



# 2017 NEW ZEALAND FINANCIAL INTEGRITY SYSTEM ASSESSMENT

CONSULTATION DRAFT v3.0

6 February 2017

## CONSULTATION PROCESS

The 2017 New Zealand Finance Integrity System Assessment (FISA) will be the first ever review of the integrity system of any country's financial system. It covers government and industry agencies with oversight and regulatory roles, and a wide range of financial institutions. This assessment is made up of 64 detailed questions, comprising 36 questions to be assessed based on evidence collected about the financial system and 28 survey questions addressed to the organisations that make up the financial system. FISA is designed to gain an objective and independent view of the strength of the New Zealand financial system. The FISA will provide customers, citizens, communities, civil society organisations and businesses detailed information about the way that the financial system identifies and seeks to prevent corruption, reinforces core ethical values and strengthens integrity systems.

FISA's "formative" consultation process is in the spirit of demonstrating how consultation can work when feedback is sought while the approach is being developed. Please note that this is a work-in-progress draft and could still change considerably based on the feedback received. Note too that the focus of this consultation is about both the prevention of bribery and corruption in the financial sector through an ethical, values-based culture (the integrity system) and about harvesting the benefits that come from managing a high trust organisation. These benefits can be realised and maximised through the daily operations and the implementation of strategic initiatives of financial organisations.

- 1. What are the key things that you expect from the financial system? Please provide any general, overview comments you have (dot points fine - we will follow up for detail)**
- 2. Questions are grouped by 9 assessment topics (see table paged 9) - are they the right topics? Which (if any) topic(s) would you add? Which (if any) topic(s) would you drop?**
- 3. The assessment is designed with 36 questions about the financial sector to be scored based on researched evidence collected by at least 2 independent assessors working over 3 months. In addition, there is a survey of 28 questions that will be distributed to organisations in the financial sector (including the regulators and disputes resolution services) for response. The anonymised results of the survey will be part of the evidence considered by the assessors.**
  - a) Set out other subjects or questions you think should be included in the assessment questions, and indicate where you think they may best fit.
  - b) Are there existing questions or subjects that you would drop or like to see replaced?
- 4. In your view, would the findings of the assessment described here be useful to the parts of the financial sector with which you are most familiar?**

As well as answering the above questions you are welcome to comment in tracked changes on the document as a whole by renaming this version in a way that identifies you. If you are willing to be contacted, please include contact details.

Name: \_\_\_\_\_ Email: \_\_\_\_\_

**PLEASE EMAIL THIS PAGE (or attach the complete document) TO: [FISA@TINZ.ORG.NZ](mailto:FISA@TINZ.ORG.NZ)**

Thank you for your feedback due by mid-night 6 March 2017.

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# 2017 NEW ZEALAND FINANCIAL INTEGRITY SYSTEM ASSESSMENT

## Third Version Used for Wider Consultation

### FOREWORD

This 2017 New Zealand Finance Integrity System Assessment (FISA) is the first ever review of the integrity systems of any country's financial system. It covers government and industry agencies with oversight and regulatory roles, and a wide range of financial institutions.

This assessment made up of 64 detailed questions is designed to gain an objective and independent view of whether the New Zealand financial system is in fact trustworthy.

The FISA offers customers, citizens, communities, civil society organisations and businesses detailed information about the way in which the financial system identifies and seeks to prevent corruption, reinforces core ethical values and strengthens integrity systems. Armed with this knowledge, citizens and customers can both identify good performance and push for improvement. At the same time, financial institutions can choose to set clear priorities to develop their activities aimed at preventing corruption while seeking the additional returns that come when organisations adopt a pro-active role to promote their integrity.

Through these additional returns New Zealand banks and finance companies will be able to continuously innovate, upgrade their services and should engage with international capital markets to assist in minimising the risk premium inherent in interest rates for New Zealand household and business borrowers. Financial institutions know that public trust is important and that corruption scandals, collusion, anti-corruption behaviour and lack of transparency damage that trust.

The global financial crisis was a dramatic event that impacted strongly on economic and individual well-being – many financial institutions and organisations were found wanting. Yet afterwards, internationally, while there was change to the structures of such institutions and organisations, many of the features that support unethical behaviour still exist. It may take the disruption of cybercurrency trading, peer-to-peer lending, crowd funding platforms and other technologies before the international system finally wakes up – and of course, it is also important to ensure these new electronic financial systems are built on strong integrity systems.

While internationally, reform in banking and financial systems is still required, in New Zealand during and since the GFC, the financial sector as a whole (including banks, finance companies, financial advisers, product providers and others) has undertaken one of the most comprehensive changes in regulatory regime any sector has ever been subject to. It has involved significant investment to cover compliance costs and systems changes for market participants.

**It should nevertheless be front-of-mind that the improved detail of New Zealand's regulatory regime should not overshadow its purpose – commitment to the broad spirit and culture of ethical integrity will create the benefits, not the narrowest interpretation of the legal requirements. For market credibility and confidence, upfront transparency and displayed integrity are important.**

This initiative, then, is one where yet again New Zealand is in a position to show the way forward.

2017 NEW ZEALAND FINANCIAL INTEGRITY SYSTEM ASSESSMENT

# TABLE OF CONTENTS

CONSULTATION PROCESS .....	2
FOREWORD .....	4
GENERAL GLOSSARY .....	6
FISA OBJECTIVE .....	8
AIM.....	10
ASSESSMENT TOPICS .....	12
QUESTIONS .....	15
POLICY .....	15
GOVERNANCE .....	19
ACCOUNTABILITY .....	23
INFORMATION AND COMMUNICATION .....	26
HUMAN CAPITAL.....	32
CUSTOMERS.....	35
OPERATIONS .....	40
RISK MANAGEMENT AND MONITORING .....	43
PROCUREMENT .....	46
APPENDIX 1 – RESERVE BANK OF NEW ZEALAND.....	49
APPENDIX 2 – LIST OF REGISTERED BANKS IN NEW ZEALAND (PAST AND PRESENT) .....	52
APPENDIX 3 – FOREIGN OWNED BANKS OPERATING IN NEW ZEALAND .....	55
APPENDIX 4 – PUBLIC REGISTER OF LICENSED NBDTs.....	56
APPENDIX 5 – MEMBERS OF CO-OP MONEY NZ.....	58
APPENDIX 6 – FORMS OF BRIBERY AND CORRUPTION.....	59
APPENDIX 7 – PAYMENTS NZ – PAYMENTS ECOSYSTEM MAP .....	60
Version .....	61

TABLES	
TABLE A	TOOLS TO PREVENT CORRUPTION ..... 8
TABLE B	INTEGRITY SYSTEM DEVELOPMENT FACTORS ..... 9
TABLE C	ASSESSMENT TOPICS ..... 10

## GENERAL GLOSSARY

The draft definitions below will be further refined as part of the consultation about the assessment methodology.

**Bribery** is the offering, soliciting, giving or receiving of a financial or other advantage to influence the actions of a person in charge of a public or organisational duty. In the business context, this is usually in order to obtain or retain business or to secure an improper advantage. See below for the specific term “foreign bribery”.

**Civil Society Organisations (CSO)** are non-market, non-government entities formed by people with a common interest. It is defined by the OECD as “the multitude of associations around which society voluntarily organizes itself and which represent a wide range of interests and ties. These can include community-based organisations, indigenous peoples’ organisations and non-government organisations.” (OECD, 2006, DAC Guidelines and Reference Series Applying Strategic Environmental Assessment: Good Practice Guidance for Development Co-operation, OECD Paris.)

**Corruption** is the abuse of entrusted power for private gain.

**Distributed Denial-of-Services Attacks** are internet events in which multiple compromised computers or systems are made to attack a single targeted system. By flooding it with incoming messages in order to overload it, the compromised computers cause the target system to shut down. The shutdown results in legitimate users receiving “denial of service” messages when trying to access the targeted site or system.

**Financial institutions** are entities which borrow, lend and invest money. This includes banks, non-bank deposit takers, building societies, credit unions, some lenders other than NBDTs, Kiwisaver providers and other fund managers

**Financial sector** includes financial institutions and payment and settlement systems

**Financial system** includes the banking and finance sector and its regulators. In New Zealand, these are: Reserve Bank of New Zealand (RBNZ), the Financial Markets Authority (FMA), the Commerce Commission, the Department of Internal Affairs (DIA), Trustee Corporations, MBIE, the Banking Ombudsman, the Insurance and Financial Services Ombudsman, Financial Services Complaints Limited and Financial Disputes Limited, the Bankers’ Association and other professional bodies, and financial institutions. Excluded for the purposes of FISA (out of scope) are: insurance companies – except to the extent they are Kiwisaver providers – credit card issuers, providers of store credit cards and similar, and financial advisors.

**Foreign Bribery** For the purposes of FISA, foreign bribery is defined in accordance with Article 1 of the OECD Anti-Bribery Convention, as “to offer, promise or give away any undue pecuniary or other advantage, whether directly or through intermediaries, to a foreign public official, for that official or for a third party, in order that the official act or refrain from acting in relation to the performance of official duties, in order to obtain or retain business or other improper advantage in the conduct of international business.

**Fraud** is intentional deception made for personal gain or to damage another individual or organisation.

**Grand Corruption** has a Transparency International working definition as a public official or other person who deprives a particular social group or substantial part of the population of a state of a fundamental right; or causes the state or any of its people a loss greater than 100 times the annual minimum subsistence income of its people; as a result of bribery, embezzlement or other corruption offence.

**Impunity** is exemption from punishment when using power or self-appointed authority to take resources intended for another purpose.

**Integrity system** refers to the features of the entity's structure that contribute to transparency and accountability. This system is more effective in preventing corruption when these features are across policy, governance, financial performance, information and communication, human capital, customers, operations, monitoring and procurement of the entity or sector.

**"Know your customer"** refers to a policy followed by responsible advisors to ensure their customers are trustworthy. It entails the collection of background information about their customers.

**New Zealand Story (see [www.nzstory.govt.nz](http://www.nzstory.govt.nz))** is a government initiative to help New Zealand companies gain a competitive advantage in overseas markets by building a strong, consistent profile for New Zealand exporters in international markets. Its launch was funded in Budget 2013. The lead agencies for the New Zealand Story are Tourism NZ, NZ Trade and Enterprise, and Education NZ.

**Transparency** refers to the openness of an organisation in monitoring, recording and publishing relevant information about its performance that has an impact on its customers, staff and stakeholders. Transparency is regarded as a key part of a strong integrity system as it is a valuable tool for preventing corruption.

## FISA OBJECTIVE

Transparency International New Zealand (TINZ)'s objective is to ensure that strong, effective integrity systems are in place with mechanisms for strengthening integrity systems, reinforcing core ethical values and preventing corruption in financial transactions. This approach also involves engaging companies to work with civil society to ensure that there is transparency and accountability in this sector. The Financial Integrity System Assessment is designed to examine the factors that contribute to preventing corruption and strengthening integrity in the financial system. It is designed to see if the financial sector, having implemented corruption-prevention measures, has taken steps to enhance its brand and to provide an example of harvesting the benefits.

### ***FISA MATTERS FOR CITIZENS***

TINZ supports the New Zealand Story (see [www.nzstory.govt.nz](http://www.nzstory.govt.nz)) that demonstrates New Zealand's reputation for integrity is recognised internationally. This international recognition is an opportunity which potentially provides widespread benefits to citizens that can be harvested by our banking and financial institutions and through their activities, by other enterprises from across the country through access to investment.

In support of this opportunity, the prevention of corruption is important as the existence of corruption undermines public trust. It threatens citizens' security, and the resilience of the economy to grow and create great organisations with good jobs and a sustainable future. Maintaining the trust that ordinary citizens and the community have in the financial system is also an important element that contributes to the national sense of security and cohesion.

### ***FISA MATTERS FOR INVESTORS***

It makes New Zealand a more attractive place for foreign investment. Preventing, or at least minimising the risk of, corruption in and through the conduits provided by the financial sector lowers the risk premium in interest rates. Foreign investors are likely to charge less when investing in / lending to entities in a country known for having strong anti-corruption controls.

Strong integrity systems also reduce the risk of resource misallocation that can arise when investments are made on the basis of corrupt decision-making as opposed to being made solely on the basis of expected risk/return.

### ***FISA MATTERS FOR WORLD SECURITY***

The local and international security of financial markets can be put at risk through corrupt agendas pursued under the guise of international cooperation and capital market operations. Also, corruption can lead to impunity where so-called leaders further undermine public trust. There is an increasing number of governments that are concerned that their financial institutions are characterised by lack of integrity and public trust, and a tolerance for corruption. It is important to demonstrate the attributes of the New Zealand financial system that contribute to its striving for integrity so that our Government does not harbour such concerns.

TINZ is dedicated to doing everything it can to support efforts to provide clarity about what is required to prevent corruption, to carrying out assessments to demonstrate the quality of corruption prevention activity, including the identification of gaps where further change is required and advice about addressing them. This assessment describes corruption risk across the financial system, hence making the risk of corruption visible. In this way, it allows decision-makers and

citizens to monitor the progress made in reducing this risk.

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# AIM

The aim of this assessment is to examine the current state of the integrity systems of New Zealand's financial system, and to motivate the development of new initiatives and new tools for preventing and combating corruption and for reinforcing a culture of integrity in a way that realises its benefits.

## **PREVENTING CORRUPTION**

TINZ sees this assessment as an opportunity to examine the extent that financial organisations implement the 7 key policies, processes and actions that prevent corruption as set out in Table A below.

TABLE A		TOOLS TO PREVENT CORRUPTION
<b>1. Tone at the Top</b>	Commitment to the prevention of corruption by policy makers, boards of directors and senior leadership teams reinforces the values that create strong integrity systems and sets an environment for preventing corruption.	
<b>2. Code of conduct and guidelines continuously improved</b>	A code of conduct that engage all organisations, their Boards, management teams and staff provides the framework for trusted operations, staff and customer relationships, aimed at doing the right thing.	
<b>3. Corruption prevention communication and training</b>	Maintaining an ethical, transparent model of business contributes positively to risk management and strategy. Regular communication highlighting the benefits of a trust, cases of individual courage as well calling out corrupt practice when it occurs, backed up with training aimed at preventing corruption.	
<b>4. Up-to-date knowledge of relevant legislation/regulation</b>	Consumers are increasingly demanding more ethical products and services. Retail research provides data on consumers' purchase decisions based on ethics. International cooperation around anti-money laundering and domestic legislation are changing at a rapid pace making it necessary to have explicit systems to keep up-to-date on anti-bribery and anti-corruption legislation.	
<b>5. Avenues for reporting breaches in ethical standards</b>	Whistle blowing provides a strong lever for preventing corruption through reporting breaches of ethical standards, when there are strong protective disclosure processes so that all staff members feel safe in reporting breaches when they have evidence.	
<b>6. Due diligence of distributors, agents, joint ventures</b>	With an increasingly diverse population, labour force and overseas markets, organisations that are pro-active in due diligence of distributors, agents, joint ventures, sub-contractors are in a stronger position to prevent corruption.	
<b>7. Regular risk assessments that uncover corrupt practice</b>	Undertaking regular risk assessments that uncover corrupt practice, assists directly in preventing corrupt practice while also signaling that addressing corruption is a priority for organisations.	

As the New Zealand economy has become more engaged with new sectors of business and a wider range of global partners, it has increasingly needed to build relationships with countries that have higher levels of corruption. This necessitates an explicit approach to preventing corruption as a means of ensuring the culture with zero tolerance for corruption is maintained.

For prudential purposes, New Zealand financial organisations need to monitor risks that are inherently associated with the growing diversity of customers and the changing features of relationship with them. Evidence that financial organisations are maintaining high standards aimed

at preventing corruption contributes to New Zealand’s current reputation for integrity and as a good place to do business.

**HARVESTING THE BENEFITS OF A REPUTATION BASED ON A STRONG INTEGRITY SYSTEM**

FISA also examines the extent to which the financial system harvests the benefits of the reputation that comes from an integrity culture. It collects evidence about the 7 integrity system development factors described in Table B below.

TABLE B INTEGRITY SYSTEM DEVELOPMENT FACTORS	
<b>Reputation and Brand</b>	Use of the New Zealand Story toolkit – <i>Open Spaces, Open Hearts, Open Minds</i> , applying examples that other NZ businesses have used to their advantage. Also included in the toolkit is a wide range of infographics providing evidence of NZ’s rankings in business.
<b>Easier Market Access</b>	Maintaining an ethical standard of business and adhering to New Zealand’s good reputation opens doors for companies to access to new markets. Several case studies in the NZ Story toolkit, like King Ora Salmon, demonstrate how New Zealand’s reputation has allowed companies to access new international markets. For New Zealand financial organisations, it means opening up new product markets locally.
<b>Lower Costs</b>	Maintaining an ethical, transparent model of business contributes positively to risk management and strategy. Maintaining good ethics will help financial organisations to remain sustainable, and, prevent scandal and catastrophe. Observing the costs of recent cases of corporate scandal and fraud, FIFA and Volkswagen, indicates the scale of the benefits from ethical behavior shaping risk-management and good strategy.
<b>Customer Loyalty / market position</b>	Consumers are increasingly demanding more ethical products and services. Retail research provides data on consumers’ purchase decisions based on ethics. Companies that can consistently and transparently show customers that they are ethical can maintain and grow their revenue. L’Oréal demonstrates how a strong, ethical reputation can generate a loyal and steadily increasing customer base, targeted to double the number from 1 billion to 2 billion customers by 2020.
<b>Access to capital</b>	Firms able to show that they have integrity are more likely to access capital. Investors will be more likely to invest in a company with solid, ethical risk management, and accessing loans will be easier for those with credible, ethical reputations.
<b>Quality committed staff</b>	Maintaining a positive and ethical work environment will ensure more efficient and productive staff. Avoiding favoritism and nepotism allows talented employees to feel certain they can develop careers based on fair compensation.
<b>Higher returns</b>	Ethisphere’s <i>World’s Most Ethical Companies</i> list of companies honored over the last decade as WMEs, provides evidence that adherence to ethical and sustainable behavior leads to increased returns on investment.

Scoring for the assessment questions, discussed in more detail on page 11, is based on the points set out in Tables A and B.

For any of the assessment questions to achieve a high score of 5, the assessors will examine the ways that financial organisations take steps to harvest the benefits (through implementation of the above development factors) that come from addressing bribery and corruption. It is through these activities that organisations can grow in a more sustainable way which leads to returns that can be re-invested in development, including continual refreshment of activities designed to prevent corruption. This will enable quality improvement, active job creation and better customer services.

## ASSESSMENT TOPICS

FISA is a brand-new tool and is the result of major sector and government wide consultation. The assessment provides financial system leaders, citizens and customers with information on the prevention of corruption, internal ethics and the features of strong integrity systems. It measures the degree of corruption risk and vulnerability in the financial system. It serves as a tool to identify where to concentrate efforts. The questions are clustered into nine areas where there is a risk of corruption. The outcomes sought are more achievable with a strong integrity system. Table C below shows how transparency and anti-corruption activity supports the desired integrity outcomes.

TABLE C ASSESSMENT TOPICS	CORRUPTION/ RISK	INTEGRITY VALUES TARGETED	INTEGRITY OUTCOME
<b>POLICY</b>	A lack of clear accountability for the integrity of the national and organizational financial policies, systems and processes.	Public expectations of integrity in public policy. Strong policy that considers CSR & environmental sustainability.	Perceptions of high levels of integrity backed up by evidence of a supportive regulatory environment where required.
<b>GOVERNANCE</b>	Inadequate "Tone from the Top" and/or poor Leadership .	Public Trust in national and corporate leadership within financial system.	Leadership talks the talk and walks the walk without exception.
<b>ACCOUNTABILITY</b>	Inadequate reporting and surveillance systems.	Transparency and visibility of financial transactions.	Financial transactions are trusted.
<b>INFORMATION AND COMMUNICATION</b>	Information is not shared with relevant stakeholders.	Transparency of financial sector operations & oversight to meet social responsibilities.	Financial sector is trusted.
<b>HUMAN CAPITAL</b>	Staff working unsupported and without adequate skills in sensitive areas.	Courage of individuals working in critical areas of the financial sector to identify & communicate irregularities.	Irregularities are openly discussed and resolved.
<b>CUSTOMERS</b>	Lack of financial literacy leaves customers exposed and less effective at using debt to realise market opportunity.	Trusted Financial advisors. Trusted institutions. Trusted and accessible complaint and redress mechanisms.	New Zealand's reputation for integrity upheld as customers access financial services for their daily activities, to invest and grow.
<b>OPERATIONS</b>	Lack of knowledge.	Courage.	Organisational justice.
<b>RISK MANAGEMENT AND MONITORING</b>	Lack of monitoring to ensure systems and policies operate as intended or to identify areas for improvement.	Policies, laws, systems and processes support cultural and social responsibility aims of the financial sector.	Policies, laws, systems and processes are continuously improved to meet new sustainability challenges in a proactive manner.
<b>PROCUREMENT</b>	Poor oversight of outsourced activities.	Transparency and trust in the financial sector.	Integrity demonstrated at all levels of the financial sector

			value chain.
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The design of the FISA assessment tool has been a collaborative process. For this assessment, evidence will be drawn from registered banks plus other financial organisations and oversight institutions. The assessment uses a comprehensive questionnaire of 64 questions.

The analysis of evidence collected will be subject to multiple levels of peer review to minimise the risk of bias and inaccuracy in the responses and to provide clear reasoning behind any judgements that are made. Participants are given opportunities to comment on the draft and to provide additional commentary if they desire. These assessments and the evidence behind the scoring is public.

The questions are grouped into nine sections, based on the topics in the previous table, and reflecting the structure of financial institutions and the financial system. The assessment, including the guidance questions, will calculate scores as follows: (1) despite possible evidence of corruption tools, there is evidence lacking that these tools are used; (2) some evidence of corruption prevention; (3) corruption prevention tools are available and some of these tools applied; (4) all 7 corruption prevention tools are in place with active application; (5) the strength of integrity systems is demonstrated by activities carried out to realise the benefits from integrity.

#### ***TYPES OF CORRUPTION/INTEGRITY RISK***

As outlined in Table C above, the assessment describes varying degrees of corruption/integrity risks. These are briefly specified below for the nine key assessment topics:

- Policy risk: The effectiveness of central bank policy, prudential supervision and other financial oversight agencies in holding bank and financial institutions to account.
- Governance risks: The capacity and priority of the governance bodies of individual institutions to hold their institutions to account.
- Accountability risks: The adequacy of mechanisms that ensure transparency, confidence and prevention of illegal practices, corruption, money laundering and financing of terrorism.
- Information and Communications risks: The adequacy of mechanisms to ensure transparency and accuracy of information / protect privacy and security / personal information, as well as the effectiveness of information-sharing between financial sector actors and stakeholders.
- Human Capital integrity risks: Formal measures in place for personnel to prevent illegal practice and corruption, including significant support of whistle-blowers, provision of training and better preparing personnel in sensitive positions, such as increasing staff rotation.
- Customer integrity risks: Risks of misleading the public into thinking their money is safe without putting in place processes to honour that belief; using the financial institutions' knowledge about financial markets to lead customers into making financial decisions against their own interest/ the effectiveness of systems for identifying corrupt, criminal and unethical customers.
- Operations corruption/integrity risks: The adequacy of policy and process mechanisms to address corruption/integrity risk on operations including: strong integrity/anti-corruption training and whistle-blowing/ processes; regulators relying on power and/or theory about financial markets to specify and impose regulations without sufficient understanding or acknowledgement of the factors that drive the financial and sustainability outcomes of banks, finance companies and co-ops.
- Risk Management and Monitoring risks: The adequacy of monitoring systems and procedures for corruption prevention and integrity building, including regular evaluation and continuous improvement for increased effectiveness.

- Procurement corruption risks: The risks relating to outsourcing and/or complex components of the procurement cycle, including subcontractors and advisors, which may hide inappropriate transactions and irregularities in the financial systems.

FISA analysis is based on the information (the evidence) that can be obtained from public sources and anonymised survey data. To address the likelihood that some information sources may be incomplete, inaccurate or out of date, evidence will be collected from several sources of information by the assessors assisted as required by expert researchers.

Most New Zealand financial institutions have some focus on ensuring that their integrity systems and controls include independent audits that are transparent and open to public scrutiny. While this standard practice increases the likelihood that the evidence collected for the assessment will paint a positive picture around a focus on propriety, the focus of the FISA assessment is specifically on how effective their processes are in preventing corruption, maintaining strong integrity systems and carrying out the activities that realise the benefits of them.

### ***THE ASSESSMENT PROCESS***

The assessment is to be carried out by at least two leading country assessors (possibly partnered with an independent consumer representative and an external overseas financial system expert), whose work and draft conclusions will be reviewed by two independent peer reviewers. Where more knowledge is required, assessors will contract researchers who are independent specialists with varied experience across the finance sector. Evidence will include findings from a short survey of all banks and financial institutions, specialist books and papers, interviews and additional publicly available information such as corporate reports and disclosure statements and media articles. It will be up to the assessors to score each question.

The answer to each assessment question will be scored from 1 to 5 using detailed model answers for guidance. Numerical scoring helps standardise the responses across questions (and if in due course, other countries follow New Zealand's lead, across countries). For each question, assessors will be required to provide narrative explanations for their scoring, and to list references. Through in-depth analysis of each risk area, an overall picture of the country's financial sector corruption risk will be developed along with evidence that objectively demonstrates the strength of its core values and integrity systems.

To encourage dialogue, the draft results will be sent to the New Zealand Bankers Association, the Financial Services Federation, Co-op Money, Payments NZ, the RBNZ, Commerce Commission, Department of Internal Affairs, FMA, and Banking Ombudsman as well as other dispute resolution schemes, as well as to TINZ. Assessors will consider this feedback and may wish to meet with relevant bodies prior to submitting their findings to peer review.

### ***GOVERNMENT REVIEW OF THE RESULTS***

Relevant government agencies will be encouraged to participate in the assessment, within their proper capacity to do so. This participation will enable valuable dialogue between government agencies, financial institutions and researchers, and will help ensure accuracy in assessor responses.

Responses on inaccuracies, omissions and different judgments are welcome, and such responses will be published along with the wider assessment.

### ***TRANSPARENCY INTERNATIONAL REVIEW***

The Transparency International Secretariat in Berlin will contribute both to the design of the assessment framework and to a review of the assessment.

## QUESTIONS

*Scored assessment questions* are high-level questions that will be answered by assessors. *Guidance questions* (indented and labelled below) are intended to support assessors' work toward answering the scoring questions, but are not themselves scored. *Survey question topics* (italicized in a table below the assessment questions) will shape an anonymous online survey to be addressed to senior leaders in the financial system. Assessors will summarise survey results and take them into account in their assessment.

## POLICY

### ASSESSMENT QUESTIONS

#### 1. Government oversight of regulatory bodies

- a. To what extent is there statute-based provision for effective and independent scrutiny in areas such as financial sector prudential regulation and supervision, market conduct regulation and regulations set by the Anti Money Laundering and Countering Financing of Terrorism Act 2009 (AML/CFT)?
- b. What are the processes for providing scrutiny?
- c. How effective is the process of scrutinising regulatory agencies?

#### Guidance questions:

- Does the country have an identifiable and effective parliamentary committee (or similar organisation representing citizens) to exercise oversight of the regulation of the financial sector?
- How frequently does such a committee meet for the purpose of considering regulatory performance?
- Given the level of integrity of the financial sector, including payments systems, does policy support strategies for harvesting the benefits of the financial system's reputation?
- Is there an effective framework for preventing agency capture, ie preventing government agencies from conflating the success of the bodies they regulate with their own success?
- What is the relationship between the various agencies (including Parliament and cabinet)? Are there gaps in coverage? Are the relationships effective in practice?

Score	Assessment
1	Very weak: No provision for formal scrutiny of the financial system
2	Weak: Some formal provision exists, but expectations are loose and there is no follow-up
3	Moderate: Formal provisions in place but scrutiny, focus and expectations spasmodic
4	Strong: Comprehensive formal provisions in place. Scrutiny is regular and expectation high but not always effectively followed up or held accountable to high governance
5	Very strong: High governance requires accountable policy and scrutiny, and links to the reputation/brand of the New Zealand financial system

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## 2. Alignment with international protocols

To what extent has the country pursued commitment to international anti-corruption standards and principles such as, but not exclusively or necessarily, United Nations Convention Against Corruption (UNCAC), the OECD Convention, BCBS core principles, and FATF requirements for Anti-Money Laundering, Corrupt Financial Transaction (AML/CFT) regulation?

Guidance questions:

- Does the government have a transparent and well-scrutinised process for regulating financial institution integrity arrangements for alignment with international protocols?
- To what extent has it implemented this process?
- To what extent do regulators comply with recommendations that result from international monitoring? To what extent do financial institutions also comply?

Score	Assessment
1	Very weak: Not signed or focused
2	Weak: Aware but not actively pursued or widely communicated
3	Moderate: Actively pursued but not communicated
4	Strong: Some international instruments signed where pragmatic, but no widely-communicated commitment
5	Very strong: Co-ordinated widely communicated process to align and sign up to international B&F integrity protocols, with signing meeting expected timelines

## 3. National anti-corruption and integrity policy

To what extent does the country have a comprehensive and actively implemented anti-corruption policy for the financial sector?

Guidance questions:

- Is the number of regulatory agencies in New Zealand charged with supervisory, regulatory and prudential oversight of the New Zealand finance sector so broad that it presents an opportunity for regulatory arbitrage?
- Are there gaps in the regulatory system?
- To what extent are regulatory agencies empowered to address issues of corruption in the financial sector? To what extent do they use these powers?

Score	Assessment
1	Very weak: No specific financial sector anti-corruption policy
2	Weak: Various regulators and controls left to their own priorities and benign influence
3	Moderate: Regulators encouraged by central policy to focus on and pursue anti-corruption
4	Strong: Widely communicated policy and scrutiny, and regulators supported by government and regulators co-ordinated and supported to visibly pursue, prosecute and report to country
5	Very strong: New Zealand policy widely communicated, and regulators co-ordinated and supported to visibly pursue, prosecute and report to country and this is integrated with

strategies aimed at strengthening the financial systems, capital markets, the economy and New Zealand's reputation for integrity

#### 4. Resourcing regulatory bodies

To what extent are the policies, administration, and budgets of the regulatory bodies (for example, RBNZ, FMA, Commerce Commission, and Department of Internal Affairs) adequately resourced to effectively achieve their mandate?

Guidance question:

- To what extent are the bodies required to expend a defined portion of their resources on their supervision or monitoring of the finance sector's integrity systems? In practice, do they do this?

Score	Assessment
1	Very weak: Under-resourcing across regulatory bodies
2	Weak: Some under-resourcing across regulatory bodies
3	Moderate: Moderate resourcing across regulatory bodies; some challenges, but most bodies are roughly adequately resourced
4	Strong: Generally good resourcing across regulatory bodies
5	Very strong: Very good resourcing across regulatory bodies focused on working with the sector to realise the opportunities of a strong financial system

## SURVEY QUESTION TOPICS – POLICY

### QUESTIONS FOR FINANCIAL ORGANISATIONS

SQ1	<i>Coordination with national economic policy: how well are anti-corruption initiatives aligned with pro-business and pro-trade policy initiatives? Have policy initiatives linked up the New Zealand Story to cover the role the financial system plays in growing the economy and how a strong integrity system will make a difference?</i>
SQ2	<i>Effective anti-corruption institutions: Are there independent, well-resourced, and effective agencies within the financial sector tasked with building integrity, preventing and countering corruption?</i>
SQ3	<i>CSO involvement: Are financial institutions required to have a policy, or evidence, of openness towards civil society organisations (CSOs) when dealing with issues of corruption? If no, is there an opportunity for CSO involvement in general government anti-corruption initiatives?</i>

# GOVERNANCE

## ASSESSMENT QUESTIONS

### 5. Tone at the top

To what extent do financial sector leaders demonstrate pro-integrity and anti-corruption values and set expectations accordingly? To what extent do they maintain risk cultures that are designed to identify and reduce the risk of corruption and bribery?

Guidance questions:

- Is the tone at the top of financial institutions based on the attributes of good governance?
- Are the attributes of good governance apparent in the leadership style adopted by senior executives and board members of financial institutions?
  - These are: (1) participation; (2) rule of law; (3) transparency; (4) responsiveness; (5) consensus orientation; (6) equity; (7) effectiveness and efficiency; (8) accountability. See “What is Good Governance,” UNESCASP 2009; OECD, *Citizens as Partners – Information, Consultation and Public Participation in Policy-Making*, 2001.
- Do financial institutions maintain board risk management committees that oversee risk management in relation to financial integrity issues?

Score	Assessment
1	Very weak: No evidence that leaders prioritise integrity and anti-corruption values
2	Weak: Leaders actively endorse these values but they do not clearly feature in expectations; incentives for staff may cut across these values
3	Moderate: Leaders set this tone and set some expectations, however integrity and anti-corruption may be secondary priorities to be balanced against other organisational imperatives
4	Strong: Leaders make a clear commitment to integrity and anti-corruption and follow through by setting clear expectations. Leaders support and reward staff who actively practice or enforce anti-corruption
5	Very strong: Because of strong commitments to integrity and anti-corruption, and clear expectations, leaders and staff work together to realize the benefits for the organisation

**6. Adequacy of reporting and auditing**

- a. To what extent do governing bodies require independent external and internal reporting and auditing of integrity risk areas including AML/CFT compliance, income sources etc?
- b. Are the requirements generally met?
- c. How adequate is their risk management framework in respect of matters relating to their financial integrity?

Guidance questions

- Do audits generally include identification, scrutiny and transparency of sources of income and related-party transactions, and are the regulatory bodies for the financial system appropriately scrutinised?
- Is there adequate compliance with the spirit as well as the letter of AML/CFT regulations?

Score	Assessment
1	Very weak: No external or internal auditing or reporting required
2	Weak: Some auditing and reporting, but not mandatory; OR some requirements are set but not generally met
3	Moderate: Auditing and reporting is required but not carried out to an effective degree
4	Strong: Auditing is required and performed well by most institutions but not generally reported
5	Very strong: Financial organisations promote the strength of their AML/CFT processes to attract responsible investors

## 7. Relationship between governing bodies and regulators

Is there a supportive relationship between governing bodies and regulators such that governing bodies are supplied with the information and support they need to carry out their integrity responsibilities?

Guidance question

- Do governing bodies have access to reports and findings of regulatory agencies in areas that affect them?

Score	Assessment
1	Very weak: The relationship is distant, and information is not readily supplied
2	Weak: The relationship is formal. Information is sometimes supplied on request
3	Moderate: The relationship is amicable. Information is sometimes volunteered and is usually supplied on request
4	Strong: The relationship is supportive. Relevant information is usually volunteered and is always available on request
5	Very strong: The relationship is very supportive, relevant and useful information is freely volunteered and requests for information are always met in a timely and efficient manner

## 8. Policies for responsible investment and lending

To what extent do financial institutions have and implement policies for responsible investment and lending?

To what extent have financial institutions adopted robust AML processes to ensure that the origins of funds received are legitimate?

Guidance questions

- Are investment policies transparent, for example, about the controlling or financial interests in businesses associated with the country's natural resource extraction?
- To what extent do financial institutions have policies directed at ensuring loans are not made to customers that may present an integrity risk?
- To what extent are financial institutions aware of the Responsible Lending Code? Do they generally comply with it?

Score	Assessment
1	Very weak: No policy
2	Weak: High level policy occasionally reviewed
3	Moderate: High level policy regularly reviewed without clear implementation
4	Strong: High level policy regularly reviewed with clear implementation
5	Very strong: Evidence of greater engagement with customers through transparent investment policy with clear description of standards of governance expected with regular review and oversight

## SURVEY QUESTION TOPICS – GOVERNANCE

SURVEY QUESTIONS FOR FINANCIAL ORGANISATIONS	
SQ4	<i>Transparent financial statements: Do your institution's published financial statements contain detailed information on the composition of income and expenses?</i>
SQ5	<i>Public availability of audit results: Does the external and internal audit process for your organisation capture information that assists in preventing bribery and corruption and on the other hand, in showing the returns that come from strong integrity systems?</i>
SQ6	<i>Policing corruption: does your organisation regularly investigate corruption and organised crime within your various activities and/or services and is there evidence of the effectiveness of this investigation including in respect of the education provided by the financial regulators, the Police and the SFO?</i>

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# ACCOUNTABILITY

## ASSESSMENT QUESTIONS

### 9. Regulation of financial institutions

To what extent do regulators scrutinise financial institutions with the aim of identifying and addressing the factors that lead to bribery and corruption? Do they scrutinise and publicly report on banking and other finance institutions' processes for detecting and combatting bribery and corruption?

#### Guidance questions

- Do regulators review the adequacy of financial institutions' governance arrangements in relation to their risk management policies and practices?
- Is there regular scrutiny of risk management and internal audit in these areas?
- Is there particular scrutiny of policies in risk areas such lending, deposit-taking, investment and foreign currency transactions?

Score	Assessment
1	Very weak: No oversight or public visibility over financial institutions' spending on sensitive expenditure or operations e.g. investment market activity
2	Weak: Financial institutions voluntarily report on agreed sensitive expenditure and operations e.g. investment market activity
3	Moderate: Financial institutions report on agreed sensitive expenditure and operations e.g. investment market activity and there is some oversight
4	Strong: Financial institutions report on agreed sensitive expenditure and operations e.g. investment market activity, and are subject to oversight which includes regular scrutiny to monitor the prevention of bribery and corruption
5	Very strong: Financial institutions report on agreed sensitive expenditure e.g. investment market activity, are subject to regulatory oversight and public scrutiny is supported through transparent accounting

### 10. Asset disposal

To what extent is there regulatory oversight of the asset disposals conducted by banking and finance company establishments, and are the reports of such scrutiny publicly available? Is there public disclosure of all forms of payment associated with asset sales and purchases?

Score	Assessment
1	Very weak: No oversight or public visibility over banking and finance institutions' asset disposals
2	Weak: Banking and finance institutions voluntarily report on asset disposals
3	Moderate: Banking and finance institutions report on asset disposals but are not subject to oversight
4	Strong: Banking and finance institutions report on asset disposals, and are subject to oversight
5	Very strong: Banking and finance institutions report on asset disposals, are subject to

regulatory oversight and public scrutiny is supported through transparent accounting and rewarded with higher returns.

## 11. Quality of scrutiny

To what extent is the regulatory scrutiny of financial institutions independent, transparent and effective?

### Guidance questions

- What is the extent of on-site examinations of financial institutions to assess their compliance with AML/CFT requirements and to assess their risk culture and risk management policies and practices?
- To what extent is regulatory practice being applied consistently by the RBNZ, FMA and DIA in areas where inconsistencies would be a problem (such as in relation to AML/CFT)?
- What measures are taken by regulators to ensure compliance with AML/CFT requirements?

Score	Assessment
<b>1</b>	Very weak: No oversight or public visibility over financial institutions' behaviour that might lead to bribery and corruption
<b>2</b>	Weak: Financial institutions carry out voluntary processes for identifying and addressing factors that lead to bribery and corruption
<b>3</b>	Moderate: Financial institutions carry out and report publicly on their processes but oversight is weak or inconsistent
<b>4</b>	Strong: Financial institutions report on the results of their monitoring of bribery and corruption and are subject to effective and consistent oversight
<b>5</b>	Very strong: Finance institutions report on the results of their monitoring of bribery and corruption and are subject to regulatory oversight. Public scrutiny is supported through transparent accounting which further underpins the institutions' strategic direction for sustainable growth reflected in a higher velocity of circulation in financial transactions

## 12. Paying tax

How strong is the oversight exercised by the taxation authorities in the home and host jurisdictions to detect bribery and corruption and the linkages to the tax paid by banks and financial institutions?

### Guidance questions

- To what extent do the authorities pursue allegations of tax evasion?
- To what extent do the authorities scrutinise tax minimisation arrangements?
- Do authorities co-operate with overseas authorities in relation to questions of bribery, corruption and tax evasion?

Score	Assessment
1	Very weak: No legislation or regulatory scrutiny and reporting to give government and the public an assurance that financial institutions are paying fair and reasonable taxation on revenues generated in country of operation
2	Weak: Legislation exists but no regulator scrutiny and reporting to give government and the public an assurance that financial institutions are paying fair and reasonable taxation on revenues generated in country of operation
3	Moderate: Legislation exists, and there is some regulatory scrutiny but no reporting to give public assurance that financial institutions are paying fair and reasonable taxation on revenues generated in country of operation
4	Strong: Legislation exists, and regulatory scrutiny and reporting gives government and the public some assurance that financial institutions are paying fair and reasonable taxation on revenues generated in country of operation
5	Very strong: Legislation and regulatory scrutiny and reporting gives government and the public a full assurance that all financial institutions pay fair and reasonable taxation on revenues generated in country of operation and finance organisations publicly recognise their role in the economy as taxpaying entities resulting in a larger tax base

## SURVEY QUESTION TOPICS – ACCOUNTABILITY

### SURVEY QUESTIONS FOR FINANCIAL ORGANISATIONS

SQ7	<i>Do your financial institution's financial statements cover all of your institution's expenses and expenditures or are some items excluded from the financial statements? If the latter, how material are the exclusions?</i>
SQ8	<i>Ownership of commercial businesses: Does your financial organisation have beneficial ownership of commercial businesses? If so, how transparent are details of the operations and finances of such businesses and what steps are in place to recognise and report on related-party transactions?</i>
SQ9	<i>Due diligence on income sources: Is there sufficient due diligence within your financial organisation to identify the source of funds being paid to you to ensure these are not the proceeds of crime or corruption? Are the requirements of AML/CFT legislation observed? Is your organisation preparing for the changes that may be required because of new and disruptive technologies such as crypto-currencies etc?</i>

# INFORMATION AND COMMUNICATION ASSESSMENT QUESTIONS

## 13. Communication about the state of the financial system

To what extent does high level public communication about the financial system from regulators and legislators promote a culture of trust and integrity across the financial system?

- Is there a communication strategy for effective and independent communication about measures that monitor the resilience of the financial system?
- When reviews are conducted, is the analysis provided in a clear way that also engages the interest of the wider public?

Guidance questions:

- What are the outcomes of the information and communication strategies and practice of the organisations that make up the financial system?
- Is the information provided in a manner that engages the public and is the tone at the top message clear?

Score	Assessment
1	Very weak: No reference to corruption in public comment about the financial system
2	Weak: Promotion of culture of trust across the financial system
3	Moderate: Clear statement of values supports the development of public trust
4	Strong: Explicit processes of corruption prevention practice published
5	Very strong: Clear evidence of strategy and practice to realise the benefits of the reputation of the New Zealand financial system

#### 14. Transparency of regulatory bodies' budgets

Is it policy to make publicly available the budgets of financial system regulatory bodies? To what extent are these budgets in fact publicly available?

Guidance questions:

- Are budgets publicly available to the extent of showing key items of expenditure, including comprehensive information on balance sheets, training, personnel expenditures, acquisitions, disposal of assets, and maintenance?
- Are regulatory agencies required to disclose details of the resource they allocate to the regulation and supervision of financial institutions in respect of matters relating to financial integrity (eg regulation and supervision of AML/CFT)?
- In practice, can citizens, civil society and the media obtain sufficient detailed information to assess whether such agencies are well enough resourced to provide effective oversight of financial and non-financial performance financial sector?

Score	Assessment
1	Very weak: No public availability. Freedom of information legislation does not apply
2	Weak: Loose or informal policy to make budgets available, with limited follow-through. Budgets may be accessible via freedom of information legislation but requests are often declined or ignored
3	Moderate: Policy exists and budgets are made publicly available, but may be difficult in practice to access
4	Strong: Budgets are routinely made publicly available and are accessible. Budgets may remain high level
5	Very strong: Budget transparency is a point of pride, with detailed information readily available and easily accessible reflected in more accountable business clients and more public engagement

**15. Public communication by financial institutions**

- a. To what extent do the communication policies of financial institutions promote a culture of trust and integrity across the financial system?
- b. Do directors and senior management of financial entities publicly commit (through, for example, speeches, media interviews, or political mandate) to anti-corruption and integrity measures?
- c. Do the communications policies of financial institutions include publishing information on anti-corruption and similar initiatives? And do they provide information about their general integrity?

Guidance questions:

- Are financial institutions (including small finance companies etc.) following strategies designed to build trust through information?
- Is there a risk that the communications policies of individual institutions could undermine other messages about the integrity of the financial system?

Score	Assessment
1	Very weak: In general, institutions have no specific communication about financial system focus on integrity
2	Weak: Some reference to the specific aims of preventing corruption
3	Moderate: Communication policies covering corruption and integrity have been developed
4	Strong: Communication policies around the importance of preventing corruption have been implemented
5	Very strong: Communicating about the importance of strong integrity systems is a point of pride, with detailed contextual information readily available and easily accessible reflected in more knowledgeable staff, customers and other stakeholders

## 16. Corporate social responsibility (CSR)

Do financial institutions generally have and implement statements of corporate social responsibility?

Guidance questions

- To what extent is there transparency of CSR performance? Is there internal or external oversight of reviews undertaken to ensure that they meet their corporate social responsibilities?
- Is there evidence that the financial institutions have controlling or financial interests in businesses regarded by the public as lacking social responsibility (which may include, for example, companies associated with the country's natural resource exploitation) and, if so, are the principles for investing in or lending to these interests publicly stated and subject to scrutiny?

Score	Assessment
1	Very weak: No statement of corporate social responsibility
2	Weak: Policy statement of corporate social responsibility. No information about lending and investment practices
3	Moderate: Some financial organisations have policy statement of corporate social responsibility, backed up by evidence of initiatives to meet the policy objectives, including some information about social criteria for lending and investment
4	Strong: Statements of corporate social responsibility backed up by robust measures to monitor, report and evaluate the extent that financial institutions strive to meet the objectives set. Transparency about social criteria for lending and investment
5	Very strong: Statements of corporate social responsibility exist to implement, monitor and report on corporate social responsibility including regular economic, social and governance reporting, enhancing the brands of the financial organisations and the reputation of the financial system

**17. Public debate on integrity of the financial system**

To what extent is the country’s oversight policy for the financial sector debated and publicly available?

Guidance questions:

- Is there evidence of regular, active public debate on financial system issues. If yes, does the government participate in this debate?
- To what extent do the media, including social media, act in an informed and responsible way to bring this debate to the attention of the wider public, and does this result in effective security during more volatile periods?
- To what extent is there scrutiny of the roles for the Serious Fraud Office and Police in this area?
- Are there NGOs or special interest groups whose expertise extends to integrity issues in the financial sector? Is there a structure that supports their work?

Score	Assessment
1	Very weak: No public debate on the oversight of the financial system
2	Weak: Minor public debate, some media attention
3	Moderate: Parliamentary process for discussion of prudential oversight backed up by published information
4	Strong: Open parliamentary process for discussion of oversight backed up by public consultation and strong media interest
5	Very strong: Media assists in the promotion to the public of the role of supervision and in public debate about it, supported by a formal and informal measures that encourage public feedback about the degree of confidence they have in the system

## 18. Public debate on bribery and corruption

To what extent is there active and informed public debate on bribery and corruption issues in the financial sector?

Guidance questions:

- Do the media act in an informed and responsible way to bring these issues to the attention of the wider public?
- To what extent are financial institutions responsive to media and general public requests for information about bribery and corruption issues?
- Do the media investigate issues relating to bribery and corruption in the finance sector and do they publish their findings?

Score	Assessment
1	Very weak: No public debate on bribery and corruption in the financial sector
2	Weak: Media publicises cases of bribery and corruption in the financial sector but does not follow up or encourage debate. Information not readily available from financial institutions
3	Moderate: Evidence of published material about monitoring bribery and corruption in the financial sector. Media interest in the processes and systems, and some investigative journalism. Financial institutions provide some information on request
4	Strong: Evidence of published material about monitoring bribery and corruption in the financial sector followed up by public discussion. Strong media interest encourages discussion. Financial institutions actively participate in discussion
5	Very strong: Proactive publication of systems used to monitor bribery and corruption, the findings and the demonstrated evidence of the importance to the financial system of preventing corruption and harvesting the benefits of it. Widespread debate with media, financial institutions and regulators participating

## SURVEY QUESTION TOPICS – INFORMATION AND COMMUNICATION

### SURVEY QUESTIONS FOR FINANCIAL ORGANISATIONS

SQ10	<i>Transparent budgets: Are banking and other financial organisations' budgets transparent, published in a manner that is accessible and clear to their customers and stakeholders? This would include comprehensive information on balance sheets, training, personnel expenditures, salary bands, fees associated with acquisitions, disposal of assets, and related to procurement, request for proposals etc.</i>
SQ11	<i>Financial institutions communicating about engagement with CSOs: Do financial institutions have communication policies that provide evidence of the effectiveness of openness towards and engagement with civil society organisations (CSOs) who are informed about issues of corruption and ways of building stronger integrity systems?</i>
SQ12	<i>Building public trust in banking and financial organisations' anti-corruption efforts both builds trust and strengthens integrity system: Does your organisation's information and communication strategy have a measure of how your actions support public trust in the financial systems and that monitors how your stakeholders respond to the way you tackle bribery and corruption?</i>

# HUMAN CAPITAL

## ASSESSMENT QUESTIONS

### 19. Organisational culture

To what extent is there a culture that supports staff to “just do the right thing” in financial institutions?

Guidance questions:

- Are the attributes of good governance apparent in the leadership style adopted by senior executives and board members of financial institutions?
- Do Board members acknowledge the role of leadership in creating a culture of trust for all employees?
- To what extent do financial institutions maintain a risk culture that raises awareness of corruption risks and provides an environment in which staff with concerns in this area are encouraged and supported to raise concerns with senior management?
- How strong are financial institutions’ risk management frameworks for identifying and seeking to prevent corruption and unethical behaviour.

Score	Assessment
1	Very weak: senior leaders do not create this culture; it is not a feature of the system
2	Weak: only a few senior leaders exhibit this style; “doing the right thing” in difficult situations is viewed as risky
3	Moderate: the culture exists, but not consistently throughout senior leadership. Employees may feel vulnerable about “doing the right thing”
4	Strong: almost all senior leaders adopt this style and the culture of trust has permeated most parts of key institutions
5	Very strong: complete commitment to and pride in being an institution that creates a culture where staff are supported to learn from experience the best way to do the right thing. This is reflected with statements in branding material, through treatment of staff and customers, and incorporated in growth strategies.

### 20. Auditing the risk culture

To what extent is there internal and external audit of financial institutions’ risk culture, focusing on matters relating to whether staff members are adhering to risk culture policies in the relevant area?

Guidance question:

- Are internal auditors aware of staff training and programmes designed to provide knowledge about preventing bribery and corruption and about ways of building a culture of integrity?

Score	Assessment
1	Very weak: No regular audit of risk culture
2	Weak: Risk culture is audited, but sporadically and/or ineffectively (eg does not focus on staff practices)
3	Moderate: Internal OR external audit of risk culture, but rarely both; audit is generally well focused
4	Strong: Evidence of regular and effective audits of risk culture

5	Very strong: Regular audits identify areas for improvement and have good follow-up from senior leaders, also identify opportunities for improving the risk/reward balance.
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## 21. Incentives for anti-corruption and integrity-promoting behaviours

To what extent are there incentives for management and other staff that promote high integrity standards and discourage inappropriate behaviour?

Guidance questions:

- Do staff performance agreements incentivise the detection of bribery and corruption and encourage whistleblowing. Are there sanctions for inappropriate behaviour, such as engaging in bribery, including facilitation payments, and corrupt practice?
- Are there effective measures in place for identifying personnel taking part in forms of bribery and corruption, and is there public evidence that measures to address and end bribery/corrupt activities are being implemented?
- Are there effective measures in place to discourage offshore facilitation payments (which are illegal in almost all countries)?
- Are the prosecutions of financial institution services personnel for corrupt activities effective, and is there evidence of effective prosecutions in recent years?
- Is there a process to collect evidence of any unauthorised private enterprise activity by financial institution employees when such activity may be in conflict with the institution's activities?

Score	Assessment
1	Very weak: Staff performance agreements silent on definitions of bribery and corruption, whistle blowing, observance of relevant legislation on whistleblowing
2	Weak: Staff performance agreements include some definitions of bribery and corruption and whistle blowing, while generally failing to keep up to date with relevant legislation on whistleblowing
3	Moderate: Staff performance agreements include some definitions of bribery and corruption with sanctions for non-observance, define and encourage use of whistleblowing channels, while remaining silent about facilitation payments overseas
4	Strong: Staff performance agreements include clear definitions of bribery and corruption with sanctions for non-observance, define and encourage use of whistleblowing channels, and are clear that facilitation payments overseas are illegal under the UK Bribery Act and not acceptable
5	Very strong: Staff performance agreements include clear definitions of bribery and corruption with sanctions for non-observance, define and encourage use of whistleblowing channels, and are clear that facilitation payments overseas are illegal under the UK Bribery Act and not acceptable. These agreements are backed up with training and there are clear messages promoting ethical practices in job descriptions, job advertisement and other marketing material produced in the sector

## 22. Merit-based appointments and promotions

To what extent are personnel appointed and promoted through a transparent, objective, and meritocratic process? Are the results of the process respected and credible?

Guidance questions:

- Are external directors from diverse backgrounds?
- Are there strong formal appraisal processes, and independent oversight?
- Is there an established, independent, transparent, and objective appointment system for the selection of financial institution personnel at middle and top management level?
- Is special attention paid to the selection and oversight of personnel in sensitive positions, including officials and personnel in financial institutions' procurement, contracting, financial management, and commercial management?
- Is the number of financial institutions' personnel accurately known and publicly available?
- Are pay rates and allowances for financial institution personnel openly published as far as is consistent with the protection of personal privacy?

Score	Assessment
1	Very weak: Limited or no transparency about staff structure
2	Weak: Some transparency around staff structure
3	Moderate: Transparency of appointment system with some transparency around staff structure
4	Strong: Transparency of appointment system, clear listing of senior management roles on websites including staff involved in investment with published policies around oversight, including oversight of personnel in sensitive positions
5	Very strong: Promotion of ethical, merit based appointments systems, with proactive disclosure of appointments systems, clear listing of senior management roles on websites including staff involved in investment, with published policies around oversight, including oversight of personnel in sensitive positions. Publication of salaries and allowances.

## SURVEY QUESTION TOPICS – HUMAN CAPITAL

SURVEY QUESTIONS FOR FINANCIAL ORGANISATIONS	
SQ13	<i>Code of conduct: Does your organisation have a Code of Conduct for all personnel that includes, but is not limited to, guidance with respect to bribery, gifts and hospitality, conflicts of interest, and post-resignation activities? Is there evidence that breaches of the Code of Conduct are effectively addressed, and are the results of prosecutions made publicly available?</i>
SQ14	<i>Staff training: Does training of all staff include knowledge about both corruption and organised crime within the finance system and is there evidence of the effectiveness of this training in preventing such activities? Does regular anti-corruption and anti-money laundering training take place for all personnel? Is there also professional development around building a more sustainable financial system through integrity? Is training adaptable to all cultures so that they can be made aware of the importance of protecting a culture of integrity and the benefits of the New Zealand story?</i>
SQ15	<i>Paying personnel: Do you have systems in place to ensure that all personnel receive the</i>

*correct pay on time, and is the system of payment well-established, routine, and published?*

## CUSTOMERS

### ASSESSMENT QUESTIONS

#### 23. “Know your customers”

How effective are the “know your customers” policies in the financial system, and how well regulated are they?

Guidance questions:

- Do financial organisations have explicit “know your customer” policies? Are these published?
- Are there good supervisory arrangements ensuring compliance with KYC rules?
- Does the staff code of conduct include the KYC policy? Do staff performance agreements include it?
- Is KYC policy incorporated into staff training and integrated into sensitive procedures such as lending, investing, deposit-taking, contracting and commissioning?
- Are lending, investing, deposit-taking, contracting and commissioning practices regularly reviewed for compliance with the KYC rules?

Score	Assessment
1	Very weak: Limited explicit policy across the financial sector for “know your customer” provisions, and inadequate supervisory arrangements ensuring KYC rules are followed
2	Weak: Observance of “know your customers” within the law, with limited supervisory arrangements for ensuring compliance
3	Moderate: A published KYC policy, integrated into sensitive procedures; adequate supervisory arrangements for ensuring compliance
4	Strong: A published KYC policy included in the staff code of conduct and staff performance agreements, incorporated into staff training and integrated into sensitive procedures followed up by regular review of the process
5	Very strong: Promotion of the policy for a strong “know your customer” backed up with introductory information to customers about the value to them of this policy and demonstrating that it is backed up in the staff code of conduct and staff performance agreements, incorporated into staff training as well as being integrated into sensitive procedures followed up by regular review of the process

**24. CROSS-CUTTING THEME: Trusted regulatory bodies**

*This question is assessed in the context of the entire FISA.*

To what extent does the public trust the financial system to identify and tackle corruption?

Guidance questions:

- Does the public have confidence in the integrity of regulators? And of financial institutions?
- Is the financial sector managing the diverse and constantly changing NZ population profile including the training of staff, where an increasing proportion have been born outside New Zealand, and customers about New Zealand’s culture of integrity?

Score	Assessment
1	Very weak: No public trust in financial institutions tackling bribery and corruption
2	Weak: Public expectation and concern that financial institutions should be more active in tackling bribery and corruption
3	Moderate: Public confident that more prudent financial institutions are tackling bribery and corruption, but not monitored and not being done at all by many in sector
4	Strong: Public confident that most NZ financial institutions are tackling bribery and corruption, but not monitored
5	Very strong: Public have high expectation and faith in financial institutions’ focus and action in bribery and corruption; regulators resourced, and accountable by independent publicly reported oversight and this is incorporated into communications with customers.

**25. Consistent due diligence**

To what extent is due diligence implemented consistently across the range of customers, when the banking and finance sector seeks to identify the source of funds being paid to them to ensure these are not the proceeds of crime or corruption?

Guidance questions:

- How are suspicious transactions identified for appropriate and deeper scrutiny?
- Are anti-corruption policies implemented in ways that unduly advantage or disadvantage classes or groups of customers, possibly creating a downstream relaxation of diligence when dealing with certain other classes or groups?
- Are anti-corruption policies implemented in a way that is sensitive to individual circumstances?

Score	Assessment
1	Very weak: Due diligence to identify sources of funds is occasional
2	Weak: There is regular due diligence across the financial sector to identify the sources of funds and to ensure that these are not the proceeds of crime and corruption and there is published information for customers about the process
3	Moderate: There is regular due diligence and there is an explicit policy to inform customers of the process and of their rights
4	Strong: There is regular due diligence and an explicit policy to protect customer information, to inform customers of the process around the management of suspicious transactions and their rights, including a process enabling them to see any information that is held about them
5	Very strong: The financial system co-creates and supports a standard for regular due diligence across the financial sector meeting the expectations for score 4.

## 26. Featuring integrity in promotional materials

To what extent do financial organisations emphasise their strong integrity systems in their marketing including in any available presentation tools?

Guidance questions:

- Do financial institutions have and promote robust codes of conduct towards customers?
- Is there concern that the potential damage to reputation from an occasional failure in an institution’s integrity systems outweighs the benefits of promoting them?

Score	Assessment
1	Very weak: There is promotion about the prudential supervision of the financial system
2	Weak: There is customer-friendly-language promotion material about the security of the financial system backed up by a complaints system
3	Moderate: There is evidence of the promotion of financial system policies that start with a customer focus as part of the development of services and products
4	Strong: Materials promote organisations’ policies that start with a customer focus as part of the development of services and products, backed up by customer surveys and a complaints system. Staff members are trained to listen to customers and to the front-line staff who engage with customers and to use the information thus obtained to strengthen integrity systems
5	Very strong: There is a clear “tone at the top” across the sector that emphasises that customers are the centre of financial transactions and the importance of their requirements being met. Promoting the institution as having strong integrity systems is a vital marketing strategy

## 27. Demonstrating integrity in dealings with customers

To what extent do financial institutions provide remedies for customers disadvantaged by errors, breaches of codes of conduct or other lapses in the conduct expected of them?

### Guidance questions

- To what extent do they value and promote internal and external dispute resolution procedures?
- Are independent dispute resolution schemes given resources for promotional and prevention activities as well as for complaint resolution?
- Are there formal arrangements such as annual reports and case notes to enable financial institutions to learn from their mistakes? Is their experience used by senior management?

Score	Assessment
1	Very weak: There are limited dispute resolution processes and promotion
2	Weak: There are some customer-friendly-language dispute resolution systems
3	Moderate: The dispute resolution processes are backed up by customer surveys and linked into complaints system, including external dispute resolution services with power to enforce their decisions.
4	Strong: In addition to meeting the expectations for score 3, organisations' dispute resolutions schemes start with a customer focus as part of the development of services and products
5	Very strong: There is a clear "tone at the top" across the sector that emphasises that: customers are the centre of financial transactions and the importance of their requirements being met; disputes are resolved; and that this is vital to an authentic and effective marketing strategy.

## SURVEY QUESTION TOPICS – CUSTOMERS

### SURVEY QUESTIONS FOR FINANCIAL ORGANISATIONS

**SQ16** How does your institution ensure that its documentation provided to customers about the financial services is written in easily accessible language including truth in lending?

**SQ17** How regularly does your institution survey customer satisfaction? What corruption risk topics are monitored by yourselves and to what degree is this conveyed to your customers?

- Policy
- Governance
- Financial performance
- Information and communication
- Human capital
- Customers
- Operations
- Monitoring
- Procurement

**SQ18** How does your website make clear to customers what investment strategy the financial institution is following?

- Investment principles
- Principles of good governance
- Processes for achieving sustainable returns in investment
- Regular comparison with other responsible investors
- Other
- All of the Above

# OPERATIONS

## ASSESSMENT QUESTIONS

### 28. Expectations on operational managers

To what extent are operational managers at all levels trained in recognising and handling corruption and risks to integrity, and expected to apply this knowledge?

Guidance questions:

- Is there top-down commitment and culture among operational areas of financial organisations, including training in recognising and handling risks to integrity and corruption issues?
- Do expectations and training address all the possible areas of operational managers' different responsibilities?
- Is there evidence that they apply this knowledge in the field?
- Do they apply this knowledge in a way to maximise the financial integrity system?

Score	Assessment
1	Expectations are expressed in limited-reach, unspecific ways such as through published statements about wanting to gain and retain the trust of their customers and the public in general
2	Senior-level expectations are clear; directors and senior management across the financial system sign up to the objective of doing trusted business as part of their performance agreements
3	There is a top-down commitment across the financial system to engage all employees in a trust culture backed up by training around the New Zealand way including on the ethical dilemmas faced as part of working in the sector
4	There is a top-down commitment across the financial system to a trust culture backed up by explicit policies about preventing bribery and corruption. There is training at each level and within each operational division around the identification of bribery and corruption and the ethical dilemmas faced as part of working in the sector
5	Organisations clearly demonstrate that there are robust steps in place in operational areas to prevent corruption, including clear channels for whistleblowing and for staff complaints to be heard and addressed and this is reflected on their websites and other public material

## 29. Tracking the risk of corruption and value of integrity systems

To what extent are rigorous processes in place and measured, including the regular deployment of trained professionals, to monitor corruption and other integrity risks in operations?

Guidance questions:

- To what extent do institutions monitor the value their integrity system delivers?
- Do the rigorous processes also describe and evaluate the achievement of improved performances from strong integrity systems?

Score	Assessment
1	Very weak: Financial system with small proportion of trained professionals focused on fraud
2	Weak: Financial system with trained professionals focused on clearly defined prevention of fraud, bribery and corruption
3	Moderate: Financial system with trained professionals to ensure that there is an effective corruption prevention process that measures, monitors and reports cases of fraud, bribery and corruption
4	Strong: Financial system with trained professionals to ensure that there is an effective corruption prevention process that measures, monitors and reports cases of fraud, bribery and corruption with continuous review processes about key areas for improvement and what works best
5	Very strong: All elements above plus leadership from the top and within the financial system to promote the effectiveness of corruption prevention programmes and to assist customers to build their lives and businesses because of the certainty and security that comes from the strong integrity of the financial system

## 30. Use of external advisers and contractors

How well do integrity expectations and practices extend the use of external advisers and other contractors working in the financial system?

Guidance questions

- To what extent do financial institutions use external advisers and contractors?
- When external contractors and advisers are employed for particular operational roles, does due diligence in their appointment and delivery ensure they are subject to the same integrity risk checks and the same levels of scrutiny as for paid employees?

Score	Assessment
1	Most private contractors across the financial system have written contracts
2	Private contractors employed throughout the financial system usually have a formal contracting/ engagement process and are engaged with a written contract
3	Private contractors employed throughout the financial system usually have a formal contracting/ engagement process and are engaged with a written contract that includes provisions defining unacceptable activities including bribery and corruption
4	Private contractors employed throughout the financial system are subject to the same due diligence as permanent staff working at the same level through a formal contracting/ engagement process that includes the same provisions as in staff agreements, including codes of conduct that define unacceptable activities including bribery and corruption
5	The financial system promotes (including on its website), its strong and robust

contracting approach, where contractors observe the same strong integrity policies as permanent staff, as part of its contracting/tendering processes and contract schedules

### 31. Helping build the national reputation

To what extent are the operations of the financial system designed to support, improve and realise the benefits of New Zealand’s reputation for integrity?

Guidance questions:

- Is there agreement and coordination across financial organisations and different parts of the financial sector to prevent corruption?
- Is there shared commitment to New Zealand’s reputation for integrity, and to working together as a sector to maintain that reputation?
- Are initiatives such as the “New Zealand Story” valued and used in promoting the services of financial institutions?

Score	Assessment
1	Very weak: The New Zealand financial system makes some use of the existing reputation for low corruption There is low or no coordination across organisations in this area
2	Weak: The financial system has some commitment to maintaining New Zealand’s reputation for low corruption. It promotes New Zealand’s strong standing on the TI corruption perception index and other measures traditionally used by the sector to measure country risk. Cooperation across organisations remains limited
3	Moderate: The financial system has an active anti-corruption and pro-integrity strategy consciously aligned to the benefits to be gained from New Zealand’s reputation. It demonstrates that it is aware of key steps to prevent corruption and create an environment that is hostile to corruption and there is some effort to adopt them throughout the sector. Many organisations coordinate formally or informally to pursue this strategy as a sector
4	Strong: The financial system is actively working through the steps to prevent corruption and create an environment that is hostile to corruption throughout the sector. Most relevant organisations participate
5	Very strong: The New Zealand financial system promotes its focus on integrity through actions to prevent corruption and create an environment that is hostile to corruption encourages organisations throughout the country to follow suit. The financial system is well coordinated on this focus and looking to extend coordination to other relevant sectors. Presentation and promotional material explain the value of this to customers and for New Zealand’s overseas reputation

## SURVEY QUESTION TOPICS – OPERATIONS

SURVEY QUESTIONS FOR FINANCIAL ORGANISATIONS	
SQ19	<i>Does your financial organisation have an overall policy that addresses integrity and corruption risk as a strategic issue for operations?</i>
SQ20	<i>Are there guidelines, and staff training, on addressing corruption risks in contracting of overseas operations?</i>

SQ21	<i>Are your organisation's processes of invoicing separate from chains of payment?</i>
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## RISK MANAGEMENT AND MONITORING ASSESSMENT QUESTIONS

### 32. Responding to international monitoring

How well do financial institutions and regulators heed and value international assessments of their integrity such as by the OECD, FAFTA, UN, IMF, World Bank and Transparency International?

To what extent do they address any deficiencies identified?

Score	Assessment
1	Very weak: New Zealand's financial system treats international monitoring as a necessary compliance activity
2	Weak: New Zealand's financial system takes time to understand the findings of international monitoring, while pushing out the timeline for changing in response to such monitoring and reporting
3	Moderate: New Zealand's financial system recognises the value to it of understanding the findings of international monitoring, and quickly responds to such monitoring and reporting when it suits its interests
4	Strong: New Zealand's financial system has interest in the result of international monitoring, and is prepared to publicly acknowledge areas of risk and gaps, responding to the findings and seeking government and customer feedback
5	Very strong: New Zealand's financial system actively promotes the knowledge it gains through international monitoring and reporting, responding willingly and openly with a strong customer communication plan to explain how this also assists customers to improve their well-being and their employment and business objectives

### 33. **CROSS-CUTTING THEME: Identifying the value to New Zealand of financial system integrity**

*This question is assessed in the context of the entire FISA.*

To what extent is there clear understanding, from financial policy to governance to operations, of the importance of New Zealand's reputation for integrity? Is there independent monitoring and reporting to demonstrate the consequent benefits of this reputation to New Zealand's financial system, the economy and its participants?

Score	Assessment
1	Very weak: Monitoring, reporting and evaluation across the financial system for corruption prevention is uneven or absent
2	Weak: Monitoring, reporting and evaluation of corruption prevention is narrowly scoped; it is carried out across the financial system
3	Moderate: Monitoring, reporting and evaluation of corruption prevention is carried out across the financial system with some transparency of findings, including some follow-through to address gaps
4	Strong: In addition to meeting the expectations in score 3, there is transparency of findings to the public, stakeholders, government and industry. Gaps are acknowledged

	and steps to address them are specified and adopted
5	Very strong: In addition to meeting the expectations in score 4, there is promotion of the involvement of the financial system in processes such as CSR and other reporting as a means of ensuring it is building strong integrity systems

#### 34. Transparent resourcing of financial oversight

How transparent are the resourcing and assessment practices of financial oversight agencies?

Guidance questions:

- Are budgets for the RBNZ and other financial oversight agencies made publicly available in an accessible format?
- In practice, can citizens, civil society, and the media obtain detailed information including how oversight of financial and non-financial performance in the financial sector is resourced and assessed?
- Can they see conclusions and resolutions or stronger integrity systems as a result of the assessment?

Score	Assessment
1	Very weak: Budgeting, monitoring, reporting and evaluation across the financial system for corruption prevention is narrowly scoped and/or intermittent
2	Weak: Budgets of government financial organisations are sometimes available. Monitoring, reporting and evaluation of corruption prevention is carried out across the financial system
3	Moderate: Monitoring, reporting and evaluation of corruption prevention is carried out across the financial system with some transparency of budgets and findings, including some follow-through to address gaps
4	Strong: Monitoring, reporting and evaluation of corruption prevention is carried out across the financial system with transparency of budgeting by public organisations and some transparency of findings to the public, stakeholders, government and industry. Gaps are acknowledged and steps to address them are specified and adopted.
5	Very strong: There is promotion of the involvement of the financial system in processes such as corporate social responsibility, open budgeting of government owned agencies and other reporting as a means of ensuring it is building strong integrity systems. This is backed up by system-wide monitoring, reporting and evaluation of corruption prevention, the transparency of reporting findings to the public, stakeholders, government and industry. Gaps are acknowledged and steps to address them are specified and adopted

## SURVEY QUESTION TOPICS – RISK MANAGEMENT AND MONITORING

SURVEY QUESTIONS FOR FINANCIAL ORGANISATIONS	
SQ22	<i>What does your organisation do to mitigate the risks identified by regular assessments such as those by the RBNZ or another government agency of the areas of corruption or integrity risk for personnel?</i>
SQ23	<i>Is your organisation monitoring systems and procedures adequate for corruption prevention and improved integrity a part of regular evaluations, and are actions taken to continuously improve them and ensure effective responses to act on concerns raised in evaluation reporting?</i>
SQ24	<i>Is there evidence, through regulator monitoring or media investigations or prosecution reports, of any penetration of organised crime into the finance system? If no, what does your organisation think about the government's awareness and preparation for this risk?</i>
SQ25	<i>To what extent does your organisation undertake focused research and analysis on how to harness the benefits of anti-corruption and integrity, in particular how these strengthen your financial performance?</i>

# PROCUREMENT

## ASSESSMENT QUESTIONS

### 35. Minimising risk in procurement

- a. To what extent do financial institutions maintain policies that minimise the risk of corruption and malpractice in procurement?
- b. To what extent does the financial system share strong and consistent standards for addressing integrity risk in procurement?

Guidance questions:

- What benchmark standards are required as minimum for financial institutions' procurement tenders and contracting?
- Is there independent scrutiny to ensure that procurement policies are being enforced?
- Is there evidence that policies are followed in practice?
- Is adequate attention paid to contractors' compliance with the conditions of the contract once it has been let?
- Is there legislation covering financial system procurement with clauses specific to corruption risks, and are any items exempt from these laws?
- Is there monitoring and management of the financial institution procurement cycle process throughout the supply chain, from assessment of needs, through contract implementation and sign-off, all the way to asset disposal?
- What sanctions are required in procurement contracts to punish any corrupt activities by a supplier?
- What due diligence procedures and standards are contractors required to go through in order to bid for work for financial institutions?

Score	Assessment
1	Very weak: no formal procurement process. Financial system standards for procurement exist within the letter of the law, with limited attempts to benchmark, limited monitoring and reporting of procurement processes or transactions, supported by limited sanctions against corrupt practice
2	Weak: formal procurement process with no formal oversight of implementation of the winning tender. Finance procurement standards are benchmarked against national standards for procurement; limited monitoring and reporting of procurement processes or transactions, supported by limited sanctions against corrupt practice
3	Moderate: formal procurement process with formal oversight of the contract. Finance procurement standards go beyond legal/regulatory requirements when benchmarked against international standards; with monitoring and reporting of procurement processes or transactions; supported by sanctions against corrupt practice
4	Strong: formal procurement process with formal oversight of contract including of the contracted activities. Finance procurement standards go beyond legal/regulatory requirements, benchmarked against international standards for procurement; with monitoring and reporting of procurement processes or transactions; supported by guidelines, training and resources: with strong sanctions against corrupt practice
5	Very strong: Contract oversight of processes that are transparent and fair, implemented in line with growth strategies. There are review processes in place to identify areas for improvement. Organisations in the financial system promote their robust procurement

systems and insist that they be taken into account when negotiating for interest rates, acquiring investment capital, and when advising shareholders and supply chain partners

### 36. Procurement staff training

To what extent are procurement staff, in particular project and contract managers, specifically trained and empowered to ensure integrity in the reporting and delivery of procurement contracts, in particular that contractors with financial institutions meet their obligations?

Score	Assessment
1	Very weak: Limited investment in procurement processes, reflected in narrow training provided or required of procurement staff or managers, with limited reporting on delivery
2	Weak: Some investment in procurement processes, including training provided or required of procurement staff or managers and some reporting on delivery
3	Moderate: Training is expected of procurement managers, with some reporting on the delivery and on how effective the training is in procurement/ supply chain standards being met
4	Strong: Procurement staff, managers and project officers are trained, with performance reporting about / supply chain standards being met
5	Very strong: Financial sector industry promotes its robust approach to procurement, the contracting of agents and supply chain management, backed up by evaluations that demonstrate the effectiveness through procurement/ supply chain standards being met

## SURVEY QUESTION TOPICS – PROCUREMENT

### SURVEY QUESTIONS FOR FINANCIAL ORGANISATIONS

- |      |  |
|------|--|
| SQ26 | <i>Does your organisation have processes in place to fully analyse the full supply chain? For example, in the case of procurement of software, does it search to discover where the software is built and that it is protected from hackers and DDOS? Do the processes discourage and punish collusion between bidders for ensuring the security of IT contracts? Is there awareness of cybersecurity risks when contracting including distributed deniers of service?</i> |
| SQ27 | <i>Does your organisation use agents and intermediaries in the procurement cycle?</i>  |
| SQ28 | <i>Does your Board and/or senior management formally require that the main contractor ensures subsidiaries and sub-contractors adopt anti-corruption programmes, and is there evidence that this is enforced? Are there mechanisms in place to allow contractors and/or tenderers to complain about perceived malpractice in procurement, and are contractors protected from discrimination when they use these mechanisms?</i>  |

# APPENDIX 1 – RESERVE BANK OF NEW ZEALAND

## INTRODUCTION

The Reserve Bank Act (“the Act”) establishes the Reserve Bank of New Zealand (“RBNZ”) as a prudential regulator for the purposes of promoting a sound and efficient financial system, and, avoiding significant damage to the financial system that could result from a registered bank’s failure<sup>1</sup>. Since 2007, the RBNZ has further spelled out the prudential regulator role it plays in regards to New Zealand Finance Companies. Appendix 1 below provides links to information about the Reserve Bank Act 1989 and its recent amendments relating to Finance Companies, the Bankers Association and the Financial Services Federation.

According to the RBNZ data, in 2016 foreign-owned banks accounted for around 93% of assets in the New Zealand bank system with those foreign-owned banks operating as branches or subsidiaries in New Zealand. The RBNZ’s local incorporation policy requires that banks with specific characteristics incorporate in New Zealand if they wish to operate here.

In summary, if a bank is systemically important to New Zealand; is based in a jurisdiction that does not have comparable oversight, governance, accounting or transparency standards to ours; or where we have concerns about the treatment of local creditors in dissolution or insolvency, it will be required to locally incorporate. Specifically, any bank that falls within the following categories, or is expected to within 5 years of authorisation, will be required to establish a locally incorporated entity rather than operate via a branch:

- a) Systemically important banks, that is, banks whose New Zealand liabilities, net of amounts due to related parties, exceed NZ\$15bn.
- b) Retail deposit takers incorporated in a jurisdiction that has legislation which gives deposits made, or credit conferred, in that jurisdiction a preferential claim in a winding up.
- c) Retail deposit takers which do not provide adequate disclosure in the home jurisdiction.
- d) Other applicants incorporated in a jurisdiction that has non-comparable supervisory arrangements (including disclosure arrangements) and governance standards.

Foreign-owned banks are permitted to have dual registration provided both entities comply with all relevant matters set out in Section 73 of the Act, and are approved by the RBNZ. In addition, a dual registered branch must fall outside of the categories requiring local incorporation, set out above (which apply to all branch operations, be they stand alone or dual-registered); and is not permitted to take retail deposits. Where dual registration is approved by the RBNZ, the branch and subsidiary become separately registered entities, subject to separate Conditions of Registration.

The RBNZ’s local incorporation policy was implemented in April 2001, and its approach to dual registration was introduced in the July 2004 version of BS1. Ten foreign-owned banks have been registered in New Zealand since 2001 (see Appendix 2), a demonstration of the ongoing ease of accessibility. There are currently 16 foreign-owned banks operating in New Zealand, of which four are dual-registered (see Appendix 3).

Local incorporation gives the RBNZ greater powers of oversight and discipline over foreign-owned banks, allowing it to set a variety of prudential requirements on their local operations – including capital and liquidity adequacy, governance, and disclosure requirements. These powers may in turn improve the quality and robustness of self and market discipline exerted on the local bank. Host

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<sup>1</sup> Section 68, RBNZ Act (1989)

authorities also have greater control over crisis management arrangements and operational continuity provisions at locally incorporated subsidiaries.

In contrast, host authorities have limited supervisory and regulatory powers over local branch operations, which are legally inseparable extensions of their foreign parent. Instead, the RBNZ must rely on other channels of discipline exerted on the consolidated banking group – by its own directors and senior managers, its foreign home state authorities, and the global capital markets in which it raises funding - to ensure the bank and the local branch are being run in a prudent manner that is aligned with promoting the maintenance of a sound and efficient New Zealand financial system. It is for this reason that the RBNZ has tended to require foreign banks based in jurisdictions with non-equivalent oversight, governance, accounting or transparency arrangements to establish a local subsidiary. This has had an additional advantage of New Zealand banks following a common culture aimed at building integrity.

### FINANCE COMPANIES REGISTERED WITH THE RESERVE BANK

To maintain an efficient financial system and avoid severe damage to the system from failures of finance companies, the RBNZ established prudential regulations for 'non- bank deposit takers' (NBDT). Note that not all NBDTs are finance companies. While the regulation is mainly aimed at finance companies and was driven by finance company failures, it also covers a variety of small deposit-takers such as credit unions, money clubs.

NBDTs are entities that offer the public debt securities, and are in the business of borrowing and/or lending money. Modelled from the RBNZ banking regime, the regulations, introduced in 2010, relate to capital adequacy, related party exposures, liquidity and governance.

Earlier requirements introduced in 2009 also required NBDTs to have a credit rating and risk management programme. The regime previously operated under the now repealed Part 5D of the Reserve Bank Act 1989. It is now carried out under the Non-Bank Deposit Takers Act 2013 and associated Acts. Subsequent to the 2010 changes, in 2014, further requirements were introduced with regards to suitability assessment of certain directors and senior officers, and changes of ownership.

It is important to note that while prudential regulations are aimed at raising standards of finance companies and avoiding unfavourable future market circumstances, the regime is not aimed at shielding the sector from failure. The sector provides funding to niche markets that mainstream banks tend to avoid. The sector is also particularly vulnerable to contagion risk, so it is important to raise industry standards and ensure investors are aware of the risks involved.

In regards to finance companies, the functions of the RBNZ are to:

- License NBDTs;
- Stipulate the minimum prudential regulatory requirements for NBDTs;
- Oversee compliance with credit rating and governance requirements; and
- Advise and make recommendations to the Financial Markets Authority relating to NBDT trustee performance.

A list of licensed Finance Companies under RBNZ's prudential supervision can be found in Appendix 4.

## RBNZ OVERSIGHT OF BANKING AND FINANCE SYSTEM INTEGRITY

The RBNZ uses three prudential pillars of self, market and regulatory discipline as the framework for maintaining financial market stability.

Links to information about:

Reserve Bank Act 1989

- <http://www.legislation.govt.nz/act/public/1989/0157/latest/DLM199364.html>
- <http://www.rbnz.govt.nz/about-us/our-legislation>

Recent amendments relating to NBDTs

- <http://www.rbnz.govt.nz/regulation-and-supervision/non-bank-deposit-takers/new-regulatory-initiatives>
- <http://www.rbnz.govt.nz/-/media/ReserveBank/Files/regulation-and-supervision/non-bank-deposit-takers/5475890.pdf?la=en>
- <http://www.rbnz.govt.nz/-/media/ReserveBank/Files/Publications/Bulletins/2010/2010dec73-4barkerjavier.pdf>
- <http://www.rbnz.govt.nz/regulation-and-supervision/non-bank-deposit-takers/overview-of-nbdt-regime>

The Bankers Association

- <https://www.nzba.org.nz/>

Financial Services Federation

- <http://www.fsf.org.nz/>

## APPENDIX 2 – LIST OF REGISTERED BANKS IN NEW ZEALAND (PAST AND PRESENT)

List of registered banks in New Zealand – past and present

Source: [www.rbnz.govt.nz](http://www.rbnz.govt.nz)

Last updated 1 September 2016

Total number of currently registered banks = 24

Highlighted type indicates banks currently registered

Name	Details
ABN AMRO Bank NV	Registered 2 March 1998 Relinquished 29 May 2009
AMP Bank Limited	Registered 12 October 1998 Relinquished 27 September 2004
ANZ Banking Group (New Zealand) Limited ANZ National Bank Limited <a href="#">ANZ Bank New Zealand Limited</a>	Deemed to be registered on 1 April 1987 Amended 28 June 2004 Amended 29 October 2012
<a href="#">Australia and New Zealand Banking Group Limited</a>	Registered 5 January 2009
<a href="#">ASB Bank Limited</a> (and its subsidiary)	Registered 11 May 1989
Westland Bank Limited	Registered 27 March 1990 Relinquished 1 July 1994
<a href="#">Bank of New Zealand</a>	Deemed to be registered on 1 April 1987
Bank of Tokyo-Mitsubishi (Australia) Limited	Registered 18 September 1996 Relinquished 1 March 2004
The Bank of Tokyo-Mitsubishi, Ltd. <a href="#">The Bank of Tokyo-Mitsubishi UFJ, Ltd</a>	Registered 1 March 2004 Amended 4 January 2006
Baroda (New Zealand) Limited <a href="#">Bank of Baroda (New Zealand) Limited</a>	Registered 1 September 2009 Amended 1 September 2009
BOI (New Zealand) Limited <a href="#">Bank of India (New Zealand) Limited</a>	Registered 31 March 2011 Amended 31 March 2011
Indosuez New Zealand Limited Banque Indosuez New Zealand Limited	Registered 22 July 1987 Amended 3 December 1987 Relinquished 31 August 1991
Banque Indosuez Crédit Agricole Indosuez	Registered 28 March 1991 Amended 22 May 1997 Relinquished 20 August 1998
Banque Nationale de Paris BNP Paribas	Registered 14 March 1997 Amended 13 June 2000 Relinquished 30 March 2001
Barclays New Zealand Limited Barclays Bank New Zealand Limited	Registered 22 July 1987 Amended 3 December 1987 Relinquished 30 June 1989
Barclays Bank PLC	Registered 7 December 1988

FISA Work-in-Progress Draft for Consultation v3.0 February 2017

	Relinquished 27 March 1998
BT New Zealand (Holdings) Limited Bankers Trust New Zealand Limited	Registered 21 June 1988 Amended 22 August 1988 Relinquished 21 June 1999
BNZ Finance Limited	Registered 23 January 1991 Relinquished 30 June 2001
<a href="#">Bank of China (New Zealand) Limited</a>	Registered 21 November 2014
<a href="#">China Construction Bank (New Zealand) Limited</a>	Registered 15 July 2014
CIBC New Zealand Limited	Registered 22 July 1987 Relinquished 4 July 1989
<a href="#">Citibank N.A.</a>	Registered 22 July 1987
<a href="#">Commonwealth Bank of Australia</a>	Registered 23 June 2000
PSIS Limited <a href="#">The Co-operative Bank Limited</a>	Registered 26 October 2011 Amended 26 October 2011
<a href="#">Deutsche Bank A G</a>	Registered 8 November 1996
Heartland Building Society <a href="#">Heartland Bank Limited</a>	Registered 17 December 2012 Amended 31 January 2013
Countrywide Banking Corporation Limited	Registered 3 December 1987 Relinquished 27 November 1998
Elders Merchant Finance Limited Elderbank Limited	Registered 8 March 1989 Amended 1 April 1989 Relinquished 31 August 1990
The Hongkong and Shanghai Banking Corporation <a href="#">The Hongkong and Shanghai Banking Corporation Limited</a>	Registered 22 July 1987 Amended 16 January 2001
<a href="#">Industrial and Commercial Bank of China (New Zealand) Limited</a>	Registered 19 November 2013
<a href="#">JPMorgan Chase Bank NA</a>	Registered 1 October 2007
<a href="#">Kiwibank Limited</a>	Registered 29 November 2001
<a href="#">Kookmin Bank</a>	Registered 14 July 1997
Macquarie Bank Limited	Registered 22 July 1987 Relinquished 8 January 1991
National Mutual Corporation New Zealand Limited National Mutual Bank New Zealand Limited	Registered 2 June 1989 Amended 20 July 1989 Relinquished 10 December 1990
NZI Financial Corporation Limited NZI Bank Limited	Registered 22 July 1987 Amended 3 December 1987 Relinquished 17 February 1992
The National Bank of New Zealand Limited	Deemed to be registered on 1 April 1987 Relinquished 26 June 2004
Broadbank Corporation Limited National Australia Bank (NZ) Limited	Registered 22 July 1987 Amended 3 December 1987 Relinquished 1 October 1993
Post Office Bank Limited	Registered 11 August 1989 Relinquished 1 December 1994
Primary Industry Bank of Australia Limited	Registered 11 May 1989 Relinquished 30 June 1999
<a href="#">Rabobank Nederland</a>	Registered 1 April 1996
Rabo Wrightson Finance Limited <a href="#">Rabobank New Zealand Limited</a>	Registered 7 July 1999 Amended 15 September 1999
Rural Banking and Finance Corporation of New Zealand Limited The Rural Bank Limited	Registered 13 August 1990 Amended 24 December 1990 Relinquished 1 July 1994

FISA Work-in-Progress Draft for Consultation v3.0 February 2017

Leviathan Limited St George Bank New Zealand Limited	Registered 3 February 2003 Amended 7 February 2003 Relinquished 12 December 2006
<a href="#">Southland Building Society</a>	Registered 7 October 2008
Taranaki Savings Bank Limited <a href="#">TSB Bank Limited</a>	Registered 8 June 1989 Amended 29 November 1989
Trust Bank New Zealand Limited (and its subsidiaries)	Registered 21 December 1989 Relinquished 18 November 1996
Trust Bank Auckland Limited	Registered 21 December 1989 Relinquished 1 April 1995
Trust Bank Bay of Plenty Limited	Registered 21 December 1989 Relinquished 1 April 1995
Trust Bank Canterbury Limited	Registered 21 December 1989 Relinquished 1 April 1995
Trust Bank Central Limited	Registered 21 December 1989 Relinquished 1 April 1995
Trust Bank Otago Limited	Registered 21 December 1989 Relinquished 1 April 1995
Trust Bank South Canterbury Limited	Registered 21 December 1989 Relinquished 1 April 1995
Trust Bank Southland Limited	Registered 21 December 1989 Relinquished 1 April 1995
Trust Bank Waikato Limited	Registered 21 December 1989 Relinquished 1 April 1995
Trust Bank Wellington Limited	Registered 21 December 1989 Relinquished 1 April 1995
Security Pacific New Zealand Limited Security Pacific Bank New Zealand Limited	Registered 23 December 1987 Amended 10 February 1988 Relinquished 13 December 1988
State Bank of South Australia	Registered 7 December 1988 Relinquished 1 July 1994
United Banking Group Limited United Bank Limited	Registered 29 June 1990 Amended 13 December 1990 Relinquished 16 May 1994
<a href="#">Westpac Banking Corporation</a>	Deemed to be registered on 1 April 1987
<a href="#">Westpac New Zealand Limited</a>	Registered 31 October 2006

## APPENDIX 3 – FOREIGN OWNED BANKS OPERATING IN NEW ZEALAND

Foreign owned banks operating in New Zealand

Source: RBNZ

**Appendix Three:** Foreign owned banks operating in New Zealand

	Foreign-owned Bank	Subsidiary	Branch	Home jurisdiction of parent bank
1.	ANZ Bank	✓	✓	Australia
2.	CBA (trades as ASB)	✓	✓	Australia
3.	Rabobank	✓	✓	Netherlands
4.	Westpac	✓	✓	Australia
5.	Citibank	✗	✓	USA
6.	Deutsche	✗	✓	Germany
7.	HSBC	✗	✓	Hong Kong
8.	JPMorgan	✗	✓	USA
9.	Kookmin	✗	✓	Korea
10.	Bank of Tokyo-Mitsubishi	✗	✓	Japan
11.	Bank of China	✓	✗	China
12.	Bank of India	✓	✗	India
13.	Bank of Baroda	✓	✗	India
14.	BNZ	✓	✗	Australia
15.	China Construction Bank Industrial and Commercial	✓	✗	China
16.	Bank of China	✓	✗	China

# APPENDIX 4 – PUBLIC REGISTER OF LICENSED NBDTS

Public Register of Licensed NBDTs

Source: RBNZ Last updated 3 June 2016

	Name of licensed NBDT	Date licensed	Name of credit rating agency	Rating and outlook
1	Alliance Group Credit Union	14-04-2015	n/a	Exempt*
2	Aotearoa Credit Union	16-03-2015	n/a	Exempt*
3	Asset Finance Limited	11-03-2015	Standard & Poor's	B, Stable
4	Caxton Employees Credit Union	08-12-2014	n/a	Exempt*
5	Credit Union Auckland	03-02-2015	n/a	Exempt*
6	Credit Union Baywide	19-12-2014	Standard & Poor's	BB, Stable
7	Credit Union Central	05-02-2015	n/a	Exempt*
8	Credit Union South	13-02-2015	Standard & Poor's	BB-, Stable
9	FE Investments Limited	16-03-2015	Standard & Poor's	B, Stable
10	Finance Direct Limited	13-02-2015	n/a	Exempt*
11	First Credit Union	05-03-2015	Standard & Poor's	BB-, Stable
12	Fisher & Paykel Credit Union	08-12-2014	n/a	Exempt*
13	Fisher & Paykel Finance Limited	19-12-2014	Standard & Poor's	BB, Watch Developing
14	General Finance Limited	13-02-2015	n/a	Exempt*
15	Gold Band Finance Limited	29-04-2015	n/a	Exempt*
16	Heretaunga Building Society	23-12-2014	n/a	Exempt*
17	Liberty Financial Limited	17-04-2015	Standard & Poor's	BBB-, Positive
18	Medical Securities Limited	08-12-2014	Standard & Poor's	BBB+, Stable
19	Mutual Credit Finance Limited	27-03-2015	n/a	Exempt*
20	Nelson Building Society	23-03-2015	Fitch Ratings	BB+, Stable

FISA Work-in-Progress Draft for Consultation v3.0 February 2017

21	Nelson Enterprise Loan Trust	30-04-2015	n/a	Exempt*
22	New Zealand Baptist Savings & Development Society Incorporated	26-01-2015	Fitch Ratings	B+, Positive
23	New Zealand Employees Credit Union	22-12-2014	n/a	Exempt*
24	New Zealand Firefighters Credit Union	17-04-2015	n/a	Exempt*
25	Police and Families Credit Union	12-11-2014	Standard & Poor's	BB+, Stable
26	Propertyfinance Securities Limited	23-04-2015	n/a	Exempt**
27	Steelsands Credit Union	05-11-2014	n/a	Exempt*
28	The Napier Building Society (Permanent)	23-12-2014	n/a	Exempt*
29	UDC Finance Limited	02-03-2015	Standard & Poor's	AA-, Watch Negative
30	Wairarapa Building Society	08-04-2015	Fitch Ratings	BB+, Stable
31	Westforce Credit Union	24-12-2014	n/a	Exempt*

\* Not required to have a rating by virtue of the [Deposit Takers \(Credit Ratings Minimum Threshold\)](#)

[Exemption Notice 2016](#)

\*\* Not required to have a rating by virtue of the [Deposit Takers \(Property finance Securities Limited\)](#)

[Exemption Notice 2014](#)

## APPENDIX 5 – MEMBERS OF CO-OP MONEY NZ

### Members of Co-Op Money NZ

- ACU (Aotearoa Credit Union)
- Caxton Employees Credit Union
- Credit Union Central
- First Credit Union
- Fisher & Paykel Credit Union
- Heretaunga Building Society
- Nelson Building Society
- NZ Firefighters Credit Union
- NZCU Auckland
- NZCU Baywide
- NZCU Employees
- NZCU South
- NZCU Steelsands
- Police & Families Credit Union
- Wairarapa Building Society

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# APPENDIX 6 – FORMS OF BRIBERY AND CORRUPTION

## Bribery and Corruption Take Many Forms

(from Transparency International Business Integrity Workshop, March 2016)

These include:

Payment, receipt or solicitation of bribes or secret commissions (kickbacks)

Manipulation of tendering or procurement processes

Undisclosed conflicts of interest

Willful blindness in respect of agents overseas. This is particularly relevant with locations in the UK and US where these is applicable anti-corruption legislation

Failure to put in place adequate systems and controls to mitigate the risk of bribery

Extravagant corporate hospitality or gifts

Undisclosed giving or receiving gifts

### **Practical NZ examples:**

- offering a New Zealand customs officer a bribe for approving the import of a product to be sold by your Company
- a company in New Zealand paying a public official in another country a sum of money to secure clearance to launch a product in that country
- a foreign agent of the New Zealand company bribes the procurement manager of a state-owned manufacturing plant to secure an order for good from the New Zealand company.
- Policies to have in place prevent and combat corruption:
  - protected disclosure
  - probity
  - Financial controls
  - conflict of interest
  - delegations
  - disciplinary process
  - risk management policy
  - political contributions
  - charitable donations and sponsorship
  - facilitation payments
  - personal gain

### **Red Flags for Bribery and Corruption**

- abnormally high profit margins
- business arrangements that serve no apparent commercial purpose

# APPENDIX 7 – PAYMENTS NZ – PAYMENTS ECOSYSTEM MAP

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## VERSION

- 1.0 November 2016 – Draft circulated for early public consultation (based on draft circulated to financial organisations, law and accounting firms between June and November 2016 to provide informed feedback into the public consultation draft)
- 2.1 December 2016 – revised to incorporate feedback
- 2.1 January 2017 – revised following meeting with FISA Team\*
- 2.2 1 February 2017 – revised following review by FISA Team\*\* on 31 January
- 3.0 6 February 2017 – work-in-progress draft circulated for final consultation

FISA Team December/January: Liz Brown, Nuran Cinlar, Geof Mortlock, Suzanne Snively, Brendon Wilson

FISA Team from 31 January: Liz Brown, Nuran Cinlar, Paul Mersi, Suzanne Snively, Brendon Wilson