PROCEDURES & DEFINITIONS

Capital Prudential Satellite Survey

November 2022

Please contact the Reserve Bank Statistics Unit (statsunit@rbnz.govt.nz) to discuss these procedures and definitions if in any doubt about their meaning or if following them will produce an internal inconsistency with your available financial data. Please ensure your contact information, provided in the "Sign-off" tab, is the latest available.

General requirements:

Data provided in the template 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

Last updated: November 2022

Contents

Introduction:

Some of the information requested in the Capital Satellite template is the same as the information banks are required to report in Disclosure Statements. The Capital Satellite 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 template, particularly in relation to credit risk information. These differences are noted in this document.

Procedures:

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

Instructions and Definitions:

Dashboard summary tab:

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 Dashboard.

A. Capital composition tab:

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 (for banks using the standardised approach to estimate credit risk RWAs) / Schedule 11 (for banks accredited to use their own internal models to estimate credit risk RWAs) 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 BPR110. This worksheet provides the BPR110 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.

Please note that rows 27 and 28 should include all Additional Tier 1 (AT1) instruments and rows 37-39 should include all Tier 2 instruments, regardless of whether these are new instruments that comply with the requirements in BPR110 and BPR120, or if they are "transitional" instruments as defined in A2.3 of BPR110. Transitional instruments are those that were issued under the previous framework (BS2A and BS2B) but do not comply with the new requirements. Banks must phase out the use of such instruments in its regulatory capital, in the way set out in A2.4 of BPR110.

B. Capital instruments and requirements tab:

New and repaid capital instruments

Most of the information requested in this section will be similar to that provided through the Reserve Bank's BPR120: Capital Adequacy Process Requirements process (in particular information referred to in Part B). The BPR120 process is focused on compliance with BPR110. The information provided in this template is focused on the dollar amounts, which may differ from those presented in relevant BPR120 applications (for example if a bank elected to increase the size of a capital issuance such that it is larger than originally envisaged during the BPR120 process).

Total regulatory capital requirement
For banks using the standardised approach to estimate RWAs: 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 banks accredited to use the internal models approach to estimate RWAs: 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).

From 1 January 2022, banks accredited to use IRB models to calculate RWAs are required to apply an 85% output floor when calculating credit risk RWA. This means that IRB banks will be required to use either their modelled credit risk RWA, or use 85% of the outcome in the standardised approach for those same exposures, whichever number is bigger.

We have added an 'output floor balancing item' for IRB banks to include in credit risk RWA calculations, if the output floor applies.

This would mean that if the output floor does not apply to a bank they would enter 0 (zero) for the balancing item, meaning that total RWA is the sum of all the components. If the output floor does apply (i.e. because 85% of standardised outcome is higher than the IRB outcome), then the bank would enter the amount required as the balancing item so that the sum of all of the RWA components for credit risk add up to 85% of standardised outcome, after allowing for balancing item.

C. Credit risk (BPR131: Standardised Credit Risk RWAs) tab:

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 template correspond to those set out in section C3.10 of BPR131.

Secondly, within the "memo item", off balance sheet credit equivalent amounts are requested categorised by BPR131 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.

Asset class definitions:

Sovereigns and central banks: for banks using the standardised approach, this is exposures that meet the definition of sovereign exposures in section C2.2 of BPR131.

Multilateral development banks and other international organisations: for banks using the standardised approach, this is exposures that meet the definition of multilateral developments banks and supranationals in section C2.4 of BPR131.

Public sector entities: for banks using the standardised approach, this is exposures that are to a local authority as defined for the purposes of the Local Government (Rating) Act 2002 as set in C2.3 of BPR131 and in BPR001

Banks: for banks using the standardised approach, this is exposures that meet the definition of bank exposures in sections C2.5 and 2.6 of BPR131

Other 90 days past due / impaired assets:
Residential mortgage loans with qualifying lender's mortgage insurance that are 90 days past due should not be recorded under the 90 days past due heading (i.e. should not be recorded in row C7.0). Such loans should be recorded in the same row as other residential mortgage loans with qualifying mortgage insurance (i.e. in rows C6.0 to C6.8). This is consistent with the risk weight treatment required by BPR131.

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 BPR131 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)

Tabs D and E are applicable only to banks that are accredited by the Reserve Bank to follow *BPR133: IRB Credit Risk RWAs*

D. Retail credit risk tab:

Risk weighted asset amounts and minimum capital requirement amounts are to be provided inclusive of the 1.2 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 section B4.2 of BPR133.

Residential mortgages property investment: exposures that meet the definition of "property-investment residential mortgage loan" in section B4.2 of BPR133.

Reverse mortgages: exposures that meet the definition of "reverse residential mortgage loan" in section B4.2 of BPR133.

Detailed mortgage definitions are set out in BPR131 and section B4.2 of BPR133 cross-refers to them and summarises the categorisation. Section B4.2 (4) confirms that reverse mortgages are subject to the standardised approach in BPR131.

Retail - credit cards: exposures for which section D6.3 of BPR133 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 section D6.3 of BPR133 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).

Residual retail: exposures for which section D6.3 of BPR133 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.

E. Non-retail credit risk tab:

For exposures where the 1.2 scalar applies, as set out in C1.4 of BPR130, risk weighted asset amounts and minimum capital requirement amounts are to be provided inclusive of the 1.2 scalar. Exposures where the scalar does not apply should be reported with no scalar impact.

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 do not insert or delete rows.

Asset class definitions:
Sovereigns and central banks: for banks accredited by the Reserve Bank to use the internal-ratings based (IRB) approach, this covers exposures that are set out in B2.1 of BPR133. Note that from 1 January 2022 these exposures must be calculated using the standardised approach as covered in section C1.5 of BPR130.

Multilateral development banks and other international organisations: for banks accredited by the Reserve Bank to use the internal-ratings based (IRB) approach, this covers exposures that are set out in B2.1 of BPR133. Note that from 1 January 2022 these exposures must be calculated using the standardised approach as covered in section C1.5 of BPR130.

Public sector entities: for banks accredited by the Reserve Bank to use the internal-ratings based (IRB) approach, this covers exposures that are set out in B3.1 of BPR133. Note that from 1 January 2022 these exposures must be calculated using the standardised approach as covered in section C1.5 of BPR130.

Banks: for banks accredited by the Reserve Bank to use the internal-ratings based (IRB) approach, this covers exposures that are set out in B3.1 of BPR133, except for exposures that are Bank (public sector entity exposures) as defined above. Note that from 1 January 2022 these exposures must be calculated using the standardised approach as covered in section C1.5 of BPR130.

Other 90 days past due and off-balance sheet for standardised requirement: exposures that would otherwise fall into the three categories above, but are 90 days past due/impaired or recorded as off-balance sheet (see definitions in tab C above).

Farm lending: all exposures that meet the definition of farm lending exposures in section B1.9 of BPR133.

Corporate exposures subject to the firm size adjustment: exposures that meet the definition of corporate exposure in section B1.1 of BPR133 and for which the firm size adjustment in section B4.3 of BPR133 is applied in the calculation of regulatory capital.

All other corporate exposures: exposures that meet the definition of corporate exposure in section B1.1 of BPR133 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.

F. Slotting (BPR133: IRB Credit Risk RWAs) tab:

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 section C9.1 (1) of BPR133 apply).

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

Summary validation tab:

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.

Change log tab:

This tab highlights changes between versions of the template.

Version	Date	Comment
V1.1	Mar 2017	A new section called "Other 90 days past due / impaired assets" has been added. Included new sub-total rows in credit risk tab. Included new sub-total rows and validation checks in retail credit risk and non-retail credit risk tabs. Included new sub-total rows and validation checks. Additional PD grades have been provided for more granular reporting in non-retail credit risk tab. Added validation summary.
V1.2	Dec 2017	Removed Definitions sheet and replaced with a link on cover sheet. New worksheet identifies all data points that are included in the Financial Strength Dashboard. New section calculating capital adequacy and capital conservation buffer ratios in capital composition tab. Adjustments to RWA calculations in capital instruments and requirements tab. Adjustments to formula in 'Average risk weight' fields, to remove errors if no exposure exists in retail credit risk and non-retail credit risk tabs. Unnecessary validations have been removed.
V1.3	Mar 2018	Link to updated guidance note. Amendment of confidentiality provisions, to reflect requirements of the Dashboard. Adjustments to RWA calculations. Further adjustments to RWA calculations in capital instruments and requirements tab. Additional line items to collect other past due or impaired residential mortgage RWAs in credit risk tab.
V1.4	Dec 2021	Capital composition tab - replaced BS2A and BS2B para references with the new Banking Prudential Requirements (BPR110) in column D and removed BS2A para references from column C. Updated rows 27&28 and 37&38 for AT1 and Tier 2 capital. Included memo item section for reporting new Tier 2 instruments in column G. Capital instruments and requirements tab - replaced BS2B with the BPR133 in row 37. Renamed tab C to replace BS2A with BPR131. Removed BS2B from tab names D to E.
V1.5	Mar 2022	Dashboard tab - Adjusted formulas to accommodate for IRB banks' standardised reporting of Sovereigns, PSEs and Banks Inserted a new line: Output floor balancing item Capital composition tab - Inserted new row: A4.25, adjusted descriptions on A4.1 & A4.2 Cap instruments tab - Adjusted descriptions & formulas: B5.0, B5.1, B5.2 & B5.23, inserted new line: B5.3, B5.21, B5.22
V1.6	Nov 2022	Non-retail credit risk tab - Adjusted formulas to accommodate for IRB banks' standardised reporting of Sovereigns, PSEs and Banks.