



# New Zealand Gazette

OF THURSDAY, 29 FEBRUARY 1996

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WELLINGTON: MONDAY, 4 MARCH 1996 — ISSUE NO. 21

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**REGISTERED BANK  
DISCLOSURE  
STATEMENTS**

## Reserve Bank

### Reserve Bank of New Zealand Act 1989

#### Registered Bank Disclosure Statement (Full and Half-Year—New Zealand Incorporated Registered Banks) Amendment Order 1996

CATHERINE A. TIZARD, Governor-General  
ORDER IN COUNCIL

At Wellington this 26th day of February 1996

Present:

HER EXCELLENCY THE GOVERNOR-GENERAL IN COUNCIL

Pursuant to section 81 (1) of the Reserve Bank of New Zealand Act 1989, Her Excellency the Governor-General, acting by and with the advice and consent of the Executive Council, and on the advice of the Minister of Finance given in accordance with a recommendation of the Reserve Bank of New Zealand, hereby makes the following Order.

#### Analysis

1. Title, Application and Commencement
2. Interpretation
3. Content of Financial and Supplementary Disclosures
4. Schedules
5. Miscellaneous Amendments to Order in Council

#### An Order to amend the Registered Bank Disclosure Statement (Full and Half-Year—New Zealand Incorporated Registered Banks) Order 1995.

**1. Title, Application and Commencement**—(1) This Order may be cited as the Registered Bank Disclosure Statement (Full and Half-Year—New Zealand Incorporated Registered Banks) Amendment Order 1996, and shall be read together with and deemed part of the Registered Bank Disclosure Statement (Full and Half-Year—New Zealand Incorporated Registered Banks) Order 1995 (hereinafter referred to as the principal Order).

(2) (a) This Order shall come into force on the 1st day of April 1996.

(b) Clauses 2 to 4 of the Order shall apply only in respect of Disclosure Statements relating to Balance Dates which occur after 1 April 1996.

(c) Where a Registered Bank is unable to disclose peak end-of-day information for that part of an Accounting Period which precedes the date on which this Order comes into force, the Registered Bank may disclose peak end-of-day information in respect of the period commencing with the date on which this Order comes into force.

**2. Interpretation**—Clause 2 (4) of the principal Order is hereby amended by inserting, in the appropriate alphabetical order, the following definitions:

“ ‘Aggregate Equity Exposure’ means the aggregate amount of Equity Exposure to all currencies.

‘Aggregate Foreign Currency Exposure’ means the aggregate amount of Foreign Currency Exposure to all currencies other than New Zealand dollars.

‘Aggregate Interest Rate Exposure’ means the aggregate amount of Interest Rate Exposure to all currencies.

‘Aggregate Market Risk Exposure’ means exposure to all, or any, of Aggregate Equity Exposure, Aggregate Foreign Currency Exposure and Aggregate Interest Rate Exposure.

‘Equity Exposure’ means the amount of the change in the economic value of equity instruments that are Financial Assets and Financial Liabilities of the

Banking Group in a single currency, which would occur as a result of a change in the price of equity instruments in that currency.

‘Foreign Currency Exposure’ means the amount of the change in the economic value of the Financial Assets and Financial Liabilities of the Banking Group in a single foreign currency which would occur as a result of a change in the rate of exchange applicable to that foreign currency.

‘Interest Rate Exposure’ means the amount of the change in the economic value of the Financial Assets (excluding equity instruments) and Financial Liabilities (excluding equity instruments) of the Banking Group in a single currency which would occur as a result of a change in interest rates in that currency.

‘Interest Rate Repricing Date’, as that term applies to a Financial Instrument or to a proportion of a Financial Instrument, means the earlier of the date on which, in accordance with the terms of the Financial Instrument:

- (a) the interest rate reset date next occurs (being the date on which the rate of interest payable in respect of the Financial Instrument can or will alter); or
- (b) the principal sum is due and payable or, where no principal sum is due and payable, the maturity date occurs.

‘Market Risk Exposure’ means exposure to any, or all, of Equity Exposure, Foreign Currency Exposure and Interest Rate Exposure.

‘Rate Insensitive Retail Assets’ means that amount of the Financial Assets held by the Banking Group which the Registered Bank reasonably believes is unlikely to be diminished or increased as a result of a Material change in market interest rates if the interest rate applicable to that Financial Asset (which may be zero) does not change or does not change Materially.

‘Rate Insensitive Retail Liabilities’ means that amount of the Financial Liabilities held by the Banking Group which the Registered Bank reasonably believes is unlikely to be diminished or increased as a result of a Material change in market interest rates if the interest rate applicable to that Financial Liability (which may be zero) does not change or does not change Materially.

‘Rate Insensitive Retail Product’ means either or both of a Rate Insensitive Retail Asset or a Rate Insensitive Retail Liability.”

**3. Content of Financial and Supplementary Disclosures**—Clause 12 (3) of the principal Order is hereby amended by omitting the words “Schedule 6”, and substituting the words “Schedules 6 to 8”.

**4. Schedules**—The principal Order is hereby amended by inserting, after the “Sixth Schedule Risk Management Policies” the following Schedules:

#### “Seventh Schedule

##### *Exposures to Market Risk*

1. (1) A Registered Bank shall disclose the amount of Aggregate Market Risk Exposures of the Banking Group in respect of each category of Aggregate Market Risk Exposure on the basis of:

- (a) Aggregate Market Risk Exposures derived in accordance with Schedule 8 of this Order; or
- (b) the Banking Group’s internal operating limits applicable to the relevant category of Aggregate Market Risk Exposure, but only if the Aggregate Market Risk Exposure in that category has not

Materially exceeded those limits at any time during the Accounting Period.

(2) The General Disclosure Statement shall state which of the above methods is used, and where the method used is that set out in clause 1 (1) (a) of this Schedule, shall also state which of the methods described in clauses 1, 8 and 11 of the Eighth Schedule (for deriving Aggregate Interest Rate Exposure, Aggregate Foreign Currency Exposure and Aggregate Equity Exposure respectively) is used.

(3) Where, in respect of a category of Aggregate Market Risk Exposure, a Registered Bank uses different methods to derive Aggregate Market Risk Exposure in that category as at Balance Date, and in respect of peak end-of-day exposure since the commencement of the Accounting Period, the Registered Bank shall identify, in relation to each of the disclosures made pursuant to this Schedule, the method used.

2. The information required to be disclosed pursuant to clause 4 of this Schedule shall include comparative figures for the previous corresponding period.

3. For the purposes of this Schedule, peak end-of-day exposure to each category of Aggregate Market Risk Exposure over the Accounting Period or Interim Accounting Period shall be measured as follows:

- (a) within each quarter, by determining the maximum end-of-day Aggregate Market Risk Exposure during the quarter, and dividing that amount by the amount of the Banking Group's Equity as at the end of the quarter; and
- (b) for the Accounting Period or Interim Accounting Period, by calculating the ratio for each quarter in the Accounting Period or Interim Accounting Period pursuant to clause 3 (a) of this Schedule and then taking the maximum of such ratios.

4. The General Disclosure Statement shall contain, in respect of the Banking Group:

- (a) a statement of Aggregate Interest Rate Exposure, expressed both as an amount and as a percentage of Equity;
- (b) a statement of Aggregate Foreign Currency Exposure, expressed both as an amount and as a percentage of Equity; and
- (c) a statement of Aggregate Equity Exposure, expressed both as an amount and as a percentage of Equity.

5. The information required to be disclosed pursuant to clause 4 of this Schedule shall be made:

- (a) as at the Balance Date; and
- (b) in respect of peak end-of-day exposure since the commencement of the Accounting Period.

## **Eighth Schedule**

### **Measurement of Market Risk Exposure**

#### **Aggregate Interest Rate Exposure**

1. The Registered Bank shall derive the amount of Aggregate Interest Rate Exposure of the Banking Group in accordance with either:

- (a) clauses 2 to 7 of this Schedule; or
- (b) any other method, but only if the Aggregate Interest Rate Exposure derived in accordance with that method is not, in the opinion of the Registered Bank (such opinion to be based on reasonable grounds), Materially lower than the amount derived pursuant to clause 1 (a) of this Schedule.

2. **Interest Rate Exposure in a Single Currency**—Interest Rate Exposure in a single currency is the total of:

- (a) the directional interest rate risk;
- (b) the vertical disallowance; and
- (c) the horizontal disallowance;

in that currency.

3. **Exposure to Directional Interest Rate Risk in a Single Currency**—(1) The amount of directional interest rate risk in a single currency shall be derived by subtracting the aggregate amount of the change in the value of each Financial Liability (excluding equity instruments) of the Banking Group arising from a directional change in interest rates in that currency from the aggregate amount of the change in the value of each Financial Asset (excluding equity instruments) of the Banking Group, arising from a directional change in interest rates in that currency.

(2) The value of a Financial Instrument is:

- (a) in the case of an unrecognised Financial Instrument and a recognised Financial Instrument which is a market related contract, the face or contract amount of the Financial Instrument expressed in New Zealand dollars using the relevant spot exchange rate; and
- (b) in the case of other Financial Instruments, the carrying amount of the Financial Instrument expressed in New Zealand dollars using the relevant spot exchange rate.

(3) The change in the value of a Financial Instrument is derived by multiplying the value, or proportion of the value, of the Financial Instrument allocated to the applicable time band specified in Table 1, in accordance with clause 3(4), by the risk weight specified for that time band in Table 1.

**Table 1: Time Bands, Risk Weights, and Assumed Interest Rate Changes**

	Time Bands							
	up to 1mth	1-6 mths	6-12 mths	1-2 yrs	2-4 yrs	4-6 yrs	6-10 yrs	Over 10 yrs
Assumed Interest Rate Change(%)	1.0	1.0	1.0	0.9	0.8	0.7	0.6	0.6
Risk weights(%)	0	0.3	0.7	1.3	2.0	3.0	3.5	4.4

(4) Subject to clauses 3 (5) and 3 (6) of this Schedule, the value of each Financial Instrument, or a proportion of it, shall be allocated to the time band specified in Table 1 in a manner which the Registered Bank believes, on reasonable grounds, reflects the date on which the interest rate applicable to the Financial Instrument, or proportion of the Financial Instrument, will be altered, or the date at which the principal, or a proportion of the principal, will be paid, notwithstanding the Interest Rate Repricing Date of the Financial Instrument.

(5) Notwithstanding clause 3 (4) of this Schedule:

- (a) a Registered Bank may exclude from the application of clause 3(4) of this Schedule the value, or the appropriate proportion of the value, of those Financial Instruments which meet the netting criteria contained in clause 4; and
- (b) the aggregate value, or the appropriate proportion of the aggregate value, of all Rate Insensitive Retail Assets and of all Rate Insensitive Retail Liabilities shall be allocated to the time bands specified in Table 2 in accordance with the percentages set out in Table 2.

**Table 2: Allocation of the value of Rate Insensitive Retail Products across time bands**

	Time Bands					
	up to 1mth	1-6 mths	6-12 mths	1-2 yrs	2-4 yrs	4-6 yrs
Percentage of aggregate value	5%	5%	10%	20%	40%	20%

(6) A Registered Bank may exclude the value of options and, instead, use its own methodology to determine the

Interest Rate Exposure in any currency arising from options and add the amount so derived to the total Interest Rate Exposure in that currency.

**4. Netting Criteria**—A Registered Bank may exclude the value of Financial Instruments in respect of which it has matched positions which meet any one of the following criteria:

- (a) the matched position comprises the same Financial Instruments with the same issuer, coupon, currency and maturity; or
- (b) (i) with respect to matched positions comprising futures, the underlying Financial Instruments to which the futures relate must:
  - (A) be for the same product;
  - (B) have the same value or notional value;
  - (C) be denominated in the same currency; and
  - (D) mature within seven days of each other; or
- (ii) with respect to matched positions comprising swaps (including separate legs of different swaps) or FRAs, the underlying Financial Instruments to which the swaps or FRAs relate must:
  - (A) be for the same product;
  - (B) have the same value or notional value;
  - (C) be denominated in the same currency;
  - (D) have reference rates (for floating rate positions) which are identical;
  - (E) have coupon rates which are identical or which do not differ by more than 15 basis points; and
  - (F) have the time to run before the next Interest Rate Repricing Date within the following limits:

Earliest Repricing Date	Limits
Less than one month hence:	same day
Between one month and one year hence:	within seven days
More than one year hence:	within thirty days;
or	

- (iii) with respect to matched positions comprising forwards, the underlying Financial Instruments to which the forwards relate must:

- (A) be for the same product;
- (B) have the same value or notional value;
- (C) be denominated in the same currency; and
- (D) have the time to run before the next Interest Rate Repricing Date within the following limits:

Earliest Repricing Date	Limits
Less than one month hence:	same day
Between one month and one year hence:	within seven days
More than one year hence:	within thirty days.

**5. The Amount of Vertical Disallowance in a Single Currency**—(1) The amount of vertical disallowance in a single currency is the sum of the vertical disallowances calculated in accordance with clause 5 (2) for each of the time bands specified in Table 1 of this Schedule.

(2) The amount of vertical disallowance in a time band shall be calculated as follows:

- (a) derive the risk weighted matched position in the time band (which is either the lesser of the sum of the absolute values of the Financial Assets and the sum of the absolute values of the Financial Liabilities in that time band, or, if those sums are equal, that sum, multiplied by the risk weight for that time band);

- (b) derive the risk weighted value of the Rate Insensitive Retail Products in that time band (which is the sum of the absolute values of the Rate Insensitive Retail Assets and Rate Insensitive Retail Liabilities in that time band multiplied by the risk weight for that time band);

- (c) if the risk weighted matched position is less than or equal to the risk weighted value of the Rate Insensitive Retail Products in a time band, then the vertical disallowance amount for that time band is the risk weighted matched position multiplied by 20%;

- (d) if the risk weighted matched position is greater than the risk weighted value of the Rate Insensitive Retail Products in a time band, then the vertical disallowance amount for that time band is:

- (i) the risk weighted value of the Rate Insensitive Retail Products multiplied by 20%; plus
- (ii) the difference between the risk weighted matched position and the risk weighted value of the Rate Insensitive Retail Products, multiplied by 5%.

(3) The vertical disallowance in a currency shall have the same sign (positive or negative) as the directional risk calculated for that currency.

**6. The Amount of Horizontal Disallowance in a Single Currency**—(1) The amount of horizontal disallowance in a single currency shall be calculated in accordance with clauses 6 (2) to 6 (6).

(2) Allocate the time bands specified in Table 1 of this Schedule to the three time zones specified in Table 3:

**Table 3: Time zones**

Time Bands	Time Zones
up to 1 month	
1-6 months	Zone 1
6-12 months	
1-2 years	
2-4 years	Zone 2
4-6 years	
6-10 years	Zone 3
over 10 years	

(3) Calculate the amount of the intra-zone disallowance in each time zone as follows:

- (a) derive the risk weighted net position in each time band (which is the amount of the risk weighted Financial Assets less the amount of the risk weighted Financial Liabilities in that time band). If the risk weighted net position in a time band is positive, this is a risk weighted long position and if it is negative, this is a risk weighted short position;

- (b) derive the aggregate risk weighted long position in each time zone (which is the sum of any risk weighted long positions in the time bands in that time zone) and the aggregate risk weighted short position in each time zone (which is the sum of any risk weighted short positions in the time bands in that time zone);

- (c) derive the matched position in each time zone (which is either the lesser of the absolute value of the aggregate risk weighted long position and the absolute value of the aggregate risk weighted short position in that time zone, or, if the absolute values of those positions are equal, that absolute value), if any;

- (d) the amount of intra-zone disallowance in a time zone is the value of the matched position in that time zone multiplied by the disallowance factor for that time zone specified in Table 4. If there is no matched position in a time zone, the amount of the intra-zone disallowance in that time zone is zero.

**Table 4: Intra-zone disallowances**

Time Zones	Disallowance Factors
Zone 1	40%
Zone 2	30%
Zone 3	30%

(4) Calculate the amount of the inter-zone disallowances as follows:

- (a) inter-zone disallowances are derived in the following order: time zones 1 and 2, 2 and 3, and 1 and 3. The inter-zone disallowance factors which must be used to derive the inter-zone disallowance amounts are specified in Table 5;

**Table 5: Inter-zone disallowances**

Time Zones	Disallowance Factors
Zones 1 and 2	40%
Zones 2 and 3	40%
Zones 1 and 3	100%

- (b) derive the residual position in each time zone (which is the net amount of the aggregate risk weighted long position and the aggregate risk weighted short position). If the residual position is positive this is a residual long position and if it is negative this is a residual short position;
- (c) there is a matched position between time zones 1 and 2 if there is a residual long position in one time zone and a residual short position in the other. The matched position is either the smaller of the absolute value of the residual long position and the absolute value of the residual short position, or, if the absolute values of those positions are equal, that absolute value. If there is no matched position, the amount of horizontal disallowance is zero. If there is a matched position, then the amount of horizontal disallowance between time zones 1 and 2 is the value of the matched position multiplied by the disallowance factor for time zones 1 and 2 specified in Table 5;
- (d) derive the net residual position in time zone 2, by taking the difference between the absolute value of the residual position in time zone 2 and the matched position between time zones 1 and 2, and allocating to that amount, if any, the sign of the residual position in time zone 2. If the net residual position in time zone 2 is positive this is a net residual long position and if it is negative this is a net residual short position;
- (e) there is a matched position between time zones 2 and 3 if there is a net residual long position in time zone 2 and a residual short position in time zone 3 or a net residual short position in time zone 2 and a residual long position in time zone 3. The matched position is either the smaller of the absolute value of those residual positions, or, if the absolute values of those positions are equal, that absolute value. If there is no matched position, the amount of the horizontal disallowance is zero. If there is a matched position then the amount of horizontal disallowance between time zones 2 and 3 is the value of the matched position multiplied by the disallowance factor for time zones 2 and 3 specified in Table 5;
- (f) derive the net residual position in time zone 1 and in time zone 3:
- (i) in time zone 1, by taking the difference between the absolute value of the residual position in time zone 1 and the matched position between time zones 1 and 2, and allocating to that amount, if any, the sign of the residual position in time zone 1;
- (ii) in time zone 3, by taking the difference between the absolute value of the residual position in time

zone 3 and the matched position between time zones 2 and 3, and allocating to that amount, if any, the sign of the residual position in time zone 3,

(if the net residual position in a time zone is positive this is a net residual long position and if it is negative this is a net residual short position);

- (g) there is a matched position between time zones 1 and 3 if there is a net residual long position in one time zone and a net residual short position in the other. The matched position is either the smaller of the absolute value of the net residual long position and the absolute value of the net residual short position, or, if the absolute values of those positions are equal, that absolute value. If there is no matched position, the amount of horizontal disallowance is zero. If there is a matched position then the amount of horizontal disallowance between time zones 1 and 3 is the value of the matched position multiplied by the disallowance factor for time zones 1 and 3 specified in Table 5.

(5) The amount of the horizontal disallowance in a single currency is the aggregate of the amounts of intra-zone disallowances and inter-zone disallowances in that currency.

(6) The horizontal disallowance in a currency shall have the same sign (positive or negative) as the directional risk calculated for that currency.

**7. Aggregate Interest Rate Exposure For All Currencies**—A Banking Group's Aggregate Interest Rate Exposure is the greater of the absolute value of the sum of any positive Interest Rate Exposures and the absolute value of the sum of any negative Interest Rate Exposures.

#### *Aggregate Foreign Currency Exposure*

8. The Registered Bank shall derive the amount of Aggregate Foreign Currency Exposure in accordance with either:

- (a) clauses 9 and 10 of this Schedule; or
- (b) any other method, but only if the Aggregate Foreign Currency Exposure derived in accordance with that method is not, in the opinion of the Registered Bank (such opinion to be based on reasonable grounds), Materially lower than the amount derived pursuant to clause 8 (a) of this Schedule.

**9. Foreign Currency Exposure in a Single Foreign Currency**—(1) Subject to clauses 9 (2) and 9 (4) of this Schedule, a Banking Group's Foreign Currency Exposure in a single foreign currency is derived by:

- (a) subtracting the aggregate amount of the value of Financial Liabilities (whether recognised or unrecognised) of the Banking Group in that foreign currency from the aggregate amount of the value of the Financial Assets (whether recognised or unrecognised) of the Banking Group in that foreign currency; and
- (b) multiplying the amount derived in clause 9 (a) of this Schedule by 0.08.

(2) Subject to clause 9 (3), the value of a Financial Instrument is either:

- (a) (i) in the case of an unrecognised Financial Instrument and a recognised Financial Instrument which is a market related contract, the face or contract amount of the Financial Instrument expressed in New Zealand dollars using the relevant spot exchange rate; and
- (ii) in the case of other Financial Instruments, the carrying amount of the Financial Instrument expressed

in New Zealand dollars using the relevant spot exchange rate; or

(b) the present value of that Financial Instrument expressed in New Zealand dollars using the relevant spot exchange rate.

(3) Notwithstanding clause 9 (2) of this Schedule, the value of options in a single foreign currency shall be either the delta equivalent value, or a value derived using the Registered Bank's own method for valuing the open position arising from options in that foreign currency.

(4) For the purposes of clause 9 (1) of this Schedule, Financial Instruments which have been issued by associates of the Registered Bank or which have been included in the Capital of the Banking Group shall not be included in the calculation of the Banking Group's Foreign Currency Exposure.

**10. Aggregate Foreign Currency Exposure**—A Banking Group's Aggregate Foreign Currency Exposure is the absolute value of the greater of the sum of any positive Foreign Currency Exposures and the sum of any negative Foreign Currency Exposures.

**Aggregate Equity Exposure**

11. The Registered Bank shall derive the amount of its Aggregate Equity Exposure in accordance with either:

- (a) clauses 12 and 13 of this Schedule; or
- (b) any other method, but only if the Aggregate Equity Exposure derived in accordance with that method is not, in the opinion of the Registered Bank (such opinion to be based on reasonable grounds), materially lower than the amount derived pursuant to clause 11(a) of this Schedule.

**12. Equity Exposure in a Single Currency**—(1) Subject to clauses 12 (2) and 12 (3) of this Schedule a Banking Group's Equity Exposure in a single currency is derived by:

- (a) subtracting the aggregate amount of the value of all of the equity instruments (whether recognised or unrecognised) of the Banking Group in that currency that are Financial Liabilities from the aggregate amount of the value of all the equity instruments (whether recognised or unrecognised) of the Banking Group in that currency that are Financial Assets; and
- (b) multiplying the amount derived in clause 12(a) of this Schedule by 0.08.

(2) Notwithstanding clause 12 (1) of this Schedule, the value of equity instruments issued by associates of the Registered Bank shall not be included in the calculation of the Banking Group's Equity Exposure.

(3) Subject to clause 12 (4) of this Schedule, the value of an equity instrument is:

- (a) in the case of an unrecognised equity instrument and a recognised equity instrument which is a market related contract, the face or contract amount of the equity instrument expressed in New Zealand dollars using the relevant spot exchange rate; and
- (b) in the case of other equity instruments, the carrying amount of the equity instrument expressed in New Zealand dollars using the relevant spot exchange rate.

(4) Notwithstanding clause 12 (3) of this Schedule, the value of:

- (a) a net equity futures position is the marked-to-market value of the notional underlying equity position; and
- (b) a net equity option position is the delta equivalent value.

**13. Aggregate Equity Exposure**—The Banking Group's

Aggregate Equity Exposure is the sum of the absolute values of the Equity Exposures in each currency."

**5. Miscellaneous Amendments to Order in Council**—The principal Order shall be amended as follows:

(a) clause 1 (4) of the principal Order is hereby amended by inserting after the words "which occurs after 1 January 1996" the following words:

"or in respect of a Registered Bank which becomes a Registered Bank after 1 January 1996 shall be in respect of such date (whether before or after the date of registration) as the Reserve Bank shall determine.";

(b) clause 1 of the principal Order is hereby amended by the addition of the following clause 1 (5):

"(5) Where the Reserve Bank, pursuant to clause 1 (4) of this Order, determines the date in respect of which a Disclosure Statement shall be published, a reference in this Order to a Balance Date shall be read as if it were a reference to that date.";

(c) clause 3 (1) of the principal Order is hereby deleted and replaced with the following:

"(1) Subject to the Act, every Registered Bank shall Publish not later than three months after each Balance Date (or in the case of the first Disclosure Statement required by this Order for a Registered Bank which becomes a Registered Bank after 1 January 1996, within such period as the Reserve Bank shall specify) a Disclosure Statement which shall:

- (a) contain the information that is prescribed in Part II to Part V of this Order; and
- (b) comply with the Act.";

(d) clause 5 (7) (h) of the principal Order is hereby amended by inserting after the words "the number of individual Counterparties" the words "(not being members of a Group of Closely Related Counterparties)", and by replacing the succeeding word "or" with the word "and";

(e) clause 6 of the Third Schedule to the principal Order is hereby deleted and replaced with the following:

"6. The General Disclosure Statement shall disclose the number of individual Bank Counterparties (not being members of a Group of Closely Related Counterparties) and Groups of Closely Related Counterparties of which a Bank is the parent to whom the Banking Group has a Credit Exposure which equals or exceeds 10% of the Banking Group's Equity over the Interim Accounting Period or Accounting Period in successive ranges of 10% of Equity, commencing at 10% of Equity."; and

(f) clause 8 of the Third Schedule to the principal Order is hereby deleted and replaced with the following:

"8. The General Disclosure Statement shall disclose the number of individual non Bank Counterparties (not being members of a Group of Closely Related Counterparties) and Groups of Closely Related Counterparties of which a Bank is not the parent to whom the Banking Group has a Credit Exposure which equals or exceeds 10% of the Banking Group's Equity over the Interim Accounting Period or Accounting Period in successive ranges of 10% of Equity, commencing at 10% of Equity.".

DIANE WILDERSPIN, Acting for Clerk of the Executive Council.

**Explanatory Note**

*This note is not part of the Order in Council, but is intended to indicate its general effect.*

This Order in Council is one of four Orders in Council promulgated pursuant to section 81 (1) of the Reserve Bank of New Zealand Act 1989. The Orders in Council amend the public disclosure requirements for registered banks contained in the principal Orders, which took effect on 1 January 1996. The principal Orders are amended by:

- a) the inclusion of schedules specifying market risk disclosure requirements, and
- b) a number of miscellaneous amendments to the general disclosure requirements.

This Order in Council comes into force on 1 April 1996. The market risk disclosures apply in respect of Disclosure Statements relating to balance dates which occur after 1 April 1996. Where a registered bank is unable to disclose peak exposures for that part of an accounting period which precedes the date on which the Order comes into force, the registered bank may disclose peak information in respect of the period commencing with the date on which this Order comes into force.

This Order in Council applies to a registered bank which is incorporated in New Zealand, in respect of each such bank's end of financial year and half year.

**Market Risk Disclosure Requirements**

A registered bank will be required to include market risk information in its General Disclosure Statement.

The market risk information to be disclosed will relate to the banking group's interest rate exposure, foreign currency exposure and equity exposure. A bank will be required to disclose its exposure to each of these categories of market risk, as an amount and as a percentage of the banking group's equity. These disclosures will be required in respect of exposures as at the end of the half year or full year and peak exposures over the accounting period to date.

The Order requires a bank to calculate market risk exposures using either the method specified in the Order, or a different method provided that such method does not give a result which would be materially lower than that arrived at by the method specified in the Order.

**Miscellaneous Amendments**

In addition, the Order in Council amends the principal Order:

- to make provision for the Reserve Bank to require a newly registered bank to publish an initial disclosure statement, so that there is no lag between the time the bank commences business and the time a disclosure statement is made available to its customers;
- by modifying the disclosure requirements relating to large exposures. This modification makes it clear that, when banks disclose the number of individual counterparties or counterparty groups to which they have a large exposure, they should not include in the total, those individual counterparties which are part of a counterparty group already included in the total. This will ensure that there is no double counting of exposures.

This Order in Council is administered in the Reserve Bank of New Zealand.

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**Registered Bank Disclosure Statement (Off-Quarter—New Zealand Incorporated Registered Banks) Amendment Order 1996**

CATHERINE A. TIZARD, Governor-General  
ORDER IN COUNCIL

At Wellington this 26th day of February 1996

Present:

HER EXCELLENCY THE GOVERNOR-GENERAL IN COUNCIL

Pursuant to section 81 (1) of the Reserve Bank of New Zealand Act 1989, Her Excellency the Governor-General, acting by and with the advice and consent of the Executive Council, and on the advice of the Minister of Finance given in accordance with a recommendation of the Reserve Bank of New Zealand, hereby makes the following Order.

**A n a l y s i s**

1. Title, Application and Commencement
2. Interpretation
3. Schedules
4. Miscellaneous Amendments to Order in Council

**An Order to amend the Registered Bank Disclosure Statement (Off-Quarter—New Zealand Incorporated Registered Banks) Order 1995.**

**1. Title, Application and Commencement—**(1) This Order may be cited as the Registered Bank Disclosure Statement (Off-Quarter—New Zealand Incorporated Registered Banks) Amendment Order 1996, and shall be read together with and deemed part of the Registered Bank Disclosure Statement (Off-Quarter—New Zealand Incorporated Registered Banks) Order 1995 (hereinafter referred to as the principal Order).

(2) (a) This Order shall come into force on the 1st day of April 1996.

(b) Clauses 2 and 3 of the Order shall apply only in respect of Short Form Disclosure Statements relating to Off Quarter Balance Dates which occur after 1 April 1996.

(c) Where a Registered Bank is unable to disclose peak end-of-day information for that part of an Accounting Period which precedes the date on which this Order comes into force, the Registered Bank may disclose peak end-of-day information in respect of the period commencing with the date on which this Order comes into force.

**2. Interpretation—**Clause 2 (4) of the principal Order is hereby amended by inserting, in the appropriate alphabetical order, the following definitions:

“ ‘Aggregate Equity Exposure’ means the aggregate amount of Equity Exposure to all currencies.

‘Aggregate Foreign Currency Exposure’ means the aggregate amount of Foreign Currency Exposure to all currencies other than New Zealand dollars.

‘Aggregate Interest Rate Exposure’ means the aggregate amount of Interest Rate Exposure to all currencies.

‘Aggregate Market Risk Exposure’ means exposure to all, or any, of Aggregate Equity Exposure, Aggregate Foreign Currency Exposure and Aggregate Interest Rate Exposure.

‘Equity Exposure’ means the amount of the change in the economic value of equity instruments that are Financial Assets and Financial Liabilities of the Banking Group in a single currency, which would occur as a result of a change in the price of equity instruments in that currency.

‘Foreign Currency Exposure’ means the amount of the change in the economic value of the Financial Assets and Financial Liabilities of the Banking Group in a

single foreign currency which would occur as a result of a change in the rate of exchange applicable to that foreign currency.

'Interest Rate Exposure' means the amount of the change in the economic value of the Financial Assets (excluding equity instruments) and Financial Liabilities (excluding equity instruments) of the Banking Group in a single currency which would occur as a result of a change in interest rates in that currency.

'Interest Rate Repricing Date', as that term applies to a Financial Instrument or to a proportion of a Financial Instrument, means the earlier of the date on which, in accordance with the terms of the Financial Instrument:

- (a) the interest rate reset date next occurs (being the date on which the rate of interest payable in respect of the Financial Instrument can or will alter); or
- (b) the principal sum is due and payable or, where no principal sum is due and payable, the maturity date occurs.

'Market Risk Exposure' means exposure to any, or all, of Equity Exposure, Foreign Currency Exposure and Interest Rate Exposure.

'Rate Insensitive Retail Assets' means that amount of the Financial Assets held by the Banking Group which the Registered Bank reasonably believes is unlikely to be diminished or increased as a result of a Material change in market interest rates if the interest rate applicable to that Financial Asset (which may be zero) does not change or does not change Materially.

'Rate Insensitive Retail Liabilities' means that amount of the Financial Liabilities held by the Banking Group which the Registered Bank reasonably believes is unlikely to be diminished or increased as a result of a Material change in market interest rates if the interest rate applicable to that Financial Liability (which may be zero) does not change or does not change Materially.

'Rate Insensitive Retail Product' means either or both of a Rate Insensitive Retail Asset or a Rate Insensitive Retail Liability.'

**3. Schedules**—The principal Order is hereby amended by inserting, after the "Sixth Schedule Risk Management Policies" the following Schedules:

#### **"Seventh Schedule**

##### ***Exposures to Market Risk***

1. (1) A Registered Bank shall disclose the amount of Aggregate Market Risk Exposures of the Banking Group in respect of each category of Aggregate Market Risk Exposure on the basis of:

- (a) Aggregate Market Risk Exposures derived in accordance with Schedule 8 of this Order; or
- (b) the Banking Group's internal operating limits applicable to the relevant category of Aggregate Market Risk Exposure, but only if the Aggregate Market Risk Exposure in that category has not Materially exceeded those limits at any time during the First Quarter Accounting Period or the Third Quarter Accounting Period.

(2) The General Short Form Disclosure Statement shall state which of the above methods is used, and where the method used is that set out in clause 1(1)(a) of this Schedule, shall also state which of the methods described in clauses 1, 8 and 11 of the Eighth Schedule (for deriving Aggregate Interest Rate Exposure, Aggregate Foreign Currency Exposure and Aggregate Equity Exposure respectively) is used.

(3) Where, in respect of a category of Aggregate Market Risk Exposure, a Registered Bank uses different methods to derive Aggregate Market Risk Exposure in that category as at the Off Quarter Balance Date, and in respect of peak end-of-day exposure since the commencement of the Accounting Period, the Registered Bank shall identify, in relation to each of the disclosures made pursuant to this Schedule, the method used.

2. The information required to be disclosed pursuant to clause 4 of this Schedule shall include comparative figures for the previous corresponding period.

3. For the purposes of this Schedule, peak end-of-day exposure to each category of Aggregate Market Risk Exposure over the First Quarter Accounting Period or the Third Quarter Accounting Period shall be measured as follows:

- (a) within each quarter, by determining the maximum end-of-day Aggregate Market Risk Exposure during the quarter, and dividing that amount by the amount of the Banking Group's Equity as at the end of the quarter; and
- (b) for the First Quarter Accounting Period or the Third Quarter Accounting Period by calculating the ratio for each quarter in the First Quarter Accounting Period or the Third Quarter Accounting Period pursuant to clause 3(a) of this Schedule and then taking the maximum of such ratios.

4. The General Short Form Disclosure Statement shall contain, in respect of the Banking Group:

- (a) a statement of Aggregate Interest Rate Exposure, expressed both as an amount and as a percentage of Equity;
- (b) a statement of Aggregate Foreign Currency Exposure, expressed both as an amount and as a percentage of Equity; and
- (c) a statement of Aggregate Equity Exposure, expressed both as an amount and as a percentage of Equity.

5. The information required to be disclosed pursuant to clause 4 of this Schedule shall be made:

- (a) as at the Off Quarter Balance Date; and
- (b) in respect of peak end-of-day exposure since the commencement of the Accounting Period.

#### **Eighth Schedule**

##### ***Measurement of Market Risk Exposure***

##### ***Aggregate Interest Rate Exposure***

1. The Registered Bank shall derive the amount of Aggregate Interest Rate Exposure of the Banking Group in accordance with either:

- (a) clauses 2 to 7 of this Schedule; or
- (b) any other method, but only if the Aggregate Interest Rate Exposure derived in accordance with that method is not, in the opinion of the Registered Bank (such opinion to be based on reasonable grounds), Materially lower than the amount derived pursuant to clause 1(a) of this Schedule.

2. **Interest Rate Exposure in a Single Currency**—Interest Rate Exposure in a single currency is the total of:

- (a) the directional interest rate risk;
- (b) the vertical disallowance; and
- (c) the horizontal disallowance;

in that currency.

3. **Exposure to Directional Interest Rate Risk in a Single Currency**—(1) The amount of directional interest rate risk in a single currency shall be derived by subtracting the aggregate amount of the change in the value of each

Financial Liability (excluding equity instruments) of the Banking Group arising from a directional change in interest rates in that currency from the aggregate amount of the change in the value of each Financial Asset (excluding equity instruments) of the Banking Group, arising from a directional change in interest rates in that currency.

(2) The value of a Financial Instrument is:

- (a) in the case of an unrecognised Financial Instrument and a recognised Financial Instrument which is a market related contract, the face or contract amount of the Financial Instrument expressed in New Zealand dollars using the relevant spot exchange rate; and
- (b) in the case of other Financial Instruments, the carrying amount of the Financial Instrument expressed in New Zealand dollars using the relevant spot exchange rate.

(3) The change in the value of a Financial Instrument is derived by multiplying the value, or proportion of the value, of the Financial Instrument allocated to the applicable time band specified in Table 1, in accordance with clause 3 (4), by the risk weight specified for that time band in Table 1.

**Table 1: Time Bands, Risk Weights, and Assumed Interest Rate Changes**

	Time Bands							
	up to 1mth	1-6 mths	6-12 mths	1-2 yrs	2-4 yrs	4-6 yrs	6-10 yrs	Over 10 yrs
Assumed Interest Rate Change(%)	1.0	1.0	1.0	0.9	0.8	0.7	0.6	0.6
Risk weights(%)	0	0.3	0.7	1.3	2.0	3.0	3.5	4.4

(4) Subject to clauses 3 (5) and 3 (6) of this Schedule, the value of each Financial Instrument, or a proportion of it, shall be allocated to the time band specified in Table 1 in a manner which the Registered Bank believes, on reasonable grounds, reflects the date on which the interest rate applicable to the Financial Instrument, or proportion of the Financial Instrument, will be altered, or the date at which the principal, or a proportion of the principal, will be paid, notwithstanding the Interest Rate Repricing Date of the Financial Instrument.

(5) Notwithstanding clause 3 (4) of this Schedule:

- (a) a Registered Bank may exclude from the application of clause 3 (4) of this Schedule the value, or the appropriate proportion of the value, of those Financial Instruments which meet the netting criteria contained in clause 4; and
- (b) the aggregate value, or the appropriate proportion of the aggregate value, of all Rate Insensitive Retail Assets and of all Rate Insensitive Retail Liabilities shall be allocated to the time bands specified in Table 2 in accordance with the percentages set out in Table 2.

**Table 2: Allocation of the value of Rate Insensitive Retail Products across time bands**

Percentage of aggregate value	Time Bands					
	up to 1mth	1-6 mths	6-12 mths	1-2 yrs	2-4 yrs	4-6 yrs
	5%	5%	10%	20%	40%	20%

(6) A Registered Bank may exclude the value of options and, instead, use its own methodology to determine the Interest Rate Exposure in any currency arising from options and add the amount so derived to the total Interest Rate Exposure in that currency.

**4. Netting Criteria**—A Registered Bank may exclude the value of Financial Instruments in respect of which it has matched positions which meet any one of the following criteria:

- (a) the matched position comprises the same Financial Instruments with the same issuer, coupon, currency and maturity; or

- (b) (i) with respect to matched positions comprising futures, the underlying Financial Instruments to which the futures relate must:

- (A) be for the same product;
- (B) have the same value or notional value;
- (C) be denominated in the same currency; and
- (D) mature within seven days of each other; or

- (ii) with respect to matched positions comprising swaps (including separate legs of different swaps) or FRAs, the underlying Financial Instruments to which the swaps or FRAs relate must:

- (A) be for the same product;
- (B) have the same value or notional value;
- (C) be denominated in the same currency;
- (D) have reference rates (for floating rate positions) which are identical;
- (E) have coupon rates which are identical or which do not differ by more than 15 basis points; and
- (F) have the time to run before the next Interest Rate Repricing Date within the following limits:

Earliest Repricing Date	Limits
Less than one month hence:	same day
Between one month and one year hence:	within seven days
More than one year hence:	within thirty days;
	or

- (iii) with respect to matched positions comprising forwards, the underlying Financial Instruments to which the forwards relate must:

- (A) be for the same product;
- (B) have the same value or notional value;
- (C) be denominated in the same currency; and
- (D) have the time to run before the next Interest Rate Repricing Date within the following limits:

Earliest Repricing Date	Limits
Less than one month hence:	same day
Between one month and one year hence:	within seven days
More than one year hence:	within thirty days.

**5. The Amount of Vertical Disallowance in a Single Currency**—(1) The amount of vertical disallowance in a single currency is the sum of the vertical disallowances calculated in accordance with clause 5 (2) for each of the time bands specified in Table 1 of this Schedule.

(2) The amount of vertical disallowance in a time band shall be calculated as follows:

- (a) derive the risk weighted matched position in the time band (which is either the lesser of the sum of the absolute values of the Financial Assets and the sum of the absolute values of the Financial Liabilities in that time band, or, if those sums are equal, that sum, multiplied by the risk weight for that time band);
- (b) derive the risk weighted value of the Rate Insensitive Retail Products in that time band (which is the sum of the absolute values of the Rate Insensitive Retail Assets and Rate Insensitive Retail Liabilities in that time band multiplied by the risk weight for that time band);
- (c) if the risk weighted matched position is less than or equal to the risk weighted value of the Rate Insensitive Retail Products in a time band, then the vertical disallowance amount for that time band is the risk weighted matched position multiplied by 20%;

(d) if the risk weighted matched position is greater than the risk weighted value of the Rate Insensitive Retail Products in a time band, then the vertical disallowance amount for that time band is:

- (i) the risk weighted value of the Rate Insensitive Retail Products multiplied by 20%; plus
- (ii) the difference between the risk weighted matched position and the risk weighted value of the Rate Insensitive Retail Products, multiplied by 5%.

(3) The vertical disallowance in a currency shall have the same sign (positive or negative) as the directional risk calculated for that currency.

**6. The Amount of Horizontal Disallowance in a Single Currency—**(1) The amount of horizontal disallowance in a single currency shall be calculated in accordance with clauses 6 (2) to 6 (6).

(2) Allocate the time bands specified in Table 1 of this Schedule to the three time zones specified in Table 3:

**Table 3: Time zones**

Time Bands	Time Zones
up to 1 month	Zone 1
1-6 months	
6-12 months	
1-2 years	Zone 2
2-4 years	
4-6 years	Zone 3
6-10 years	
over 10 years	

(3) Calculate the amount of the intra-zone disallowance in each time zone as follows:

- (a) derive the risk weighted net position in each time band (which is the amount of the risk weighted Financial Assets less the amount of the risk weighted Financial Liabilities in that time band). If the risk weighted net position in a time band is positive, this is a risk weighted long position and if it is negative, this is a risk weighted short position;
- (b) derive the aggregate risk weighted long position in each time zone (which is the sum of any risk weighted long positions in the time bands in that time zone) and the aggregate risk weighted short position in each time zone (which is the sum of any risk weighted short positions in the time bands in that time zone);
- (c) derive the matched position in each time zone (which is either the lesser of the absolute value of the aggregate risk weighted long position and the absolute value of the aggregate risk weighted short position in that time zone, or, if the absolute values of those positions are equal, that absolute value), if any;
- (d) the amount of intra-zone disallowance in a time zone is the value of the matched position in that time zone multiplied by the disallowance factor for that time zone specified in Table 4. If there is no matched position in a time zone, the amount of the intra-zone disallowance in that time zone is zero.

**Table 4: Intra-zone disallowances**

Time Zones	Disallowance Factors
Zone 1	40%
Zone 2	30%
Zone 3	30%

(4) Calculate the amount of the inter-zone disallowances as follows:

- (a) inter-zone disallowances are derived in the following order: time zones 1 and 2, 2 and 3, and 1 and 3. The inter-zone disallowance factors which must be used to

derive the inter-zone disallowance amounts are specified in Table 5;

**Table 5: Inter-zone disallowances**

Time Zones	Disallowance Factors
Zones 1 and 2	40%
Zones 2 and 3	40%
Zones 1 and 3	100%

(b) derive the residual position in each time zone (which is the net amount of the aggregate risk weighted long position and the aggregate risk weighted short position). If the residual position is positive this is a residual long position and if it is negative this is a residual short position;

(c) there is a matched position between time zones 1 and 2 if there is a residual long position in one time zone and a residual short position in the other. The matched position is either the smaller of the absolute value of the residual long position and the absolute value of the residual short position, or, if the absolute values of those positions are equal, that absolute value. If there is no matched position, the amount of horizontal disallowance is zero. If there is a matched position, then the amount of horizontal disallowance between time zones 1 and 2 is the value of the matched position multiplied by the disallowance factor for time zones 1 and 2 specified in Table 5;

(d) derive the net residual position in time zone 2, by taking the difference between the absolute value of the residual position in time zone 2 and the matched position between time zones 1 and 2, and allocating to that amount, if any, the sign of the residual position in time zone 2. If the net residual position in time zone 2 is positive this is a net residual long position and if it is negative this is a net residual short position;

(e) there is a matched position between time zones 2 and 3 if there is a net residual long position in time zone 2 and a residual short position in time zone 3 or a net residual short position in time zone 2 and a residual long position in time zone 3. The matched position is either the smaller of the absolute value of those residual positions, or, if the absolute values of those positions are equal, that absolute value. If there is no matched position, the amount of the horizontal disallowance is zero. If there is a matched position then the amount of horizontal disallowance between time zones 2 and 3 is the value of the matched position multiplied by the disallowance factor for time zones 2 and 3 specified in Table 5;

(f) derive the net residual position in time zone 1 and in time zone 3:

(i) in time zone 1, by taking the difference between the absolute value of the residual position in time zone 1 and the matched position between time zones 1 and 2, and allocating to that amount, if any, the sign of the residual position in time zone 1;

(ii) in time zone 3, by taking the difference between the absolute value of the residual position in time zone 3 and the matched position between time zones 2 and 3, and allocating to that amount, if any, the sign of the residual position in time zone 3,

(if the net residual position in a time zone is positive this is a net residual long position and if it is negative this is a net residual short position);

(g) there is a matched position between time zones 1 and 3 if there is a net residual long position in one time zone and a net residual short position in the other. The matched position is either the smaller of the absolute value of the net residual long position and the absolute

value of the net residual short position, or, if the absolute values of those positions are equal, that absolute value. If there is no matched position, the amount of horizontal disallowance is zero. If there is a matched position then the amount of horizontal disallowance between time zones 1 and 3 is the value of the matched position multiplied by the disallowance factor for time zones 1 and 3 specified in Table 5.

(5) The amount of the horizontal disallowance in a single currency is the aggregate of the amounts of intra-zone disallowances and inter-zone disallowances in that currency.

(6) The horizontal disallowance in a currency shall have the same sign (positive or negative) as the directional risk calculated for that currency.

**7. Aggregate Interest Rate Exposure For All Currencies**—A Banking Group's Aggregate Interest Rate Exposure is the greater of the absolute value of the sum of any positive Interest Rate Exposures and the absolute value of the sum of any negative Interest Rate Exposures.

**Aggregate Foreign Currency Exposure**

8. The Registered Bank shall derive the amount of Aggregate Foreign Currency Exposure in accordance with either:

- (a) clauses 9 and 10 of this Schedule; or
- (b) any other method, but only if the Aggregate Foreign Currency Exposure derived in accordance with that method is not, in the opinion of the Registered Bank (such opinion to be based on reasonable grounds), Materially lower than the amount derived pursuant to clause 8 (a) of this Schedule.

**9. Foreign Currency Exposure in a Single Foreign Currency**—(1) Subject to clauses 9 (2) and 9 (4) of this Schedule, a Banking Group's Foreign Currency Exposure in a single foreign currency is derived by:

- (a) subtracting the aggregate amount of the value of Financial Liabilities (whether recognised or unrecognised) of the Banking Group in that foreign currency from the aggregate amount of the value of the Financial Assets (whether recognised or unrecognised) of the Banking Group in that foreign currency; and
  - (b) multiplying the amount derived in clause 9 (a) of this Schedule by 0.08.
- (2) Subject to clause 9 (3), the value of a Financial Instrument is either:
- (a) (i) in the case of an unrecognised Financial Instrument and a recognised Financial Instrument which is a market related contract, the face or contract amount of the Financial Instrument expressed in New Zealand dollars using the relevant spot exchange rate; and
  - (ii) in the case of other Financial Instruments, the carrying amount of the Financial Instrument expressed in New Zealand dollars using the relevant spot exchange rate; or
  - (b) the present value of that Financial Instrument expressed in New Zealand dollars using the relevant spot exchange rate.

(3) Notwithstanding clause 9 (2) of this Schedule, the value of options in a single foreign currency shall be either the delta equivalent value, or a value derived using the Registered Bank's own method for valuing the open position arising from options in that foreign currency.

(4) For the purposes of clause 9 (1) of this Schedule, Financial Instruments which have been issued by associates of the Registered Bank or which have been included in the

Capital of the Banking Group shall not be included in the calculation of the Banking Group's Foreign Currency Exposure.

**10. Aggregate Foreign Currency Exposure**—A Banking Group's Aggregate Foreign Currency Exposure is the absolute value of the greater of the sum of any positive Foreign Currency Exposures and the sum of any negative Foreign Currency Exposures.

**Aggregate Equity Exposure**

11. The Registered Bank shall derive the amount of its Aggregate Equity Exposure in accordance with either:

- (a) clauses 12 and 13 of this Schedule; or
- (b) any other method, but only if the Aggregate Equity Exposure derived in accordance with that method is not, in the opinion of the Registered Bank (such opinion to be based on reasonable grounds), Materially lower than the amount derived pursuant to clause 11 (a) of this Schedule.

**12. Equity Exposure in a Single Currency**—(1) Subject to clauses 12 (2) and 12 (3) of this Schedule a Banking Group's Equity Exposure in a single currency is derived by:

- (a) subtracting the aggregate amount of the value of all of the equity instruments (whether recognised or unrecognised) of the Banking Group in that currency that are Financial Liabilities from the aggregate amount of the value of all the equity instruments (whether recognised or unrecognised) of the Banking Group in that currency that are Financial Assets; and
- (b) multiplying the amount derived in clause 12 (a) of this Schedule by 0.08.

(2) Notwithstanding clause 12 (1) of this Schedule, the value of equity instruments issued by associates of the Registered Bank shall not be included in the calculation of the Banking Group's Equity Exposure.

(3) Subject to clause 12 (4) of this Schedule, the value of an equity instrument is:

- (a) in the case of an unrecognised equity instrument and a recognised equity instrument which is a market related contract, the face or contract amount of the equity instrument expressed in New Zealand dollars using the relevant spot exchange rate; and
- (b) in the case of other equity instruments, the carrying amount of the equity instrument expressed in New Zealand dollars using the relevant spot exchange rate.

(4) Notwithstanding clause 12 (3) of this Schedule, the value of:

- (a) a net equity futures position is the marked-to-market value of the notional underlying equity position; and
- (b) a net equity option position is the delta equivalent value.

**13. Aggregate Equity Exposure**—The Banking Group's Aggregate Equity Exposure is the sum of the absolute values of the Equity Exposures in each currency."

**4. Miscellaneous Amendments to Order in Council**—The principal Order shall be amended as follows:

- (a) clause 5 (7) (h) of the principal Order is hereby amended by inserting after the words "the number of individual Counterparties" the words "(not being members of a Group of Closely Related Counterparties)", and by replacing the succeeding word "or" with the word "and";

(b) clause 6 of the Fourth Schedule to the principal Order is hereby deleted and replaced with the following:

"6. The General Short Form Disclosure Statement

shall disclose the number of individual Bank Counterparties (not being members of a Group of Closely Related Counterparties) and Groups of Closely Related Counterparties of which a Bank is the parent to whom the Banking Group has a Credit Exposure which equals or exceeds 10% of the Banking Group's Equity over the First Quarter Accounting Period or Third Quarter Accounting Period in successive ranges of 10% of Equity, commencing at 10% of Equity." and

(c) clause 8 of the Fourth Schedule to the principal Order is hereby deleted and replaced with the following:

"8. The General Short Form Disclosure Statement shall disclose the number of individual non Bank Counterparties (not being members of a Group of Closely Related Counterparties) and Groups of Closely Related Counterparties of which a Bank is not the parent to whom the Banking Group has a Credit Exposure which equals or exceeds 10% of the Banking Group's Equity over the First Quarter Accounting Period or Third Quarter Accounting Period in successive ranges of 10% of Equity, commencing at 10% of Equity."

DIANE WILDERSPIN, Acting for Clerk of the Executive Council.

#### *Explanatory Note*

*This note is not part of the Order in Council, but is intended to indicate its general effect.*

This Order in Council is one of four Orders in Council promulgated pursuant to section 81 (1) of the Reserve Bank of New Zealand Act 1989. The Orders in Council amend the public disclosure requirements for registered banks contained in the principal Orders, which took effect on 1 January 1996. The principal Orders are amended by:

- a) the inclusion of schedules specifying market risk disclosure requirements, and
- b) a number of miscellaneous amendments to the general disclosure requirements.

This Order in Council comes into force on 1 April 1996. The market risk disclosures apply in respect of Short Form Disclosure Statements relating to off quarter balance dates which occur after 1 April 1996. Where a registered bank is unable to disclose peak exposures for that part of an accounting period which precedes the date on which the Order comes into force, the registered bank may disclose peak information in respect of the period commencing with the date on which this Order comes into force.

This Order in Council applies to a registered bank which is incorporated in New Zealand, in respect of each such bank's "off-quarters" (ie the first and third quarters of the financial year).

#### *Market Risk Disclosure Requirements*

A registered bank will be required to include market risk information in its General Short Form Disclosure Statement.

The market risk information to be disclosed will relate to the banking group's interest rate exposure, foreign currency exposure and equity exposure. A bank will be required to disclose its exposure to each of these categories of market risk, as an amount and as a percentage of the banking group's equity. These disclosures will be required in respect of exposures as at the end of off quarters and peak exposures over the accounting period to date.

The Order requires a bank to calculate market risk exposures using either the method specified in the Order, or a different method provided that such method does not give a result which would be materially lower than that arrived at by the method specified in the Order.

#### *Miscellaneous Amendments*

In addition, the Order in Council amends the principal Order to modify the disclosure requirements relating to large exposures. This modification makes it clear that, when banks disclose the number of individual counterparties or counterparty groups to which they have a large exposure, they should not include in the total, those individual counterparties which are part of a counterparty group already included in the total. This will ensure that there is no double counting of exposures.

This Order in Council is administered in the Reserve Bank of New Zealand.

au1472

### **Registered Bank Disclosure Statement (Full and Half-Year—Overseas Incorporated Registered Banks) Amendment Order 1996**

CATHERINE A. TIZARD, Governor-General  
ORDER IN COUNCIL

At Wellington this 26th day of February 1996

Present:

HER EXCELLENCY THE GOVERNOR-GENERAL IN COUNCIL

Pursuant to section 81 (1) of the Reserve Bank of New Zealand Act 1989, Her Excellency the Governor-General, acting by and with the advice and consent of the Executive Council, and on the advice of the Minister of Finance given in accordance with a recommendation of the Reserve Bank of New Zealand, hereby makes the following Order.

#### **A n a l y s i s**

1. Title, Application and Commencement
2. Interpretation
3. Content of Financial and Supplementary Disclosures
4. Schedules
5. Miscellaneous Amendments to Order in Council

#### **An Order to amend the Registered Bank Disclosure Statement (Full and Half-Year—Overseas Incorporated Registered Banks) Order 1995.**

**1. Title, Application and Commencement—**(1) This Order may be cited as the Registered Bank Disclosure Statement (Full and Half-Year—Overseas Incorporated Registered Banks) Amendment Order 1996, and shall be read together with and deemed part of the Registered Bank Disclosure Statement (Full and Half-Year—Overseas Incorporated Registered Banks) Order 1995 (hereinafter referred to as the principal Order).

(2) (a) This Order shall come into force on the 1st day of April 1996.

(b) Clauses 2 to 4 of the Order shall apply only in respect of Disclosure Statements relating to Balance Dates which occur after 1 April 1996.

(c) Where a Registered Bank is unable to disclose peak end-of-day information for that part of an Accounting Period which precedes the date on which this Order comes into force, the Registered Bank may disclose peak end-of-day information in respect of the period commencing with the date on which this Order comes into force.

**2. Interpretation—**Clause 2 (4) of the principal Order is hereby amended by inserting, in the appropriate alphabetical order, the following definitions:

“ ‘Aggregate Equity Exposure’ means the aggregate amount of Equity Exposure to all currencies.

‘Aggregate Foreign Currency Exposure’ means the aggregate amount of Foreign Currency Exposure to all currencies other than New Zealand dollars.

'Aggregate Interest Rate Exposure' means the aggregate amount of Interest Rate Exposure to all currencies.

'Aggregate Market Risk Exposure' means exposure to all, or any, of Aggregate Equity Exposure, Aggregate Foreign Currency Exposure and Aggregate Interest Rate Exposure.

'Equity Exposure' means the amount of the change in the economic value of equity instruments that are Financial Assets and Financial Liabilities of the Banking Group in a single currency, which would occur as a result of a change in the price of equity instruments in that currency.

'Foreign Currency Exposure' means the amount of the change in the economic value of the Financial Assets and Financial Liabilities of the Banking Group in a single foreign currency which would occur as a result of a change in the rate of exchange applicable to that foreign currency.

'Interest Rate Exposure' means the amount of the change in the economic value of the Financial Assets (excluding equity instruments) and Financial Liabilities (excluding equity instruments) of the Banking Group in a single currency which would occur as a result of a change in interest rates in that currency.

'Interest Rate Repricing Date', as that term applies to a Financial Instrument or to a proportion of a Financial Instrument, means the earlier of the date on which, in accordance with the terms of the Financial Instrument:

- (a) the interest rate reset date next occurs (being the date on which the rate of interest payable in respect of the Financial Instrument can or will alter); or
- (b) the principal sum is due and payable or, where no principal sum is due and payable, the maturity date occurs.

'Market Risk Exposure' means exposure to any, or all, of Equity Exposure, Foreign Currency Exposure and Interest Rate Exposure.

'Rate Insensitive Retail Assets' means that amount of the Financial Assets held by the Banking Group which the Registered Bank reasonably believes is unlikely to be diminished or increased as a result of a Material change in market interest rates if the interest rate applicable to that Financial Asset (which may be zero) does not change or does not change Materially.

'Rate Insensitive Retail Liabilities' means that amount of the Financial Liabilities held by the Banking Group which the Registered Bank reasonably believes is unlikely to be diminished or increased as a result of a Material change in market interest rates if the interest rate applicable to that Financial Liability (which may be zero) does not change or does not change Materially.

'Rate Insensitive Retail Product' means either or both of a Rate Insensitive Retail Asset or a Rate Insensitive Retail Liability."

**3. Content of Financial and Supplementary Disclosures**—Clause 12 (3) of the principal Order is hereby amended by omitting the words "Schedule 6", and substituting the words "Schedules 6 to 8".

**4. Schedules**—The principal Order is hereby amended by inserting, after the "Sixth Schedule Risk Management Policies" the following Schedules:

**"Seventh Schedule**

**Exposures to Market Risk**

1. (1) A Registered Bank shall disclose the amount of Aggregate Market Risk Exposures of the Banking Group in

respect of each category of Aggregate Market Risk Exposure on the basis of:

- (a) Aggregate Market Risk Exposures derived in accordance with Schedule 8 of this Order; or
- (b) the Banking Group's internal operating limits applicable to the relevant category of Aggregate Market Risk Exposure, but only if the Aggregate Market Risk Exposure in that category has not Materially exceeded those limits at any time during the Accounting Period.

(2) The General Disclosure Statement shall state which of the above methods is used, and where the method used is that set out in clause 1 (1) (a) of this Schedule, shall also state which of the methods described in clauses 1, 8 and 11 of the Eighth Schedule (for deriving Aggregate Interest Rate Exposure, Aggregate Foreign Currency Exposure and Aggregate Equity Exposure respectively) is used.

(3) Where, in respect of a category of Aggregate Market Risk Exposure, a Registered Bank uses different methods to derive Aggregate Market Risk Exposure in that category as at Balance Date, and in respect of peak end-of-day exposure since the commencement of the Accounting Period, the Registered Bank shall identify, in relation to each of the disclosures made pursuant to this Schedule, the method used.

2. The information required to be disclosed pursuant to clause 5 of this Schedule shall include comparative figures for the previous corresponding period.

3. For the purposes of this Schedule, the Overseas Banking Group's Equity shall be either that group's Equity determined as at the Balance Date, or the most recently publicly disclosed amount. Where the Overseas Banking Group's Equity is not determined as at the Balance Date, the General Disclosure Statement shall state the date to which the measure of Equity relates.

4. For the purposes of this Schedule, peak end-of-day exposure to each category of Aggregate Market Risk Exposure over the Accounting Period or Interim Accounting Period shall be measured as follows:

- (a) within each quarter, by determining the maximum end-of-day Aggregate Market Risk Exposure during the quarter, and dividing that amount by the amount of the Overseas Banking Group's Equity as at the end of the quarter; and
- (b) for the Accounting Period or Interim Accounting Period, by calculating the ratio for each quarter in the Accounting Period or Interim Accounting Period pursuant to clause 4 (a) of this Schedule and then taking the maximum of such ratios.

5. The General Disclosure Statement shall contain, in respect of the Banking Group:

- (a) a statement of Aggregate Interest Rate Exposure, expressed both as an amount and as a percentage of the Overseas Banking Group's Equity;
- (b) a statement of Aggregate Foreign Currency Exposure, expressed both as an amount and as a percentage of the Overseas Banking Group's Equity; and
- (c) a statement of Aggregate Equity Exposure, expressed both as an amount and as a percentage of the Overseas Banking Group's Equity.

6. The information required to be disclosed pursuant to clause 5 of this Schedule shall be made:

- (a) as at the Balance Date; and
- (b) in respect of peak end-of-day exposure since the commencement of the Accounting Period.

## Eighth Schedule

### Measurement of Market Risk Exposure

#### Aggregate Interest Rate Exposure

1. The Registered Bank shall derive the amount of Aggregate Interest Rate Exposure of the Banking Group in accordance with either:

- (a) clauses 2 to 7 of this Schedule; or
- (b) any other method, but only if the Aggregate Interest Rate Exposure derived in accordance with that method is not, in the opinion of the Registered Bank (such opinion to be based on reasonable grounds), Materially lower than the amount derived pursuant to clause 1 (a) of this Schedule.

2. **Interest Rate Exposure in a Single Currency**—Interest Rate Exposure in a single currency is the total of:

- (a) the directional interest rate risk;
- (b) the vertical disallowance; and
- (c) the horizontal disallowance;

in that currency.

3. **Exposure to Directional Interest Rate Risk in a Single Currency**—(1) The amount of directional interest rate risk in a single currency shall be derived by subtracting the aggregate amount of the change in the value of each Financial Liability (excluding equity instruments) of the Banking Group arising from a directional change in interest rates in that currency from the aggregate amount of the change in the value of each Financial Asset (excluding equity instruments) of the Banking Group, arising from a directional change in interest rates in that currency.

(2) The value of a Financial Instrument is:

- (a) in the case of an unrecognised Financial Instrument and a recognised Financial Instrument which is a market related contract, the face or contract amount of the Financial Instrument expressed in New Zealand dollars using the relevant spot exchange rate; and
- (b) in the case of other Financial Instruments, the carrying amount of the Financial Instrument expressed in New Zealand dollars using the relevant spot exchange rate.

(3) The change in the value of a Financial Instrument is derived by multiplying the value, or proportion of the value, of the Financial Instrument allocated to the applicable time band specified in Table 1, in accordance with clause 3 (4), by the risk weight specified for that time band in Table 1.

**Table 1: Time Bands, Risk Weights, and Assumed Interest Rate Changes**

	Time Bands							
	up to 1mth	1-6 mths	6-12 mths	1-2 yrs	2-4 yrs	4-6 yrs	6-10 yrs	Over 10 yrs
Assumed Interest Rate Change(%)	1.0	1.0	1.0	0.9	0.8	0.7	0.6	0.6
Risk weights (%)	0	0.3	0.7	1.3	2.0	3.0	3.5	4.4

(4) Subject to clauses 3 (5) and 3 (6) of this Schedule, the value of each Financial Instrument, or a proportion of it, shall be allocated to the time band specified in Table 1 in a manner which the Registered Bank believes, on reasonable grounds, reflects the date on which the interest rate applicable to the Financial Instrument, or proportion of the Financial Instrument, will be altered, or the date at which the principal, or a proportion of the principal, will be paid, notwithstanding the Interest Rate Repricing Date of the Financial Instrument.

(5) Notwithstanding clause 3 (4) of this Schedule:

- (a) A Registered Bank may exclude from the application of clause 3 (4) of this Schedule the value, or the appropriate proportion of the value, of those Financial

Instruments which meet the netting criteria contained in clause 4; and

- (b) the aggregate value, or the appropriate proportion of the aggregate value, of all Rate Insensitive Retail Assets and of all Rate Insensitive Retail Liabilities shall be allocated to the time bands specified in Table 2 in accordance with the percentages set out in Table 2.

**Table 2: Allocation of the value of Rate Insensitive Retail Products across time bands**

	Time Bands					
	up to 1mth	1-6 mths	6-12 mths	1-2 yrs	2-4 yrs	4-6 yrs
Percentage of aggregate value	5%	5%	10%	20%	40%	20%

(6) A Registered Bank may exclude the value of options and, instead, use its own methodology to determine the Interest Rate Exposure in any currency arising from options and add the amount so derived to the total Interest Rate Exposure in that currency.

4. **Netting Criteria**—A Registered Bank may exclude the value of Financial Instruments in respect of which it has matched positions which meet any one of the following criteria:

- (a) the matched position comprises the same Financial Instruments with the same issuer, coupon, currency and maturity; or
- (b) (i) with respect to matched positions comprising futures, the underlying Financial Instruments to which the futures relate must:
  - (A) be for the same product;
  - (B) have the same value or notional value;
  - (C) be denominated in the same currency; and
  - (D) mature within seven days of each other; or
 (ii) with respect to matched positions comprising swaps (including separate legs of different swaps) or FRAs, the underlying Financial Instruments to which the swaps or FRAs relate must:
  - (A) be for the same product;
  - (B) have the same value or notional value;
  - (C) be denominated in the same currency;
  - (D) have reference rates (for floating rate positions) which are identical;
  - (E) have coupon rates which are identical or which do not differ by more than 15 basis points; and
  - (F) have the time to run before the next Interest Rate Repricing Date within the following limits:

Earliest Repricing Date	Limits
Less than one month hence:	same day
Between one month and one year hence:	within seven days
More than one year hence:	within thirty days;

or

- (iii) with respect to matched positions comprising forwards, the underlying Financial Instruments to which the forwards relate must:
  - (A) be for the same product;
  - (B) have the same value or notional value;
  - (C) be denominated in the same currency; and
  - (D) have the time to run before the next Interest Rate Repricing Date within the following limits:

Earliest Repricing Date	Limits
Less than one month hence:	same day

Between one month and  
one year hence: within seven days  
More than one year hence: within thirty days.

**5. The Amount of Vertical Disallowance in a Single Currency**—(1) The amount of vertical disallowance in a single currency is the sum of the vertical disallowances calculated in accordance with clause 5 (2) for each of the time bands specified in Table 1 of this Schedule.

(2) The amount of vertical disallowance in a time band shall be calculated as follows:

- (a) derive the risk weighted matched position in the time band (which is either the lesser of the sum of the absolute values of the Financial Assets and the sum of the absolute values of the Financial Liabilities in that time band, or, if those sums are equal, that sum, multiplied by the risk weight for that time band);
- (b) derive the risk weighted value of the Rate Insensitive Retail Products in that time band (which is the sum of the absolute values of the Rate Insensitive Retail Assets and Rate Insensitive Retail Liabilities in that time band multiplied by the risk weight for that time band);
- (c) if the risk weighted matched position is less than or equal to the risk weighted value of the Rate Insensitive Retail Products in a time band, then the vertical disallowance amount for that time band is the risk weighted matched position multiplied by 20%;
- (d) if the risk weighted matched position is greater than the risk weighted value of the Rate Insensitive Retail Products in a time band, then the vertical disallowance amount for that time band is:
  - (i) the risk weighted value of the Rate Insensitive Retail Products multiplied by 20%; plus
  - (ii) the difference between the risk weighted matched position and the risk weighted value of the Rate Insensitive Retail Products, multiplied by 5%.

(3) The vertical disallowance in a currency shall have the same sign (positive or negative) as the directional risk calculated for that currency.

**6. The Amount of Horizontal Disallowance in a Single Currency**—(1) The amount of horizontal disallowance in a single currency shall be calculated in accordance with clauses 6 (2) to 6 (6).

(2) Allocate the time bands specified in Table 1 of this Schedule to the three time zones specified in Table 3:

**Table 3: Time zones**

Time Bands	Time Zones
up to 1 month	Zone 1
1-6 months	
6-12 months	
1-2 years	Zone 2
2-4 years	
4-6 years	Zone 3
6-10 years	
over 10 years	

(3) Calculate the amount of the intra-zone disallowance in each time zone as follows:

- (a) derive the risk weighted net position in each time band (which is the amount of the risk weighted Financial Assets less the amount of the risk weighted Financial Liabilities in that time band). If the risk weighted net position in a time band is positive, this is a risk weighted long position and if it is negative, this is a risk weighted short position;
- (b) derive the aggregate risk weighted long position in

each time zone (which is the sum of any risk weighted long positions in the time bands in that time zone) and the aggregate risk weighted short position in each time zone (which is the sum of any risk weighted short positions in the time bands in that time zone);

- (c) derive the matched position in each time zone (which is either the lesser of the absolute value of the aggregate risk weighted long position and the absolute value of the aggregate risk weighted short position in that time zone, or, if the absolute values of those positions are equal, that absolute value), if any;
- (d) the amount of intra-zone disallowance in a time zone is the value of the matched position in that time zone multiplied by the disallowance factor for that time zone specified in Table 4. If there is no matched position in a time zone, the amount of the intra-zone disallowance in that time zone is zero.

**Table 4: Intra-zone disallowances**

Time Zones	Disallowance Factors
Zone 1	40%
Zone 2	30%
Zone 3	30%

(4) Calculate the amount of the inter-zone disallowances as follows:

- (a) inter-zone disallowances are derived in the following order: time zones 1 and 2, 2 and 3, and 1 and 3. The inter-zone disallowance factors which must be used to derive the inter-zone disallowance amounts are specified in Table 5;

**Table 5: Inter-zone disallowances**

Time Zones	Disallowance Factors
Zones 1 and 2	40%
Zones 2 and 3	40%
Zones 1 and 3	100%

- (b) derive the residual position in each time zone (which is the net amount of the aggregate risk weighted long position and the aggregate risk weighted short position). If the residual position is positive this is a residual long position and if it is negative this is a residual short position;
- (c) there is a matched position between time zones 1 and 2 if there is a residual long position in one time zone and a residual short position in the other. The matched position is either the smaller of the absolute value of the residual long position and the absolute value of the residual short position, or, if the absolute values of those positions are equal, that absolute value. If there is no matched position, the amount of horizontal disallowance is zero. If there is a matched position, then the amount of horizontal disallowance between time zones 1 and 2 is the value of the matched position multiplied by the disallowance factor for time zones 1 and 2 specified in Table 5;
- (d) derive the net residual position in time zone 2, by taking the difference between the absolute value of the residual position in time zone 2 and the matched position between time zones 1 and 2, and allocating to that amount, if any, the sign of the residual position in time zone 2. If the net residual position in time zone 2 is positive this is a net residual long position and if it is negative this is a net residual short position;
- (e) there is a matched position between time zones 2 and 3 if there is a net residual long position in time zone 2 and a residual short position in time zone 3 or a net residual short position in time zone 2 and a residual long position in time zone 3. The matched position is either the smaller of the absolute value of those

residual positions, or, if the absolute values of those positions are equal, that absolute value. If there is no matched position, the amount of the horizontal disallowance is zero. If there is a matched position then the amount of horizontal disallowance between time zones 2 and 3 is the value of the matched position multiplied by the disallowance factor for time zones 2 and 3 specified in Table 5;

(f) derive the net residual position in time zone 1 and in time zone 3:

(i) in time zone 1, by taking the difference between the absolute value of the residual position in time zone 1 and the matched position between time zones 1 and 2, and allocating to that amount, if any, the sign of the residual position in time zone 1;

(ii) in time zone 3, by taking the difference between the absolute value of the residual position in time zone 3 and the matched position between time zones 2 and 3, and allocating to that amount, if any, the sign of the residual position in time zone 3,

(if the net residual position in a time zone is positive this is a net residual long position and if it is negative this is a net residual short position);

(g) there is a matched position between time zones 1 and 3 if there is a net residual long position in one time zone and a net residual short position in the other. The matched position is either the smaller of the absolute value of the net residual long position and the absolute value of the net residual short position, or, if the absolute values of those positions are equal, that absolute value. If there is no matched position, the amount of horizontal disallowance is zero. If there is a matched position then the amount of horizontal disallowance between time zones 1 and 3 is the value of the matched position multiplied by the disallowance factor for time zones 1 and 3 specified in Table 5.

(5) The amount of the horizontal disallowance in a single currency is the aggregate of the amounts of intra-zone disallowances and inter-zone disallowances in that currency.

(6) The horizontal disallowance in a currency shall have the same sign (positive or negative) as the directional risk calculated for that currency.

**7. Aggregate Interest Rate Exposure For All Currencies**—A Banking Group's Aggregate Interest Rate Exposure is the greater of the absolute value of the sum of any positive Interest Rate Exposures and the absolute value of the sum of any negative Interest Rate Exposures.

**Aggregate Foreign Currency Exposure**

8. The Registered Bank shall derive the amount of Aggregate Foreign Currency Exposure in accordance with either:

(a) clauses 9 and 10 of this Schedule; or

(b) any other method, but only if the Aggregate Foreign Currency Exposure derived in accordance with that method is not, in the opinion of the Registered Bank (such opinion to be based on reasonable grounds), Materially lower than the amount derived pursuant to clause 8 (a) of this Schedule.

**9. Foreign Currency Exposure in a Single Foreign Currency**—(1) Subject to clauses 9 (2) and 9 (4) of this Schedule, a Banking Group's Foreign Currency Exposure in a single foreign currency is derived by:

(a) subtracting the aggregate amount of the value of Financial Liabilities (whether recognised or unrecognised) of the Banking Group in that foreign currency from the aggregate amount of the value of the Financial Assets (whether recognised or

unrecognised) of the Banking Group in that foreign currency; and

(b) multiplying the amount derived in clause 9(a) of this Schedule by 0.08.

(2) Subject to clause 9 (3), the value of a Financial Instrument is either:

(a) (i) in the case of an unrecognised Financial Instrument and a recognised Financial Instrument which is a market related contract, the face or contract amount of the Financial Instrument expressed in New Zealand dollars using the relevant spot exchange rate; and

(ii) in the case of other Financial Instruments, the carrying amount of the Financial Instrument expressed in New Zealand dollars using the relevant spot exchange rate; or

(b) the present value of that Financial Instrument expressed in New Zealand dollars using the relevant spot exchange rate.

(3) Notwithstanding clause 9 (2) of this Schedule, the value of options in a single foreign currency shall be either the delta equivalent value, or a value derived using the Registered Bank's own method for valuing the open position arising from options in that foreign currency.

(4) For the purposes of clause 9 (1) of this Schedule, Financial Instruments which have been issued by associates of the Registered Bank or which have been included in the Capital of the Overseas Banking Group shall not be included in the calculation of the Banking Group's Foreign Currency Exposure.

**10. Aggregate Foreign Currency Exposure**—A Banking Group's Aggregate Foreign Currency Exposure is the absolute value of the greater of the sum of any positive Foreign Currency Exposures and the sum of any negative Foreign Currency Exposures.

**Aggregate Equity Exposure**

11. The Registered Bank shall derive the amount of its Aggregate Equity Exposure in accordance with either:

(a) clauses 12 and 13 of this Schedule; or

(b) any other method, but only if the Aggregate Equity Exposure derived in accordance with that method is not, in the opinion of the Registered Bank (such opinion to be based on reasonable grounds), Materially lower than the amount derived pursuant to clause 11 (a) of this Schedule.

**12. Equity Exposure in a Single Currency**—(1) Subject to clauses 12 (2) and 12 (3) of this Schedule a Banking Group's Equity Exposure in a single currency is derived by:

(a) subtracting the aggregate amount of the value of all of the equity instruments (whether recognised or unrecognised) of the Banking Group in that currency that are Financial Liabilities from the aggregate amount of the value of all the equity instruments (whether recognised or unrecognised) of the Banking Group in that currency that are Financial Assets; and

(b) multiplying the amount derived in clause 12 (a) of this Schedule by 0.08.

(2) Notwithstanding clause 12 (1) of this Schedule, the value of equity instruments issued by associates of the Registered Bank shall not be included in the calculation of the Banking Group's Equity Exposure.

(3) Subject to clause 12 (4) of this Schedule, the value of an equity instrument is:

(a) in the case of an unrecognised equity instrument and a recognised equity instrument which is a market related contract, the face or contract amount of the

equity instrument expressed in New Zealand dollars using the relevant spot exchange rate; and

- (b) in the case of other equity instruments, the carrying amount of the equity instrument expressed in New Zealand dollars using the relevant spot exchange rate.

(4) Notwithstanding clause 12 (3) of this Schedule, the value of:

- (a) a net equity futures position is the marked-to-market value of the notional underlying equity position; and  
(b) a net equity option position is the delta equivalent value.

**13. Aggregate Equity Exposure**—The Banking Group's Aggregate Equity Exposure is the sum of the absolute values of the Equity Exposures in each currency."

**5. Miscellaneous Amendments to Order in Council**—The principal Order shall be amended as follows:

- (a) clause 1 (4) of the principal Order is hereby amended by inserting after the words "which occurs after 1 January 1996" the following words:

"or in respect of a Registered Bank which becomes a Registered Bank after 1 January 1996 shall be in respect of such date (whether before or after the date of registration) as the Reserve Bank shall determine.";

- (b) clause 1 of the principal Order is hereby amended by the addition of the following clause 1(5):

"(5) Where the Reserve Bank, pursuant to clause 1(4) of this Order, determines the date in respect of which a Disclosure Statement shall be published, a reference in this Order to a Balance Date shall be read as if it were a reference to that date.";

- (c) clause 3 (1) of the principal Order is hereby deleted and replaced with the following:

"(1) Subject to the Act, every Registered Bank shall Publish not later than three months after each Balance Date (or in the case of the first Disclosure Statement required by this Order for a Registered Bank which becomes a Registered Bank after 1 January 1996, within such period as the Reserve Bank shall specify) a Disclosure Statement which shall:

- (a) contain the information that is prescribed in Part II to Part V of this Order; and  
(b) comply with the Act.";

- (d) clause 5 (6) (h) of the principal Order is hereby amended by inserting after the words "the number of individual Counterparties" the words "(not being members of a Group of Closely Related Counterparties)", and by replacing the succeeding word "or" with the word "and";

- (e) clause 5 (6) of the principal Order is hereby amended by inserting the following paragraph:

"(ia) Where the Registered Bank is required by any statute to hold in New Zealand an excess of assets over deposit liabilities, the Key Information Summary shall state the name of the statute, and contain a description of the requirement and a statement as to whether, since the commencement of the Accounting Period, the Registered Bank has at all times complied with that requirement.";

- (f) clause 6 of the principal Order is hereby amended by inserting after subclause (4) the following subclause:

"(5) Where the Registered Bank is required by any statute to hold in New Zealand an excess of assets over deposit liabilities, the General Disclosure

Statement shall state the name of the statute, and contain a description of the requirement and a statement as to whether, since the commencement of the Accounting Period, the Registered Bank has at all times complied with that requirement.";

- (g) clause 7 of the Fourth Schedule to the principal Order is hereby deleted and replaced with the following:

"7. The General Disclosure Statement shall disclose the number of individual Bank Counterparties (not being members of a Group of Closely Related Counterparties) and Groups of Closely Related Counterparties of which a Bank is the parent to whom the Banking Group has a Credit Exposure which equals or exceeds 10% of the Overseas Banking Group's Equity over the Interim Accounting Period or Accounting Period in successive ranges of 10% of Equity, commencing at 10% of Equity."; and

- (h) clause 9 of the Fourth Schedule to the principal Order is hereby deleted and replaced with the following:

"9. The General Disclosure Statement shall disclose the number of individual non Bank Counterparties (not being members of a Group of Closely Related Counterparties) and Groups of Closely Related Counterparties of which a Bank is not the parent to whom the Banking Group has a Credit Exposure which equals or exceeds 10% of the Overseas Banking Group's Equity over the Interim Accounting Period or Accounting Period in successive ranges of 10% of Equity, commencing at 10% of Equity.".

DIANE WILDERSPIN, Acting for Clerk of the Executive Council.

#### *Explanatory Note*

*This note is not part of the Order in Council, but is intended to indicate its general effect.*

This Order in Council is one of four Orders in Council promulgated pursuant to section 81 (1) of the Reserve Bank of New Zealand Act 1989. The Orders in Council amend the public disclosure requirements for registered banks contained in the principal Orders, which took effect on 1 January 1996. The principal Orders are amended by:

- a) the inclusion of schedules specifying market risk disclosure requirements, and  
b) a number of miscellaneous amendments to the general disclosure requirements.

This Order in Council comes into force on 1 April 1996. The market risk disclosures apply in respect of Disclosure Statements relating to balance dates which occur after 1 April 1996. Where a registered bank is unable to disclose peak exposures for that part of an accounting period which precedes the date on which the Order comes into force, the registered bank may disclose peak information in respect of the period commencing with the date on which this Order comes into force.

This Order in Council applies to a registered bank which is incorporated in a country other than New Zealand, and which operates in New Zealand as a branch of the overseas bank, in respect of each such bank's end of financial year and half year.

#### *Market Risk Disclosure Requirements*

A registered bank will be required to include market risk information in its General Disclosure Statement.

The market risk information to be disclosed will relate to the banking group's interest rate exposure, foreign currency exposure and equity exposure. A bank will be required to disclose its exposure to each of these categories of market

risk, as an amount and as a percentage of the overseas banking group's equity. These disclosures will be required in respect of exposures as at the end of the half year or full year and peak exposures over the accounting period to date.

The Order requires a bank to calculate market risk exposures using either the method specified in the Order, or a different method, provided that such method does not give a result which would be materially lower than that arrived at by the method specified in the Order.

#### *Miscellaneous Amendments*

In addition, the Order in Council amends the principal Order:

- to make provision for the Reserve Bank to require a newly registered bank to publish an initial disclosure statement, so that there is no lag between the time the bank commences business and the time a disclosure statement is made available to its customers;
- by modifying the disclosure requirements relating to large exposures. This modification makes it clear that, when banks disclose the number of individual counterparties or counterparty groups to which they have a large exposure, they should not include in the total, those individual counterparties which are part of a counterparty group already included in the total. This will ensure that there is no double counting of exposures;
- where applicable, to require registered banks to publish information about any statutory requirement to hold net assets in New Zealand.

This Order in Council is administered in the Reserve Bank of New Zealand.

au1473

### **Registered Bank Disclosure Statement (Off-Quarter—Overseas Incorporated Registered Banks) Amendment Order 1996**

CATHERINE A. TIZARD, Governor-General  
ORDER IN COUNCIL

At Wellington this 26th day of February 1996  
Present:

HER EXCELLENCY THE GOVERNOR-GENERAL IN COUNCIL

Pursuant to section 81 (1) of the Reserve Bank of New Zealand Act 1989, Her Excellency the Governor-General, acting by and with the advice and consent of the Executive Council, and on the advice of the Minister of Finance given in accordance with a recommendation of the Reserve Bank of New Zealand, hereby makes the following Order.

#### **A n a l y s i s**

1. Title, Application and Commencement
2. Interpretation
3. Schedules
4. Miscellaneous Amendments to Order in Council

### **An Order to amend the Registered Bank Disclosure Statement (Off-Quarter—Overseas Incorporated Registered Banks) Order 1995.**

**1. Title, Application and Commencement—**(1) This Order may be cited as the Registered Bank Disclosure Statement (Off-Quarter—Overseas Incorporated Registered Banks) Amendment Order 1996, and shall be read together with and deemed part of the Registered Bank Disclosure Statement (Off-Quarter—Overseas Incorporated Registered Banks) Order 1995 (hereinafter referred to as the principal Order).

(2) (a) This Order shall come into force on the 1st day of April 1996.

(b) Clauses 2 and 3 of the Order shall apply only in respect of Short Form Disclosure Statements relating to Off Quarter Balance Dates which occur after 1 April 1996.

(c) Where a Registered Bank is unable to disclose peak end-of-day information for that part of an Accounting Period which precedes the date on which this Order comes into force, the Registered Bank may disclose peak end-of-day information in respect of the period commencing with the date on which this Order comes into force.

**2. Interpretation—**Clause 2 (4) of the principal Order is hereby amended by inserting, in the appropriate alphabetical order, the following definitions:

“ ‘Aggregate Equity Exposure’ means the aggregate amount of Equity Exposure to all currencies.

‘Aggregate Foreign Currency Exposure’ means the aggregate amount of Foreign Currency Exposure to all currencies other than New Zealand dollars.

‘Aggregate Interest Rate Exposure’ means the aggregate amount of Interest Rate Exposure to all currencies.

‘Aggregate Market Risk Exposure’ means exposure to all, or any, of Aggregate Equity Exposure, Aggregate Foreign Currency Exposure and Aggregate Interest Rate Exposure.

‘Equity Exposure’ means the amount of the change in the economic value of equity instruments that are Financial Assets and Financial Liabilities of the Banking Group in a single currency, which would occur as a result of a change in the price of equity instruments in that currency.

‘Foreign Currency Exposure’ means the amount of the change in the economic value of the Financial Assets and Financial Liabilities of the Banking Group in a single foreign currency which would occur as a result of a change in the rate of exchange applicable to that foreign currency.

‘Interest Rate Exposure’ means the amount of the change in the economic value of the Financial Assets (excluding equity instruments) and Financial Liabilities (excluding equity instruments) of the Banking Group in a single currency which would occur as a result of a change in interest rates in that currency.

‘Interest Rate Repricing Date’, as that term applies to a Financial Instrument or to a proportion of a Financial Instrument, means the earlier of the date on which, in accordance with the terms of the Financial Instrument:

- (a) the interest rate reset date next occurs (being the date on which the rate of interest payable in respect of the Financial Instrument can or will alter); or
- (b) the principal sum is due and payable or, where no principal sum is due and payable, the maturity date occurs.

‘Market Risk Exposure’ means exposure to any, or all, of Equity Exposure, Foreign Currency Exposure and Interest Rate Exposure.

‘Rate Insensitive Retail Assets’ means that amount of the Financial Assets held by the Banking Group which the Registered Bank reasonably believes is unlikely to be diminished or increased as a result of a Material change in market interest rates if the interest rate applicable to that Financial Asset (which may be zero) does not change or does not change Materially.

‘Rate Insensitive Retail Liabilities’ means that amount of the Financial Liabilities held by the Banking Group which the Registered Bank reasonably believes is unlikely to be diminished or increased as a result of a Material change in market interest rates if the interest rate applicable to that Financial Liability (which may

be zero) does not change or does not change materially.

'Rate Insensitive Retail Product' means either or both of a Rate Insensitive Retail Asset or a Rate Insensitive Retail Liability.'

**3. Schedules**—The principal Order is hereby amended by inserting, after the "Sixth Schedule Risk Management Policies" the following Schedules:

**"Seventh Schedule**

***Exposures to Market Risk***

1. (1) A Registered Bank shall disclose the amount of Aggregate Market Risk Exposures of the Banking Group in respect of each category of Aggregate Market Risk Exposure on the basis of:

- (a) Aggregate Market Risk Exposures derived in accordance with Schedule 8 of this Order; or
- (b) the Banking Group's internal operating limits applicable to the relevant category of Aggregate Market Risk Exposure, but only if the Aggregate Market Risk Exposure in that category has not materially exceeded those limits at any time during the First Quarter Accounting Period or the Third Quarter Accounting Period.

(2) The General Short Form Disclosure Statement shall state which of the above methods is used, and where the method used is that set out in clause 1 (1) (a) of this Schedule, shall also state which of the methods described in clauses 1, 8 and 11 of the Eighth Schedule (for deriving Aggregate Interest Rate Exposure, Aggregate Foreign Currency Exposure and Aggregate Equity Exposure respectively) is used.

(3) Where, in respect of a category of Aggregate Market Risk Exposure, a Registered Bank uses different methods to derive Aggregate Market Risk Exposure in that category as at the Off Quarter Balance Date, and in respect of peak end-of-day exposure since the commencement of the Accounting Period, the Registered Bank shall identify, in relation to each of the disclosures made pursuant to this Schedule, the method used.

2. The information required to be disclosed pursuant to clause 5 of this Schedule shall include comparative figures for the previous corresponding period.

3. For the purposes of this Schedule, the Overseas Banking Group's Equity shall be either that group's Equity determined as at the Off Quarter Balance Date, or the most recently publicly disclosed amount. Where the Overseas Banking Group's Equity is not determined as at the Off Quarter Balance Date, the General Short Form Disclosure Statement shall state the date to which the measure of Equity relates.

4. For the purposes of this Schedule, peak end-of-day exposure to each category of Aggregate Market Risk Exposure over the First Quarter Accounting Period or the Third Quarter Accounting Period shall be measured as follows:

- (a) within each quarter, by determining the maximum end-of-day Aggregate Market Risk Exposure during the quarter, and dividing that amount by the amount of the Overseas Banking Group's Equity as at the end of the quarter; and
- (b) for the First Quarter Accounting Period or the Third Quarter Accounting Period, by calculating the ratio for each quarter in the First Quarter Accounting Period or the Third Quarter Accounting Period pursuant to clause 4 (a) of this Schedule and then taking the maximum of such ratios.

5. The General Short Form Disclosure Statement shall contain, in respect of the Banking Group:

- (a) a statement of Aggregate Interest Rate Exposure, expressed both as an amount and as a percentage of the Overseas Banking Group's Equity;
- (b) a statement of Aggregate Foreign Currency Exposure, expressed both as an amount and as a percentage of the Overseas Banking Group's Equity; and
- (c) a statement of Aggregate Equity Exposure, expressed both as an amount and as a percentage of the Overseas Banking Group's Equity.

6. The information required to be disclosed pursuant to clause 5 of this Schedule shall be made:

- (a) as at the Off Quarter Balance Date; and
- (b) in respect of peak end-of-day exposure since the commencement of the Accounting Period.

**Eighth Schedule**

***Measurement of Market Risk Exposure***

***Aggregate Interest Rate Exposure***

1. The Registered Bank shall derive the amount of Aggregate Interest Rate Exposure of the Banking Group in accordance with either:

- (a) clauses 2 to 7 of this Schedule; or
- (b) any other method, but only if the Aggregate Interest Rate Exposure derived in accordance with that method is not, in the opinion of the Registered Bank (such opinion to be based on reasonable grounds), materially lower than the amount derived pursuant to clause 1 (a) of this Schedule.

2. **Interest Rate Exposure in a Single Currency**—Interest Rate Exposure in a single currency is the total of:

- (a) the directional interest rate risk;
- (b) the vertical disallowance; and
- (c) the horizontal disallowance;

in that currency.

3. **Exposure to Directional Interest Rate Risk in a Single Currency**—(1) The amount of directional interest rate risk in a single currency shall be derived by subtracting the aggregate amount of the change in the value of each Financial Liability (excluding equity instruments) of the Banking Group arising from a directional change in interest rates in that currency from the aggregate amount of the change in the value of each Financial Asset (excluding equity instruments) of the Banking Group, arising from a directional change in interest rates in that currency.

(2) The value of a Financial Instrument is:

- (a) in the case of an unrecognised Financial Instrument and a recognised Financial Instrument which is a market related contract, the face or contract amount of the Financial Instrument expressed in New Zealand dollars using the relevant spot exchange rate; and
- (b) in the case of other Financial Instruments, the carrying amount of the Financial Instrument expressed in New Zealand dollars using the relevant spot exchange rate.

(3) The change in the value of a Financial Instrument is derived by multiplying the value, or proportion of the value, of the Financial Instrument allocated to the applicable time band specified in Table 1, in accordance with clause 3 (4), by the risk weight specified for that time band in Table 1.

**Table 1: Time Bands, Risk Weights, and Assumed Interest Rate Changes**

	Time Bands							
	up to 1mth	1-6 mths	6-12 mths	1-2 yrs	2-4 yrs	4-6 yrs	6-10 yrs	Over 10 yrs
Assumed Interest Rate Change(%)	1.0	1.0	1.0	0.9	0.8	0.7	0.6	0.6
Risk weights (%)	0	0.3	0.7	1.3	2.0	3.0	3.5	4.4

(4) Subject to clauses 3 (5) and 3 (6) of this Schedule, the value of each Financial Instrument, or a proportion of it, shall be allocated to the time band specified in Table 1 in a manner which the Registered Bank believes, on reasonable grounds, reflects the date on which the interest rate applicable to the Financial Instrument, or proportion of the Financial Instrument, will be altered, or the date at which the principal, or a proportion of the principal, will be paid, notwithstanding the Interest Rate Repricing Date of the Financial Instrument.

(5) Notwithstanding clause 3 (4) of this Schedule:

- (a) a Registered Bank may exclude from the application of clause 3 (4) of this Schedule the value, or the appropriate proportion of the value, of those Financial Instruments which meet the netting criteria contained in clause 4; and
- (b) the aggregate value, or the appropriate proportion of the aggregate value, of all Rate Insensitive Retail Assets and of all Rate Insensitive Retail Liabilities shall be allocated to the time bands specified in Table 2 in accordance with the percentages set out in Table 2.

**Table 2: Allocation of the value of Rate Insensitive Retail Products across time bands**

	Time Bands					
	up to 1mth	1-6 mths	6-12 mths	1-2 yrs	2-4 yrs	4-6 yrs
Percentage of aggregate value	5%	5%	10%	20%	40%	20%

(6) A Registered Bank may exclude the value of options and, instead, use its own methodology to determine the Interest Rate Exposure in any currency arising from options and add the amount so derived to the total Interest Rate Exposure in that currency.

**4. Netting Criteria**—A Registered Bank may exclude the value of Financial Instruments in respect of which it has matched positions which meet any one of the following criteria:

- (a) the matched position comprises the same Financial Instruments with the same issuer, coupon, currency and maturity; or
- (b) (i) with respect to matched positions comprising futures, the underlying Financial Instruments to which the futures relate must:
  - (A) be for the same product;
  - (B) have the same value or notional value;
  - (C) be denominated in the same currency; and
  - (D) mature within seven days of each other; or
- (ii) with respect to matched positions comprising swaps (including separate legs of different swaps) or FRAs, the underlying Financial Instruments to which the swaps or FRAs relate must:
  - (A) be for the same product;
  - (B) have the same value or notional value;
  - (C) be denominated in the same currency;
  - (D) have reference rates (for floating rate positions) which are identical;
  - (E) have coupon rates which are identical or which do not differ by more than 15 basis points; and
  - (F) have the time to run before the next Interest Rate Repricing Date within the following limits:

Earliest Repricing Date	Limits
Less than one month hence:	same day
Between one month and one year hence:	within seven days
More than one year hence:	within thirty days;

(iii) with respect to matched positions comprising forwards, the underlying Financial Instruments to which the forwards relate must:

- (A) be for the same product;
- (B) have the same value or notional value;
- (C) be denominated in the same currency; and
- (D) have the time to run before the next Interest Rate Repricing Date within the following limits:

Earliest Repricing Date	Limits
Less than one month hence:	same day
Between one month and one year hence:	within seven days
More than one year hence:	within thirty days.

**5. The Amount of Vertical Disallowance in a Single Currency**—(1) The amount of vertical disallowance in a single currency is the sum of the vertical disallowances calculated in accordance with clause 5 (2) for each of the time bands specified in Table 1 of this Schedule.

(2) The amount of vertical disallowance in a time band shall be calculated as follows:

- (a) derive the risk weighted matched position in the time band (which is either the lesser of the sum of the absolute values of the Financial Assets and the sum of the absolute values of the Financial Liabilities in that time band, or, if those sums are equal, that sum, multiplied by the risk weight for that time band);
- (b) derive the risk weighted value of the Rate Insensitive Retail Products in that time band (which is the sum of the absolute values of the Rate Insensitive Retail Assets and Rate Insensitive Retail Liabilities in that time band multiplied by the risk weight for that time band);
- (c) if the risk weighted matched position is less than or equal to the risk weighted value of the Rate Insensitive Retail Products in a time band, then the vertical disallowance amount for that time band is the risk weighted matched position multiplied by 20%;
- (d) if the risk weighted matched position is greater than the risk weighted value of the Rate Insensitive Retail Products in a time band, then the vertical disallowance amount for that time band is:
  - (i) the risk weighted value of the Rate Insensitive Retail Products multiplied by 20%; plus
  - (ii) the difference between the risk weighted matched position and the risk weighted value of the Rate Insensitive Retail Products, multiplied by 5%.

(3) The vertical disallowance in a currency shall have the same sign (positive or negative) as the directional risk calculated for that currency.

**6. The Amount of Horizontal Disallowance in a Single Currency**—(1) The amount of horizontal disallowance in a single currency shall be calculated in accordance with clauses 6 (2) to 6 (6).

(2) Allocate the time bands specified in Table 1 of this Schedule to the three time zones specified in Table 3:

**Table 3: Time zones**

Time Bands	Time Zones
------------	------------

up to 1 month	
1-6 months	Zone 1
6-12 months	
1-2 years	
2-4 years	Zone 2
4-6 years	
6-10 years	Zone 3
over 10 years	

(3) Calculate the amount of the intra-zone disallowance in each time zone as follows:

- derive the risk weighted net position in each time band (which is the amount of the risk weighted Financial Assets less the amount of the risk weighted Financial Liabilities in that time band). If the risk weighted net position in a time band is positive, this is a risk weighted long position and if it is negative, this is a risk weighted short position;
- derive the aggregate risk weighted long position in each time zone (which is the sum of any risk weighted long positions in the time bands in that time zone) and the aggregate risk weighted short position in each time zone (which is the sum of any risk weighted short positions in the time bands in that time zone);
- derive the matched position in each time zone (which is either the lesser of the absolute value of the aggregate risk weighted long position and the absolute value of the aggregate risk weighted short position in that time zone, or, if the absolute values of those positions are equal, that absolute value), if any;
- the amount of intra-zone disallowance in a time zone is the value of the matched position in that time zone multiplied by the disallowance factor for that time zone specified in Table 4. If there is no matched position in a time zone, the amount of the intra-zone disallowance in that time zone is zero.

**Table 4: Intra-zone disallowances**

Time Zones	Disallowance Factors
Zone 1	40%
Zone 2	30%
Zone 3	30%

(4) Calculate the amount of the inter-zone disallowances as follows:

- inter-zone disallowances are derived in the following order: time zones 1 and 2, 2 and 3, and 1 and 3. The inter-zone disallowance factors which must be used to derive the inter-zone disallowance amounts are specified in Table 5;

**Table 5: Inter-zone disallowances**

Time Zones	Disallowance Factors
Zones 1 and 2	40%
Zones 2 and 3	40%
Zones 1 and 3	100%

- derive the residual position in each time zone (which is the net amount of the aggregate risk weighted long position and the aggregate risk weighted short position). If the residual position is positive this is a residual long position and if it is negative this is a residual short position;
- there is a matched position between time zones 1 and 2 if there is a residual long position in one time zone and a residual short position in the other. The matched position is either the smaller of the absolute value of the residual long position and the absolute value of the residual short position, or, if the absolute values of those positions are equal, that absolute value. If there

is no matched position, the amount of horizontal disallowance is zero. If there is a matched position, then the amount of horizontal disallowance between time zones 1 and 2 is the value of the matched position multiplied by the disallowance factor for time zones 1 and 2 specified in Table 5;

- derive the net residual position in time zone 2, by taking the difference between the absolute value of the residual position in time zone 2 and the matched position between time zones 1 and 2, and allocating to that amount, if any, the sign of the residual position in time zone 2. If the net residual position in time zone 2 is positive this is a net residual long position and if it is negative this is a net residual short position;
  - there is a matched position between time zones 2 and 3 if there is a net residual long position in time zone 2 and a residual short position in time zone 3 or a net residual short position in time zone 2 and a residual long position in time zone 3. The matched position is either the smaller of the absolute value of those residual positions, or, if the absolute values of those positions are equal, that absolute value. If there is no matched position, the amount of the horizontal disallowance is zero. If there is a matched position then the amount of horizontal disallowance between time zones 2 and 3 is the value of the matched position multiplied by the disallowance factor for time zones 2 and 3 specified in Table 5;
  - derive the net residual position in time zone 1 and in time zone 3:
    - in time zone 1, by taking the difference between the absolute value of the residual position in time zone 1 and the matched position between time zones 1 and 2, and allocating to that amount, if any, the sign of the residual position in time zone 1;
    - in time zone 3, by taking the difference between the absolute value of the residual position in time zone 3 and the matched position between time zones 2 and 3, and allocating to that amount, if any, the sign of the residual position in time zone 3,
 (if the net residual position in a time zone is positive this is a net residual long position and if it is negative this is a net residual short position);
  - there is a matched position between time zones 1 and 3 if there is a net residual long position in one time zone and a net residual short position in the other. The matched position is either the smaller of the absolute value of the net residual long position and the absolute value of the net residual short position, or, if the absolute values of those positions are equal, that absolute value. If there is no matched position, the amount of horizontal disallowance is zero. If there is a matched position then the amount of horizontal disallowance between time zones 1 and 3 is the value of the matched position multiplied by the disallowance factor for time zones 1 and 3 specified in Table 5.
- (5) The amount of the horizontal disallowance in a single currency is the aggregate of the amounts of intra-zone disallowances and inter-zone disallowances in that currency.
- (6) The horizontal disallowance in a currency shall have the same sign (positive or negative) as the directional risk calculated for that currency.
- 7. Aggregate Interest Rate Exposure For All Currencies**—A Banking Group's Aggregate Interest Rate Exposure is the greater of the absolute value of the sum of any positive Interest Rate Exposures and the absolute value of the sum of any negative Interest Rate Exposures.

**Aggregate Foreign Currency Exposure**

8. The Registered Bank shall derive the amount of Aggregate Foreign Currency Exposure in accordance with either:

- (a) clauses 9 and 10 of this Schedule; or
- (b) any other method, but only if the Aggregate Foreign Currency Exposure derived in accordance with that method is not, in the opinion of the Registered Bank (such opinion to be based on reasonable grounds), Materially lower than the amount derived pursuant to clause 8 (a) of this Schedule.

9. **Foreign Currency Exposure in a Single Foreign Currency**—(1) Subject to clauses 9 (2) and 9 (4) of this Schedule, a Banking Group's Foreign Currency Exposure in a single foreign currency is derived by:

- (a) subtracting the aggregate amount of the value of Financial Liabilities (whether recognised or unrecognised) of the Banking Group in that foreign currency from the aggregate amount of the value of the Financial Assets (whether recognised or unrecognised) of the Banking Group in that foreign currency; and
- (b) multiplying the amount derived in clause 9 (a) of this Schedule by 0.08.

(2) Subject to clause 9 (3), the value of a Financial Instrument is either:

- (a) (i) in the case of an unrecognised Financial Instrument and a recognised Financial Instrument which is a market related contract, the face or contract amount of the Financial Instrument expressed in New Zealand dollars using the relevant spot exchange rate; and
- (ii) in the case of other Financial Instruments, the carrying amount of the Financial Instrument expressed in New Zealand dollars using the relevant spot exchange rate; or
- (b) the present value of that Financial Instrument expressed in New Zealand dollars using the relevant spot exchange rate.

(3) Notwithstanding clause 9 (2) of this Schedule, the value of options in a single foreign currency shall be either the delta equivalent value, or a value derived using the Registered Bank's own method for valuing the open position arising from options in that foreign currency.

(4) For the purposes of clause 9 (1) of this Schedule, Financial Instruments which have been issued by associates of the Registered Bank or which have been included in the Capital of the Overseas Banking Group shall not be included in the calculation of the Banking Group's Foreign Currency Exposure.

10. **Aggregate Foreign Currency Exposure**—A Banking Group's Aggregate Foreign Currency Exposure is the absolute value of the greater of the sum of any positive Foreign Currency Exposures and the sum of any negative Foreign Currency Exposures.

**Aggregate Equity Exposure**

11. The Registered Bank shall derive the amount of its Aggregate Equity Exposure in accordance with either:

- (a) clauses 12 and 13 of this Schedule; or
- (b) any other method, but only if the Aggregate Equity Exposure derived in accordance with that method is not, in the opinion of the Registered Bank (such opinion to be based on reasonable grounds), Materially lower than the amount derived pursuant to clause 11 (a) of this Schedule.

12. **Equity Exposure in a Single Currency**—(1) Subject to clauses 12 (2) and 12 (3) of this Schedule a Banking Group's Equity Exposure in a single currency is derived by:

- (a) subtracting the aggregate amount of the value of all of the equity instruments (whether recognised or unrecognised) of the Banking Group in that currency that are Financial Liabilities from the aggregate amount of the value of all the equity instruments (whether recognised or unrecognised) of the Banking Group in that currency that are Financial Assets; and
- (b) multiplying the amount derived in clause 12 (a) of this Schedule by 0.08.

(2) Notwithstanding clause 12 (1) of this Schedule, the value of equity instruments issued by associates of the Registered Bank shall not be included in the calculation of the Banking Group's Equity Exposure.

(3) Subject to clause 12 (4) of this Schedule, the value of an equity instrument is:

- (a) in the case of an unrecognised equity instrument and a recognised equity instrument which is a market related contract, the face or contract amount of the equity instrument expressed in New Zealand dollars using the relevant spot exchange rate; and
- (b) in the case of other equity instruments, the carrying amount of the equity instrument expressed in New Zealand dollars using the relevant spot exchange rate.

(4) Notwithstanding clause 12 (3) of this Schedule, the value of:

- (a) a net equity futures position is the marked-to-market value of the notional underlying equity position; and
- (b) a net equity option position is the delta equivalent value.

13. **Aggregate Equity Exposure**—The Banking Group's Aggregate Equity Exposure is the sum of the absolute values of the Equity Exposures in each currency."

4. **Miscellaneous Amendments to Order in Council**—The principal Order shall be amended as follows:

- (a) clause 5 (6) of the principal Order is hereby amended by inserting before paragraph (j) the following paragraph:

"(ia) Where the Registered Bank is required by any statute to hold in New Zealand an excess of assets over deposit liabilities, the Key Information Summary shall state the name of the statute, and contain a description of the requirement and a statement as to whether, since the commencement of the Accounting Period, the Registered Bank has at all times complied with that requirement.";

- (b) clause 5 (6) (h) of the principal Order is hereby amended by inserting after the words "the number of individual Counterparties" the words "(not being members of a Group of Closely Related Counterparties)", and by replacing the succeeding word "or" with the word "and";

- (c) clause 6 of the principal Order is hereby amended by inserting after subclause (4) the following subclause:

"(5) Where the Registered Bank is required by any statute to hold in New Zealand an excess of assets over deposit liabilities, the General Short Form Disclosure Statement shall state the name of the statute, and contain a description of the requirement and a statement as to whether, since the commencement of the Accounting Period, the Registered Bank has at all times complied with that requirement.";

(d) clause 7 of the Fifth Schedule to the principal Order is hereby deleted and replaced with the following:

“7. The General Short Form Disclosure Statement shall disclose the number of individual Bank Counterparties (not being members of a Group of Closely Related Counterparties) and Groups of Closely Related Counterparties of which a Bank is the parent to whom the Banking Group has a Credit Exposure which equals or exceeds 10% of the Overseas Banking Group's Equity over the First Quarter Accounting Period or Third Quarter Accounting Period in successive ranges of 10% of Equity, commencing at 10% of Equity.”; and

(e) clause 9 of the Fifth Schedule to the principal Order is hereby deleted and replaced with the following:

“9. The General Short Form Disclosure Statement shall disclose the number of individual non Bank Counterparties (not being members of a Group of Closely Related Counterparties) and Groups of Closely Related Counterparties of which a Bank is not the parent to whom the Banking Group has a Credit Exposure which equals or exceeds 10% of the Overseas Banking Group's Equity over the First Quarter Accounting Period or Third Quarter Accounting Period in successive ranges of 10% of Equity, commencing at 10% of Equity.”

DIANE WILDERSPIN, Acting for Clerk of the Executive Council.

#### *Explanatory Note*

*This note is not part of the Order in Council, but is intended to indicate its general effect.*

This Order in Council is one of four Orders in Council promulgated pursuant to section 81 (1) of the Reserve Bank of New Zealand Act 1989. The Orders in Council amend the public disclosure requirements for registered banks contained in the principal Orders, which took effect on 1 January 1996. The principal Orders are amended by:

- a) the inclusion of schedules specifying market risk disclosure requirements, and
- b) a number of miscellaneous amendments to the general disclosure requirements.

This Order in Council comes into force on 1 April 1996. The market risk disclosures apply in respect of Short Form Disclosure Statements relating to off quarter balance dates which occur after 1 April 1996. Where a registered bank is unable to disclose peak exposures for that part of an

accounting period which precedes the date on which the Order comes into force, the registered bank may disclose peak information in respect of the period commencing with the date on which this Order comes into force.

This Order in Council applies to a registered bank which is incorporated in a country other than New Zealand, and which operates in New Zealand as a branch of the overseas bank, in respect of each such bank's "off quarters" (i.e., the first and third quarters of the bank's financial year).

#### *Market Risk Disclosure Requirements*

A registered bank will be required to include market risk information in its General Short Form Disclosure Statement.

The market risk information to be disclosed will relate to the banking group's interest rate exposure, foreign currency exposure and equity exposure. A bank will be required to disclose its exposure to each of these categories of market risk, as an amount and as a percentage of the overseas banking group's equity. These disclosures will be required in respect of exposures as at the end of off quarters and peak exposures over the accounting period to date.

The Order requires a bank to calculate market risk exposures using either the method specified in the Order, or a different method provided that such method does not give a result which would be materially lower than that arrived at by the method specified in the Order.

#### *Miscellaneous Amendments*

In addition, the Order in Council amends the principal Order:

- by modifying the disclosure requirements relating to large exposures. This modification makes it clear that, when banks disclose the number of individual counterparties or counterparty groups to which they have a large exposure, they should not include in the total, those individual counterparties which are part of a counterparty group already included in the total. This will ensure that there is no double counting of exposures;
- where applicable, to require registered banks to publish information about any statutory requirement to hold net assets in New Zealand.

This Order in Council is administered in the Reserve Bank of New Zealand.

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