RESERVE BANK
OF NEW ZEALAND
TE PŪTEA MATUA

Procedures and definitions for completion of the quarterly capital prudential survey

Please use the contact details provided on the cover page of the capital prudential survey to discuss these procedures and definitions (for example if in any doubt about their meaning or if following them will produce an internal inconsistency with your available financial data).

General requirements

Data provided in the survey must be for the bank named on the cover page. Please select the reporting bank from the drop-down list provided.

Financial data should be reported:

- As values, where applicable, as at the end of the reporting period.
- As millions to three decimal points, i.e. to the nearest thousand New Zealand dollars. For example $1,234,567.89 is reported as 1.235
- Please do not load zeros to cells where there are no values, leave the cells blank. Only load a zero if the cell contains a value but it is really small e.g. 0.0004

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Contents

Capital prudential survey

Introduction

Some of the information requested in the capital prudential survey is the same as the information banks are required to report in disclosure statements. The capital survey will deliver this information to the Reserve Bank earlier and in a form that is more easily captured in the Reserve Bank's systems. However, there are some differences between what is required for disclosure statements and what is required in this survey, particularly in relation to credit risk information. These differences are noted in this document.

Procedures

This survey should be completed for each New Zealand-incorporated registered bank's banking group, as defined in its conditions of registration.

Cover tab – Please complete the "Bank name", "Address" and "Reporting date" cells.

Sign-off tab – Please complete questions 1, 4 and 5 and, if applicable, 2 and 3 before submitting.

Definitions and information

Tab Dashboard summary

No input is required by the reporting bank. This worksheet provides reporting banks visibility of calculations for the capital ratios and other metrics that will appear on the Financial Strength Dashboard.

Tab A. Capital composition

The table in this worksheet largely corresponds to the table on capital required for full and half year disclosures. In particular, see clause 1 of Schedule 9 (BS2A) / Schedule 11 (BS2B) in the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks (Order 2014). The amounts requested correspond to the various components of capital set out in BS2A / BS2B. This worksheet provides the BS2A / BS2B reference for each amount requested.

A summary of qualifying capital components and capital ratio calculations has been included to show reporting banks the key capital components and elements derived by the inputs as completed in the worksheet. Default 'minimum capital ratio requirement' percentages are pre-populated in the Capital ratio calculations summary worksheet. These must be amended by the reporting bank if the bank's applicable capital ratio requirements are not the **standard** minimum capital ratio requirements for each of: CET1 capital; Tier 1 capital; and Total capital.

Tab B. Capital instruments and requirements

New and repaid capital instruments

Most of the information requested in this section will be similar to that provided through the Reserve Bank's BS16 process (in particular information referred to in paragraphs 9 and 10 of BS16). The BS16 process is focused on compliance with BS2A/BS2B. The information provided in this survey is focused on the dollar amounts which may differ from those presented in relevant BS16 applications (for example if a bank elected to increase the size of an capital issuance such that it is larger than originally envisaged during the BS16 process).

Total regulatory capital requirement

For BS2A banks: The amounts requested correspond to those amounts required for full and half year disclosures. In particular, see clause 10 of Schedule 9 in the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014.

For BS2B banks: The regulatory capital requirements section contains a memo item on the credit valuation adjustment. Banks are requested to provide the credit valuation adjustment capital charge by asset class.

A summary of risk weighted assets and regulatory capital requirement is provided for each of the following items: credit risk; operational risk; market risk; and supervisory adjustment (if applicable).

Tab C. Credit risk (BS2A)

The majority of the amounts requested correspond to those amounts required for full year and half year disclosures (see the table in clause 3 of Schedule 9 in the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014).

There are three differences compared to the Order in Council:

Firstly, there is a greater number of categories of residential mortgages not past due. The categories in the survey correspond to those set out in paragraph 36 of BS2A, Capital Adequacy Framework (Standardised Approach).

Secondly, within the "memo item", off balance sheet credit equivalent amounts are requested categorised by BS2A asset class.

Thirdly, an off balance sheet item called "Credit Valuation Adjustment" is explicitly included under "Market related contracts". This fits with where banks in practice locate credit valuation adjustment amounts in disclosure statements.

90 days past due / impaired residential mortgages
Residential mortgage loans with qualifying lender's mortgage insurance that are 90 days past due should be recorded under the 90 days past due heading (i.e. should be recorded in rows C7.0 to C7.4). This is consistent with the risk weight treatment required by BS2A.

Non risk weighted assets
Some banks include these amounts in their disclosure statements. For the purposes of the credit risk worksheet only exposures with an allocated credit risk weight in BS2A should be included.

Memo item
The memo item reports the same exposures as those captured in the "off-balance sheet" section of the worksheet. The memo item categorises off-balance sheet exposures by asset class, while the "off-balance sheet" section categorises these exposures by type of transaction. Our expectation is that the total of the memo items column (C10.0) will be the same as the total of the credit equivalent amounts column in the off-balance sheet section (C12.0)

Tab D. Retail credit risk (BS2B)

Risk weighted asset amounts and minimum capital requirement amounts are to be provided inclusive of the 1.06 scalar.

PD bands

If the mid-point of the bank's PD pool is within a PD band shown on this sheet, the exposures in that pool should be included in that PD band.

Asset class definitions

Residential mortgages non property investment: exposures that meet the definition of "non property-investment residential mortgage loan" in paragraph 4.7(a) of BS2B.

Residential mortgages property investment: exposures that meet the definition of "property-investment residential mortgage loan" in paragraph 4.7(a) of BS2B.

Reverse mortgages: exposures that meet the definition of "reverse residential mortgage loan" in paragraph 4.7(a) of BS2B.

Retail - credit cards: exposures for which paragraph 4.166 of BS2B is used to calculate regulatory capital (when not in default) and which are outstanding loans originated and still managed via credit cards.

Retail - farm lending: exposures for which paragraph 4.166 of BS2B is used to calculate regulatory capital (when not in default) and are to borrowers classified as 'agriculture' in ANZSIC06 (i.e. codes in the range A011 to A0199).

Other retail residual: exposures for which paragraph 4.166 of BS2B is used to calculate regulatory capital (when not in default) except those that are "Retail - credit cards" or "Retail - farm lending" as defined above.

Other definitions

Weighted average LGD: this should be calculated as exposure weighted LGD for the PD band, LGD band, or asset class (whichever applies). In calculating exposure weighted amounts, exposure is after credit risk mitigation.

Weighted average PD: this should be calculated as the exposure weighted average PD for the PD band or for the asset class (whichever applies). In calculating exposure weighted amounts, exposure is after credit risk mitigation.

Tab E. Non-retail credit risk (BS2B)

Risk weighted asset amounts and minimum capital requirement amounts are to be provided inclusive of the 1.06 scalar.

Obligor grade
Banks should include all obligor grades used internally. It is not the intention to restrict (or expand) the number of reported obligor & default grades. Banks may need to use more (or less) rows depending on the number of internal risk grades. Labels can be overwritten but to not insert or delete rows.

Asset class definitions

Sovereign: exposures that meet the definition of sovereign exposures in paragraph 4.5 of BS2B.

Bank (public sector entity exposures): exposures that are to a local authority as defined for the purposes of the Local Government (Rating) Act 2002.

Bank asset class (excluding public sector entity exposures): exposures that meet the definition of bank exposures in paragraph 4.6 of BS2B except for exposures that are Bank (public sector entity exposures) as defined above.

Farm lending: all exposures that meet the definition of farm lending exposures in paragraph 4.4(c) of BS2B.

Corporate exposures subject to the firm size adjustment: exposures that meet the definition of corporate exposure in paragraph 4.4 of BS2B and for which the firm size adjustment in paragraph 4.139 of BS2B is applied in the calculation of regulatory capital.

All other corporate exposures: exposures that meet the definition of corporate exposure in paragraph 4.4 of BS2B except those that are "farm lending" or "corporate exposures subject to the firm size adjustment" as defined above and excluding specialised lending subject to the slotting approach.

Other definitions

Weighted average LGD: this should be calculated as exposure weighted LGD for the PD band, LGD band, or asset class (whichever applies). In calculating exposure weighted amounts, exposure is after credit risk mitigation.

Weighted average PD: this should be calculated as the exposure weighted average PD for the PD band or for the asset class (whichever applies). In calculating exposure weighted amounts, exposure is after credit risk mitigation.

Weighted average maturity: this should be calculated as the exposure weighted effective maturity for the asset class.

Tab F. Slotting (BS2B)

Amounts recorded in this sheet relate to exposures for which the supervisory slotting approach is used to calculate regulatory capital (i.e. exposures for which paragraph 4.140 of BS2B apply).

Risk weighted asset amounts and minimum capital requirement amounts are to be provided inclusive of the 1.06 scalar.

Tab Summary validation

The section summarises validation checks that have appeared throughout the survey. Reporting banks should use this tab to check that the data provided is consistent. If any cells are highlighted red, the reporting bank needs to re-check the associated table(s) before submitting the data.

Tab Change log

This tab highlights changes between versions of the survey.