28 May 2019  
Geoff Bascand  
Deputy Governor / General Manager Financial Stability  
Reserve Bank of New Zealand  
By email: Geoff.Bascand@rbnz.govt.nz

Dear Geoff

A FRAMEWORK FOR IDENTIFYING DOMESTIC SYSTEMICALLY IMPORTANT BANKS (D-SIBs)

ASB Bank Limited (ASB) welcomes the opportunity to provide feedback to the Reserve Bank on the A Framework for Identifying Domestic Systemically Important Banks consultation (the Consultation Paper). Our submissions are detailed below.

1. ASB are supportive of a New Zealand capital adequacy framework that includes a prescribed methodology to identify D-SIBs and the introduction of a D-SIB capital buffer. The introduction of a D-SIB capital buffer will recognise the systemic importance of D-SIBs in the New Zealand context and bring New Zealand in line with global practice.

2. We support the introduction of the Reserve Bank’s preferred option of an indicator-based methodology to identify D-SIBs based on the Basel approach, as outlined in the Consultation Paper, which takes into account bank size, interconnectedness, substitutability and complexity.

3. While the Consultation Paper does not consider methodology to quantify the D-SIB buffer size, it should reflect the relatively low risk of New Zealand bank balance sheets overall, given their relatively simple operating models. Furthermore the Reserve Bank’s approach to the definition and measurement of capital means that New Zealand banks already hold high levels of loss absorbing capital when compared to the majority of other jurisdictions that apply D-SIB buffers.

4. Taking into account these considerations and reasonable international benchmarks, including Australia, ASB supports the Reserve Bank’s proposal that the D-SIB buffer is set to 1%. This will provide for higher loss absorption for D-SIBs in a clear and transparent manner, and will strengthen the New Zealand banking system as a whole.

5. Finally, given that the local incorporation requirement under BS1 and a potential additional capital charge for D-SIBs address two different risks, we are supportive of the Reserve Bank’s preference not to adopt the D-SIB framework for BS1 branch registration requirements.

Please note that ASB does not seek confidentiality for any aspect of this submission, other than my direct contact details below.

If you require any further information in relation to this submission, please do not hesitate to contact me.

Yours sincerely,

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Head of Regulatory Affairs

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