

21 September 2025

To: Reserve Bank of New Zealand

Wellington

New Zealand

Consultation Document: 2025 Review of Key Capital Settings

Dear Sir/madam,

Thank you for the opportunity to provide feedback on the various proposals contained in the latest capital consultation document dated 25 August 2025.

To provide some context to this submission and my responses, I advise I have had a 40 year banking career in New Zealand. For approximately 10 of those years, I was responsible for calculating credit risk capital under both the Internal Ratings Based and Standardised methodologies for two separate NZ banks. These methodologies were post the implementation of the Basel II Frameworks in New Zealand in 2007. In these roles, I also contributed to bank and industry responses to a range of capital consultation documents.

While I welcome the proposed changes in approach to key capital settings I am disappointed that some of the core weaknesses of the existing adequacy framework remain.

At the outset of Basel II implementation in NZ, RBNZ chose to implement a range of risk weight factors that were substantially more conservative than those recommended under the Basel Standardised methodology. During the course of the 2019 Capital Review, RBNZ chose factors that varied even further from those recommended under Basel III. This created substantial differences between the risk weights calculated under the approved internal ratings models and those under RBNZ's standardised methodology. RBNZ then attempted to minimise those differences through the use of larger output floors and scalars. The result of these continuing differences is that the four Australian owned banks have a substantial capital advantage compared to the NZ owned banks which has helped to lessen competition as the NZ owned banks have generally struggled to grow capital levels sufficient to meet the increased capital adequacy requirements while also making necessary IT and compliance investments in their businesses and supporting market share growth. The RBNZ approach has added costs for all NZ borrowers and tilted all the banks to favouring the housing market over the productive sectors.

My detailed responses are provided within the attached document however I have a number of core recommendations for consideration by the review panel:

1. **Pause further capital increases.** The current timetable for further increases in capital ratios should be paused from the end of 2025. The Review document's comparison of capital ratios across overseas jurisdictions shows the NZ banks are already very highly capitalised compared to

peers. Any further increases should be delayed until this consultation is complete and the shape of the final settings are known.

2. **Adopt the BIS standardised risk weights as is.** RBNZ should only adopt more conservative risk weights where past industry experience or reasonably supported modelling suggests that the Basel standardised risk weights understate the credit risks in the equivalent NZ asset class. I am not aware of any such evidence. The international comparisons in the review paper show that the higher scalar and the more conservative risk weights differences explain most of the differences in the reported capital ratios between the NZ and overseas jurisdictions. While this review's recommendations would narrow the gap between NZ risk weights and those in the Basel Framework, it will still mean that NZ capital ratios remain out-of-line with overseas peers – and materially lower on a headline basis. There are no benefits for any stakeholders from this reduced transparency and from being out-of-alignment with international benchmarks. Indeed I will show that unnecessarily conservative risk weights actually serve to increase financial system risks rather than reduces them.
3. **Focus on the quality and amount of capital necessary to support capital adequacy.** Any capital adequacy conservatism should be expressed via the amount and structure of capital (the numerator of the capital ratio) rather than via higher risk weights (the denominator).
4. **This is the time for a more fundamental capital reset.** There have been numerous capital adequacy reviews and regulatory changes over the last 8 years along with the Commerce Commission's market study and the Finance and Expenditure Committee's enquiry. The international comparison shows that past approaches generate capital ratios that materially under-represent NZ bank's capital strength. The proposed options are still too cautious to resolve that problem and will only partially address existing concerns about the provision of lending between various asset classes as well as levelling the playing field across the 3 groups of banks identified in this review. The options proposed need to go further to better address these expressed concerns. This review is the best chance for RBNZ to implement settings that reflect international best practice rather than continue past approaches that sought to satisfy a pre-determined agenda requiring additional capital. The resulting unique NZ settings have served only to leave all stakeholders dissatisfied with the outcomes. Those settings ultimately obscure the capital strength of the NZ banking industry while adding further funding costs that ultimately fall on all NZ borrowers.

This review of capital settings is important for the industry and the NZ banking public. I am willing to provide additional feedback and to answer any additional questions in relation to my responses to the specific questions set out in the consultation document.

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