

NEW PRUDENTIAL DISCLOSURE REQUIREMENTS FOR NON-BANK DEPOSIT TAKERS

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The Ministry of Economic Development and the Reserve Bank recently released a discussion document detailing proposed prudential disclosure requirements for non bank deposit takers (“NBDTs”).

If enacted, these proposals will impact on the compliance obligations of all credit unions. Significantly, the proposal will require additional disclosures in the prospectus and for the prospectus to be updated more frequently.

The discussion document calls for submissions by 19 May 2011 and anticipates regulations for the new requirements will be made later this year.

We summarise the main changes that will apply if the proposals in the discussion document are enacted.

Standardised prudential disclosures in the prospectus, investment statement and advertisements

Standard prudential disclosures will be required to provide details on certain listed prudential requirements. These relate to capital adequacy, related party exposures, liquidity, credit ratings, risk management programme and governance (although the governance requirement does not apply to credit unions).

It is proposed that for each of the above requirements, the prospectus would include

- a description of the prudential requirement;
- a certification of compliance (or disclosure of a breach) with the requirement over the period covered by the prospectus;
- the actual position against the requirement; and
- comparative information from the previous accounting period.

The discussion document sets out a prescribed tabular format for the disclosure of this information.

The discussion document also proposes that the investment statement set out each prudential requirement and state whether the NBDT meets each prudential requirement.

Update prudential disclosures in the prospectus every six months

NBDTs will be required to update the prudential disclosures in the prospectus every six months, based on the most recent financial statements. This update will be required to be made within three months from the annual or half year balance date.

It is also proposed that other financial information in the prospectus be updated six monthly.

Prudential disclosures to be subject to an assurance engagement by an auditor

It is proposed that the prudential disclosures be subject to an assurance engagement by an auditor. The auditor will be required to state whether the information disclosed is fairly stated and meets disclosure requirements.

The discussion document states that the outcome of the engagement would be detailed in the auditor’s report, as well as in the prospectus.

For credit unions, this assurance engagement requirement will only apply to the prudential disclosures based on the full year audited financial statements.

Notify investors of unanticipated changes to prudential disclosure requirements

NBDTs will be required to notify their investors when the prudential disclosures in the prospectus change.

“Unanticipated changes” are also required to be disclosed. These are not the prescribed half yearly updates but are any additional updates that may be required to ensure that the information in the prospectus does not become false or misleading.

The notification to investors will be required to outline the change and advise where an investor can obtain electronic and hard copies of the amended prospectus. The discussion document states that “passive notification” such as notice on a website or in a newspaper would not be considered to be sufficient.

Additional disclosure in the prospectus of impaired assets, large exposures, credit concentration and loans with interest capitalised

In addition to the prudential disclosures, it is proposed that the following additional financial disclosures be included in the prospectus:

- **Impaired assets** – A table setting out the periods by which past due assets are overdue and details on the movements in the pre-allowance balance of individually impaired assets and in balances of total individual credit impairment allowances.
- **Large exposures** – A table setting out individual credit exposures as a percentage of equity.
- **Credit concentration** – Disclosure of the concentrations of credit and funding in terms of customer, industry and economic sector and geographical concentrations.
- **Loans with capitalised interest** – The number of loans with capitalised interest, the total value of these loans and as a percentage of all loans, the value of these loans by sector and the value of these loans in each sector as a percentage of all loans in the sector.

It is intended that this information also be updated on a six monthly basis along with prudential disclosures.

Contact Us

Please feel free to contact Gill Goodwin or Rose Clements if you would like to discuss these proposed changes.

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