

# Changes to the Banking Supervision Handbook

*Commentary on new documents BPRs 100, 110, and 120*

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## Purpose of the document

1. This document provides more detailed explanatory material for Banking Prudential Requirements (BPRs) 100, 110, and 120. The summary consultation paper, “Changes to the Banking Supervision Handbook: Exposure Draft for Capital Review Changes,” provides an overview of the main policy changes arising from the Capital Review. This document is intended to cover detailed aspects relating to the drafting of the new BPRs, and the rationale behind the drafting approach taken and inclusion of particular requirements.
2. The explanatory material on BPRs 100, 110 and 120 has been grouped together, given that the more substantive Capital Review changes are included in the draft text of these documents. The material is structured as follows:
  - For BPRs 100 and 120, this material provides an introduction to the document, and then provides a commentary that follows the structure of the document, outlining the Capital Review and Handbook restructure changes.
  - For BPR 110, given that there are a number of changes arising from the Capital Review process, these are listed first, followed by an overview of the changes with potential policy impact that occurred during the redrafting process, and finally there is an overview of the general restructure changes.
3. The Reserve Bank welcomes feedback on the drafting of these BPR documents, and the consequential policy matters arising. We request that stakeholders note that the key policy questions for consultation are outlined in the summary consultation paper.

## BPR100 : Capital Adequacy

### Introduction to BPR100

4. BPR100 is a new document that is intended to act as a type of “central hub” for the revised capital adequacy framework. It incorporates existing text from various parts of BS2A and BS2B, and also from BS1 and BS12 (for ICAAP requirements). It also includes a certain amount of new text.
5. BPR100 includes all of the standard conditions of registration (CoRs) in relation to capital adequacy that may be imposed on a bank (not all will apply to all banks, given the standardised / Internal Ratings Based distinction). (Note that we plan to use the same approach in updating other parts of the handbook beyond the capital adequacy framework as well, i.e. each document that sets out policy requirements imposed by means of CoRs will include the wording of the standard CoRs.) A key feature of the new capital adequacy layout is that it attempts to clarify the difference between the calculation methodology a bank is required to use, and minimum standards that a bank must meet that are imposed by CoRs.
6. There are some differences from the current standard CoRs, arising from the new document structure. Banks will be subject on the one hand to minimum capital ratios, and on the other hand to CoRs requiring them to comply with specified parts of the capital adequacy framework. This continues the change that we started in making revisions to banks’ capital adequacy CoRs from 1 January 2019: at that point, for example, we removed the previous condition requiring an IRB bank to comply with all of BS2B.
7. As much of BPR100 provides high-level explanatory text, it should be mainly self-explanatory. However, specific commentary on the Parts of BPR100 follows.

## Commentary on BPR100, including Capital Review changes

### Part A: Capital adequacy framework: overview

8. This Part is all new text, and is intended to serve a few key purposes:
- to summarise the main purposes of the other Parts of the document;
  - to draw out the connections between Pillars 1 and 2 of the Basel capital framework and our version of that in New Zealand;
  - to give up-front clarity that this applies only to New Zealand-incorporated banks, and that different sets of requirements apply to standardised and IRB banks; and
  - to list the other documents making up the capital adequacy framework, and note which are relevant to which banks.
9. The discussion of banks being accredited to use both the Internal Ratings Based (IRB) credit risk modelling approach and the Advanced Measurement Approach (AMA) to operational risk has been kept, to match the current notional position: however, in light of the plan to replace both the current AMA and the standardised operational risk approaches with the new Basel standardised approach before too long, we have used the term “IRB bank” rather than “modelling bank” throughout the BPR documents. The AMA references will be removed once the single new approach is in place.

### Part B: Capital ratio requirements and calculation

#### *Subpart B1: minimum capital ratio requirements*

10. Subpart B1 sets out the standard conditions imposing the standard minimum “hard” capital ratio requirements and the buffer ratio requirement. This includes the actual wording of the standard CoRs, and references to Subpart B2 for the definitions of the terms used. The text of the CoR includes the current minimum ratios, while a guidance box refers to the planned future increase in the minimum Tier 1 and total capital ratios.
11. We propose that the current requirements relating to non-objection for new capital issues, and to capital notifications and repayments, will in future be grouped as a separate CoR rather than being part of Condition 1 with minimum capital ratios. This reflects the different nature of these requirements, and in BPR100 we have moved them into the separate Part C, “minimum process and system requirements” (see section C1.2).
12. Sections B1.3 and B1.4 set out the new prudential capital buffer (PCB) framework. By contrast with the current buffer requirements (in normal times), the restrictions on CET1 dividends (section B1.3) and AT1 distributions (section B1.4) are now separate –
- The CET1 condition that is given in the text shows the wording of the condition, with the PCB ratio trigger levels and corresponding dividend restrictions that will apply before the transition period starts: as noted, the actual numbers will vary during the transition period, and across D-SIB and non-D-SIB banks, as set out in Appendix 1 of BPR100.
  - The AT1 conditions that will apply to D-SIB and non-D-SIB banks respectively are spelt out separately: these will only be imposed once the transition period is finished.
  - The specific dates for the transition period are not specified in BPR100 at this point, as they are subject to further review. However, an indicative transition period has been included in Annex 1 of the Consultation Paper. This will be confirmed during 2021.

13. Section B1.3 also sets up the link to the new Capital Buffer Response Framework (CBRF) which is provided in subpart D1 of BPR120. This replaces (and expands on) the current requirement, which is explicitly part of the buffer CoR, for a bank to prepare a capital plan once it falls below the top point of the specified capital buffer (now referred to as the “buffer trigger ratio”). The CBRF stages are defined by reference to the bands of distribution restrictions, and rather than being part of a “hard” CoR, will lead to the Reserve Bank taking the actions, and requiring a bank to take the actions, set out in BPR120.
14. A guidance box explains the role of the conservation buffer, and how the countercyclical buffer may be deployed as an add-on to the conservation buffer. Some of this descriptive material has been taken from the Banking Supervision Handbook document BS1: Statement of Principles (the sources are as shown), and when this material goes live, these sections of BS1 will be cut.

*Subpart B2: calculation of capital ratios*

15. Subpart B2 draws material from several different parts of BS2A and BS2B, and aims to define at high level the nature of the capital and buffer ratio calculations.
16. Section B2.3 is mainly new text, and aims to clarify the circumstances in which a bank needs to calculate capital ratios on a solo rather than group basis (i.e. for disclosure purposes normally, and in particular situations if required to by its conditions of registration). The reference to BPR160 is intended to provide a clearer forward pointer to the separate requirements relating to securitisation, insurance and loan transfers which can affect the scope of the group capital ratio calculations.
17. The definition of “banking group” has been cut from here, as it is a widely used term now defined in the Glossary.
18. Section B2.4 defines the scope of the so-called “solo” calculations (more accurately “solo-consolidated”), with brief guidance added on what this is about. This version of the methodology comes from BS2B, which is somewhat different from the BS2A version, but we propose that it will apply equally to standardised banks in future. We updated the BS2B version in 2012 as part of enabling IRB banks to disclose solo capital ratios on a Basel II basis, and made changes which we viewed as providing greater clarity and legal certainty (which we consulted on at the time).
19. Sections B2.5 to B2.7 provide the main definitions of the capital ratios, and the cross-references to the other modules of the proposed new framework that set out the calculations for individual risks (credit, market and operational risk). The new term “total RWA equivalents” is defined here as it makes the ratio calculation simpler to define, and is also needed in a number of other places in the BPRs.
20. These definitions have been adapted from BS2A and BS2B so that they now work for both IRB and standardised banks: the BS2B “supervisory adjustment” is included, and could in principle also be used for a standardised bank, although subsection B2.5(2) ensures that it is nil, unless otherwise specified in a bank’s CoRs; the IRB scalar is no longer included in the main ratio calculations, but is specified in BPR130 as part of the definition of total RWAs for credit risk.

**Part C: Other capital-related requirements**

21. Part C is intended to serve as a high-level summary of the process and system requirements that banks must meet in relation to the capital adequacy framework. This includes statements of the standard CoRs imposing these requirements.
22. Section C1.1 is new introductory text, and includes a list of the “trigger events” (as we have called them) upon which a bank needs to take certain actions.

23. Section C1.2 sets out a standard condition of registration applying to all locally-incorporated banks, which covers the requirement for a bank to follow the notification process for capital recognition of any new AT1 or Tier 2 instrument, and the general notification and repayment requirements, for all of which the detail is set out in BPR120 (“Capital adequacy process requirements”). These two requirements have been separated out from the current standard conditions on minimum capital ratios, as they are of a somewhat different nature.
24. Section C1.3 is new text which seems desirable to include, although we have not provided any more detail at any point on what a bank needs to do to become accredited to use IRB and AMA models (as noted above, the AMA references will be removed in due course). Section C1.4 is also new text, to provide a pointer to the new CBRF in BPR120, and conversion trigger points for AT1 and Tier 2 capital instruments (which will not apply to instruments issued under the new rules after 1 July 2021).
25. Section C1.5 sets out the new wording of the CoR that applies only to IRB banks. The new wording replaces references as follows:
  - the IRB minimum standards in BS2B Subpart 4C are now the document BPR134;
  - the minimum standards for using AMA models in BS2B sections 8.5 to 8.34 are now Part B of BPR151;
  - the process requirements in section 1.3A of BS2B for getting changes to existing models approved are now sections E1.2 to E1.4 of BPR120; and
  - the model compendium requirement in section 1.3B of BS2B is now in section E1.5 of BPR120.

#### Part D: ICAAP

26. In light of previous feedback from banks, we have included the ICAAP material from BS12 in the overview document BPR100 rather than as a separate document. Part D is accordingly taken from BS12, with only a few changes made as discussed in the following.
27. The legal background provided in paragraphs 1-3 of BS12 is now handled in the standard legal powers section at the start of BPR100, under “Guidelines”. On the other hand, section D1.1 is a new insertion, to include the standard ICAAP condition of registration, in line with the approach of providing the text of all capital-related CoRs within BPR100. A definition for the term “other material risk” has been added here, so that the CoR can refer to this definition, rather than it having to be spelt out in the CoR.
28. Note that our ICAAP approach in BS12 is one of the few areas in our regulatory framework that relies on “guidelines” issued under s78(3) of the Act. We raised questions about the use of s78 guidelines in the Regulatory Stocktake, and our conclusion was that in the four places where we use them<sup>1</sup>, we should instead impose a few key requirements in a condition of registration, supported by explanatory information on how to comply with those conditions set out in guidance (without any particular status under s78(3)).
29. In the interests of making progress on the handbook restructuring, we have not done anything in the current version of BPR100 to implement the Stocktake decision on how to deal with this issue. So we have left in place the text of the ICAAP CoR, the way that the guidelines are expressed (“should” rather than “must”), and the invocation of s78(3). We feel that banks understand the nature of our

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<sup>1</sup> As well as this case, they are used in BS5: Guidelines on Anti-Money Laundering and Countering the Financing of Terrorism, BS13: Liquidity Policy, BS14: Corporate Governance.

expectations here, especially in light of the thematic review of bank's ICAAP approaches carried out over 2014-15: the aim is therefore to make as few changes as possible to the way that they are framed. So for instance, we have not converted all of the text into guidance boxes, as these ICAAP requirements do appear to us to have a more binding status than other material that we are presenting in the new documents as pure guidance. Certain small parts of the BS12 text have been converted to guidance, where they only provide examples or explanations.

30. We will look to work on a solution to the s78(3) question in due course, co-ordinated across the four areas where s78(3) guidelines are used. This may be overtaken in any case by the development of the proposed new Deposit Takers Act.
31. Throughout Part D, we refer to "bank" rather than "registered bank" (as used in BS12), as the application of the CoR means that this can only apply to registered banks. (This is consistent with the other new BPR documents.) The approach to titling in our new layout means that additional titles have been added to some of the individual sections: these are intended to be relevant and help navigation.
32. Paragraphs 7 and 9-11 of BS12 have been grouped in Subpart D2 "Responsibility for ICAAP", so paragraph 8 on proportionality has been moved down as it fits better in Subpart 3, "Expectations of bank's ICAAP".
33. Sections D3.3 and D3.4 come from BS12 paragraphs 13 and 14, and some material that provides additional explanations or examples has been converted into guidance. We have deleted the footnote that notes that IRRBB (interest rate risk in the banking book) is a Pillar 1 risk rather than a Pillar 2 risk in our capital framework, as it refers to the RBNZ's "initial implementation of Basel II" and is "pending further consideration": since BS12 was issued more than 10 years ago, we should regard that as a settled approach until we initiate steps to change it.

## BPR110 : Capital Definitions

34. This section summarises key changes in BPR110 compared to the current definition of capital sections in Part 2 of BS2A and BS2B.
35. Changes arising from Capital Review decisions are covered first, followed by a discussion of how source material has been reorganised and clarified as part of the work of restructuring the Banking Supervision Handbook. Other policy changes that have a potential impact are listed first, followed by notes around the general restructure process.
36. The Reserve Bank invites feedback on any of the points raised in this section, noting that the key consultation questions are outlined in the covering consultation paper.

### Capital Review changes relating to AT1 and Tier 2 capital instruments: transitional arrangements, rule changes, and terms sheets

#### Transitional arrangements for de-recognition of existing Additional Tier 1 and Tier 2 capital instruments

37. Transitionals have been given separate sections A2.3 and A2.4 in BPR110. This uses a table for the phase-out schedule, and tries to make a bank's separate caps for AT1 and Tier 2 instruments clearer.
  - The reference to call options in BS2A/B is not needed here, since the transitional period starts on the same day the new framework comes into effect – from 1 July 2021 (in the previous version there was a lag from 2010 to 2013).
  - The plan will be to maintain the latest versions of BS2A and BS2B on the Reserve Bank's website for transitional purposes, as these sections refer to them. This is in line with the current Basel III transitionals on the Handbook web page.
  - The BS2A/B requirement that transitional instruments must be approved for inclusion (BS2A section 6(3)(g), BS2B section 2.6) has been cut, as it is not consistent with the new notification-only approach (proposed to replace the BS16 non-objection process, and outlined in document BPR120). However, a requirement that the instrument was originally approved as capital has been added (section A2.3(1)(c)).
  - Text is added to clarify that any necessary amortisation applies to transitional Tier 2 instruments just as if they were still currently recognised. (Section A2.4(3)).

#### Components of AT1 and Tier 2 capital

38. In section B2.2, from BS2A section 8(2) and BS2B section 2.13, subsections (a)(iii) and (iv) have been cut, as they no longer apply for AT1 instruments. Guidance has been added to refer to the AT1 template terms sheet (the linkage is set up in section D2.2).
39. In section B3.2, from BS2A section 9(2) and BS2B section 2.16, subsection (a)(iii) is gone, as it no longer applies (loss absorbency at point of non-viability). Guidance has been added to refer to the Tier 2 template terms sheet (the linkage is set up in section D3.2).

#### Detailed eligibility criteria for capital instruments

40. Subparts 2A, 2B, 2C in BS2A and BS2B set out the detailed eligibility criteria for CET1, AT1 and Tier 2 instruments respectively. In BPR110, these have become Subparts D1, D2 and D3, together making Part D "Eligibility criteria for capital instruments".



41. There are no changes of substance to the CET1 criteria, so the revisions to how they are laid out and presented in Subpart D1 are discussed below, in the Handbook Restructuring section. Subparts D2 and D3 are covered here, as they reflect significant Capital Review changes to the eligibility requirements for AT1 and Tier 2 instruments.

### Subpart D2: AT1 terms

42. Under this heading, references to BS2A/B source material are to subsections of section 10b(1) in BS2A and of section 2.24 in BS2B.
43. New section D2.2 introduces the standard template Terms Sheet for an AT1 instrument in Appendix 1, and sets out the relationship between the detail in the Terms Sheet and the requirements in Subpart D2.
44. In section D2.3:
- The text in BS2A/B subsection (b) about one AT1 instrument being able to be subordinated to another has been removed as the Reserve Bank sees that this is not necessary, given that there is only one type of AT1 allowed. The reference to “conversion or write-off” has also been cut.
  - Subsections D2.3(c)-(e) are new: (c) and (d) reflect the policy decision that an AT1 instrument must be equity both under GAAP and in legal form; (e) stipulates that the instrument and all documentation are subject to New Zealand law.
45. Section D2.4 is new:
- As well as no longer requiring AT1 instruments to have a conversion or write-off features, this specifically requires that they do not have such features.
  - Subsection D2.4(b) has been included to reinforce the requirement that a bank must not include a conversion/exchange feature in an AT1 instrument, by stipulating that the instrument must not give the holder the right to subscribe for new securities. This matches the “no participation in issues of securities” feature in the AT1 terms sheet.
46. Section D2.5 comes from BS2A/B subsections (d) and (e), but the text has been somewhat tidied up. The reference to non-viability / loss absorption triggers in subsection (d)(ii) has been deleted in line with the Capital Review policy change.
- In subsection D2.5(3) in the text about tax and regulatory events, the cut-off date of 1 Jan 2016 in BS2A/B is no longer relevant, since this material only applies to new issues: only the requirements applying after that date are retained. (See BS2A/B subsection (d)(i)).
  - Subsection D2.5(4)(a) carries over the existing text saying that the instrument must specify that Reserve Bank prior written approval is required for redemption. The AT1 terms sheet (see “conditions to redemption”) has this, but also includes the full process and information requirements from BPR120. We think that including that wording in the terms sheet might be useful for investors, but in terms of what the “hard” requirement is on the instrument, there seems no point duplicating it here. We have added some guidance to cross-refer to BPR120.
47. Subsection D2.6(4) specifies the cases when an interest basis change will not be considered as giving an incentive to redeem. This has been expanded (subsection (b)), to allow the case where an initial market-based fixed rate is replaced by the market-based fixed rate prevailing at the time of the future call date.

48. In subsection D2.7(6), we have added new text about holders not being able to apply for liquidation in relation to the bank's compliance with BPR110 requirements (this aligns with the AT1 terms sheet). This is to ensure that the holder of the instrument is not prevented from applying for liquidation (or similar) in other capacities (eg as a general senior creditor of the bank).
49. Subsection D2.7(7) is new, adding the requirement to have a "dividend stopper" feature.
50. Section D2.8(3) carries across existing the BS2A/B subsection (j), "must not have any features that hinder recapitalisation". The AT1 terms sheet includes a "no restrictions on other securities" term which supports this but is narrower, being a specific example of how a term could hinder recapitalisation. Guidance has been added to link D2.8(3) to this standard term.

### Subpart D3: Tier 2 terms

51. Under this heading, references to BS2A/B source material are to subsections of section 10c(1) in BS2A, section 2.25 in BS2B.
52. New section D3.2 provides the link to the standard Tier 2 Terms Sheet in Appendix 2, along the lines of section D2.2 for AT1.
53. The wording of BS2A/B subsection (b) implies that an instrument can be subordinated to a person, which seems wrong: the drafting of section D3.3(1)(b) aims to fix this.
54. Subsections D3.3(1)(b)(ii) and (iii), and D3.3(2) and (3), set out the "Solvency Condition". This has been expanded from the "will not be solvent following the repayment" in BS2A/B section (b)(ii). Some points to note –
  - This aligns with the "Solvency Condition" term in the Tier 2 terms sheet.
  - There is a corresponding "Payment conditions" term in the AT1 terms sheet, but we have not added anything similar to the BPR110 main text (subpart B2), as there is no corresponding requirement in BS2A/B. This is because payment on an AT1 instrument is always fully discretionary: including the term in the terms sheet deals with providing extra clarity to investors, and corresponds to standard market practice.
  - The solvency test has been clarified as being based on the Companies Act definition, but we believe that this works for mutuals, given the additional wording in subsection D3.3(3) about applying the test "whether or not the registered bank is, in fact, a company".
  - The clause has the effect that the bank is under no obligation to make a payment in this case, but is not strictly prevented from doing so. This matches the current BS2/B policy.
  - Subsection D3.3(1)(b)(iii) adds a "no event of default" provision (in line with the Tier 2 terms sheet). For Tier 2 instruments, non-payment of interest is generally an event of default, so this needs to be provided where the bank fails the solvency test.
55. Section D3.3(1)(e) tightens up the current requirement in BS2A/B subsection (l), which allows "satisfactory equivalents" to New Zealand law. (This matches section D2.3(e) for AT1.)
56. Section D3.4 is new, to stipulate that no conversion or write-off feature allowed, and this is exactly analogous to the AT1 case (section D2.4).
57. In section D3.5:

- The reference to non-viability triggers in BS2A/B subsection (f)(ii) has been deleted in line with the Capital Review policy change. (As for AT1, see section D2.5 above.)
  - In the reference to tax and regulatory events (section D3.5(3)), the cut-off date of 1 Jan 2016 in BS2A/B subsection (f)(i) is no longer relevant (as for the AT1 case – see section D2.5(3) above).
  - And the comments on subsection D2.5(4)(a) in the AT1 discussion above apply equally to subsections D3.5(4)(a) in the Tier 2 case.
58. In section D3.7, the references to “dividend rate” in BS2A/B section (h) have been cut, as this is not applicable for a Tier 2 instrument. Subsection D3.7(4)(b) is new, providing a new case that does not count as an incentive to redeem, in line with the AT1 case (section D2.6(4)(b)).
59. D3.9(4): This subsection and the guidance have been added, to align with the AT1 equivalent (D2.8(3)) and with the “no restrictions on other securities” term in the Tier 2 terms sheet.

## Appendices 1 and 2: Terms sheets for AT1 and Tier 2

60. Templates for standard terms sheets for AT1 and Tier 2 instruments have been added as Appendices 1 and 2. These include some alternative language for the case where the Issuer has a legal form other than incorporated entity, for example, in references to “dissolution or liquidation”.

### AT1 terms sheet

61. The table below provides an overview of the rationale for the terms that are included in the terms sheet for AT1 capital, located in Appendix 1 of BPR110.

**Table 1:** AT1 terms sheet – terms and their rationale

Term(s)	Rationale for inclusion in AT1 terms sheet
From “Description” to “Issue Amount”	Standard information required by investors, included to enhance the simplicity and transparency of the capital instrument.
“Redemption at option of Issuer”	Reflects the provisions of section D2.5 on permissible call dates.  It refers to BPR120 for further guidance on what types of tax event and regulatory event permit a call to be made, and this must be reflected in the instrument’s documentation.
“Conditions to Redemption”	Reflects the conditions imposed on a bank under BPR120 section C2.2 for the bank to be able to redeem an AT1 instrument. This is required to satisfy section D2.5(4). The material describing the steps the bank must take to obtain Reserve Bank approval are not required under section D2.5(4), but are included in this standard term as it is expected to be of value to investors.
“Redemption Price”	Standard term
“Redemption at the option of the Holder”	Included as this should be clearly specified to investors for transparency purposes, as this is not applicable under the framework

“Ranking”	Spells out what is implicit in section D2.3(b), namely that the instrument must represent the most subordinated claim after CET1 capital.
“No events of default ...”	Corresponds to section D2.7(6) of BPR110
“Rights in dissolution ...”	Ensures that the holder has no claims on the assets of the bank beyond the issue price.
“Voting rights”	Ensures that Holders cannot change any terms broader than those affecting the PPS, to ensure that they, for example, cannot alter their ranking etc.
“No participation in issues of securities”	Links to section D2.4(b), and this supports the requirement for the instrument to have no conversion option.
“Distribution rate”	This is not specified: this is at the bank’s discretion, but subject to the limitations in D2.6 and D2.7.
“Payment of distributions”	<p>In this term, the discretion to cancel distributions is a key feature of a PPS’s quality as capital, and matches section D2.7(2).</p> <p>The provision that a distribution cannot be paid if the “Payment Conditions” are not met, is additional to what is in Subpart D2 and is provided as an indicator to investors since the payment is fully at the issuers’ discretion in any case. This is intended to ensure that the bank is not under pressure to pay a distribution that would render it insolvent.</p>
“Payment conditions”	<p>This term provides clarity of:</p> <ul style="list-style-type: none"> <li>(i) The legal basis, and</li> <li>(ii) The point that payment is only permitted if the bank is solvent both before and after the payment (this matches the clarification of the Tier 2 condition in D3.3(2) and (3), compared to the BS2A/B version).</li> </ul>
“Non-cumulative Distributions”	This term spells out in more detail the implications of sections D2.7(4) and (5), and is a key feature giving AT1 its value as capital.
“Dividend stopper”	This term implements the new requirement in section D2.7(7).
“No restrictions on other securities”	This is a necessary, but not sufficient condition for an instrument to meet the requirement in section D2.8(3) that it does not include any features that hinder recapitalisation of the registered bank or any member of its banking group.
“Variation of rights”	These terms align with the new notification approach in BPR120 section C2.5. This is not in the main requirements on AT1 features in subpart D2, but provides information to investors about the

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	possible constraints on a bank varying any of those features.
“Set-off and offsetting rights”	This term corresponds to section D2.3(g)
“Conversion or exchange”	This term is not applicable, see section D2.4.
“No guarantee”	Aligns with D2.3(f) of BPR110
“Governing law”	Aligns with D2.3(e)
“Selling restrictions”	This term reflects the limitations in section D2.8(1) and (2) on who an AT1 PPS may be sold to.
Optional terms:	These optional additional terms are all common market terms that a bank may want to include and that will typically not affect an instrument’s eligibility as AT1 capital.
“Credit rating”, “Listing”, “Transfers”, “Documentation”	

## Tier 2 terms sheet

62. As with the table above for AT1, the table below provides an overview of the rationale for the terms that are included in the terms sheet for Tier 2 capital, located in Appendix 2 of BPR110. Many of these terms have very similar AT1 equivalent term, in this case we have marked up the term with [=AT1], this has been done to ensure consistency where possible between the two terms sheets.

**Table 2:** Tier 2 terms sheet – terms and their rationale

Term(s)	Rationale for inclusion in Tier 2 terms sheet
From “Description” to “Issue Amount”	Standard information required by investors, included to enhance the simplicity and transparency of the capital instrument.
[=AT1]	Exception is the “No Guarantee” term, needed for section D3.3(1)(c)
“Redemption on maturity”	Standard
“Early redemption at option of Issuer”	This term reflects the provisions of section D3.5 on permissible call dates. It refers to BPR120 for further guidance on what types of tax event and regulatory event permit a call to be made, and this must be reflected in the instrument’s documentation.
[=AT1]	
“Conditions to Redemption”	This term reflects the conditions imposed on a bank under BPR120 section C2.2 for the bank to be able to redeem a Tier 2 instrument early. This is required to satisfy section D3.5(4). The material describing the steps the bank must take to obtain Reserve Bank approval are not required under section D3.5(4), but are included in this standard term as it is expected to be of value to investors.
[=AT1]	
“Early Redemption Price”	This term is not specified. We propose that this term is left to the registered bank’s discretion. BS2A/B do not currently specify

	anything about this. For example, a bank might repay at face value on a rate reset date, or at the higher of face and market value on any other optional call date.
“Redemption at the option of the Holder”	This term needs to be clearly specified for transparency as this not available to investors.
“Ranking” [=AT1]	This term spells out what is implicit in section D3.3(1)(b), namely that the instrument must represent the most subordinated claim after CET1 and AT1 capital.
“Rights in dissolution ...” [=AT1]	This ensures that the Holder has no claims on the assets of the bank beyond the issue price.
“No participation in issues of securities” [=AT1]	This term links to section D3.4(2), and this supports the requirement for the instrument to have no conversion option.
“Interest rate” and “Margin” [=AT1 “distribution rate”]	These terms are not specified: these are at the bank’s discretion, but subject to the limitations in D3.7 and D3.8.
“Interest payment date”	Included as this is standard information.
“Solvency condition”	This term corresponds to D3.3(1)(b)(ii), which provides greater clarity around <ul style="list-style-type: none"> <li>(i) the legal basis and</li> <li>(ii) the point that payment is only permitted if the bank is solvent both before and after the payment (compared to the BS2A/B versions).</li> </ul> <p>[This is similar to AT1 “payment conditions”, although in the AT1 case there is no corresponding section in Subpart D2.]</p>
“No restrictions on other securities” [=AT1]	This term is a necessary but not sufficient condition for an instrument to meet the requirement in section D3.9(4) that it does not include any features that hinder recapitalisation of the registered bank or any member of its banking group.
“Set-off and offsetting rights” [=AT1]	This term corresponds to section D3.3(1)(d) of BPR110.
“Variation of rights” [=AT1]	These terms align with the new notification approach in BPR120 section C2.5. This is not in the main requirements on Tier 2 features in subpart D3, but provides information to investors about the possible constraints on a bank varying any of those features.

“Conversion or exchange”	Not applicable – see section D3.4
[=AT1]	
“Governing law”	See section D3.3(1)(e)
[=AT1]	
“Selling restrictions”	This term reflects the limitations in section D3.9(2) and (3) on who a Tier 2 subordinated note may be sold to.
[=AT1]	
Optional terms:	The optional additional terms are all common market terms that a bank may want to include and that will typically not affect an instrument’s eligibility as Tier 2 capital.
“Credit rating”, “Listing”, “Transfers”, “Documentation”	
[=AT1]	

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#### Other changes from capital review

63. The whole of subparts 2E and 2F in BS2A and BS2B are deleted.

#### Handbook restructure: changes with potential policy impact regarding the use of SPVs

64. This section lists some of the other changes included in BPR110 that have been made as part of the general restructure process, and that have a potential policy impact.
65. In BS2A/B there is a restriction on a “related party over which the registered bank exercises control or significant influence” purchasing AT1 or Tier 2 instruments. In BPR110 sections D2.8(1) and D3.9(2), the term “related” has been cut, since it is not well defined and seems superfluous, and the rest of the term is specifically covered in the definitions section.

#### Subpart E2 – capital issued via a Special Purpose Vehicle (SPV)

66. Compared to BS2A section 10g(1) and 10g(2) (BS2B sections 2.79 and 2.80), the wording in subpart E2 has been generalised to “*under an arrangement that involves an SPV, whether as the purchaser or the issuer of the instrument*”, rather than just “*issued by an SPV to third party investors ...*”. This is to make it clear that all cases involving an SPV are captured. For example, this is meant to include the case where the SPV is owned by a holding company of the bank: that should not be excluded on the basis that it represents issuance to the holding company, rather than issuance via an SPV.
67. Note that we have added section B1.6 in BPR120 to provide a sign-off process for the requirement in section E2.1(2)(b) here that the terms of the instrument issued by the SPV must match those of the instrument issued by the bank.
68. In subsection E2.1(2)(a), the wording has become “is required to be fully consolidated with the registered bank for the purpose of group financial statements under GAAP”, to replace “is a fully consolidated subsidiary of the registered bank” (from BS2A section 10g(1)(a), BS2B section 2.79(a)). This aims to emphasise more clearly the reliance on GAAP.
69. BS2A footnote 25 / BS2B footnote 26 has been deleted, as it is no longer relevant for new instruments.

## Handbook restructure: general changes reflected in BPR110

70. The front pages and the general layout and format follow the approach in other BPR documents. In line with other feedback we have received, this document uses abbreviations as much as possible (e.g. CET1 capital, GAAP etc.), to save space and improve readability.

### Part A

71. Section A2.1: general definitions. Terms that have meanings specific to capital definitions are retained in this section, while some others that are more generally applicable have been moved to the Glossary. Specifically:

- “control or significant influence” has been kept as a separate combined term specific to BPR110. We do not have a single consistent definition of “significant influence” to rely on.
  - the following definitions are of broader application, so they have been cut from BPR110 and put in the Glossary: “affiliated insurance entity/group”, “financial institution”, “NBDT”, “third party”.
  - “parent entity”: this definition used in the BS2A/B capital definitions has been cut as it was non-standard (including, for example, a sister company) and has caused problems. In the places it was used, it has been replaced in BPR110 with “holding company” (defined in the Glossary), in line with the general Glossary treatment.
  - “related entity”: this definition replaces “related party”, since “related entity” is the term used within the BS2A/B capital definitions to which this definition is meant to apply. The definition itself has been tidied up by putting the last part (“it includes ...”) into a guidance box, and removing the vague reference to “any other affiliate”. This now aligns better with the Basel source material.
  - “risk-weighted assets” has been replaced (where it is currently used in BS2A/B), by “total RWA equivalents” which is a more accurate term as it includes market risk and operational risk, and is defined in the Glossary.
  - the definition of “significant investment” is specific to the goodwill deduction, so it has been moved there (section B1.3).
  - “special purpose vehicle” and the abbreviation “SPV” have been defined here specifically for the purpose of the capital definitions. We have decided against putting a general definition of SPV in the Glossary, since the term has a general plain language sense, and has different meanings in different contexts (eg “covered bond SPV” defined in the Act).
72. “Total regulatory capital” has been removed as a defined term, since “total capital” is the value used in the ratio definitions.

### Subpart B1: CET1

73. Subpart B1 (components of CET1, and CET1 deductions) has been split up into more sections and re-grouped, in order to make them clearer and easier to navigate.
74. Section B1.2(2)(d) no longer includes unrealised gains and losses on available-for-sale assets, since this category does not exist under NZ IFRS 9. The equivalent on assets at fair value has been added instead.



75. In section B1.2(2)(e) (minority interests as component of CET1), the reference to “not applicable for solo calculation” has been removed. (Minority interests will never arise in any case with wholly-owned subsidiaries, but the solo consolidation criteria also allow the case where there is a subsidiary with a full, unconditional, irrevocable cross-guarantee with the bank, which could in theory have minority third-party shareholders.)
76. Section B1.4 (Deferred tax asset deduction) has been re-drafted a bit for greater clarity. The guidance after subsection (2)(a) comes from a bracketed sentence in the BS2A/B sources: this simply clarifies that deductible temporary differences are the only form of deferred tax asset defined in NZ IAS 12 that is eligible for this treatment.
77. The deductions in section B1.5 have been grouped under this one heading, and now cross-refer to BPR160.
78. In section B1.6 (re connected lending of a capital nature), the footnote has been cut, as it simply repeats the BS8 definition. (The reference to BS8 will be updated in due course, when BS8 is replaced by a re-organised BPR document.)
79. Section B1.7 combines two deductions of a similar kind, and the “except that” proviso has been re-phrased as “to avoid doubt”, since it is not strictly necessary but clarifies that this is not meant to be used as a loophole.
80. Section B1.9 pulls together the treatment of superannuation fund assets and liabilities in one place. This appears clearer, and makes the asymmetrical treatment more obvious.
81. In section B1.10 (holdings of own shares) the banking book / trading book distinction has been replaced by “held for trading” versus “held for investment”, since the former terms have not (to date) been defined, and we believe the latter are sufficiently well understood for this context.
82. Section B1.13 deals with the expected loss v eligible provisions treatment, which only applies to IRB banks. (This is the only difference between the capital definitions in BS2A and BS2B, and including this here, for IRB banks only, allows BPR110 to provide a single set of capital definitions.)
83. The reference to the corresponding deductions approach, and the point about assets deducted from capital being excluded from RWAs (see BS2A sections 7(2)(n) and 7(5), BS2B sections 2.9(n) and 2.11) have been moved to the guidance at the top of this subpart, after section B1.2(1). The actual requirements are provided elsewhere in the framework.

#### **Subpart B2: AT1**

84. In the references to AT1 minority interests (sections B2.2(2)(c) and B2.2(3)), the layout has been tidied up to refer specifically to (i) eligibility and (ii) valuation. The limitation that the fully consolidated subsidiary also has to be an associate (section B2.2(3)(c)) does not seem to add anything: it would appear that the test of “control” that determines whether or not an entity is consolidated is always stronger than the tests for “associate” in section 2(2) of the Act. But we have left this unchanged for now, to avoid any unintended consequences.
85. The reference to the deduction under the corresponding deductions approach (BS2A section 8(2)(d) / BS2B 2.14) has been incorporated into section B2.2(1).

#### **Subpart B3: Tier 2**

86. The layout has been tidied up similarly to AT1.

87. In the definition of Tier 2 revaluation reserves (section B3.2(2)(d)(i)) the point about cumulative loss on an individual property has been put as guidance, since this is simply stating what happens via the accounting treatment in any case.
88. In section B3.2(4)(c), as in the AT1 case, we have kept the “associated person” test, although it may be superfluous.
89. It is not clear whether the treatment of reserves from a revaluation of security holdings is still relevant, although in the absence of fuller consultation, we have kept it for now (see section B3.2(2)(d)(iii)).
90. Section B3.2(3) also only applies to IRB banks, this is the mirror of the CET1 deduction for expected losses being greater than eligible provisions.
91. As for AT1, the reference to the deduction under the corresponding deductions approach (BS2A section 9(2)(e) / BS2B 2.17) has been incorporated into section B3.2(1).

### **Subpart C: corresponding deductions approach**

92. The corresponding deductions approach is intended to be laid out more clearly in BPR110 sections C1.1 to C1.6 than in the source material (BS2A section 10, BS2B sections 2.18 to 2.22). This includes removing the repetition of the general criteria (now set out just once in Section C1.6). In section C1.5, the threshold has been changed from “10% or more” to “more than 10%”, in line with the Basel source, to avoid the case of an exactly 10% holding being caught twice. Subsection C1.2(3) has been moved up to group it with related material.
93. Section C1.4 includes new text to deal with an existing problem in BS2A/B – namely, if there are investments that are in a variety of CET1, AT1 and Tier 2 instruments and the total is more than 10% of the banking group’s CET1 capital, it is not specified what categories of capital the deductible excess is made up of. The answer is as provided in the Basel source material, ie the excess is deducted from capital categories pro rata to their share in the total of these holdings (see subsection C1.4(2)(b)).
94. In section C1.7, the reference to “wholly-owned and funded exclusively” has been replaced by a cross-reference to the details of the “solo-consolidation” approach in BPR100.

### **Subpart D1: CET1 eligibility conditions**

95. Unlike the case of AT1 and Tier 2 instruments, we have not substantively revised the conditions on ordinary shares to qualify as CET1 capital, but we have reordered and grouped the BS2A/B source material so that matters that are more closely related to each other are now together: the conditions on distributions and on issuance have been given separate sections. Section D1.2(c) refers to “individual shares” to distinguish from “the instrument”. BS2A footnote 5 / BS2B footnote 6 (referring to write-off or conversion features) has been kept – this might still apply to existing AT1 or Tier 2 instruments, or in theory to non-capital instruments.

**Subpart E1: minority interests**

96. In this subpart we have replaced the references to “conservation buffer” with “prudential capital buffer” as it is the whole buffer (including all components) that is relevant. Likewise, to make this treatment more adaptable to changing conditions, we have defined the term “buffer trigger ratio” to mean the number set in a bank’s buffer conditions of registration below which the bank is restricted. This is 2.5% at present, but will increase over the transition period and will differ between D-SIBs and non-D-SIBs, and also may vary over time as the Countercyclical Capital Buffer component is adjusted (see BPR100). The minimum capital ratios are also now defined by reference to the bank’s conditions of registration, rather than being expressed as figures.
97. In BS2A sections 10d(4) to (17) (BS2B sections 2.29 to 2.42), the calculation of the amounts that can be recognised is quite confusingly expressed. We have re-worked this material in BPR110 sections E1.3, E1.5, E1.7 to try and make it clearer.

## BPR120 : Capital Adequacy Process Requirements

### Introduction to BPR120

98. BPR120 is a document with no exact equivalent in the current Handbook. The idea behind it is to group together in one place material from various parts of BS1, BS2B and BS16 which can all broadly be described as supervisory process requirements relating to capital adequacy. The legal powers lying behind these requirements vary:
- Part B replaces Part 2 of BS16, and sets out the sign-off process a bank must follow to issue a new AT1 or Tier 2 capital instrument (this replaces the BS16 non-objection process). The need to follow this process is provided by the standard condition of registration (CoR) that prohibits a bank from including the value of an AT1 or Tier 2 instrument in its capital ratio calculations unless it has met the required notification and sign-off process in this Part.
  - Part C (from Part 3 of BS16) provides the detail of the standing obligation to notify the Reserve Bank of certain events, and the required processes for repayment of capital, that are imposed by the standard CoR that currently requires a bank to follow the processes in Part 3 of BS16 (to refer in future to Part C of BPR120).
  - Part D replaces the current Sections H and O(VII) of BS1 and sets out various ways in which the Reserve Bank may respond when a bank's capital position weakens. Subpart D1 sets out the proposed CBRF (capital buffer response framework) which applies when a bank's prudential capital buffer ratio falls below the level set in its CoRs (the "buffer trigger ratio") by specified amounts. Subpart D2 provides more detail on the situations in which the Reserve Bank would trigger write-off or conversion of an AT1 or Tier 2 capital instrument (only applicable to instruments issued under the current BS2A/B rules).
  - Part E (from BS2B sections 1.3A and 1.3B) applies only to modelling banks, and sets out the requirements on maintaining and updating credit and operational risk models, which are imposed via a standard CoR that will refer to this Part. (The material on operational risk models has been kept for now, pending future consultation on removing the operational risk modelling approach.)
99. Carving the material for the new Part D out of BS1 is in line with our general plan to move, to more relevant places, BS1 material that is not related to the principles the Reserve Bank follows in approving applications for registration or imposing conditions of registration (as per the title of BS1). Carving the Part E material out of BS2B is part of our plan to separate out material that provides capital ratio calculation methodology, from material setting out specific requirements to be met by banks. Grouping this material with the existing BS16 process requirements seems a sensible approach, and has been supported by those banks that we have discussed this with to date.
100. Generally, apart from switching to the new style of numbering and layout, most of the changes compared to the source material arise from Capital Review decisions. The discussion of the policy rationale behind the consequential policy decisions, for example the development and inclusion of the CBRF, is outlined in the main consultation paper. Other minor changes are noted where they arise in the sections below.
101. This document goes through the various sections of BPR120 and lists the changes that have occurred, where relevant. In the text of the document itself, we have tried to include references to the existing source material where needed.

## Commentary on BPR120, including Capital Review changes

### Part A: Introduction

102. Section A1.1(4) has guidance added to flag that the non-viability trigger events do not apply to new capital instruments (the detail of non-viability trigger events for existing instruments is contained in subpart D2).

### Part B: sign-off process for AT1 and Tier 2 instruments

#### *Layout and drafting matters*

103. Note that the approach of using grey boxes for guidance already features in BS16, so the existing guidance boxes in BS16 have been kept as guidance boxes in Parts B and C of BPR120, although we have also identified a few additional sections of text in BS16 that provide examples or give background information, and have therefore also been put into guidance boxes.
104. In the title of section B1.5 we have corrected what appears to be an error in BS16 (see the heading above paragraph 15). BS16 refers to “inter-group issues”, but as this is about transactions within the banking group, “intra-group issues” would seem to be the correct term.
105. Appendix A of BS16 (non-objection flow chart) has been deleted.

#### *Changes to accommodate notification process – timeframes and process overview*

106. The switch from a non-objection process to a notification / sign-off process results in Part B being significantly shorter than the BS16 source material: all of BS16 paragraphs 6-13 have been cut.
107. Section B1.2 is all that is left of the material on process and timing for notification. We welcome feedback on the timing for the notification process, and expect that five working days be the minimum amount of time for the notification and supporting information to be provided.
108. The information required by section B1.3 to accompany the legal sign-off matches the items listed in the template in appendix 1 – i.e. a clean version of the terms sheet, a version marked up to note any deviation from the standard BPR110 template, and the constituting documents for the instrument.
109. Section B1.4 specifies the information required where the instrument will be in a foreign currency, which comes from paragraph 14 of BS16. The wording has been revised, as this is not the right place to state that an instrument can be issued in a foreign currency, and in case it does not need to be stated anywhere, since there is nothing in the capital adequacy framework that limits the currency of items included. The guidance has been added instead.
110. Section B1.5, covering intra-group issues, comes from paragraph 15 of BS16, and is also still needed. This does not attempt to define “related party”, although BPR110 rules out eligibility of capital instruments issued to certain types of related party. The main case covered in section B1.5 will be instruments issued to the bank’s parent bank (or other owner).
111. Section B1.6 is new material, to spell out what we want to have confirmed when an issue uses an SPV (i.e. duplicate sign-off for the instrument issued out of the SPV and for the instrument issued by the registered bank to the SPV).
112. The following material that was part of BS16 has been removed in BPR120:

- Paragraphs 16(b) and 16(c) regarding Board approvals and attestation have been cut, as neither are relevant under the new process.
- Paragraphs 17-19 regarding required information on IRD rulings etc has been cut as well. This is not needed since AT1 are preference shares, and AT1/Tier 2 can no longer have any contractual conversion or write-off feature.

### Part C: Notifications and limitations on changes in capital

113. The text from BS16 Parts 3 and 4 is mainly preserved in Part C. It is hoped that breaking the material up into three subparts and providing section titles makes the material somewhat easier to follow.
114. BS16 paragraph 26 has been copied to both section C1.1 and section C2.1 of BPR120, to make clear that this applies both to the notification requirements in Subpart C1 and the approvals required in Subpart C2.
115. In section C1.2, the notification of the bank's CET1 ratio falling below 5.125% will still be needed for the time being, as it remains the conversion/ write-off trigger for AT1 instruments issued under BS2A/B.
116. In section C2.2 (requirements for replacement instruments):
- It has been made more explicit that the group must be above both its minimum capital ratios and be above its buffer trigger ratio. ("Buffer trigger ratio" is a new defined term in the Glossary, to generalise the current fixed 2.5%.)
  - The Guidance has been revised to refer to having enough capital "at least one year after" the replacement date, to align with the four quarters projection in sections C3.2 and C3.3.
  - Text has been added to clarify that "replacement" means replacing each instrument with a new one at the same price or face value (as applicable), i.e the same total value. This links to the standard terms sheets attached to BPR110, in the "conditions to [early] redemption" term.
117. In section C2.3(1)(b), the wording has been changed slightly from BS16, to clarify that the test is as a percentage of currently outstanding AT1 and Tier 2 issues made by the banking group.
118. Section C2.5, which comes from BS16 paragraph 25 (revised), deals with amendments to terms of previously issued instruments. In line with the new sign-off process on initial issuance, this is now a notification process with a requirement to provide a standard form legal sign-off (new Appendix 2) to confirm that the amendments do not affect eligibility. This links to the AT1 and Tier 2 terms sheets in BPR110 – see the "variation of rights" term.
119. In section C3.1, rather than requiring all the original non-objection information for the instrument (as in BS16 paragraph 27), we have shortened this to "key identifying features", i.e. we just need to know which existing instrument it is.
120. Section C3.2 has been updated from BS16 paragraph 29, in line with the new sign-off approach for any new instrument. The standard template covers all the features we are interested in, so they have been cut from here – there is no need to spell them out separately.

### Part D: Reserve Bank supervisory responses

121. **Subpart D1** replaces Part H of BS1, which currently sets out what will happen if a bank breaches one of its minimum capital ratios. The new material sets out the new "Capital Buffer Response Framework"

(CBRF). The policy rationale behind the introduction of the CBRF is detailed in the BPR120 section of the main consultation paper.

122. We note that this differs in two key respects from the current BS1 text, namely:

(a) the Reserve Bank responses correspond to different points within a bank's capital buffer, rather than applying at the point the bank breaches one of its minimum capital ratios; and

(b) the framework lists steps the Reserve Bank will take at the different stages, rather than specifying what the bank must do (for which there is no ex ante legal basis in BS1). There is also guidance to emphasise that this in no way limits other actions the Reserve Bank may take, or may require a bank to take, at the time.

123. **Subpart D2** is adapted from subsection O(VII) of BS1 (paragraphs 144A to 144F). This provides background to the required loss absorbency features of existing AT1 and Tier 2 capital instruments issued to comply with the current BS2A/B definitions.

124. For the most part, the wording of the BS1 paragraphs has been kept, with minor improvements to help clarity.

125. The title of Subpart D2 makes it clear up-front that this only deals with instruments recognised temporarily under transition arrangements. Section D2.1 also has updated text to reflect this – and the definition of non-viability trigger from the BS2A/B capital definitions is now given here, as it is not needed in BPR110 (which only sets requirements for new instruments issued from 1 July 2021).

126. This material can eventually be deleted.

127. The point about CET1 falling below the 5.125% minimum has been demoted to a guidance box, as this simply re-states here for convenience a requirement imposed on former AT1 instruments under BS2A/B.

128. Section D2.3 text has been amended to be clear that the statutory manager can only take the steps mentioned with instruments that have a write-off or conversion feature (i.e. not with new-style instruments).

## **Part E: Use of internal capital models**

129. This Part carves out material which currently sits in the introductory part of BS2B (sections 1.3A and 1.3B). As noted above, it is different in nature to the sections of BS2B that provide the capital ratio calculations. It provides the background to two legs of the standard condition that will apply in future to modelling banks, namely that the banks must (1) follow the process in this Part E for getting approval for any model changes, and (2) maintain a compendium of models in line with section E1.5 in Part E. (The wording of this standard condition is given in BPR100, section C1.5.)

130. The application section E1.1 is new, and clarifies that this part only applies to modelling banks (given that BPR120 generally applies to all banks), and that these requirements apply to AMA as well as IRB models. (All the references to PD, EAD and LGD estimates could otherwise give the impression that this is only about IRB models.) References to AMA models can be removed once we implement the new Basel standardised approach to operational risk for all banks.

131. The rest of the text follows the BS2B text fairly closely, and the associated template for the internal models compendium is copied from Appendix 4 of BS2B, and is now Appendix 3 of BPR120.

132. Part E is likely to need changing once the new streamlined model approval process is finalised.

**Appendices 1 and 2**

133. These new appendices set out standard templates for (1) the legal sign-off for a new instrument and (2) the legal sign-off for any variation in the terms of a previously issued instrument.
134. We note that law firms are required to give a confirmation corresponding to paragraph 3(a) in Appendix 1 in the equivalent sign-off that is given to NZX for new quoted products. We note that paragraph 3(d)(ii) in Appendix 1 does not include any reference to compliance with BPR120, as that document sets out procedural, rather than substantive, requirements for the issue of capital instruments.
135. We note that this legal sign-off does not cover the matters currently in BS16 paragraphs 11 to 13 since they have been deleted.