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By email: capitalreview@rbnz.govt.nz**Submission on RBNZ Consultation Paper on 2025 Review of key capital settings**

We welcome the opportunity to submit on the Consultation Paper referred above. Given our role in the market and nature of our business, we have focussed our submission on several specific questions, providing a market-based view. We believe we are well placed to provide such views, given our well-established position in the market, with Forsyth Barr either managing or advising on over \$32 billion of client assets, in addition to Forsyth Barr's extensive experience in bank regulatory capital issues over the past 20 years.

Q7 *Do you have any feedback on the two high-level options for Group 1?***Q8 *Do you have any alternative proposals?***

In relation to the two questions above, we strongly advocate that any Tier 2 or LAC capital be external as well as internal.

The domestic market has been a strong supporter of bank regulatory capital issues (including Tier 2 capital) over the past 25 years. We believe that both institutional and private wealth investors would welcome the opportunity to continue to participate in this market, in addition to any new LAC instruments, noting that the size of private wealth funds now totals \$46.3 billion (source: [RBNZ Managed Funds Survey - Q2 2025](#)). The market has demonstrated over a long period the ability to understand and accept a variety of securities over the years, and we believe could contribute to an LAC capital layer.

We believe that having externally provided capital will benefit the banking system and the broader economy as a whole, by increasing external market scrutiny on the domestic bank issuer. Investors will analyse and consider bank issuers both when they initially come to market, and ongoing as the securities trade in the secondary market. Externally provided capital would also contribute to a bank's ability to fund themselves in their own right (as opposed to being solely dependent on its parent).

Opening Tier 2 and LAC to external investors will also provide investment opportunities for investors who currently hold AT1 securities which are likely to be repaid. The domestic market does not have the steady supply of issuers and issues seen in offshore markets (such as Australia), and bank regulatory capital has significantly contributed to the NZ market over the past 20 years. Any decision around internal/external provision should have regard to this.

Q25 *Are there any other factors that you think we should take into account in making this decision?*

Whilst acknowledging the basis for removing Additional Tier 1 (AT1) capital as a form of regulatory capital (as set out in the Consultation Paper), it should be noted that this will have a significant detrimental effect on the domestic market.

AT1 paper has enabled investors to gain a quasi-equity exposure to the banking sector, with the commensurate risk and return profile. This exposure has been valuable to local investors, particularly given the shortage of listed equity opportunities in locally incorporated banks. These types of instruments (in addition to Tier 2) have provided retail investors with a broader range of quality investment products.

Note that lack of such variety has been considered as one of the key weaknesses by previous capital market taskforces in studies of New Zealand's capital markets. Well-functioning capital markets are considered to be essential for strong economic growth, and would prove invaluable if a large bank needed domestic capital support at some point.

Accordingly, whilst it appears that the removal of AT1 capital is very likely to be the case, the consequences of such a step with regards to the wider market and economy should be noted.

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?*

We believe that an approach that supports existing AT1 issues running to their first call dates to be least disruptive to the market, rather than a more sudden timing, which may result in significant amounts coming back to investors at a time when interest rates are at their lowest levels for several years. We understand that this approach would be consistent with the Australian market.

Yours sincerely
Forsyth Barr Limited