APRA's Capital Disclosure

27 September 2018

Financial Policy

RESERVE BANK
OF NEW ZEALAND
TE PŪTEA MATUA

Background

- Aim of Capital Review is to develop most appropriate capital framework for New Zealand
- The appropriate capital framework for New Zealand should:
  1. Reflect the risks inherent in New Zealand
  2. Be practical to administer, and consider relationships with foreign-owned banks' home country regulators
  3. Be transparent to enable effective market discipline
- We've communicated to banks that we will assess merits of increased alignment with APRA

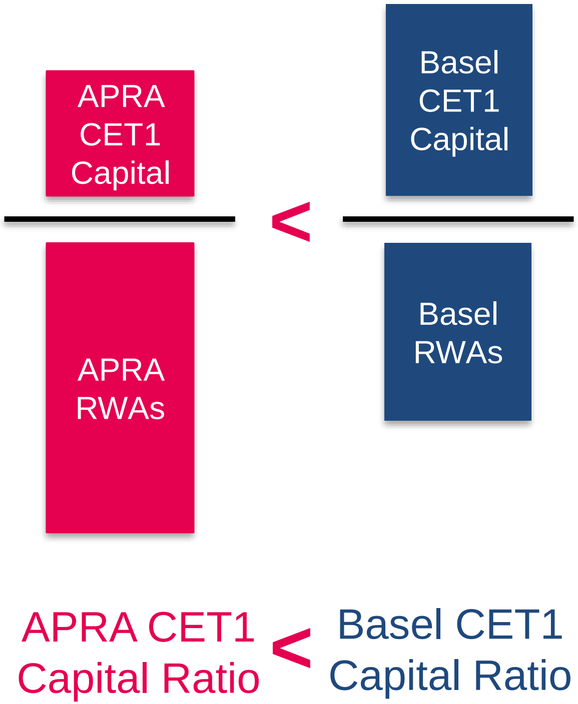
Timeline of the Capital Review

Legend for Lead: RBNZ | Banks

		2018					2019						2020
		Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Q2	Q3	Q4	Q1
Quantitative Impact Study	- Send final QIS	Aug 17											
	- Complete QIS		Due: **End-Sep**										
Ratio Analysis	- Publish consultation paper				End-Nov/ Early Dec								
	- Consultation period						Due: End-Feb 2019						
Final Decisions	- Publish Regulatory Impact Statement								End-March				
	- Confirm final policy decisions												
Handbook Restructure & Framework changes	- Consult on second-order framework changes (incl. APRA decisions)										Second-order framework changes: Q2 to Q4 2019		
	- Formally consult and finalise exposure drafts (BPR / BPG)										Exposure draft due: Q4 2019		
Transitional Period	- 12 month transition period										Provisional disclosure under new regime due: Q1 2020		
Rural benchmarking	- Discuss individual results with banks					Early Dec							
Housing benchmarking	- Send hypothetical portfolio to banks			Early Oct									
	- Collect data			**End Oct**									
	- Analyse results				Due by Early Dec								
	- Discuss individual results with banks							Feb					

APRA’s current approach

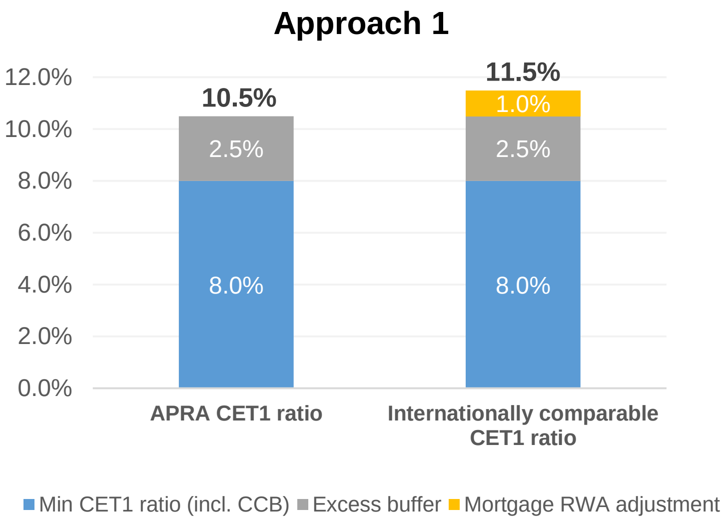
- APRA applies conservatism by strengthening definition of capital (numerator) and determination of Risk-Weighted Assets (denominator)
- Drawbacks with this approach:
  1. Lower reported capital ratios
  2. Less flexibility in dealing with stress situations
- Big 4 Australian banks currently disclose ‘internationally comparable’ ratios, based on APRA’s 2015 International Comparison Study

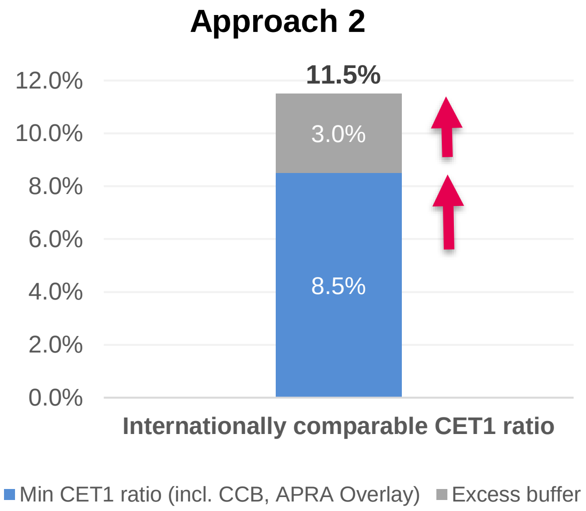


APRA's proposal

- Assists measuring achievement of 'unquestionably strong' target (top 25% of internationally active banks, in terms of relative capital adequacy)
- Focus on capital ratio disclosure; quantum of capital requirements unchanged
- Two proposed approaches:
  1. **Approach 1** – Two ratios: 1 ratio for compliance (APRA ratio), another ratio for disclosure only (internationally comparable)
  2. **Approach 2** – One internationally comparable ratio, which will be bank-specific and will be adjusted every year by APRA

APRA's proposal





- APRA noted that status quo is an option, although their preferred option is a combination of the two approaches and status quo
- APRA to respond to submissions in **early 2019**

Our initial views on APRA's proposal

- Significant challenges with assessing relative capital adequacy:
  - ➢ Lack of publicly available data
  - ➢ Difficult to determine which jurisdictional differences reflect systemic risk (should **not** be unwound) and regulatory conservatism (could be unwound)
- Other more reliable measures to compare international banks:
  - ➢ Dual reporting (standardised approach)
  - ➢ Leverage ratio
  - ➢ Credit ratings and S&P's Risk-adjusted Capital Ratio
- We will maintain a '**watching brief'** on ADI capital framework developments, and provide more thorough assessment in the future

Questions