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Reserve Bank of New Zealand – Te Pūtea Matua
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By Email

Submission on 2025 Review of key capital settings

- 1 Chapman Tripp makes this submission in relation to the 2025 Review of key capital settings policy proposals¹ (*Consultation*) published by the Reserve Bank of New Zealand – Te Pūtea Matua (*Reserve Bank*) on 25 August 2025.
- 2 We commend the Reserve Bank for undertaking the current capital review and the work that has gone into the Consultation. Our submission does not purport to represent the views of any of our clients. We have no objection to our submission being published.
- 3 We have provided below some overarching comments, together with specific responses to relevant questions in the Consultation (under their respective question headings). We have not sought to answer all questions in the Consultation.
- 4 If you would like to discuss any aspect of this submission, please contact:

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Overarching comments

We generally support a move towards internationally orthodoxy, but care is needed to properly address New Zealand market specifics and bolster capital markets access

- 5 The Consultation demonstrates a general intention to further align New Zealand's capital settings with international practices. We generally support this high level intention.
- 6 Investment capital is increasingly internationally mobile as digitisation and payment technology develops. Further, while bank core funding is currently comprised of an elevated percentage of deposits rather than market funding (as noted in the Consultation), many New Zealand banks are more likely to require ready access to a

¹ https://consultations.rbnz.govt.nz/prudential-policy/review-of-key-capital-settings/user_uploads/consultation-paper-review-of-key-capital-settings.pdf



range of offshore markets for the remainder as unexpected periods of heightened volatility in different markets become more frequent. To maintain ready access to capital and encourage participation from international investors, it is vital to minimise unnecessary deviations from international practices.

- 7 However, this should not mean a wholesale adoption of such international practices without tailoring to prevent unintended consequences. In particular, settings should be favoured that:

7.1 Acknowledge New Zealand's relatively small size; and the relatively small size of much of New Zealand's bank population compared to international comparators. As has been seen in previous consultations, Basel settings can be defined in ways that implicitly assume much larger market sizes with a greater number of banks and diversity of capital market participants. From a prudential capital perspective, tailoring should be considered in particular where adopting Basel settings would have adverse impacts on the diversity and strength of New Zealand's markets, and banks' ability to access them.

7.2 Facilitate banks effectively raising capital domestically (and internationally), diversifying investor bases to spread the impact of a bank failure and effectively support financial stability. We consider that maintaining diversity of funding and allowing for instruments that effectively tap into the New Zealand market's demand profile would assist to provide financial stability.

- 8 We consider, for example, that the matters in paragraphs 7.1 and 7.2 should be included in the specific financial stability criteria on pages 17-18 of the Consultation (in addition to the narrower criteria of funding costs).

Capital setting determinations should be forward-looking to support a changing bank population

- 9 We note the proposals to potentially require Group 1 deposit takers to issue capital internally to Australian parents. We consider that any such decision needs to be very carefully considered, as it appears designed to solely work with the status quo where each such deposit taker being owned by an offshore bank parent.
- 10 In addition to the concerns raised above about maintaining diverse funding sources and the capital market strength for financial stability, such a setting could also actively discourage or prevent any other bank in the future from being able to effectively become a Group 1 deposit taker (and the Reserve Bank's potential ability to engineer changes in ownership of Group 1 deposit takers in distress scenarios).
- 11 We consider that it would be more prudent, and clearer conceptually, to design settings that are agnostic to the ownership structure of Group 1 deposit takers. That is, while internally issued capital may be available as an option, making it the sole acceptable approach for Group 1 risks increasing barriers to growth and the ability of the market to adapt and evolve.
- 12 At the other end of the scale, we encourage the Reserve Bank to consider private market options that may allow banks in general (including Group 3 deposit takers



and other smaller banks) to efficiently raise capital, and ensure that such options are not unnecessarily precluded by the requirements of the design.

- 13 For instance, such measures could potentially include:
- 13.1 consideration of aggregator models for regulatory capital (potentially allowing for smaller individual banks to issue through a dedicated aggregator fund or issuer to effectively increase offer sizes); and
 - 13.2 broader changes to risk weight settings and guidance to facilitate internationally tested structures such as broadened securitisation coverage and significant risk transfer (SRT) transactions.

Any move to an SPE approach should be made as part of a general consolidation of Reserve Bank resolution tools

- 14 As a related point to the above, we note the Reserve Bank's consideration of a 'single point of entry' (or *SPE*) approach to resolution of Group 1 deposit takers (see page 26 of the Consultation).
- 15 We understand the Reserve Bank's intention would be to shift generally towards such an approach as first preference, maintaining Outsourcing (and separation) and Open Bank Resolution (*OBR*) as 'fallback options'. This is also in addition to remaining statutory management options, and additional mechanics for the Depositor Compensation Scheme. With an increasing number of such tools, we are concerned that the complexity required to allow them to coexist and operate cohesively is increasing exponentially.
- 16 We submit that it may be more helpful to further develop the Reserve Bank's crisis management approach, and then consider which tools remain relevant or would benefit from further development; rather than first requiring potentially unnecessary development of redundant approaches.

Review should be coordinated with other intersecting Reserve Bank workstreams

- 17 The Reserve Bank is undertaking a range of other development workstreams that may intersect (and potentially conflict with) the capital review. We strongly encourage the Reserve Bank to ensure that the capital review appropriately considers those other workstreams.
- 18 For instance, while the ongoing consideration of statutory bail-in is mentioned once in the Consultation (on page 26), is not clear if this is being considered in the context of discussion of an introduction of LAC and regulatory capital settings more generally. It is also unclear the extent to which Select Committee recommendations to further encourage offshore fintech participation in New Zealand, the Reserve Bank's separate consultation to open up use of the restricted word 'bank' to all deposit takers, have been considered in developing the Consultation.



Chapter 1 (Introduction)

Q1 Do you have any comments on the proposed assessment criteria?

- 19 In relation to the proposed financial stability criteria, we generally agree with the proposed list on pages 17 and 18. However, as we discuss in paragraphs 5 to 8 above:
- 19.1 Items 6 (simplicity/achievability) and 7 (international alignment) are key aspects, but must be applied appropriately in the New Zealand context.
- 19.2 In addition to item 5 (cost), the criteria should also clearly consider ability banks' ability to appropriately target market demand with relevant regulatory capital.

Q2 Do you have any comments on the appropriate risk appetite for New Zealand's capital settings?

- 20 We agree with reassessing New Zealand's risk appetite (and moving away from a '1 in x' year approach) and reflecting a shift away from extreme focus on increasing capital, consistent with changes in approach in a range of other jurisdictions (as has been mentioned in the Consultation).
- 21 We consider that care is still required as New Zealand's economy remains at a generally difficult part of the cycle (appreciating any changes are not expected to come into force until 2028). We also note the comments on page 34 of the Consultation, that increased government net debt may limit the ability of future governments to intervene during a financial crisis. Given the extended time expected for government net debt to reduce, we strongly agree with consideration of this factor in capital settings.

Chapter 3 (Capital stack options)

Q7 Do you have any feedback on the two high-level options for Group 1?

- 22 We are concerned that an 'internal only' regulatory capital model for Group 1 deposit takers would be problematic, as discussed in paragraphs 9 to 11 above.

Q9 Do you have any feedback for the proposal for Group 2?

Q10 Do you have any alternative proposals?

- 23 We consider that the current Tier 2 approach should be maintained for Group 2 – RB needs to ensure it maintains clarity for the market here.



Chapter 4 (Additional tier 1)

Q27 Do you have any views on the most appropriate transitional arrangements, including how Additional Tier 1 capital instruments should be recognised after any possible removal?

- 24 We consider that transition mechanics will need to be considered carefully. On its face, recognising existing Additional Tier 1 as Tier 2 may create an excess or unbalanced proportion of Tier 2 instruments for some issuers.
- 25 We consider that a hybrid approach may be a workable approach, under which existing instruments continue to be recognised as Tier 1 capital for a period from 2028, with the increasing 'derecognised' proportion included in Tier 2 until redemption

Chapter 5 (Standardised risk weights)

Q29 Do you agree that the Reserve Bank should introduce more granular standardised risk weights for mortgage, corporate and agricultural lending?

- 26 We agree with the proposal to introduce more granular standardised risk weights.

Q41 Is there anything else you think we should consider when contemplating changes to standardised risk weights or analysing their impacts?

- 27 As discussed above in paragraph 13.2, we encourage the Reserve Bank to consider further changes to risk weights, to allow for more efficient use of capital in accordance with internationally tested approaches (that in turn reduce the need for banks to separately raise regulatory capital). This would include consideration of broadened securitisation coverage and significant risk transfer (SRT) transactions.

Yours sincerely

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