

30 January 2026

Reserve Bank of New Zealand – Te Pūtea Matua
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Dear Sir or Madam

Bank of New Zealand's response to the Reserve Bank of New Zealand paper "Deposit Takers Standards - Tranche 1"

1 Introduction

- 1.1 E mihi ana te Pēke o Aotearoa ki te whai wāhi ki te tuku urupare ki Te Pūtea Matua mō te pepa whakawhiti whakaaro a Deposit Takers Standards – Tranche 1. Ka whakanuia e mātou te mahi a Te Pūtea Matua i tēnei ahuatanga, ā, ka mārāma mātou ko tēnei pepa e anga atu ana ki te hanga i tētahi pūnaha ahumoni kaha ake, whakawhirinaki ake hoki mō ngā tāngata katoa o Aotearoa.

- 1.2 Bank of New Zealand (BNZ) welcomes the opportunity to provide a response to the Reserve Bank of New Zealand's (RBNZ) paper on the Deposit Takers Standards – Tranche 1. We appreciate the RBNZ's work regarding the Deposit Takers Act (DTA) and understand that this paper goes towards creating a more robust and trusted financial system for all New Zealanders.

2 Executive Summary

- 2.1 BNZ appreciates the extensive engagement undertaken by the RBNZ to date and acknowledges the significant work involved to progress this comprehensive regulatory framework. BNZ supports the RBNZ's objectives of promoting a resilient, well-functioning financial system and welcome the opportunity to constructively contribute to the development of the proposed standards.
- 2.2 This submission focuses on the exposure drafts and draft guidance material relating to the Liquidity Standard, the Deposit Takers (Depositor Compensation Scheme) Standard, and the Lending Standard. Our comments are intended to be practical and forward-focused, drawing on BNZ's operational experience to highlight areas where additional clarity, proportionality, or alignment across the broader DTA framework would support effective implementation and consistent outcomes. Where relevant, we reference and support points raised in the New Zealand Bankers Association (NZBA) submission.

Liquidity Standard

- 2.3 BNZ agrees that the Liquidity Standard exposure draft broadly reflects the RBNZ policy decisions and provides a clear articulation of qualitative and quantitative liquidity

requirements. However, we note the importance of having visibility over the full suite of interrelated DTA standards (in particular the Risk Management Standard) to enable Deposit Takers to assess overall consistency and operational impacts.

- 2.4 Our submission highlights potential unintended consequences arising from the uniform application of certain requirements, including the cap on Committed Liquidity Facility (CLF) holdings, and notes that the standing fee for the CLF may materially influence behaviour which is not currently addressed in the exposure draft. BNZ also provides comments on the formulation and review of caps, the treatment of government agency deposits, and a range of technical matters where we believe further clarification in the Standards or Guidance would improve certainty and consistency.

Depositor Compensation Scheme Standard

- 2.5 BNZ supports the objectives of the DCS and welcomes the opportunity to comment on the proposed Standards and Guidance. Our submission focuses on ensuring that DCS requirements are customer-focused, operationally feasible, and proportionate to risk.
- 2.6 Key themes include the following:
 - 2.6.1 Supporting flexibility for authorised individuals to provide alternate account details, while cautioning against prescriptive or system-intensive requirements that may introduce unnecessary complexity.
 - 2.6.2 Seeking clarity regarding depositor page functionality, activation, and access. In particular where proposed requirements would likely require material technology rebuilds for limited benefit to the overall outcomes.
 - 2.6.3 Supporting alignment with industry practice and existing frameworks.
 - 2.6.4 Raising concerns about the scope and mandatory nature of certain Single Depositor View data fields, and requesting further guidance where requirements may be operationally challenging or insufficiently defined.
- 2.7 BNZ also supports many of the detailed points raised in the NZBA submission and has highlighted a small number of additional issues.

Lending Standard

- 2.8 BNZ supports the overall structure of the Lending Standard exposure draft and the consolidation of LVR and DTI requirements which is supported by guidance. We understand and welcome the RBNZ intent that the draft largely reflects existing policy settings under BS19 and BS20, rather than introducing substantive changes.
- 2.9 Our comments largely relate to drafting and definitional changes that could be interpreted as altering existing meanings or practices. This includes changes to key terms, income definitions, and verification expectations. We also seek clarity where the Guidance may have a “soft law” effect that could drive more prescriptive or cautious compliance than intended, with resulting impacts on customer outcomes.

- 2.10 BNZ supports the reframing of exemptions as “nature of lending” categories and broadly aligns with the NZBA’s submissions on exemptions, thresholds, anti-avoidance, and transitional arrangements.

Incorporation Outside of New Zealand Standard

- 2.11 As this does not affect BNZ, we have not commented on the Incorporation Outside of New Zealand Standard as part of this submission.
- 2.12 Our feedback is provided with the aim of supporting a robust regulatory regime. We are guided by the objectives of clarity, proportionality, and operational practicality. We support the RBNZ’s reform programme and welcome continued engagement to ensure the final Standards and Guidance are well-aligned, consistent, and capable of being implemented efficiently without undermining customer outcomes or financial system resilience.

Liquidity Standard

3 Does the exposure draft accurately set out the Reserve Bank’s liquidity requirements (both qualitative and quantitative), including decisions taken as part of the LPR? If not, what areas of the exposure draft may require revision?

- 3.1 BNZ agrees that the exposure draft broadly reflects the Reserve Bank’s previous policy decisions and provides a solid foundation for the new liquidity framework. We appreciate the effort to clearly articulate both qualitative and quantitative expectations.
- 3.2 However, BNZ notes the importance of Deposit Takers having visibility over the suite of DTA legislation before being able to provide a definitive answer to this question. For example, the liquidity exposure draft references other documents, such as the Risk Management Standard for more information on stress testing and the Risk Management Standard is not yet available. We believe greater visibility across the full framework will assist Deposit Takers in assessing consistency and operational impacts in a holistic manner.

4 Would the exposure draft and draft Guidance, as currently drafted, create any unintended outcomes? If so, please specify any issues and potential solutions.

- 4.1 BNZ notes the statement in paragraph 72 of the draft Guidance which states that the cap on Committed Liquidity Facility (CLF) holdings is intended to be uniform across all Deposit Takers. We understand the desire for consistency, however BNZ suggests that this approach may give rise to unintended consequences to the extent that there are differences in balance sheet structures across Deposit Takers. These effects may be particularly pronounced under stressed liquidity conditions.
- 4.2 BNZ noted in the Liquidity Management Review Consultation that the level of the CLF standing fee had the potential to distort CLF-eligible capital markets and introduce unintended consequences. We note this aspect is not covered in the current exposure draft. Therefore, BNZ recommends it as an area where further consultation may be beneficial to avoid unintended consequences.

5 Do you have comments on the formulation of caps in the Liquidity Standard, such as caps in relation to cash inflows, undrawn committed lines, and various components of liquid assets?

- 5.1 BNZ broadly agrees with the caps. We note that the cap on inflows is identical to the Liquidity Coverage Ratio, while the caps on undrawn committed lines (available to a Deposit Taker) and on qualifying liquid assets (QLAs) are not expected to be overly restrictive.
- 5.2 BNZ also appreciates the Reserve Bank's indication that these caps will be reviewed periodically and provide ample time before any change to these caps is implemented. We support this approach and believe it encourages stability and allows Deposit Takers to plan and adapt accordingly.

6 Do you have any views on what deposits from government agencies (if any) should be subject to a 100% run-off rate or the size band approach under the MMR?

- 6.1 BNZ supports the application of the size-band approach to government agency deposits. We do not consider that such deposits should be subject to a blanket 100% run-off rate. From a behavioural perspective, BNZ's experience suggests that government agency deposits behave differently than the market-sensitive financial counterparties, particularly during periods of stress.
- 6.2 BNZ also considers that government agency deposits should not automatically be classified as "market funding". The current definition of government agency captures a wide and diverse range of entities, many of which do not exhibit rate-sensitive or flighty behaviour. We submit that applying a uniform 100% run-off rate risks overstating liquidity risk and may not accurately reflect observed depositor behaviour.
- 6.3 Furthermore, BNZ considers that this broad classification has the potential to distort funding profiles, liquidity ratios, and compliance costs without producing a more accurate or risk-sensitive assessment of outflows during stress. Our experience indicates that many government agencies maintain stable balances over time and do not exhibit the withdrawal behaviour typically associated with market-sensitive funding providers.
- 6.4 To support clarity and consistency, BNZ recommends that the Reserve Bank publish an explicit and authoritative list of government agencies that are to be treated as ineligible depositors, consistent with the approach taken under the DCS.
- 6.5 BNZ believes it is pivotal that there is clarity regarding government agencies that are subject to a 100% run-off rate. We strongly recommend that a comprehensive list of these government agencies is made available and kept up to date by the RBNZ.

7 Do you have any other comments on the attached exposure draft of the Liquidity Standard?

- 7.1 BNZ would welcome greater clarity on the expected approach to calculating residual maturity, given its material impact on liquidity ratio reporting. For example, we recommend the Guidance usefully outline the intended treatment of deposit breaks, notice periods, and grace periods when calculating residual maturity for the Core Funding Ratio and Mismatch Ratio.
- 7.2 BNZ strongly recommends that the treatment of set-off deposits and loans be made explicit. For example, it would be helpful to confirm whether interest-only set-off deposits and loans can be modelled as net balances, while full legal right of set-offs should be modelled as gross exposures (not netted).

- 7.3 Paragraph 84 of the Liquidity Guidance refers to the exclusion of “the cashflow associated with the far leg of repurchase (repo) transactions”. BNZ seeks confirmation that this is intended to align with the treatment under APS 210 paragraph 54, where maturing reverse repurchase agreements do not give rise to cash inflows.
- 7.4 BNZ advocates for all references to “debt securities” in the Liquidity Standard be replaced with references to “deposits”. While the term “debt security” is consistent with the FMC Act, its broader scope may create unnecessary ambiguity. Using “deposit” alone would improve clarity and better reflect the wider range of products intended to be captured given that “debt security” is wider than deposit products.
- 7.5 With respect to paragraph 16(d), BNZ suggests removing references to “associated persons”, as this appears inconsistent with the single-depositor view and introduces additional complexity.
- 7.6 For look-through deposits, BNZ suggests that references to “relevant arrangements” should not be limited to those defined under the DCS. A broader catch-all approach, similar to BS13 paragraph 59(c), would better capture the range of relevant structures.
- 7.7 Clause 14(3) states that “for the purposes of calculating a Deposit Taker’s liquid assets, the value of a debt security eligible for a liquidity facility provided by the Bank is the purchase price offered by the Bank under the liquidity facility”. For the avoidance of doubt, BNZ recommends clarification that, for I-RMBS, this purchase price should be set at par as there is an absence of an observable RMBS market to determine price. We submit that this is consistent with how I-RMBS were pledged under TLF and FLP programmes.

8 Do you have any other comments on the attached draft of the Guidance to support the Liquidity Standard?

Materiality

- 8.1 BNZ believes it would be helpful for the Guidance to explicitly address the concept of materiality in relation to calculation errors. We submit that this would assist Deposit Takers to understand when a data or calculation error event occurs by conveying the threshold for advising the Reserve Bank and for making any restatement of returns.
- 8.2 BNZ understands that materiality concepts may be addressed in the forthcoming Deposit Takers (Reporting) Standard 2027, and we would welcome alignment across standards.
- 8.3 In particular, BNZ requests clarification on:
 - 8.3.1 Whether materiality thresholds will apply to liquidity ratio calculation errors.
 - 8.3.2 Alignment with capital standards where immaterial breaches do not trigger full non-compliance.

Reliance on assumptions in calculations

- 8.4 Clause 5(1) currently requires assumptions to be “necessary”. BNZ considers this threshold to be relatively high and may unintentionally constrain prudent modelling practices.

- 8.5 BNZ supports reframing this requirement to allow assumptions that are “appropriate” or “prudent”, enabling Deposit Takers to exercise judgement in light of their size, complexity, and resources.
- 8.6 It would be helpful to provide certainty that conservative assumptions can be retained across three-year reviews without needing to re-justify their necessity, unless there is a clear business rationale that justifies deviating from a conservative assumption.
- 8.7 Additionally, BNZ suggests confirming that only summary impacts on calculation accuracy are required to be reported, rather than an exhaustive mapping of all potential consequences.
- 8.8 Further guidance would be welcomed on:
 - 8.8.1 What constitutes a material assumption.
 - 8.8.2 Whether qualitative triggers or ratio impacts matter.
 - 8.8.3 Expectations on demonstrating that assumptions do not undermine robustness.

Continuous compliance vs. intra-day calculations

- 8.9 BNZ recommends that the Liquidity Standard Exposure Draft provides clearer expectations regarding the timing of liquidity testing. While the draft Standard states that quantitative requirements must be met on a continuous basis, in paragraph 13 of the Guidance, it notes that Deposit Takers will “generally” not need to calculate ratios multiple times per day.
- 8.10 BNZ notes that the inclusion of “generally” may imply that intra-day or non-business day calculations could be expected in some circumstances. These calculations would be operationally complex and costly. To provide clarity and certainty, BNZ recommends removing the word “generally”, to confirm that real-time or repeated daily calculations are not envisaged under the standard.

Depositor Compensation Scheme

9 Do you agree that a DCS depositor page should accept alternate account details from any authorised individual even if that person could not manage that account without approval from another person (n to sign)? If not, please provide suggestions on how this could be cost effectively managed by Deposit Takers.

- 9.1 BNZ agrees that RBNZ should accept alternate account details from any authorised individual, even if that person could not manage that account without approval from another person e.g. has “administration” rights only. Our customers value flexibility in how they structure and manage accounts and we support a model that accommodates these preferences. We submit that there is no simple way to limit authorised individuals access to the DCS Depositor Page without complicating how the DCS Depositor Page works and/or limiting the freedoms that are currently in place for customers to have multiple authorised individuals. In an extreme situation like a bank failure, we consider it reasonable to expect that customers with multiple authorised individuals would be motivated to ensure that the correct person within their entity submits the depositor information required.

- 9.2 We note that if the requirement at paragraph 14 of the of the DCS Standard goes ahead entities with numerous authorised individuals will automatically link all of those individuals to the Deposit Taker, enabling each authorised individual to provide alternative account details. We do not support paragraph 14 and strongly recommend it is the entities themselves who determines which authorised individual should log on and provide alternative account details rather than automatically linking all authorised individuals. This is discussed further at paragraph 15.10 below.

10 Do you agree with the proposal that the alternate model would only be available to Deposit Takers who do not offer transactional accounts, and the proposed approach to identify which Deposit Takers offer transactional accounts?

- 10.1 Yes. In principle, BNZ supports a streamlined and consistent design for DCS depositor pages across Deposit Takers, with limited exceptions where product offerings differ. For example, where a Deposit Taker does not offer transactional accounts. We believe this approach promotes a clear and efficient customer experience while appropriately recognising differences in business models.

11 DCS depositor page data will be provided to the RBNZ as it is received (for example, every 24 hours). Will you have any system constraints if subsequent transfers contain only depositor data that is new since any previous data transfers (delta data)?

- 11.1 No, BNZ does not envision any system constraints in that scenario.

12 Account authority SDV variables have been included as an account level variable to reflect submissions on the consultation document. We expect that some or many authorities may be provided at the depositor level and welcome submissions on the appropriate treatment.

- 12.1 BNZ notes that it is common for a single entity (for example, a company) to hold multiple accounts under a single set of authorities. In these circumstances, providing authority details at the depositor level could offer efficiencies. However, there are also design and operational benefits in adopting a consistent, “one-way, same-way” approach across the customer base, even where this involves repeating authority details for multiple accounts held by the same entity. On balance, we advocate for account authority SDV variables to be provided on the account level.

13 Do you foresee any difficulty in identifying temporary accounts as identified in row 36 of the table in the Guidance? Are there any further actions the DCS Standard could include that would assist, for example a delay in collating this information compared with the other SDV variables, and if so how long would be appropriate?

- 13.1 BNZ does not offer temporary accounts. However, we agree with the points raised by the NZBA in relation to this question.

14 As referred to in the data submission guidelines, are there any technical or nontechnical constraints that would prevent your institution from implementing asymmetric encryption?

- 14.1 No. BNZ does not envision any constraints.

15 Do you have any other comments on the attached exposure draft of the DCS Standard?

- 15.1 BNZ welcomes the opportunity to comment on the exposure draft of the Deposit Takers (Depositor Compensation Scheme) Standard 2027. Our comments are set out below in relevant clause order below.

Clause 6 – Requirements relating to advertising the DCS

- 15.2 BNZ notes that clause 6 of the DCS Standard exposure draft restricts “advertisements” relating to protected financial products but does not define what constitutes an advertisement. BNZ recommends providing a clear definition of advertisement to improve certainty and support consistent implementation. In particular, we suggest clarifying that non-promotional materials (such as disclosure statements, annual reports, and mandatory product lists) are explicitly excluded.
- 15.3 In relation to clause 6(3), which restricts references to DCS protection for revolving credit products, BNZ believes there is potential for customer confusion given these products are included in the official list of protected deposits. We submit that allowing factual references to DCS protection would promote transparency and assist customers to make informed decisions.
- 15.4 At BNZ, our Depositor Compensation Scheme page clearly states that “only positive balances on lending/credit products will be protected”, and our relevant product pages similarly explain that positive balances are covered under the DCS. BNZ submits that this approach has proven effective in supporting customer understanding. We therefore strongly encourage the Reserve Bank to reconsider the restriction on factual references to DCS protection for revolving credit products.
- 15.5 Similarly, we believe the restrictions in clauses 7(3) and 8(3) on the use of the DCS logo for revolving credit products may be unnecessary and could create inconsistency, particularly as these products will appear on the Deposit Taker’s list of protected deposits under section 193 of the DTA. BNZ submits that by allowing consistent use of the DCS logo would help reinforce clarity and confidence for customers.

Clause 10 – Deposit Taker must provide DCS information sheet

- 15.6 BNZ supports providing customers with accessible and transparent information about the DCS. Our experience with similar disclosure regimes, such as the Financial Advice regime and CCCFA, suggests that standardised information sheets are most effective when delivered at meaningful points in the customer journey. We have also found customers are most engaged with the information when they are able to discuss questions with bank staff and being able to find/receive relevant information when they want it. Clause 10(1) of the DCS Standard requires Deposit Takers to provide a copy of a “DCS information sheet” to an authorised individual when placing a protected deposit. BNZ submits that this requirement will have limited benefit for customers given the broad range of publicly available information about the DCS. We believe customers are likely to consider it a compliance document that is readily dismissed, often unread.
- 15.7 To ensure this requirement adds value for customers, BNZ suggests clarifying in clause 10 whether the DCS information sheet must be provided each time a customer makes a deposit or opens a new account. We strongly suggest that under clause 10, the information sheet is only required to be provided at account opening. BNZ believes this is a more customer-centric approach which maintains transparency whilst avoiding information fatigue.
- 15.8 BNZ recommends that given DCS information is already widely available (including on Reserve Bank and Deposit Taker websites), customers could be directed to these resources instead of receiving repeated information sheets. However, if the requirement remains, we recommend:

- 15.8.1 Clarifying that electronic delivery (e.g., a link) is sufficient; physical mail is not needed.
- 15.8.2 Consideration be given to whether existing customers need to receive the sheet given that by the time this requirement comes into force customers will have had a benefit of the DCS for three years already.
- 15.8.3 The sheet should only be provided once per depositor, ideally during onboarding, not every time a new account is opened or deposit made.
- 15.8.4 Only one authorised individual per account should receive the sheet, not all.
- 15.8.5 Record-keeping requirements for compliance should not be overly burdensome.

Clause 12 – DCS depositor page must collect depositor information

- 15.9 BNZ assumes that the definition of account details in clause 12(3) of the DCS Standard is intended to mirror confirmation of payee detail requirements, enabling Deposit Takers to incorporate this into their DCS system. If this is correct, we strongly recommend the Reserve Bank clarify this intent in the Standard or the DCS Guidance.

Clause 14 – DCS depositor page must collect depositor information in respect of depositor

- 15.10 We note that the DCS Standard (and the Guidance) require a Deposit Taker to identify each depositor for which a person is an authorised individual and allow depositor information to be provided for each of those.
- 15.11 BNZ recognises the benefits of enabling the DCS depositor page to identify all depositors for whom a person is an authorised individual, as this could streamline the process for customers and the Reserve Bank. However, we caution that this would require material system changes, significant technology investment, in order to give effect to it, which could result in errors. This is because at BNZ authorised individuals use different authentication methods for different types of accounts. For example, at BNZ we have separate apps/web pages for Business and Personal accounts, therefore the log-in credentials are completely different, separate and not linked. Given that customers have different logins and methods of logging in for different types of accounts, it would be challenging for the bank to link these in a back-end process, and this could result in errors.
- 15.12 Our customers expect to use different applications and logins for the different types of accounts they manage and therefore we strongly suggest and would welcome further engagement with the Reserve Bank to explore proportionate solutions to balance customer convenience with operational practicality.

Clause 18 – Activating DCS depositor page

- 15.13 As noted in the DCS Guidance, unlike the Deposit Takers (Depositor Compensation Scheme Transitional Provisions) Standard 2025 (Transitional Standard) where it is optional, clause 18(2)(b)(i) of the DCS Standard proposes to prohibit Deposit Takers from deactivating view access for authorised individuals following the activation of a DCS depositor page.

- 15.14 It is BNZ's understanding that the primary purpose of the page is to provide a mechanism for customers to provide alternate account information to ensure they receive the amount they are eligible for on their protected deposits. We submit that information about customers' account balances and transaction records could be made available to them later. We seek clarity as to why it is a requirement that customers need to be able to view this information immediately on failure.
- 15.15 We submit that if this requirement goes ahead, BNZ would need to redesign its DCS depositor page which currently works on the basis of shutting down access to BNZ's apps and websites and once they are authenticated redirecting customers to a web-based form to provide the required information. This would require a significant change to reconfigure our technology to enable access to the DCS depositor page and view only access of accounts. As noted in the NZBA submission, how and when transactional information is provided to customers post a failure could be considered as part of establishing the roles and responsibilities under the Crisis Preparedness standard. If this submission is not accepted, we request that RBNZ considers the additional cost and time required for such a re-build (which we understand is an issue across the industry) and that this is factored into the overall timeline.

Comments on Single Depositor View requirements

- 15.16 We support NZBA's comprehensive submission relating to the SDV requirements. However, we would like to reiterate that there are several mandatory fields included in the DCS Data Submission Guidelines that we were not expecting to see namely:

15.16.1 Field 11 – IRD number;

15.16.2 field 21 - Post code;

15.16.3 field 22 - Country;

15.16.4 field 23 - Email address;

15.16.5 field 24 - Phone number 1;

15.16.6 field 38 – Accrued interest amount;

15.16.7 field 49 - Authority: Post code;

15.16.8 field 50 - Authority: Country;

15.16.9 field 51 - Authority: email address;

15.16.10 field 52 - Authority: Phone number;

- 15.17 We also note that a temporary high-balance flag has been included, but no guidance has been provided. BNZ submits that further detail from RBNZ is needed before we can meaningfully comment. We believe implementing such a flag may be operationally challenging due to the many factors influencing temporary high balances, for example, the house-sale scenario in section 455(1)(g) of the DTA is only one illustration.

- 15.18 BNZ requests confirmation from the Reserve Bank that Deposit Takers may rely on its published list of ineligible Government agencies (May 2025) when preparing SDV files and calculating protected deposits for DCS levies. We also ask the Reserve Bank to clarify whether Deposit Takers are only required to identify Government agencies on a “best efforts” basis.
- 15.19 We submit that including the accrued interest amount in the SDV file should not be a mandatory field (i.e. it should only be provided when details are available). Making accrued interest mandatory could add significant time and complexity to preparing SDV files and could slow down a payout or resolution process. Making the accrued interest amount field mandatory also seems to be contradictory to the obligations under section 218 of the DTA, which allows for estimates if accurate values are not available.
- 15.20 We encourage RBNZ to engage with Deposit Takers to ensure that, where practicable, the design principles and processes underpinning the SDV file are aligned with those used for the loan-level data project.

16 Do you have any other comments on the attached draft of the Guidance to support the DCS Standard?

- 16.1 No, at this time BNZ does not have any other comments on the draft Guidance to support the DCS Standard.

Lending Standard

17 Do you have comments on the structure of the attached exposure draft of the Lending Standard?

- 17.1 BNZ supports the overall structure of the exposure draft of the Lending Standard (Lending Standard ED), including the integration of requirements for LVR and DTA restrictions, supported by accompanying guidance. We also welcome the proposed approach of identifying the nature of lending at the start of the process.
- 17.2 BNZ understands that RBNZ’s overarching intent in the new Lending Standard is to reflect the existing regulatory requirements and compliance expectations currently set out in BS19 and BS20. We would welcome confirmation that this understanding is correct, as our support for the proposed structure is premised on this alignment. We also acknowledge RBNZ’s stated intention that the exposure draft is not intended to introduce substantive changes to borrower-based macroprudential policy, but rather to make technical refinements.
- 17.3 However, we note that the exposure draft includes a number of drafting changes to key definitions which, on face value, could be interpreted as altering existing meanings. These matters are explored in more detail in the NZBA submission. For completeness, we reiterate our key concerns below:

- 17.3.1 The Lending Standard ED introduces a new term “residential housing loan”¹ to replace the term “residential mortgage loan”². The differences between these two definitions seem relatively minor except for the fact that the definition of RML expressly excludes mortgaged property that is predominantly used for farming or commercial purposes. It is not clear to us whether this exclusion is intended to be addressed by aspects of the new definition or not, and therefore, to avoid any confusion we suggest that the new definition of residential housing loan should be amended to expressly include this exclusion.
- 17.3.2 Relatedly, we note that there is no definition of “residential land” included in the exposure draft. BNZ suggests that defining “residential land” would help to understand the new residential housing loan definition.
- 17.3.3 We also note the adoption of the term “credit contract”, drawn from the CCCFA, rather than using the simpler term “loan”. While we understand the intent to align terminology, we suggest this change is unnecessary and believe it may introduce additional complexity, particularly if the CCCFA definition evolves over time. From a usability perspective, we consider it beneficial for the Lending Standard to operate as a largely self-contained instrument, minimising the need for cross-referencing to external legislation.
- 17.3.4 BNZ recommends using the BS20 definition of “income” in the Lending Standard ED. The Lending Standard ED does not currently include a definition of income, and we believe this definition helps articulate more clearly what may be included or excluded when assessing a borrower’s DTI.
- 17.3.5 The Lending Standard ED uses the term ‘*first advance*’ instead of the previous ‘*loan commitment date*’. This may create confusion, as ‘*advance*’ implies the point at which funds are actually drawn down, rather than the earlier point at which the loan is contractually committed and DTI, LVR, and capital requirements are assessed. To avoid ambiguity, we recommend including a definition of ‘*loan commitment date*’ to clearly distinguish this earlier stage.
- 17.3.6 The Lending Standard ED does not have an explicit category for combined collateral as is the case in BS19. However, there is no change to the current policy intent – that is, if the loan has an LVR greater than the high-LVR threshold for investors and an LVR less than or equal to the weighted average LVR threshold, it is not included in the calculation of qualifying credit amounts (i.e., it is ‘exempt’ from LVR restrictions). This is included as a provision for the calculation of qualifying credit amounts in the draft

¹ residential housing loan means a credit contract secured by a first mortgage over residential land on which a dwellinghouse is erected or, if no dwellinghouse is erected, the credit provided under the loan is to be used, in whole or in part, for the erection of a dwellinghouse

² RML means a loan secured by a first ranking mortgage over a residential property used primarily for residential purposes by the mortgagor, a related party of the mortgagor, or a tenant of the mortgagor. A loan may not be classified as a RML if the mortgaged property is predominantly used for farming or commercial activities. A property will be considered to be predominantly used for farming or commercial activity if, for example,— a. the mortgaged property would be marketed as a farm or a commercial property; or b. the principal or interest payments are predominantly serviced from the income generated by the use of the property for farming or commercial activity, except where that income is rental income and the property is used for a residential purpose. For the purpose of this section, predominantly means more than 50%.

Lending Standard. For reporting purposes, this will be classified as ‘cross-security finance’, which is analogous to the current combined collateral category.

17.3.7 BNZ notes that there are significant drafting changes to the calculation of “business income” set out in paragraph 87 of the Lending Guidance compared with the calculation of “business income” under BS20. This is particularly evident in relation to how a Deposit Taker should calculate the available “business surplus” that can be counted towards a person’s income. Given its operational significance, we strongly suggest RBNZ confirms the policy intent is not to alter the way banks currently make this calculation.

17.3.8 The draft guidance offers limited direction on how Deposit Takers should practically verify income or exercise judgement when deciding which income sources to include in the DTI calculation. Under the previous BS20 framework, Deposit Takers could apply a materiality threshold, allowing small or immaterial income sources to be excluded from verification and DTI assessment. We submit that this provided useful operational flexibility and ensured that compliance efforts remained proportionate to risk.

17.3.9 With the removal of this threshold in the Lending Standard, it is unclear whether all income (regardless of relevance or significance) must now be verified and included. This could be interpreted as requiring full verification of every income source, representing a notable shift from current practice and potentially creating operational burdens, customer inconvenience, and competitive challenges. We recommend that the Reserve Bank clarify whether this reflects an intended policy change from BS20, and if so, outline its expectations for how Deposit Takers should treat immaterial or de minimis income sources.

18 Does the attached exposure draft of the Lending Standard and the draft Guidance set out LVR and DTI exemptions clearly enough (noting that these are now framed as ‘nature of lending’ categories)?

18.1 We agree that the exemptions are set out clearly and support the reframing of these as ‘nature of lending’ categories, which we consider intuitive and helpful. As a minor enhancement, BNZ suggests broadening the definition of “Kāinga Ora” to include any successor agency or successor first-home scheme. This would help future-proof the Standard against institutional changes, while still allowing the guidance to reference Kāinga Ora specifically (nothing that the guidance can be updated in the future).

19 Do you have comments on the changes to LVR and DTI exemptions (noting that these are now framed as ‘nature of lending’ categories)?

19.1 BNZ does not have any comments on this.

20 Do you have comments on including a range of high-LVR and high-DTI thresholds and speed limits, without increments?

20.1 No additional comments, other than to note we support the points raised in the NZBA submission.

21 Do you have comments on the approach to anti-avoidance?

21.1 No additional comments except to note that we agree with the point of clarification requested in the NZBA submission.

22 Do you have comments on the proposed transitional arrangements?

- 22.1 We would like to express our support of the points made on this in the NZBA submission. In particular, the request that RBNZ provide clear guidance on the treatment of loans originated during the transition period and to confirm that no retrospective compliance will be required.

23 Do you have any other comments on the attached exposure draft of the Lending Standard?

- 23.1 We have included all our comments on the Lending Standard in the points above.

24 Do you have any comments on the attached draft of the Guidance to support the Lending Standard?

- 24.1 In addition to the drafting comments noted above in relation to income verification, we are interested in the general effect of the guidance on the Deposit Takers industry. While we acknowledge that the guidance is not legally binding, we expect it will serve as an important reference point in interpreting and applying the Lending Standard. In practice, this creates an expectation that Deposit Takers will align their policies and procedures with the guidance.
- 24.2 This “soft-law” effect may result in the guidance being applied more prescriptively than intended, potentially leading to inconsistent or overly cautious compliance practices across the industry. To address this, we recommend that the Reserve Bank clarify how it intends the guidance to be used in supervision and enforcement, including the relative weight it will place on the guidance versus the Lending Standard.

Should the RBNZ have any questions in relation to this submission, please contact Paul Hay on the details below:

Yours sincerely

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Āpiha Matua: Waeture me te Tūtohu (Chief Regulatory and Compliance Officer)
Bank of New Zealand

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