and must be available from branches immediately upon request, without charge. In order to keep the Key Information Summary brief, there are restrictions on the extent to which banks can include additional information. If a bank does wish to add additional information, it must do so after first presenting the required information in the order specified in the disclosure requirements.

The information requirements of the Key Information Summary remain constant each quarter - there are no abbreviated disclosures in the off-quarters. The information required to be disclosed in the Key Information Summary must be drawn from the information contained in the General Disclosure Statement, and includes the following:

(a) Ownership

Where applicable, banks are required to disclose the name of their ultimate holding company and ultimate parent bank, and the country in which those companies are incorporated. This information reflects the importance which a bank's ownership can play in determining the financial soundness of a bank.
(b) Credit rating

Banks are required to disclose whether or not they have a credit rating applicable to their long term senior unsecured liabilities payable in New Zealand, in New Zealand dollars. Where a bank has such a rating, it is required to disclose the rating and any qualifications to it (such as whether the bank has been placed on credit watch), the name of the rating agency in question and any changes which have been made to the rating within the two years preceding the bank’s balance date or off-quarter balance date.

The General Disclosure Statement is required to contain a description of all the “steps” in the applicable rating scales.

Disclosure of a bank’s credit rating provides important information for investors. The rating provides a useful way for non-expert investors to make some assessment of a bank’s perceived financial soundness and helps them to compare one bank with another. Disclosure of a bank’s credit rating also serves another, less direct, purpose, in that it should strengthen market disciplines on banks. Banks have strong incentives to ensure that their credit rating compares favourably with those of other banks. The prominent disclosure of a credit rating should strengthen these incentives to some extent, thereby assisting in encouraging banks to maintain sound banking practices and to have careful regard to the importance of appropriate ownership and other structural considerations.

(c) Guarantees

Each bank’s Key Information Summary must contain a statement as to whether or not any material obligations of the registered bank or its banking group are guaranteed by another party. Where a guarantee exists, the Key Information Summary must disclose the identity of the obligations which are guaranteed, the name of the guarantor and a statement as to whether the guarantee is subject to limits or conditions. Where limits or conditions apply, details must be disclosed in the General Disclosure Statement. Full documentation relating to the guarantee must be contained in the Supplemental Disclosure Statement, if not included in the General Disclosure Statement.

(d) Capital adequacy

The Key Information Summary must disclose the banking group’s capital position - both the tier one and total capital ratios. Disclosure is made on the basis of the international Basle Capital Accord and capital is expressed as a percentage of the banking group’s risk weighted exposures. Tier one capital represents the banking group’s core capital - principally its share capital and audited retained earnings. This is the capital which is generally relied upon to absorb losses while still enabling a bank to continue to conduct business. Total capital is a broader measure of capital and includes (in addition to tier one capital) such items as revaluation reserves, unaudited retained earnings, the general provision for doubtful debts and certain categories of subordinated debt.

The capital disclosures in the Key Information Summary are made only in respect of the banking group (which is the basis on which the Reserve Bank applies its minimum capital adequacy requirements to banks). However, the General Disclosure Statement contains capital adequacy information for both the registered bank itself (on a solo basis) and for the banking group. It also contains details of capital items, balance sheet and off-balance sheet exposures, and risk weights.

Branch banks are not required to disclose the “capital” position of the New Zealand branch, given that the branch is inseparable from the overseas bank of which it is part. Instead, they are required to disclose the most recent information on the capital position of the overseas bank as a whole, to the extent that this information is publicly available in the bank’s country of incorporation.

Considerable prominence is given to a banking group’s capital position in the disclosure arrangements, due to the importance of capital in assessing the financial soundness of a bank. Capital serves three important roles in this regard. First, as noted above, it provides a buffer of the bank’s own resources with which to absorb losses, while still enabling the bank to continue to do business. Second, in a winding-up of a bank, capital provides depositors and other creditors with some protection from a bank’s losses - ie in a winding-up shareholders and subordinated debt holders are only repaid if senior creditors (including depositors) are repaid in full. Third, it ensures that the owners of a bank have a sufficient stake in its success to take a careful interest in its management.

The risk weighted capital ratio provides a useful way of comparing one bank’s capital position with those of other banks in a broadly consistent manner, given that it makes some allowance for the different credit risk attributes of different categories of assets. It also attributes a “credit equivalent” value to off-balance
sheet exposures, thereby expressing a bank's capital against a relatively comprehensive base of credit exposure. However, in comparing banks' capital ratios, it needs to be remembered that the risk weights used in the capital framework are of a highly generalised nature and therefore do not reflect the underlying credit risk attributes of any particular bank.

(e) Exposure concentration

The Key Information Summary is required to contain information on a banking group's concentration of credit exposures to individual customers (called "counterparties") of the group. This provides important information on the extent to which a banking group has diversified its credit risk across a number of individual counterparties. But it is only one measure of risk concentration - other concentration risk measures (eg to industrial sectors or geographical regions) are contained in the General Disclosure Statement.

Exposure concentration is measured by the number of individual counterparties and groups of closely related counterparties to which the banking group has a credit exposure exceeding 10 percent of the group's equity. In the Key Information Summary, banks are required to disclose the number of these counterparties on the basis of the peak end-of-day exposure which the banking group had to these counterparties over the accounting period to date. The numbers of counterparties are disclosed in two categories, banks and non-banks, in 10 percent bands relative to the banking group's equity.

Branch banks are required to make the same disclosures, but only in respect of credit exposures of the banking group in New Zealand and only in relation to the overseas banking group's equity.

The General Disclosure Statement contains greater detail on exposure concentration, and includes disclosures made on the basis of credit exposures both on a peak end-of-day basis over the accounting period to date, and as at the end of each quarter.

(f) Asset quality

Another important item required to be disclosed in the Key Information Summary is information on the banking group's asset quality. Banks are required to disclose the amount of their impaired assets. Impaired assets are assets which are at risk of not being fully recovered by the banking group, and include such items as non-accrual assets, restructured assets and assets acquired through the enforcement of a security. The classification of impaired assets is specified in the disclosure requirements and is closely based on ED73A.

The disclosure of impaired assets provides a prima facie indication of a banking group's asset quality and of possible effects on future profitability, and therefore capital. Of equal importance is the extent to which the banking group has recognised the amount of expected losses on its impaired assets. An indication of this is the amount of specific provisioning which the banking group has created to absorb expected losses arising from its impaired assets. The Key Information Summary will require banks to disclose the amount of the banking group's specific provisions and to express this as a proportion of total impaired assets.

The General Disclosure Statement contains detailed information on the components of impaired assets, the level of general and specific provisions and reconciliations of movements in provisioning.

(g) Connected person exposures

Banks incorporated in New Zealand will be required to disclose the peak end-of-day amount of the banking group's credit exposure to "connected persons" over the accounting period to date. A "connected person" is any entity capable of controlling or influencing significantly the bank and its banking group, and includes the subsidiaries and associates of such entities.

Information on exposures to connected persons is important, given the potential for a connected person to direct or coerce a bank into lending to it or another connected party on non-commercial terms or in unfavourable circumstances, to the possible detriment of the bank's creditors. It is for this reason that the Reserve Bank applies a limit on the amount of credit exposure a banking group may have to its connected persons. Where the connected person is itself a bank or is owned by a bank, the limit is 75 percent of the banking group's tier one capital, while for a non-bank connected person the limit is considerably lower, at 15 percent. The relatively high limit for bank connected persons recognises that the risk of default by a bank counterparty is likely to be materially lower than for a non-bank counterparty. It also acknowledges that banks, by their very nature, incur substantial inter-bank exposures on a daily basis, and that if the limit were pitched at a relatively low level, this
would excessively impede the ability of the bank to
do routine business with its parent bank.

(b) Profitability and size

In addition to the “prudential” disclosures referred
to above, banks are also required to disclose some
key financial information, such as profitability, size
of the balance sheet and asset growth. Profitability
(expressed both in dollar terms and as a percentage
of average total assets) provides a broad measure of
the banking group’s financial performance and can
be a useful indicator with which to compare one bank
with another. However, caution needs to be
exercised in interpreting profitability, given that it can
vary considerably from period to period, and inevi-
tably varies from bank to bank depending on the
nature of their asset mix and the extent of their off-
balance sheet business. It is also important to bear in
mind that a high profitability figure is not necessarily
an indication of underlying financial strength; in
some circumstances it can reflect a relatively high
risk profile in a banking group’s assets.

(i) Statutory impediments to the pari passu dis-
tribution of a bank’s assets

The Key Information Summary published by a bank
operating as a branch in New Zealand is required to
contain a statement as to whether any statutes or regu-
lations applicable to the bank would impede the abili-
ity of creditors of the New Zealand branch having
pari passu access to the assets of the overseas bank
in a winding-up of that bank. If so, the Key Informa-
tion Summary must state the legislation or regula-
tions involved and the nature and amount of the
liabilities affected. This disclosure is intended to high-
light the position in which creditors of a branch bank
could find themselves in the event of a wind-up. It
recognises that, although creditors of branch banks
have a claim on the global balance sheet of the bank,
in some cases foreign laws can impede the ability of
creditors of the branch in New Zealand to have pari
passu access to the assets of the overseas bank. The
effect of this would be to subordinate those credi-
tors’ claims to the claims of some categories of over-
seas creditors of the bank.

Audit requirement

The Key Information Summary is subject to external au-
dit at the end of a bank’s financial year and at the half-
year. The audit attests as to whether the Key Information
Summary has been completed in accordance with the
Orders in Council and whether the information contained
within it has been taken properly from the General Dis-
closure Statement.

VI General Disclosure Statement

The principal component of a bank’s disclosure statement
is the General Disclosure Statement. This is aimed at in-
estors and others (including investment advisers and the
financial media) with a reasonably well developed
understanding of financial matters. Banks are required to
make comprehensive disclosures of corporate, financial
and risk-related information in the General Disclosure
Statement, in respect of the registered bank itself and the
banking group. The disclosures are particularly compre-
hensive in respect of a bank’s end-of-year and half-year.
In the off-quarters, the disclosure requirements are some-
what less comprehensive, particularly in the area of the
financial statements.

Unlike the Key Information Summary, the General Dis-
closure Statement is not required to be immediately avail-
able in bank branches. However, it is required to be avail-
able without charge within five working days of a request
being made for it (if made at a bank branch), or immedi-
ately if the request is made at a bank’s head office.

Flexibility

Banks have considerable flexibility in the design of their
General Disclosure Statement. They have the ability to
include additional information, and to use any format, as
they consider appropriate. The only requirements are that
all the prescribed information must be included and that
the statement must not be false or misleading.

External audit

The financial information contained in a General Dis-
closure Statement is subject to a full “true and fair” external
audit in respect of a bank’s end-of-year. The audit
requirement is substantially the same as that which is con-
tained in the Financial Reporting Act in respect of issu-
ers’ annual reports. At the half-year, the financial infor-
mation is subject to a lower level of external audit, known
as a “limited review”. There is no external audit require-
ment in the off-quarters.

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Content of the General Disclosure Statement

All the information required to be disclosed in the Key Information Summary must also be disclosed in the General Disclosure Statement, but generally in greater detail. In addition, the General Disclosure Statement (or, where applicable, the Supplemental Disclosure Statement) is required to include the following information:

(a) Conditions of registration

Each bank is required to disclose the conditions attaching to its registration as a bank. This disclosure is required to be contained in a bank’s Supplemental Disclosure Statement, unless the information is included in the General Disclosure Statement. Conditions of registration are applied from time to time by the Reserve Bank to each registered bank. They are the means by which prudential regulations and other requirements are applied to banks. Conditions of registration are generally applied in a standardised way on all banks, although necessarily there are some differences in the conditions for a locally incorporated bank compared to those applied to a bank incorporated overseas. Occasionally, there is also a need to apply bank-specific requirements via conditions of registration. In general, conditions of registration relate to matters such as:

- the minimum capital adequacy requirements with which banks are required to comply;
- limits on the amount of credit exposure a banking group may have to a connected person;
- the requirement for locally incorporated banks to have at least two independent directors and a non-executive chairperson.

The disclosure of conditions of registration is intended to make the prudential regulation of banks as transparent as possible. It is also a complement to the requirement for bank directors to include in their bank’s disclosure statement an attestation as to whether the bank is complying with its conditions of registration.

(b) Financial statement information

Banks are required to include in their General Disclosure Statement comprehensive financial statements in relation to the registered bank and its banking group. In respect of a bank’s end-of-year and half-year, this requirement ties into generally applicable accounting practice, on the basis required by the Financial Reporting Act. This means that banks’ financial statements are required to comply with prevailing financial reporting standards approved by the Accounting Standards Review Board (“ASRB”). In this respect, the disclosure requirements harmonise with banks’ standard financial reporting requirements.

The required financial statements are, in large part, governed by the proposed disclosure requirements of ED73A. Although ED73A is still an exposure draft and is subject to further review, it was at a sufficiently advanced stage in late 1995 for much of its content to be incorporated into the disclosure requirements. Banks will therefore be making disclosures on a basis broadly consistent with ED73A. Once ED73A has been approved as a financial reporting standard by the ASRB, the disclosure requirements for banks will be amended to cross-reference to the new standard, thereby ensuring that banks and non-banks are making financial statement disclosures on substantially the same basis. This will represent an important move towards greater competitive neutrality in the area of disclosure within the financial sector.

(c) Sectoral exposure concentrations

In respect of their end-of-year and half-year, banks are required to disclose a banking group’s sectoral concentrations of credit exposure and funding. On the credit exposure side, banks will be required to disclose their concentrations of exposure by industry or economic sectors, and by geographical area. On the funding side, disclosures of concentrations will be made on the basis of sources of funding by category of funding product, nature of counterparty and geographical areas. These disclosure requirements are based on those contained in ED73A, although some differences exist, reflecting the particular nature of banking business.

(d) Historical summary of financial statements

The General Disclosure Statements at the end-of-year and half-year will include an historical summary of each bank’s key financial information. It will provide investors and others with a useful basis for assessing the longer term financial condition and performance of banks.

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(e) Securitisation and funds management

At the end of year and half year, banks are required to disclose information relating to securitisation, funds management and fiduciary activities, in respect of the banking group. The information required to be disclosed includes a description of the nature of the funds management, securitisation and fiduciary activities being undertaken by the banking group, the amount involved, and the arrangements put in place to ensure that difficulties arising from these activities do not impact adversely on the banking group.

These disclosures are important, given the rapidly growing involvement of banks in funds management, securitisation and fiduciary activities and the potential for risks associated with these kinds of activities to impact on the banking group and the bank itself. The disclosures will enable the reader of a disclosure statement to assess the size and nature of a bank’s involvement in these activities and the adequacy of the bank’s systems for managing the risks involved. It will also assist bank directors to focus their attention on this aspect of their bank’s business, and reinforce the incentives for maintaining appropriate risk management systems.

(f) Risk management policies

The General Disclosure Statement in respect of a bank’s end-of-year and half-year is required to contain information on a bank’s policies for monitoring and managing its risks. Banks are required to disclose, in respect of a wide range of banking risks:

(i) an explanation of the nature of the risk and the activities within the banking group which give rise to that risk; and

(ii) a description of the methods used to identify, monitor and control each such risk.

In addition, the General Disclosure Statement must contain a statement as to the nature and frequency of any reviews conducted in respect of the banking group’s risk management systems, including a statement as to whether those reviews were conducted by an external party unconnected to the bank or its banking group.

Given the important role which the internal audit function can play in enabling a bank to control its business risks, the General Disclosure Statement is required to contain a statement as to whether the banking group has an internal audit function and, if so, the nature and scope of that function.

(g) Directors’ statements

One of the most important features of the disclosure arrangements is the requirement for each bank’s directors to make certain statements or “attestations”. These attestations must be included in the General Disclosure Statement and are required to be signed by each director of the bank. The attestations relate to whether, after due enquiry made by the directors, they believe that:

(i) the disclosure statement, in its entirety, contains all the information that is required by the disclosure requirements;

(ii) the bank has complied with its conditions of registration;

(iii) in the case of a bank incorporated in New Zealand, any credit exposures which the banking group has to a connected person are not contrary to the interests of the banking group;

(iv) the bank has systems in place to monitor and control adequately the banking group’s risks and that those systems are being properly applied; and

(v) the disclosure statement is not false or misleading as at the date on which it is signed by directors.

The disclosure statement is required by the Act to be signed by each bank director individually. A director may authorise another person to sign on his or her behalf, but in so doing, they are not relieved of their obligations under the Act or the penalties attaching to directors, in the event that a disclosure statement is found to be false or misleading.