



31 May 2019

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To whom it may concern

ANZ submission on the Consultation Paper: A framework for identifying domestic systemically important banks

Thank you for the opportunity to respond to the Consultation Paper: A framework for identifying domestic systemically important banks (**consultation paper**), released on 8 April 2019.

ANZ Bank New Zealand Limited (**ANZ**) acknowledges it will qualify as a domestic systemically important bank (**D-SIB**) regardless of the methodology the Reserve Bank of New Zealand (**Reserve Bank**) ultimately adopts.

The principles of the proposed indicator approach (Option 3) appear reasonable, and generally align with international practice. For any areas of perceived heightened risk within the New Zealand banking industry portfolio, the Reserve Bank has alternative tools available, without making the D-SIB classification criteria overly complex.

In the context of the Reserve Bank's proposed additional capital requirement for D-SIBs, ANZ recognises the higher loss absorbency requirements imposed as part of the Basel Committee on Banking Supervision (**BCBS**) framework. However, ANZ recommends that any D-SIB buffer should be set at no more than 1%. This level aligns with the Australian Prudential Regulation Authority framework and is appropriate for a conservative regulatory capital environment such as New Zealand's.

ANZ's responses to the specific questions from the consultation paper are provided in Appendix 1. We have considered our responses on the basis that the D-SIB framework is being established for the purpose of the regulatory capital framework.

Publication of submission

ANZ consents to the publication of this submission, with certain aspects withheld to protect the privacy of natural persons or on the grounds of commercial sensitivity, under the Reserve Bank's publication of submissions policy. ANZ considers that the redacted information should be withheld if a request for it is made under the Official Information Act 1982 on the basis that:

1. The information has been supplied to Reserve Bank in connection with a consultation on the possible exercise of its powers under Part 5 of the Reserve Bank of New Zealand Act, and therefore may not be disclosed pursuant to sections 105(1)(c) and 105(2) of the Reserve Bank of New Zealand Act 1989.
2. Making available the information would be likely to unreasonably prejudice ANZ's commercial position, and therefore the information may be withheld under section 9(2)(b) of the Official Information Act 1982.

Contact for submission

Please contact [REDACTED] Head of Capital, Provisioning and Portfolio Reporting on [REDACTED] to arrange, or email [REDACTED]

Once again, we thank the Reserve Bank for the opportunity to provide feedback on the consultation paper.

Yours sincerely

[REDACTED]

Bruce Macintyre
Chief Risk Officer

Appendix 1 – ANZ’s responses to questions in the Consultation Paper: A framework for identifying domestic systemically important banks

#	Question	ANZ response
1	Do you have any comments on the Reserve Bank’s general approach to the internationally used D-SIB framework?	<ol style="list-style-type: none"> 1. ANZ has no issues with the Reserve Bank’s general approach to the internationally used D-SIB framework. 2. ANZ agrees that applying D-SIB classification to branches is not relevant to the intended purpose of a D-SIB framework, i.e. being related to regulatory capital. 3. ANZ would like to understand if the Reserve Bank is considering any obligations arising from the D-SIB framework, for instance, future requirements for banks to calculate and publicly disclose all/any of the quantitative elements related to the systemic importance scorecard, or any other measure related to the D-SIB framework.
2	Do you have any comments on the proposed use of Total Assets as the indicator for the category of Size?	<ol style="list-style-type: none"> 4. The Reserve Bank could consider the option of using Risk Weighted Assets (RWA) as well as total assets.
3	Do you agree with the use of Top 5 Credit Exposures to Banks and Debt Securities Issued as indicators for the category of Interconnectedness?	<ol style="list-style-type: none"> 5. Given that the operating models of the four largest banks differ [REDACTED] [REDACTED] [REDACTED] the Top 5 Exposures and Derivatives categories produce inconsistent results.

4	What are your views on the need to also use data on Intra-financial System Assets and Liabilities to measure interconnectedness?	6. As mentioned above, given that the operating models of the four largest banks differ [REDACTED] this measure may produce inconsistent results.
	Would it produce any benefits in addition to the two indicators proposed above?	7. No.
	Bearing in mind that this data is not currently publicly available, what is your view on making this data available?	8. ANZ does not see any value in making the data publicly available.
5	Do you agree with the use of Loans to Household and Non-financial Business, Total Deposits and Agriculture Loans as indicators for the category of Substitutability?	9. ANZ does not consider this distinction relevant at present, as the use of these indicators has no bearing on the current outcome of the Substitutability metric. 10. From a methodology point of view, ANZ would like to understand how the weightings were determined for Loans to Household and Non-financial Businesses (40%) versus Agriculture Loans (10%).
6	Do you think there are any other metrics, e.g. Number of customers that would enhance the assessment of banks' substitutability?	11. No. 12. With regards the suggested example of using customer numbers as a potential metric, ANZ believes this would create unnecessary complexity.
7	Do you agree to use Derivatives (Assets Side and liabilities side) and Debt Securities Held as the indicators for the category of Complexity?	13. As previously mentioned, given that the operating models of the four largest banks differ [REDACTED] this measure may produce inconsistent results.
8	What other indicators should be considered to assess systemic importance?	14. Because New Zealand's banking industry is relatively simple, ANZ does not believe any other indicators are necessary.

9	Do you agree with the outcome of the indicator approach which identifies the big four banks, i.e. ANZ, BNZ, ASB and Westpac as D-SIBs?	<p>15. ANZ agrees with the outcome of the indicator approach as presented in the consultation paper.</p> <p>16. While ANZ has no issues with the measures generally, we recommend a larger weighting is applied to the size factor, say 50%, rather than the 25% proposed.</p> <p>17. ANZ suggests that applying equal weighting to each of the four categories (size, interconnectedness, substitutability, complexity) in the D-SIB scorecard is arbitrary, and as above, recommends applying a larger weighting to the size component.</p> <p>18. ANZ believes that a 25% weighting for complexity results in an over-emphasis on Derivatives versus Size. We suggest that derivatives are overly weighted compared, for instance, with capital calculations. [REDACTED] [REDACTED] [REDACTED]</p>
	What other factors do you think ought to be considered? Please explain your answer.	<p>19. ANZ recommends the D-SIB framework should not be over-complicated.</p> <p>20. In the context and purpose of a D-SIB framework, it is the impact of a bank failure that is relevant rather than the cause; the Reserve Bank has other regulatory tools available to address areas of perceived heightened risk.</p>
10	Do you have any comments on the Reserve Bank's position that a score-based threshold is not warranted?	<p>21. ANZ agrees that the Reserve Bank should continue to apply judgement/discretion as proposed, rather than a hard threshold.</p>

11	What other potential aspects do you suggest to include in the comparison of different options?	<p>22. ANZ does not support Option 4.</p> <p>23. ANZ recommends that the threshold for bank registration in New Zealand and the D-SIB classification are best kept entirely separate in terms of policy, requirements and criteria.</p> <p>24. Applying D-SIB classification to branches is not relevant to the intended purpose of a D-SIB framework, i.e. being related to regulatory capital.</p>
12	Please comment on the different options under consideration and state whether or not you agree with the Reserve Bank's preferred option. Please give your reasons.	<p>25. ANZ agrees that Option 3 is the preferred option.</p> <p>26. ANZ understands from the consultation paper that the D-SIB framework is being established as a component of the regulatory capital framework (currently under review), and is not intended for any other purpose.</p> <p>27. Also, ANZ would like to understand if the Reserve Bank is considering any obligations arising from the D-SIB framework, for instance, future requirements for banks to calculate and publicly disclose all/any of the quantitative elements related to the systemic importance scorecard, or any other measure related to the D-SIB framework.</p> <p>28. In the context of the Reserve Bank's proposed additional capital requirement for D-SIBs, ANZ recognises the higher loss absorbency requirements imposed as part of the BCBS framework. However, ANZ recommends that any D-SIB buffer should be set at no more than 1%. This level aligns with the Australian Prudential Regulation Authority framework and is appropriate for a conservative regulatory capital environment such as New Zealand's.</p>