

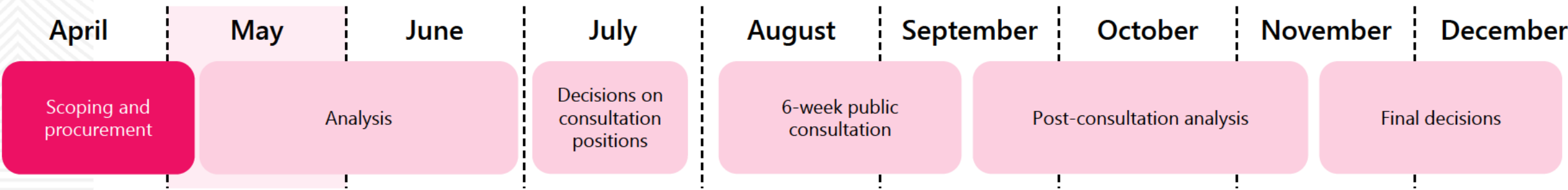
Review of key capital settings

FSOC

12 May 2025

Status update

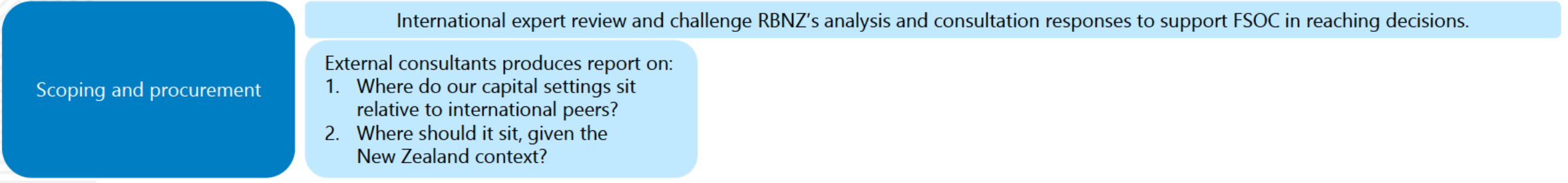
Overall



Board



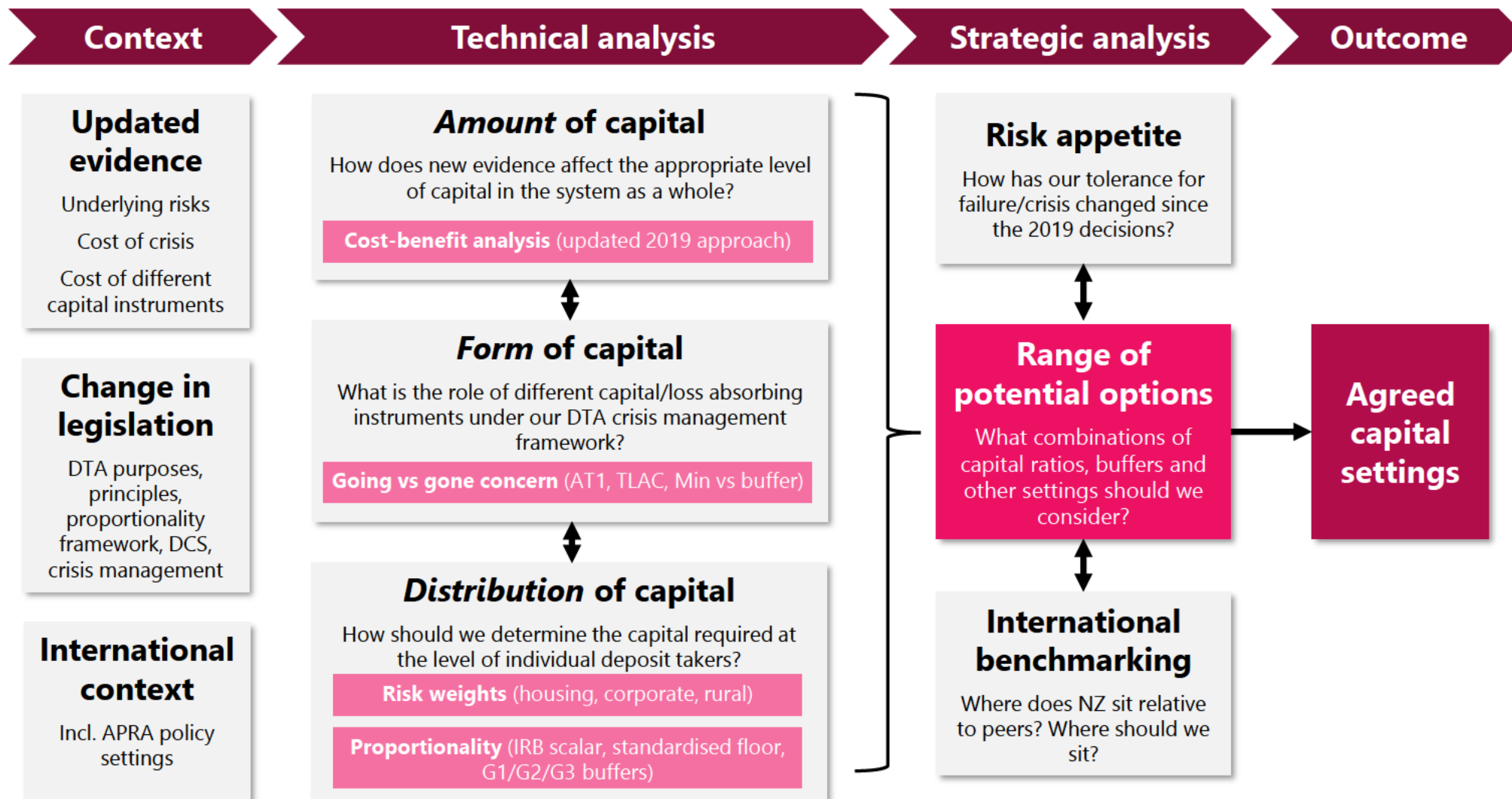
Intl. Experts



Internal work

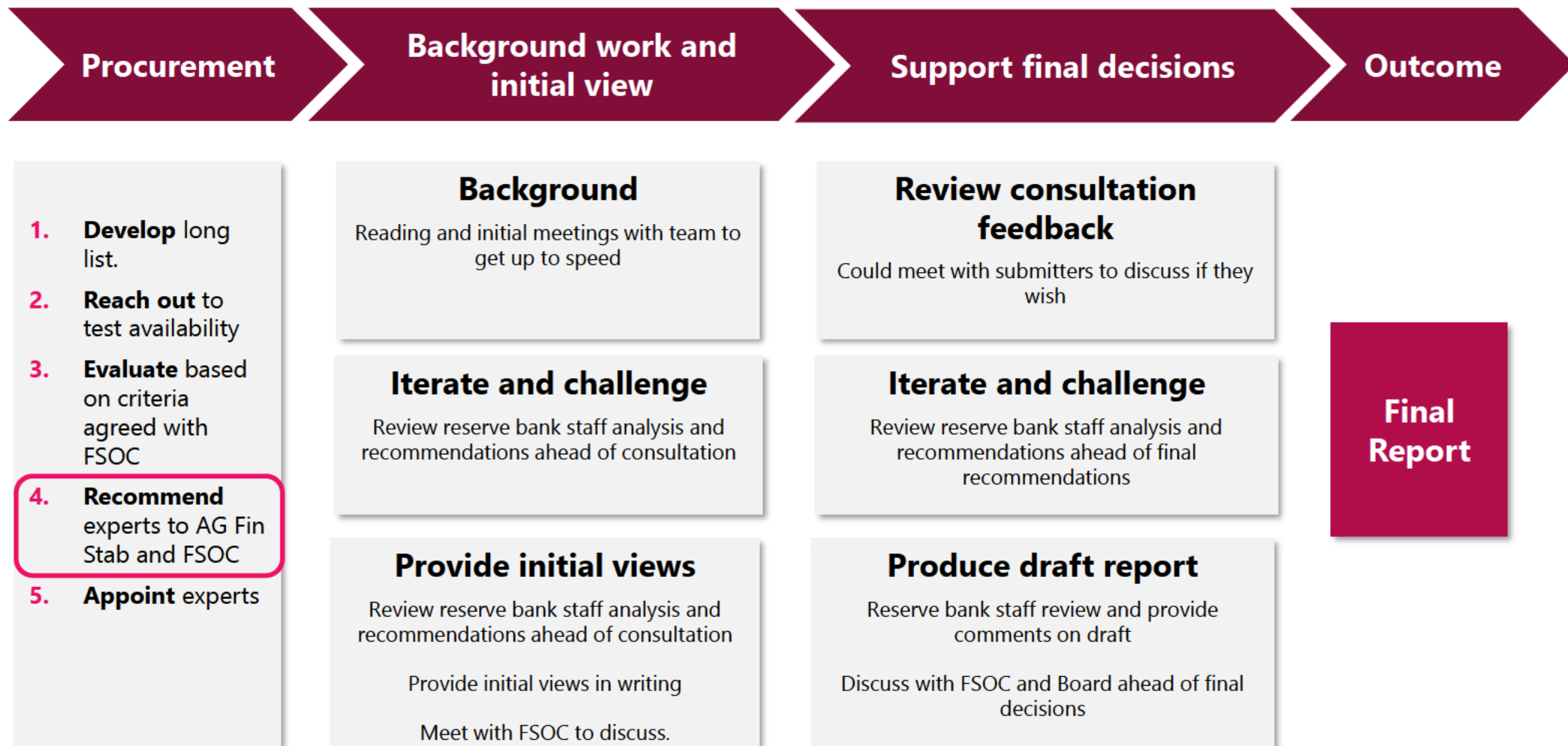


Overview of analytical approach



Updates on key workstreams

International experts approach



International expert candidates (1/2)

Candidate	Highlights
Sir John Vickers <i>Professor of Economics, Oxford</i>	<ul style="list-style-type: none"> • Former Chief Economist at the Bank of England, Chair of 2010-11 UK Independent Commission on Banking. • Specialty: Competition and banking
Elena Carletti <i>Professor of Finance, Bocconi University</i>	<ul style="list-style-type: none"> • Member of the Expert Panel on banking supervision for the European Parliament and former member of the Advisory Scientific Committee of the European Systemic Risk Board (ERSB). • Specialty: Financial regulation and banking
Thorsten Beck <i>Director, European University Institute</i>	<ul style="list-style-type: none"> • Co-chair of the Advisory Scientific Committee of the ERSB. • Specialty: Relationship between finance and economic development



International expert candidates (2/2)

Candidate

Highlights

9(2)(a)

What's changed?

Purpose: *Considering what has happened since the 2019 Capital Review to ensure that our analytical framework has been calibrated correctly*

Changes since the last review

Compiling list of changes since the 2019 Capital Review that could require changing the capital requirements

Inquiry submissions

Assessing submissions to recent inquiries (ComCom's market study into personal banking services & FEC's banking inquiry)

Analyse changes and their potential impacts on the appropriate capital settings for New Zealand

Feed into the 'Range of potential options workstreams' (see 'Overview of analytical approach')



Risk weights

Purpose: *Increasing granularity for risk weighted assets to ensure that they reflect risk for the majority of lending, and some specific sectors that have been raised in inquiries*

Residential mortgage lending

Approx 65% of lending

- Considering options to improve granularity for lower-risk lending (lower risk weights for low LVR)

Corporate lending

(includes specific consideration of rural lending)

Approx 30% of lending

- Considering how best to introduce granularity into corporate lending
- Could include introducing categories for rural lending that support better granularity for lower-risk lending

Lending for housing for Community Housing Providers (CHPs), housing co-operatives and on whenua Māori

Estimated to be less than \$1 billion of lending currently

- Considering introducing a new category for lending for housing for CHPs and housing co-operatives
- Seek more information through the consultation paper on whether this treatment can be extended to lending for housing on whenua Māori



Crisis management

Purpose: *Considering the interrelationship between bail-in and capital settings, and the appropriate design of a bail-in tool*

Background and context

- Need a way to recapitalise Group 1 deposit takers without relying on public funds or sale of business ("bail in")
 - Single Point of Entry (SPE) - recapitalisation of group at Australian parent level
 - Multiple Point of Entry (MPE) - separation and recapitalisation of NZ subsidiary
- Must be sufficient bail-in capacity for any bail-in tool to be effective
- Approach to Group 2 and 3 deposit takers should be proportionate (may not always require recapitalisation)

Key issues for SPE and MPE models

SPE model

- Merits of pre-positioning loss absorbing capacity (LAC) instruments in addition to capital (via internal instruments)
- Use of contractual write down and conversion
- Possible removal of AT1

MPE model

- Structural vs statutory bail-in tool
- Identifying sufficient bail-in capacity under each approach
- Need for additional LAC requirement at subsidiary level

The way forward

Stakeholders

Key stakeholder	Engagement approach
Treasury	<ul style="list-style-type: none"> • Regular update meetings and additional meetings where required • Share emerging thinking at working level for challenge • Invite Treasury attendee to observe key discussions between FSOC and international experts
MoF	<ul style="list-style-type: none"> • Roughly monthly status updates* through the Minister's Office, with meetings available on request • Provide consultation paper 2 weeks before publication • Provide decisions paper 2 weeks before publication
Deposit Takers	<ul style="list-style-type: none"> • Inform deposit takers of intended approach in May • Formal consultation in August • Industry workshop shortly after publication
APRA	<ul style="list-style-type: none"> • Update at TTBC deputies (9 May) • Engage APRA SMEs (esp. Resolution) during analysis stage • Test feasibility of options before seeking board decisions • Share positions shortly before publication
Others	<ul style="list-style-type: none"> • Update website with Capital Review page • Update CoFR Heads (quarterly)

* We will seek FSOC/Board approval of our key messages in advance of providing these updates.



Next steps (May)

- Update FSOC on interdependencies with crisis management framework.
- Internal testing of analysis and initial options for all workstreams.
- Provide following April update to MoF:
 - We published the finalised terms of reference on our website alongside the release of the May 2025 Financial Stability Report.
 - We contacted and met with several international experts and are currently finalising their procurement. We expect to provide you an update with the confirmed experts next month.
 - The required analysis for key workstreams has begun. We expect to begin internal testing in May.
 - We will inform deposit takers of our intended approach under the review in May.

