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Evaluation of post-GFC policy response of New Zealand: non-banking perspective

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Abstract
Purpose – The purpose of this study is to explore whether the present measures being taken by the New Zealand (NZ) government are strengthening its non-banking sector effectively to address the recent financial crisis and ensure better financial stability to the economy.
Design/methodology/approach – The basic methodology used in this paper is the "documentary research method". For this study, data has been collected from various published sources; e.g. The Bulletin, the Financial Stability Report and other publications of the Reserve Bank of NZ, publications by Statistics NZ and a number of NZ government Ministries, and some newspapers and magazines, etc.
Findings – We find that the NZ government is revamping the non-banking sector by introducing a prudential regime. However, we also find some gaps in the existing regulatory systems that need to be addressed to ensure soundness in the total system.
Research limitations/implications – The basic limitation of documentary research will be applicable to this study. Further research may be carried out to investigate the policy responses of government from banking, corporate governance and other regulatory perspectives.
Practical implications – Our study identifies some gaps in current policy responses along with some suggestions for the future that may be taken into consideration by the respective policy-makers to further strengthen the support provided by policy responses to financial crises.
Originality/value – Our study provides a unique insight into the evaluation of post-GFC policy response and its effectiveness with regard to non-banking sector and, to our knowledge, the first of its kind in NZ in the post-global financial crisis period.

Keywords New Zealand, Non-banking sector, Policy remedial measures, Post-GFC, Regulatory system, Policy gap, Policy response

Paper type Literature review

1. Introduction
Some questions that are circulated when any kind of financial crisis happens include: what causes a financial crisis to happen? What makes it spread throughout the national

This paper is under the Research Grant, 2013 of Eastern Institute of Technology, New Zealand, and special thanks are owed to the Head of Business School and EIT Research Grant Panel for providing the necessary financial support to carry out the research.

Journal of Financial Regulation and Compliance
Vol. 22 No. 4, 2014
pp. 328-338
© Emerald Group Publishing Limited
1358-1988
DOI 10.1108/JFRC-09-2013-0029

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economy and even across borders? What are the appropriate policy responses to address the financial crisis?

Following a period of economic boom, a global financial bubble burst in 2008. Although the global financial crisis (GFC) was generated from the USA, other countries, from Europe to Asia-Pacific, soon felt the shock waves to varying degrees. Among many other reasons, lax regulation and poor monitoring in the non-banking sector was one of the prime causes of GFC. This non-banking sector is also known as "shadow banking[1]" system. The bank for international settlement blamed central bankers for failing to appreciate the scale of the risks developed by the shadow banking system (The Economist, 2008). In addition, Basel-II only dealt with liquidity and leverages of commercial banks that means there was no exact regulation for investment banks and shadow banking institution (Moosa, 2010).

From 2006 to 2012, New Zealand (NZ) also faced a shocking financial crisis when approximately 52 of its finance companies collapsed. This signifies the urgency to restructure its non-banking system. The estimated loss to the NZ economy from these failed finance companies is about USD3.112 billion, which is 1.95 per cent[2] of the gross domestic product (GDP) of this country(I). Hence, the motivation of this study is to explore whether the present measures being taken by the NZ government are adequate to remedy this situation.

By examining the current steps through "documentary research methodology", we find that the NZ government is revamping the non-banking sector by introducing a prudential regime in general, and tightening risk management, credit-rating requirements, governance requirements, capital, liquidity and related-party exposure requirements in particular. However, we find that there are gaps in the existing regulatory systems, such as those dealing with trustees' conflicts of interest and the lack of an appropriate disclosure regime in the non-banking sector.

The paper has a number of contributions from both literature and practitioners' points of view. Firstly, the study explores the effectiveness of present protection mechanisms, especially in the non-banking sector with regard to the post-GFC period by identifying the "gaps" in the present regulatory regime. This will help the policy-makers to take appropriate action to address the identified gaps. Secondly, we suggest some ways forward that can be taken into consideration by policy-makers to mitigate the impact of these gaps. Therefore, this study provides a unique insight into the post-GFC scenario with regard to government policy response in the non-banking sector.

The rest of the paper has been designed as follows: Section 2 describes the research method, together with a review of the measures used in the data analysis. Section 3 discusses the present protection mechanisms implemented by the NZ government with regard to non-banking sector. The gaps in the present mechanisms have been identified and discussed in Section 4, whereas possible remedial measures to alleviate those gaps have been discussed in Section 5. Section 6 provides concluding comments, implications for the future and the limitations of the study.

2. Research methodology

The basic methodology used in this paper is the "documentary research method". Documentary method is the technique used to categorise, investigate and interpret the research interest from the most commonly written documents, in both the private and public domains (Payne and Payne, 2004). According to Bailey (1994), documentary

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method refers to the analysis of documents that contain information about the phenomenon that researchers wish to study. For this study, data has been collected from various published sources; e.g. The Bulletin, the Financial Stability Report and other publications of the Reserve Bank of NZ (RBNZ), publications by Statistics NZ and a number of NZ government Ministries, some newspapers and magazines, etc.

3. Discussion of the NZ government's response to the finance company failure

In this section, we examine the steps taken by the NZ government in the non-banking sector to address the underlying causes of the finance company failure in particular and financial crisis in its economy in general.

3.1 Introduction of prudential regime for non-bank deposit-takers

In a particular economy, both bank and non-bank financial institutions play significant roles as they collectively comprise the major portion of the financial system of that economy. In NZ, non-bank financial institutions are generally known as non-bank deposit takers (NBDTs)[3].

These NBDTs have a particular importance for NZ because of their massive contribution to the economy, in terms of funding and employment. Although in NZ, NBDTs hold only 4.9 per cent of the total financial system's assets, they lend on property, agriculture, non-residential and consumer sector, residential mortgages and other businesses (RBNZ, 2010). Therefore, their contribution to the wider economy is great, and problems in this sector could affect the broader economy and some regional economies as well. The government identified the weaknesses in NBDTs in 2005[4], but it did not take any effective steps to alleviate those weaknesses until 2007 (RBNZ, 2008).

On 12 September 2007, the Minster of Commerce announced a new regulatory framework for NBDTs, which have come into force in two stages since 2008 (Controller and Auditor-General, 2011). As per the report, the categories of prudential requirement and the corresponding enforcement dates are:

Stage 1

- 1 September 2009 – risk management programme submitted to, and approved by, the trustee.
- 1 March 2010 – credit rating requirements (an exemption applies when liabilities are less than $20 million).
- 1 December 2010 – governance requirements.
- 1 December 2010 – regulations relating to capital, liquidity and related-party exposure.

Stage 2

- 1 June 2013 – licensing and fit-and-proper-person requirements.
- 1 June 2013 – enhanced Reserve Bank intervention and information-gathering powers.

On 3 September 2008, the Minister of Finance announced the passing of the Reserve Bank Amendment Act, 2008, which included *Part 5D* under which the RBNZ would be the prudential regulator of NBDTs (II). Although the RBNZ would have regulatory

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responsibility, trustees would still remain as primary supervisors of NBDTs. Trustees would monitor the compliance of prudential requirements (apart from credit-rating requirements) of NBDTs and would report to the RBNZ. Under the new regime, records of trustees, as a finance company's frontline supervisors, would be under intense scrutiny. The new regime also requires trustee to be proactive (not reactive as previously), focused and assertive in their supervisory role. Moreover, the RBNZ would review the NBDTs regime, including the role of trustee, within five years (RBNZ, 2009a). All of these new efforts were aimed at making trustees more accountable in their role as frontline supervisors and, ultimately, overcome the previous deficiencies in corporate governance of NBDTs.

On 1 March 2010, the Deposit Takers (Credit Ratings) Regulations 2009 came into effect. This required NBDTs to have a local currency (NZ Dollar), long-term, issuer rating to be given by an approved rating agency[5] (III). In the previous regime, there was no requirement for credit ratings of the NBDTs. Under the new regime, depositors and financial advisers of NBDTs are better able to judge the risk profile of an NBDT. It is considered that credit ratings are one of the most simple and effective ways of informing stakeholders about the risk profile of an entity. Moreover, credit ratings will facilitate the comparison of risk across the NBDTs and thereby help depositors to make the most appropriate decision about their investments with less reliance on financial advisers. To facilitate better understanding of different types of credit ratings and their internal meanings, the RBNZ issued a "simple factsheet"[6] on March 2010. It was expected by the RBNZ (2009a) to provide incentives for NBDTs to develop and maintain sound governance and risk-management practice. Hence, it can be argued that if the enactment of credit ratings regulations had been properly addressed, the meagre corporate governance and lacklustre risk-management processes of previous regimes might have produced better-informed decision-making by potential investors.

The "governance" requirements under the new prudential regulations came into force on 1 December 2010. It prohibits NBDTs from including in their constitutions provisions that would allow directors to act other than in the best interests of the respective NBDTs, unlike the previous regime (IV). The Act further states that an NBDT must have a chairperson who is not an employee of either the NBDT or a related party, and must have at least two independent directors. As the chairperson will be separate from employees or related parties of respective NBDTs, the person in this role will demand greater accountability of the executive directors and trustees. It will also ensure that the interests of depositors will be better represented than previously at board level. Moreover, the appointment of independent directors will provide a solid cornerstone of best practice in corporate governance that will provide impartial advice and ensure that none of the business dealings, including related-party transactions, are contrary to the interest of the overall organisation (IV).

On 1 September 2009, the "risk management" requirements under new prudential regulations took effect. It requires all NBDTs to have their own risk-management programmes in place (RBNZ, 2009b). As per the requirements, NBDTs need to show effective identification and management of four types of risks – credit risk, liquidity risk, market risk and operational risk. With regard to credit risk, NBDTs need to establish and modify its lending policies and procedures, monitoring the continuing ability of its borrowers to meet their obligations, and managing any of its loans that show signs of deteriorating credit quality. In this way, it properly addresses the deficient lending

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policy of the previous regime, which was one of the prime causes of finance company failure. With regard to liquidity risk, NBDTs need to identify any funding gaps, manage their sources of regular funding and maintain sources of emergency back-up liquidity. Therefore, it appropriately addresses the issue of finance companies' existence in times of intense funding pressure that were observed during the GFC. With regard to market risk, NBDTs need to consider interest-rate risk (re-pricing risk, basis risk, option risk, etc.), foreign currency risk, and equity risk (systematic risk, firm specific risk, etc.). It thereby provides incentives for NBDTs to make very critical analyses of current market situations and foreign currency movements which strengthen the base of NBDTs that ultimately spread confidence among potential investors. With regard to operational risk, NBDTs must identify their operational vulnerability and mitigate any operational risk exposure. Hence, it can be argued that the "risk-management programme" under the new regulatory regime will ensure the better sustainability of NBDTs even in tough economic conditions.

The "capital adequacy ratio"[7] requirements came into effect on 1 December 2010. These required that a minimum capital ratio of at least 8 per cent for NBDTs with credit ratings and at least 10 per cent without credit ratings must be mentioned in the trust deed (V). As per RBNZ (2009c). This amendment of the minimum capital requirement[8] is in response to:

> […] better align the regime with specific risks faced by the NBDT sector. In particular, a number of risk weights for credit exposures have been recalibrated with provision for increased granularity in risk weights for sub-classes with asset categories such as residential mortgage loans, "other lending" and "other assets".

This new regulation will overcome previous weaknesses in the capital framework; i.e. the ineffective and unconventional trustee measurement framework, which would vary from trustee to trustee, the non-risk-based capital structure and the overly pessimistic capital structure. Moreover, the new regulation will provide a further incentive for NBDTs to go for credit ratings as it will require a 2 per cent less capital-adequacy ratio. Hence, it can be argued that this new regulation will promote soundness and fairness in the NBDT regime by providing well-capitalised NBDTs with reliable benchmarks that signal prudent capital management.

A restriction on related-party exposures also came into force on 1 December 2010; this required that the limit of aggregate credit exposures to all related parties is to be specified in the trust deed (VI). The regulations further state that related-party exposures should not exceed a minimum limit of 15 per cent of capital. Although related-parties transactions are sometimes undertaken for sound commercial reasons, it appears that they have often not been arranged on a totally "arms-length" basis – Capital and Merchant Finance Limited, South Canterbury Finance, Blue Chip, Hanover, Dominion Finance, Lombard Finance and Investments, for example[9]. The new regulations will effectively address the previous lack of a minimum standard and any form of regulatory constraints. Hence, it can be argued that new regulations will help to promote the positive aspects of related-party transactions, e.g. expertise and opportunities can be optimised rather than overlooked for the benefit of the directors, as was observed in the collapse of some finance companies.

On 1 December 2010, the "liquidity" requirements regulation came into force; this required every NBDT and its trustees to ensure the inclusion in its trust deed of one or

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more quantitative liquidity requirements that match the characteristics of the NBDT's business (VII). Under the previous regime, there were no specific liquidity requirements and it varied from trust to trust, with no minimum standard. The finance companies involved in consumer finance were less vulnerable to liquidity crises than finance companies involved in property finance. The new regulation has addressed this issue by requiring that a trust deed includes a liquidity management framework that matches the business characteristics of the NBDT. The quantitative liquidity requirements will enhance an NBDT's ability to meet its financial commitment under both normal and stress conditions. Moreover, the quantitative risk metric, which is an integral part of the quantitative liquidity requirement, can better measure and manage an NBDT's exposure to its liquidity risk. In this way, the new regulation has rectified the deficiencies of the previous regime.

4. Some policy and regulatory gaps

From the discussion of the previous section, it is evident that NZ government has already taken a series of remedial actions and steps to combat the potential future financial crisis and to revamp its economy as a whole. However, an analysis of the above-mentioned policies and actions reveals some gaps (as on 30 April 2013). In this section, these gaps have been clarified.

4.1 Gap in clarity and the conflict in the role of trustees in NBDTs

From our previous discussion, it is observed that under new prudential requirements of NBDTs, trustees will work as frontline supervisors, monitor the compliance of prudential requirements and report to the RBNZ. A conflict of interest arises here because trustees will be paid by the entity that they supervise and monitor. Ultimately trustees may have less motivation to report an actual occurrence (e.g. actual and potential breaches of trust deeds, or actual or potential insolvency) of their respective NBDTs to the RBNZ because it affects their pay. Moreover, though trustees will monitor and supervise the prudential requirements of NBDTs, the actual and ultimate responsibility for the monitoring and enforcing of rules will rest with the RBNZ. Hence, there is a possibility that the roles of trustees and the RBNZ in the NBDT sector may overlap, leading to a lack of role clarity.

4.2 Gap in disclosure regime in NBDTs

The disclosure regime is the untouched issue that neither the previous regulatory regime nor the current prudential requirements have adequately addressed. At present, NBDTs disclose their information in the form of a prospectus and an investment statement as per the Securities Act, 1978. But there is no provision for disclosing the prudential requirements of NBDTs. Although an NBDT provides comprehensive financial statements in its prospectus, investors may not have the necessary skills to gauge the investment risk or understand the complex issues regarding capital adequacy, liquidity position, etc. Hence, it is evident that the current prudential requirements prescribe no guidelines and existence of clear gap.

4.3 Gap in crisis management of NBDTs

As in other organisations (e.g. banks and insurance companies), NBDTs can be struck by a crisis and eventually fail. Although a tailored statutory management regime for crisis management is available for banks and insurers, such a regime is unavailable for

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NBDTs. They are currently subject to the statutory management regime that applies to all corporations under the Corporations (Investigations and Management) Act 1989, (RBNZ, 2013). Due to this shortcoming, there are uncertainties about the specific action that will take place when an NBDT fails or is hit by a crisis. Though the ordinary failure of NBDTs can be adequately dealt with by general insolvency procedures (e.g. receivership and liquidation), such procedures are not always the best options for a distressed NBDT, especially if the nature of its affairs are unclear or the failure is unique. Therefore, a clear gap exists with regard to crisis management of NBDTs.

4.4 Gap in penalty section for regulatory non-compliance of NBDTs

At present, under the prudential regulation, NBDTs are subject to criminal penalties only with regard to regulatory non-compliance (RBNZ, 2013). But a criminal penalty may not always be proportionate to the severity of the breach. Moreover, an offence which requires some form of sanction to maintain integrity may not be as serious as a criminal offence. Thus NBDTs' compliance with regulatory requirements might be reduced, which in turn may make the regulatory regime ineffective. Hence, it is observed that there is a gap in the penalty section of the current regulatory regime where a criminal penalty is the only option for dealing with all forms of regulatory non-compliance.

4.5 Non-binding liquidity requirement for NBDTs

Under the current prudential regulations, the trust deeds of NBDTs are subject to some quantitative liquidity requirements which are not prescribed but are "non-binding" (RBNZ, 2010). The report states that releasing guidelines for these non-binding requirements will be cost effective and will facilitate the NBDT sector to develop further. But experience from the failure of finance companies does not support this "non-binding" guideline. Under the previous regulatory regime there was no liquidity requirement for NBDTs. The current regulatory regime states only that "there should be one or more quantitative liquidity requirements in their trust deeds". We think this guideline is too vague and in fact meaningless. It raises more questions and increases complexity. For example, if a finance company sets only one quantitative liquidity criterion in its trust deed, and another finance company (under the same condition) sets three quantitative liquidity criteria, how will the RBNZ judge which one is better? This could provide NBDTs with an incentive to reduce the number of their quantitative liquidity criteria. Again, as per the current requirements, there is room for NBDTs and trustees together determine the appropriate liquidity requirements, thus creating a conflict of interest. Furthermore, as a result of this, there will be different sets of liquidity criteria which will, from the investors' point of view, sharply reduce the comparability across the NBDTs for the purpose of assessing the risk of investment. Although the RBNZ stated that the purpose of the "non-binding" liquidity guideline is to assist in considering the cost-benefit of NBDTs, the collapse of finance companies leads us to believe that the cost of such failures and the subsequent economic recovery is far higher than that which may result from not implementing a "prescriptive" guideline. Moreover, the "capital adequacy ratio" for NBDTs under the new regime was introduced to address the ineffectiveness and heterogeneity in the previous trustee-based capital framework. But the "liquidity requirement" has not been introduced in alignment with the same principle. Hence, it can be observed that the same inherent principle has not been used to

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design the different prudential requirements. Thereby, it can be argued that the new liquidity requirements only partially addressed the gap in the previous regime.

5. Possible remedial measures

Considering the policy and regulatory gaps discussed in Section 4, we suggest the following possible measures to bridge those gaps:

With regard to the *supervision and monitoring of NBDTs*, we propose direct supervision by the RBNZ as for other registered banks. We think this direct supervision will have several key benefits over the current regulation which requires trustees to act as frontline supervisors. Firstly, the RBNZ (unlike trustees) will not have any profit motive, that could deter it (RBNZ) to report actual occurrences at NBDTs. Secondly, direct supervision will remove the current lack of clarity in the role of supervising and monitoring NBDTs because the RBNZ will have the sole responsibility and authority to direct, supervise and monitor NBDTs. Moreover, because the RBNZ has experience as the sole supervisor and monitor of registered banks, it (RBNZ) can easily apply that experience to NBDTs, which is less systemic to total financial system. However, this direct supervision by the RBNZ could involve some costs, such as additional resources for the RBNZ to carry out sole supervision and monitoring, the loss of trustees' existing knowledge that has been built up gradually through hands-on experience, and the resources required to manage the transition to direct supervision.

With regard to the *disclosure regime of NBDTs*, we propose a stand-alone disclosure regime as for registered banks. This will provide the RBNZ with more control over the disclosure requirements for everyone involved in NBDTs' activities (e.g. borrowing and lending), and will make the disclosure regime similar to that of registered banks. Moreover, it will provide more control over the content, frequency and timing of the disclosure of additional information about prudential requirements. However, a stand-alone disclosure regime may not be wholly suitable for NBDTs considering their business volume and less systemic to total financial system. Therefore, we propose a separate disclosure regime for NBDTs that will have the features: less in-depth (less volume) disclosure in comparison to banks and immaterial from cost to implement perspective. This stand-alone disclosure regime, specific to the NBDT industry, will help to ensure consistency in the overall financial system with regard to disclosure in the prudential regime.

With regard to the *crisis management regime of NBDTs*, we propose a tailored statutory management. It will have several key benefits over the current regime in which a common statutory management system is available. A tailored statutory management regime can address each and every crisis situation which may be unique to NBDTs, unlike the current regime. In addition, a tailored statutory management regime will be the only failure – a resolution option that will ensure consistency in dealing with NBDTs' different crises. This will provide flexibility in dealing with the failure of an NBDT that could raise systemic risk. Hence, it will minimise the adverse impact of an NBDT's failure on its creditors, and will dampen the contagious effect of a single NBDT failure on the whole NBDT industry in particular, and the broader financial system in general.

With regard to the *penalty section for regulatory non-compliance of NBDTs*, we propose a soft penalty regime for minor non-compliance, as well as the current criminal penalty option for material non-compliance. Our main reason for proposing a soft

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penalty regime is to ensure that the penalty is proportionate to the offence both in terms of the impact of the penalty on the offenders and the cost to the regulator. We do not believe in the "one-size-fit-for-all" penalty which exists in the current regime since it is disproportionate to the offence. For less severe non-compliance, we propose some light civil-type penalty that will address the wrongdoer's lack of integrity, and will help to restore their lost honour – something that a criminal-type penalty will not do. However, to implement a soft penalty regime along with a criminal penalty option, a more careful approach is needed. Regulators will play a crucial role in determining the severity of the offence, which may vary.

With regard to the *non-binding liquidity requirement of NBDTs*, we propose a "binding and prescriptive" liquidity requirement for NBDTs. This will provide several key benefits over the current non-binding requirements. Firstly, it will ensure regulatory consistency across the NBDTs, which will facilitate the RBNZ's supervision and monitoring of NBDTs. Secondly, it will offer depositors the opportunity to compare the risk profiles of NBDTs, which will help them to make better-informed decisions. Thirdly, it will ensure that the prudential requirements of all NBDTs will be homogeneous. For example, the "capital adequacy ratio" is binding and prescriptive for NBDTs, to address the gap in the previous regime. Hence, if the liquidity requirement becomes binding and prescriptive as well, there will be consistency among NBDTS in applying prudential requirements. However, the basis of the RBNZ's current non-binding liquidity requirements is the cost-benefit analysis of NBDTs since it may not be feasible for smaller NBDTs. For this reason, we again propose that the requirement be binding, with an exemption facility for smaller NBDTs for which it might be burdensome and impracticable, e.g. a credit-rating exemption for smaller NBDTs.

6. Summary and concluding comments

Being an open economy, NZ felt the jolt of the GFC in its total financial system in addition to its internal financial crisis that began in 2006 with the collapse of approximately 52 finance companies. The non-banking sector has a particular significance in NZ economy due to its unique nature. Therefore, this study examines the effectiveness of the current steps taken by NZ government to revitalise its non-banking sector and building confidence in its economy.

From our investigation, we find that the NZ government is effectively introducing different prudential non-banking regulations (e.g. risk management, credit rating, capital, governance, liquidity and related party). However, we find some gaps in the new regulations. Our study has profound significance from both a theoretical and a practical point of view. From the theoretical point of view, our study provides a unique insight into the evaluation of post-GFC policy response of NZ and its effectiveness with regard to non-banking sector. From a practical point of view, our study identifies some gaps in current policy responses, along with some suggestions for consideration by the respective policy-makers to further strengthen the future policy framework.

As in any other study of this type, this study is subject to a number of limitations. The use of "documentary research methods" formed the basis of our research methodology. Therefore, the limitations of this research methodology will be applicable to this study. Further research may be carried out to investigate the policy responses of government

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from banking, corporate governance and other regulatory perspectives (e.g. accounting, credit rating, different short-term actions) to address the causes of financial crises.

Notes

1. "Shadow banks are financial intermediaries that conduct maturity, credit and liquidity transformation without explicit access to central bank liquidity and public sector credit guarantees. Example of shadow banks include finance companies, asset-backed commercial paper (ABCP) conduits, structured investment vehicles (SIVs)" Pozsar *et al.* Source: www.newyorkfed.org/research/staff_reports/sr458.html
2. The GDP of New Zealand was worth USD159.71 billion in 2011. Source: www.tradingeconomics.com/new-zealand/gdp.
3. As per The Reserve Bank of New Zealand Act, 1989, NBDT means "deposit takers […] offer debt securities to the public (as defined in the Securities Act, 1978) and carry on business of borrowing and lending money, or providing financial services, or both […] regulations made under this Act may also declare a person or class of persons to be, or not to be, deposit takers".
4. In 2005, the Ministry of Economic Development led a Review of Financial Products and Providers and found significant deficiencies in the then framework; e.g. inconsistency in regulation and supervision, lack of disclosure. For details, see paragraph 2.28 and 2.29 of the report.
5. The three approved rating agencies are Standard and Poor's Rating Services; Moody's Investors Service; and Fitch Ratings.
6. The "simple factsheet" can be obtained from www.rbnz.govt.nz/finstab/nbdt/creditratings/3914649.pdf
7. It is the ratio of the deposit taker's capital to an amount representing the degree of the risks (credit, market, and liquidity) to which the deposit taker is exposed. For detail calculation of capital ratio, see para 9 and 10 of www.rbnz.govt.nz/finstab/nbdt/regulation/3896730.pdf
8. In the previous regime, there was no requirement for a minimum capital requirement in the trust deed.
9. All these collapsed finance companies had unusually high number of related-parties transaction as one of the main causes. For details, see http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2026271.

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