Summary of a new Reserve Bank of New Zealand paper: Overview of New Zealand financial sector regulation

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In the March 2003 issue of the Bulletin, we ran an article explaining the Financial Sector Assessment Programme (FSAP) and noted that New Zealand will be undergoing an FSAP assessment later this year. The FSAP assessment will take place in October and November this year and will involve a team of foreign officials, led by the International Monetary Fund, assessing various aspects of New Zealand’s financial system. This will include an evaluation of much of the financial sector regulatory framework, particularly banking supervision and securities market regulation.

In preparation for the FSAP, the Reserve Bank and a number of other government agencies (including the Securities Commission, Ministry of Economic Development and Ministry of Justice) have been preparing material to assist the FSAP team conduct their assessment. One part of this material is a paper that provides an overview of the structure of the New Zealand financial system and the regulatory framework. This paper is being made available to the FSAP team and will be released publicly. It can be accessed via the Reserve Bank’s website: www.rbnz.govt.nz

The paper notes that the financial system performs a range of important functions in the economy, including providing a mechanism for storing wealth, for allocating credit, for exchanging payments and for facilitating foreign exchange transactions. To perform these functions, the financial system comprises a complex matrix of financial institutions (the entities that provide financial services), financial markets, payment and settlement systems, and legal and accounting infrastructure. The paper describes the nature of the financial institutions operating in New Zealand, their functions and their share of the total market. It also describes the different types of financial markets in which these institutions and other users of the financial system operate, including the bond market, money market and foreign exchange market. And the paper provides an overview of the legal and accounting framework governing the financial system.

The main focus of the paper is the regulatory framework in the financial sector. It commences this discussion by summarising the public policy rationale for regulatory intervention in the financial sector. The paper notes that, in the banking supervision area, the objectives of supervision are to promote the maintenance of a sound and efficient financial system and to avoid damage to the financial system resulting from the failure of a registered bank. It notes that, in the area of securities market regulation, the main policy objectives are to promote securities markets that are reliable and efficient and that have integrity, and where investors can make well-informed decisions.

The paper then discusses the key elements of the financial sector regulatory framework, focusing mainly on banking supervision and the regulation of securities markets, but also including discussion of the regulation of life insurance, superannuation schemes, unit trusts, and securities exchange markets. There is also a discussion of some of the more recent developments in regulatory intervention, including the introduction of the Takeovers Code.

The paper also covers a range of ancillary issues, including the role of industry associations in the regulation of the financial sector and the mechanisms used to coordinate regulation across the sector.

We believe the paper will be a useful resource, not only to the FSAP team, but also to anyone else with an interest in the financial sector.