

# 2025 REVIEW OF KEY CAPITAL SETTINGS

Westpac New Zealand Limited's  
response to the Reserve Bank of  
New Zealand's Consultation Paper.

3 October 2025



# Introduction

This submission to the Reserve Bank of New Zealand (**RBNZ**) is made on behalf of Westpac New Zealand Limited (**Westpac NZ**) in respect of the Review of Key Capital Settings Consultation Paper (**Consultation Paper**). Thank you for the opportunity to provide feedback on the proposed capital framework.

Westpac NZ has reviewed and contributed to the New Zealand Banking Association's (**NZBA**) submission on the Consultation Paper. Westpac NZ supports that submission and requests that this submission is read alongside that.

Westpac NZ requests that certain aspects of this submission are withheld to:

- Protect the privacy of natural persons; or
- Protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information.

Westpac NZ's contact for this submission is:



Westpac New Zealand Limited  
16 Takutai Square  
Auckland 1010

# Section 1: Executive Summary

Westpac NZ welcomes the RBNZ's review, which is a timely opportunity to ensure New Zealand's capital settings strike the right balance between resilience, competition and macro-economic productivity. Westpac NZ's response to this review is structured in three sections:

- Section 1 is an Executive Summary which provides a high-level overview of our feedback regarding the RBNZ's key proposals.
- Section 2 sets out Westpac NZ's suggestions regarding specific amendments the RBNZ could consider to further enhance its headline capital ratio settings and risk weight calculation methodology across a range of asset classes.
- Finally, in Section 3 we provide Westpac NZ's responses to the 55 questions in the Consultation Paper.

## A step in the right direction through greater international alignment

- Westpac NZ is supportive of changes to the capital settings which result in greater international alignment with comparable countries. Examples include the RBNZ's proposals to remove Additional Tier 1 (**AT1**) capital to align with Australian Prudential Regulatory Authority (**APRA**) standards and the introduction of more granular risk weighting to better reflect different lending risk profiles. Such initiatives will increase alignment of our rules to global standards, which is positive for New Zealand as it supports comparability with international peers. We conceptually support the RBNZ's proposal to introduce new crisis management Loss Absorbing Capacity (**LAC**) tools in the context of lowering future Common Equity Tier 1 (**CET1**) requirements. Westpac NZ is also supportive of the analysis undertaken by Oliver Wyman in providing a comprehensive globally harmonised comparison of New Zealand bank capital settings relative to comparable international banking systems.

## However, under the RBNZ's current proposals, Group 1 deposit takers would remain significantly more conservatively capitalised than international peers

- The changes proposed in the Consultation Paper are unlikely to materially change the position that, by 2028, New Zealand will be the most highly capitalised banking system among peer countries by a sizeable margin. Oliver Wyman's report forecasts that when the current capital framework is fully implemented in 2028, New Zealand Group 1 deposit takers will have a harmonised CET1 ratio of 25%. This would be significantly higher than the current CET1 ratio of the closest comparator country (Norway at 21.4%). CET1 requirements are, by a considerable margin, the most important and expensive form of capital in terms of directly influencing shareholder returns, bank lending volumes and pricing decisions.
- Both options presented for the capital stack would still result in Group 1 deposit takers needing to hold materially higher minimum levels of CET1 capital than they are currently required to hold (as at September 2025).
- The Consultation Paper does not explain why New Zealand should continue to maintain levels of CET1 capital which are currently (and would remain) much more conservative than comparator countries.
- Under Option 1, even though the composition of the capital stack would change, this proposal would largely maintain the overall level of CET1 capital that Group 1 deposit takers must hold even after the proposed changes to standardised risk weights are implemented. This is because the estimated [REDACTED] bps change in Westpac NZ's CET1 capital from the RBNZ's proposed standardised risk weight changes is largely offset by the proposal to increase future Group 1 CET1 headline ratio requirements by +50bps from 13.5% to 14%. Group 1 deposit takers – and by extension their customers (representing approximately 85% of the New Zealand market) – would receive only a very marginal CET1 capital reduction when compared to the

current capital framework. Combined with the absence of internal LAC, which would be inconsistent with a Single Point of Entry (**SPE**) resolution framework, Westpac NZ does not support Option 1.

- Westpac NZ is conceptually supportive of Option 2, noting that it facilitates a SPE resolution framework, subject to several key amendments as outlined in Section 2 below. Under this option, we believe the introduction of a sizeable new layer of LAC should facilitate a larger reduction in CET1 requirements. Westpac NZ's support of Option 2 is contingent on any internalised LAC instrument being structured in a manner that complies with APRA (APS111), Financial Stability Board (**FSB**) or Basel Committee on Banking Supervision (**Basel**) requirements (such as including conversion or write-off triggers at point of non-viability (**PONV**)). Option 2 amended would unlock significantly greater benefits for our customers and the broader economy, while ensuring closer alignment with comparable international banking systems.

### Further adjustments to the proposals will unlock greater benefits for New Zealand

- We believe there is an opportunity for the RBNZ to make several improvements to these proposals to deliver greater productivity benefits to New Zealand households, businesses and the broader economy. We believe such changes can be implemented in a proportionate way without compromising competition or financial system resilience.
- In Section 2 below, we outline in detail Westpac NZ's suggested improvements and model the outcome these changes could have on the economy, which are focused on four key areas:
  1. Reduce headline capital ratio requirements
    - Westpac NZ believes the 12% CET1 requirement proposed under Option 2 remains too high, especially when noting the Consultation Paper (page 62) states *"...the major banks' adjusted CET1 ratio would still be the highest in the set of comparator countries with either option."* We recommend the CET1 ratio for Group 1 deposit takers under Option 2 be aligned with APRA as our closest comparator at 10.5%, noting APRA is widely regarded as being one of the most conservative regulators globally.
  2. Further alignment of standardised risk weightings
    - Westpac NZ supports the RBNZ's proposal to reduce standardised risk weightings across certain areas of lending. However, Westpac NZ believes these reductions do not go far enough. We see further opportunity to align our standardised risk weightings more closely with global standards, including Basel and APRA (for example, for residential mortgage lending (**RML**) and personal lending).
  3. Create a new capital treatment for third-party securitisation
    - Third-party securitisation was specifically discussed in the Finance and Expenditure Committee (**FEC**) report on the inquiry into banking competition (**FEC Report**) (section 3.5) as supporting the growth of smaller lenders. Under the current RBNZ standardised rules, unrated exposures are conservatively risk weighted at 100%. APRA and Basel have a standalone capital treatment for this asset class to more accurately reflect the risk of the underlying assets. In practice, this means the RBNZ's capital requirements are approximately three times larger and therefore much more conservative for the same asset class compared to APRA. This has negative consequences from a competition perspective for small New Zealand deposit takers and financial institutions who rely heavily on securitisation warehousing<sup>1</sup> to fund their businesses and provide financing to their customers. We believe replicating global standards, for example APRA's approach for unrated exposures, would significantly enhance competition and growth prospects for smaller deposit takers and financial institutions. The RBNZ has taken a number of positive steps during this consultation process towards enhancing competition, which Westpac NZ supports. We believe prioritising this third-party securitisation recommendation would enhance competition even further.

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<sup>1</sup> Refer to Appendix 1 for further information on third party securitisation, including the securitisation warehousing provided by Group 1 deposit takers.

#### 4. Alignment of the Output Floor and internal-ratings based (IRB) Scalar

- While Westpac NZ understands, based on feedback during the RBNZ's Capital Review Webinar on 2 September 2025, that the Output Floor and IRB Scalar are not currently in scope for this review, it is difficult to achieve greater international alignment without highlighting that these two important factors are out of step with comparable countries by a considerable margin.
- We recommend better alignment with global standards, especially APRA, by amending the Output Floor from 85% to 72.5% and the IRB Scalar from 1.2x to 1.1x. These two key inputs significantly add to the layers of conservatism in New Zealand's capital framework for Group 1 deposit takers, as identified in the Oliver Wyman report.
- As highlighted in Section 2, making these two changes would be one of the most significant enhancements available to boost productivity for the New Zealand economy. If these changes are made, to preserve the RBNZ's proportionality objectives (which Westpac NZ supports), we recommend that the RBNZ lower the capital requirements further for Group 2 and Group 3 deposit takers, which would support competition.

#### **Lack of international alignment will continue to negatively impact New Zealand**

- As detailed in the Oliver Wyman report, New Zealand banks generally need to hold significantly more capital than international counterparts due to the various layers of conservatism built into the RBNZ's capital settings. However, detailed comparative information is not readily published nor widely accessible to the global investor community which primarily focuses on 'official' RBNZ-reported CET1 ratios. This limits the funding benefit that New Zealand banks can obtain for the sizeable amounts of extra capital we hold. This has negative flow on pricing effects for New Zealand bank customers and the broader economy.
- Westpac NZ's view is that New Zealand cannot afford to remain so heavily over-capitalised. Being one of (if not the most) conservatively capitalised banking system globally from a CET1 perspective comes with significant productivity implications. Westpac NZ considers that this conservatism will continue to negatively affect macro-economic activity, gross domestic product (**GDP**) growth, foreign investment in the banking sector, funding appetite for core infrastructure (for example, roads, hospitals and utilities), capital markets investment and banking system infrastructure modernisation.
- However, as outlined in Section 2 (refer to Tables 1 to 4), if the amendments recommended by Westpac NZ are implemented, we believe approximately NZ\$12 billion<sup>2</sup> of capital can be re-deployed directly into the New Zealand economy, delivering an approximate XXXXbp<sup>2</sup> reduction in customer rates, while still maintaining strong globally harmonised capital levels to support long-term financial system stability. Re-deploying this capital will stimulate the economy via increased investment in productive sectors, further driving growth in New Zealand's GDP.

Westpac NZ thanks the RBNZ for this opportunity to respond to the Consultation Paper and we look forward to working with the RBNZ as it develops the proposals. We agree with the RBNZ that any amendments should strike the right balance between resilience, competition and macro-economic productivity as it relates to future New Zealand bank capital settings.

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2 Section 2 tables estimate the impact of proposals on an individual basis and will not match cumulative figures.

## Section 2: Westpac NZ's Recommended Amendments

The tables below estimate the flow on economic impacts of the proposed changes to both the capital stack and the Risk Weighted Assets (**RWA**) calculations. Our approach to measuring the impacts is summarised below:

- Impacts have been assessed on a standalone basis and reflect the change from the current RBNZ 2028 capital requirements (when fully implemented).
- Impacts have been estimated for both Group 1 and Group 2 deposit takers to illustrate the different impacts for deposit takers across the industry.
- To quantify the key economic outputs and impacts, Westpac NZ has considered both productivity and customer perspectives. Proposals that reduce capital requirements can drive productivity outcomes through the potential increase in lending capacity, while customers benefit via lower lending rates as capital is replaced by less expensive forms of funding.

Three key measures have been used to assess the economic impacts for each proposal:

- Increased Lending Capacity:** This measure shows the estimated increase in potential lending capacity to customers where the required capital holding can be reduced. The calculation assumes the current relationship of lending to CET1 is maintained [REDACTED].
- Funding Costs – Customer Rate Change:** This measure shows the estimated reduction in funding costs where CET1 capital can be replaced with lower cost sources of funding. The calculation assumes that this would result in a net (approximate) [REDACTED] with the benefit flowing through into reduced customer rates.
- Return Threshold – Customer Rate Change:** This measure shows the estimated reduction in customer rates due to the ability to meet the same target thresholds on lower capital holdings. This calculation assumes current return thresholds (i.e. return on equity) are maintained on a lower capital requirement, with the benefit flowing through into reduced customer rates.

**Table 1: Westpac NZ's Headline Capital Ratio Recommendations**

CAPITAL STACK (Group 1)	RBNZ Status Quo	RBNZ Option 1	RBNZ Option 2	APRA (2027 Track)	WESTPAC NZ Proposal
Total CET1 (min)	13.5	14.0	12.0	10.5	10.5
AT1 (max)	2.5	-	-	-	-
Total Tier 1 (min)	16.0	14.0	12.0	10.5	10.5
Tier 2 (max)	2.0	3.0	3.0	3.25	3.25
Total Capital	18.0	17.0	15.0	13.75	13.75
LAC	-	-	6.0	4.5	4.5
Total LAC	18.0	17.0	21.0	18.25	18.25
<b>Expected Economic Impacts of Proposal</b>					
<b>Group 1 Deposit Takers</b>					
Increased Lending Capacity (\$bn)		-\$18.2	\$54.6	\$109.1	\$109.1
[REDACTED]		[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]		[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
<b>Group 2 Deposit Takers</b>					
Lending Capacity (\$bn)		\$2.7	\$2.7	\$19.0	\$19.0
[REDACTED]		[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]		[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Table 2: Risk Weight Granularity

RISK WEIGHT GRANULARITY (%)	RBNZ Status Quo	RBNZ Proposal	BASEL	APRA	WESTPAC NZ Proposal
<b>RML Owner Occupier loan-to-value ratio (LVR)</b>					
<=50%	35	25	20	20	20
50-60%	35	30	25	25	25
60-70%	35	35	30	30	30
70-80%	35	35	30	35	35
80-90%	50	50	40	50	50
90-100%	75	75	50	70	70
>100%	100	100	70	85	85
<b>RML Investor LVR</b>					
<=50%	40	30	30	25	25
50-60%	40	35	35	30	30
60-80%	40	40	45	40-45	40
80-90%	70	70	60	65	65
90-100%	90	90	75	85	85
>100%	100	100	105	105	100
<b>Corporate Lending</b>					
SME retail	100	75	75	75	75
SME corporate	100	85	85	85	85
<b>Agriculture LVR</b>			unrated	unrated	
<=30	100	50	60	60	50
30-50%	100	75	60	60	60
>50%	100	100	-	-	-
<=60%	-	-	60	60	60
>60%	-	-	75-100	75-110	75-100
<b>Personal Lending</b>					
Credit Cards – see Basel definition <sup>3</sup>	100	150	45	75	75
Other Retail – see Basel definition <sup>4</sup>	100	150	75	100	100
Does not meet criteria above	100	150	100	100	100
<b>Expected Economic Impacts of Proposal</b>					
<b>Group 1 Deposit Takers</b>					
Increased Lending Capacity <sup>5</sup> (\$bn)		\$23.1	\$26.2	\$26.2	\$26.2
<b>Group 2 Deposit Takers</b>					
Lending Capacity (\$bn)		\$3.5	\$6.9	\$6.7	\$7.1

3 Credit Cards (balance repaid in full each month for past 12 months), overdraft with no drawdown over past 12 months.

4 Credit Cards, overdrafts, personal loans, leases, small business loans under €1m - not transactors.

5 Group 1 deposit taker impacts from Standardised RWA granularity are floored as IRB modelled outcomes become binding constraints. Unless changes are made to IRB Scalar and/or Output Floor requirements, the flow on economic impacts of the proposal will be constrained.

Table 3: Securitisation<sup>6</sup>

SECURITISATION	RBNZ Status Quo	RBNZ	BASEL	APRA	WESTPAC NZ Proposal
Corporate unrated	100	100	Standardised requirements <sup>7</sup>	Standardised requirements <sup>7</sup>	Standardised requirements <sup>6</sup>
Corporate rated	20-150	20-150			
Expected Economic Impacts of Proposal					
Group 1 Deposit Takers					
Increased Lending Capacity (\$bn)			\$8.6	\$8.6	\$8.6

Table 4: RWA Adjustments

RWA ADJUSTMENTS	RBNZ Status Quo	RBNZ	BASEL	APRA	WESTPAC NZ Proposal
Output Floor	85%	85%	72.5%	72.5%	<b>72.5%</b>
IRB Scalar	1.2x	1.2x	Not required	1.1x	<b>1.1x</b>
<b>Expected Economic Impacts of Proposal</b>					
<b>Group 1 Deposit Takers</b>					
Increased Lending Capacity (\$bn)			\$60.1	\$55.9	\$55.9

<sup>6</sup> See Appendix 1 for further detail regarding Westpac NZ's recommended capital treatment for this asset class.

<sup>7</sup> Basel (CRE40 - CRE45) and APRA (APS120) have standalone requirements for securitisation which assess the risk weight based on the underlying assets, resulting in lower RWA %.



# Section 3: Westpac NZ Responses to the RBNZ Question List

## Chapter 1: Introduction

### Question 1: Do you have any comments on the proposed assessment criteria?

- Westpac NZ generally agrees with the RBNZ's proposed assessment criteria. On the international alignment criteria, we recognise that the RBNZ has sought to consider this when proposing the revised settings in the Consultation Paper. However, there are various other key capital settings that are currently out of scope for this review where New Zealand diverges significantly from comparable jurisdictions (for example, the 85% Output Floor, 1.2x IRB Scalar and securitisation policies).
- We note the recognition in the FEC Report regarding the importance of striking an appropriate balance between financial stability, efficiency and competition when setting prudential policy and regulations. We are supportive of this approach in the context of this RBNZ capital review process.

### Question 2: Do you have any comments on the appropriate risk appetite for New Zealand's capital settings?

- Westpac NZ agrees with the RBNZ's current proposal to apply a higher risk appetite than that applied under the 2019 Capital Review. However, while the Consultation Paper refers to various proposals that have been calibrated towards a higher risk appetite than the 2019 Capital Review, there is no explicit statement of the new risk appetite that has been applied.
- It would be beneficial to have further information about how a higher risk appetite has been reflected in the two capital stack options for Group 1 deposit takers. While a 'one-in-200 years' risk appetite is no longer being applied, the level of capital that is being proposed under the RBNZ's higher risk appetite for Group 1 deposit takers has not materially reduced. This is most evident in the CET1 context under the Option 1 proposal. This means that Group 1 deposit takers would essentially still be operating at a conservative 'one-in-200 years' capital level. The Option 2 proposal to increase minimum Group 1 CET1 levels from 10% (current) to 12%, while increasing the Total Capital ratio to 21% (after including LAC) indicates overly conservative risk appetite settings, especially in the absence of sizeable further international alignment of standardised risk weights, the Output Floor and the IRB Scalar.
- In addition, while page 20 of the Consultation Paper refers to consideration of where New Zealand's capital requirements sit when compared to other jurisdictions, it does not explain where the RBNZ believes New Zealand should sit amongst those comparators, nor how this appetite has been incorporated into the options presented. The Oliver Wyman report finds that the New Zealand banks are currently the second most capitalised of all the comparator countries (after DNB Group from Norway). In our view, this overly conservative dynamic has not been materially addressed by the headline capital ratios or risk weight adjustments currently proposed under Options 1 and 2.

## Chapter 2: Context

### Question 3: Do you have any feedback on our assessment of the impacts of legislative and policy changes since 2019?

- Westpac NZ generally agrees with the assessment of the impacts of legislative and policy changes since 2019, except for the flow through impact of debt-to-income (**DTI**) restrictions. In Table 3 of the Consultation Paper, the RBNZ says that any reduction in DTIs would flow through to lower IRB risk weights. However, this assessment does not take into account that for Group 1 deposit takers, the 85% Output

Floor is a binding constraint that ties Group 1 deposit takers' risk weights to standardised risk weights and limits the extent of any reduction in IRB risk weights.

- The use of macroprudential tools and strengthening of the Credit Contracts and Consumer Finance Act 2003 has further strengthened portfolio quality but, given the conservatism within BPR133, this has had limited impact on IRB risk weights. This is due to the IRB requirements and Output Floor which both obscure and mute risk signals via overly conservative risk weight outcomes.

#### **Question 4: Do you have any feedback on our assessment of the new evidence since 2019?**

- **FEC Report:** The FEC recommended that the RBNZ immediately cease the planned capital increases to the benefit of future lending prices for New Zealand businesses and households, to support greater productivity and economic growth. While we acknowledge that the FEC's other recommendations are addressed by the RBNZ's proposals in the Consultation Paper, the FEC's recommendation to halt planned capital increases immediately has not been directly addressed (also refer to our response to Question 7 below). The two proposed capital stack options for Group 1 deposit takers both represent increased requirements from current September 2025 capital levels, which does not align with the FEC's recommendation.
- **Lessons from the 2023 bank failures**
  - a. 2023 Credit Suisse crisis – Westpac NZ agrees with the finding that the current New Zealand AT1 and Tier 2 instrument design, which excludes convertibility or write down loss absorption features, is a current crisis management framework weakness that should be addressed as part of this Consultation Paper.
  - b. 2023 failure of First Republic Bank, Silicon Valley Bank, and Signature Bank – Westpac NZ agrees with the finding that the existence of interest rate RWA mitigates against potential failures of this type. We also agree that LAC, when designed appropriately, can help to adequately recapitalise a deposit taker.

#### **Question 5: Is there other new evidence not discussed in this section that we should be considering?**

- The RBNZ's Summary of Submissions and Policy Decisions for the Capital Standard (**Capital Policy Decisions**), published on 25 August 2025, proposes to incorporate sectoral capital requirements and entity-specific capital overlays into the Capital Standard. These additional regulatory mechanisms provide the ability for the RBNZ to increase capital requirements. Hence, they should be considered alongside the changes to both risk weights and capital stack requirements when defining the 'amount', 'form' and 'distribution' of capital proposed in the Consultation Paper.
- Westpac NZ considers that any proposed changes should be considered in the context of all future capital mechanisms to ensure a holistic and comprehensive review of the amendments is undertaken. At a minimum, including these mechanisms in the Consultation Paper provides increased transparency of the overall level of conservatism in the current capital levels.

#### **Question 6: Do you have any feedback on this analysis of how New Zealand deposit takers' current and planned capital levels compare to other jurisdictions?**

- As noted in our response to Question 2, the Oliver Wyman report clearly demonstrates that New Zealand is currently one of the most conservatively capitalised financial systems of all comparator countries, most notably in terms of the key CET1 ratio. The report highlights that this is primarily due to the significant conservatism in the risk weighting calculation settings contained 'below' the headline capital ratio itself.

- Oliver Wyman observed that New Zealand's major banks<sup>8</sup> ranked behind only Norway in terms of current capital conservatism. However, we note that Oliver Wyman's benchmarking report only included a small sample size of just one bank (DNB Group) for the Norwegian comparison. We would also highlight that DNB Group, the largest bank in Norway, is 34% government owned and has the highest CET1 ratio compared to other Norwegian banks (who were omitted). These considerations limit Norway's comparative relevance.
- Most notably, the Oliver Wyman report forecasts that when the current RBNZ capital framework is fully implemented in 2028, New Zealand major banks would have an internationally harmonised CET1 ratio of 25%. This would be significantly higher than the (current) CET1 ratio of the next highest comparator country (i.e. Norway at 21.4%). We acknowledge the limitations around an Oliver Wyman comparison of New Zealand's 2028 forecast CET1 ratio to the current ratio of other countries (who may seek to implement future changes to their rules). However, Westpac NZ's view is that a potential future increase (or decrease) in capital held by the comparator countries, or a reduction in the RBNZ's headline ratio requirements, is likely to still result in New Zealand major banks being one of the most highly (if not the highest) capitalised of all comparator countries. This is especially the case if we assume the RBNZ is not considering lowering the Output Floor and IRB Scalar.
- It is unclear how Oliver Wyman's findings have been reflected in the RBNZ's proposals given Option 1, Option 2, and the various risk weighting adjustments do not materially address the underlying conservatism contained in the risk weight calculations below the headline ratio:
  - Oliver Wyman's report shows that New Zealand major bank average CET1 ratios are currently more conservative compared to international standards by ~780bps.
  - Approximately 80% of that conservatism arises in the Output Floor, IRB Scalar settings and New Zealand's more conservative rules for IRB models. The proposed standardised risk weight changes are expected to change Westpac NZ's CET1 capital by only approximately [REDACTED] bps. This is a negligible change in the context of the above-mentioned ~780bps.
  - No change is proposed to New Zealand's Output Floor or IRB Scalar which were both identified by Oliver Wyman as being significantly out of step with international norms. No comparator countries have such conservative Output Floors and / or IRB Scalar settings. Together, these two factors contribute ~270bps to the ~780bps of conservatism.<sup>9</sup> The Capital Policy Decisions document states that a higher Output Floor and IRB Scalar "...is based on New Zealand's financial system and will therefore not match approaches in other countries, which have a range of different settings". However, this does not offer further detail on the specific features of the New Zealand financial system that would justify such a departure from international norms. We would highlight that Australia has a significant ongoing focus on enhancing financial sector competition, yet Australian regulators have consistently maintained less conservative 72.5% Output Floor and 1.1x Scalar settings for their IRB major banks.
  - Furthermore, we note the Capital Policy Decisions document (see page 19) highlights that the "more granular risk assessment that results from IRB modelling, relative to the standardised approach, means increased granularity in risk weights. This more accurately reflects the underlying risk of exposures, which helps ensure that capital requirements are aligned with risk in the most efficient way." Given the stronger accuracy resulting from IRB modelling, we believe this reinforces the rationale to lower the Output Floor and IRB Scalar noting the significant productivity benefits that would flow through to Group 1 customers who comprise approximately 85% of the New Zealand banking system. In taking such steps, Westpac NZ would be supportive of the RBNZ lowering capital

<sup>8</sup> Oliver Wyman's report compared capital ratios for the five largest New Zealand banks (ANZ, ASB, BNZ, Westpac NZ, Kiwibank), referred to as 'New Zealand major banks' in this section.

<sup>9</sup> The RBNZ's IRB Scalar of 1.2x is more conservative than APRA (1.1x) and Basel (1.0x), while the Output Floor of 85% is again more conservative than both APRA and Basel requirements of 72.5%.

requirements for both Group 2 and 3 deposit takers further to ensure proportionality and competition objectives are achieved.

- The Oliver Wyman report also identified that various IRB risk weight calculations for secured residential lending, farm lending and specialised lending are conservative against Basel requirements and further contribute to the additional 780bps of conservatism within the New Zealand major bank capital ratios.
- It is unclear how the impact of Oliver Wyman's findings regarding consumer lending pricing has been considered by the RBNZ against its funding costs assessment criteria.
- Westpac NZ also notes that the Oliver Wyman report does not address third-party securitisation asset exposures. As we highlighted in Section 1, while internal securitisation is subject to BPR160, third-party securitisation does not have a specific capital treatment under the RBNZ's capital rules, meaning unrated exposures are conservatively risk weighted at 100% under the standardised approach. However, APRA and Basel have a standalone capital treatment for this asset class to more accurately reflect the underlying risk of the underlying assets which supports small financial institutions. In practice, this means that the RBNZ's capital requirements are approximately three times larger and therefore considerably more conservative for the same asset class than APRA's requirements. This conservative capital treatment has particularly negative consequences from a competition perspective for small New Zealand deposit takers and financial institutions who rely on securitisation warehousing facilities to fund their businesses and provide financing to New Zealand customers. This aspect has direct flow through volume and pricing impacts for New Zealand's small deposit takers and financial institutions and their customers. Note the FEC Report (section 3.5) specifically discusses the benefits of the Australian securitisation market in the competition context: *"The Australian initiative had clear competitive objectives, based on the idea that enhanced access to funding via securitisation markets enabled smaller lenders to compete more with the larger incumbents"*. See Appendix 1 for a detailed discussion of Westpac NZ's capital treatment recommendations for this asset class.

## Chapter 3: Capital stack options

### Question 7: Do you have any feedback on the two high-level options for Group 1?

- In Westpac NZ's view, these two options in their current form are unlikely to result in material cost reductions or efficiency gains for New Zealand customers.
- With regards to Option 1, Westpac NZ does not support this approach noting:
  - The estimated [REDACTED] bps change in CET1 capital that Westpac NZ would expect to receive from the proposed standardised risk weight changes would be largely offset by the 50bps increase proposed to our future CET1 headline ratio requirements.
  - The increased 14% CET1 requirement is inconsistent with the FEC Report recommendation to cease all future planned increases in CET1. This report recommends holding CET1 at the current minimum of 10%.
  - This absence of CET1 relief means Option 1 is unlikely to result in any noticeable reduction in lending costs or efficiency gains. Hence this approach does not address the market 'efficiency' goal recommended in the FEC Report. Accordingly, we believe this option provides no discernible benefit to the broader economy or to Group 1 deposit taker customers who comprise approximately 85% of the New Zealand market.
- In relation to Option 2, Westpac NZ is conceptually supportive of this approach, subject to several key amendments being made:

- Westpac NZ is supportive of the collaboration undertaken between the RBNZ and APRA to find an economically viable trans-Tasman methodology for internalising LAC between the Australian parents and New Zealand subsidiaries.
- Westpac NZ is also supportive of LAC and Tier 2 being internalised for the purposes of supporting a future SPE resolution framework. However, for such an approach to be economically viable, it is essential that the internalised instrument be structured in an APRA (APS111), FSB or Basel-compliant manner. This would involve the instruments having conversion or write-off triggers at PONV and being treated by APRA as a like-for-like deduction under APS111.
- If this structuring outcome is not achieved, then internalised LAC under Option 2 would not be feasible given APRA's APS111 rules would result in an approximate NZ\$ [REDACTED] negative impact on our Australian parent's (Westpac Banking Corporation (**WBC**)) CET1 capital position. The cost of this CET1 impact would be directly passed through in full to Westpac NZ's New Zealand operations, thereby resulting in materially higher customer pricing outcomes, leading to negative broader macro-economic impacts for the New Zealand economy. Noting how uneconomic such an outcome would be for the Group 1 deposit takers, the only alternative would then be to externalise LAC into the global bond markets (via either a Tier 2 or Senior Non-Preferred (**SNP**) format). However, such approaches would not align with APRA and RBNZ's preferred SPE resolution approach, thereby reinforcing the importance of internalised Tier 2 and LAC instruments being structured in an APRA, FSB or Basel-compliant manner. We note as an example, the lack of current APRA recognition of existing RBNZ AT1 and Tier 2 capital instruments already results in an approximate NZ\$ [REDACTED] per year trans-Tasman regulatory inefficiency for Group 1 deposit takers.
- Assuming LAC and Tier 2 is to be internalised, Westpac NZ currently issues internal capital to WBC (NZ Branch) and would prefer to retain the option to issue future internalised Tier 2 and LAC in a similar manner. However, the amount of Tier 2 and LAC proposed by the RBNZ could result in a breach of the future NZ\$15 billion asset cap for New Zealand branches of overseas banks. As the Tier 2 and LAC is providing supplementary capital and funding to a RBNZ-regulated subsidiary, we recommend that internal issuance of Tier 2 and LAC should be excluded from the future NZ\$15 billion branch asset cap.
- As outlined in Section 1, Westpac NZ's view is that the proposed Option 2 CET1, LAC and Total Capital headline ratio requirements are unduly conservative. We recommend that these future ratios should be aligned with APRA as our closest comparator country at 10.5% for CET1, 3.25% for Tier 2 and 4.5% for LAC (i.e. an 18.25% Total Capital ratio). We believe these changes still maintain a strong and resilient New Zealand financial system, while noting APRA's capital standards are widely recognised as being highly conservative on a global basis.
- Furthermore, if our recommendation to bring the Output Floor and IRB Scalar into line with APRA remains out of scope, this would essentially result in New Zealand Group 1 deposit takers continuing to carry an extra ~270bps of conservatism below our headline CET1 ratios (when compared to Basel). Assuming the RBNZ decides to retain that conservative overlay, this further reinforces our Option 2 recommendation to set our headline CET1, LAC and Total Capital ratios no higher than APRA.
- We note that the Consultation Paper does not specifically rule out whether further LAC requirements might be imposed in future years under either Option 1 or 2 as part of the Deposit Takers Act 2023 (**DTA**) Crisis Preparedness Standard. Westpac NZ would appreciate clarification that no such foreseeable additional LAC headline ratio increases are expected beyond this current capital review consultation process.
- Westpac NZ recognises the tight timeframe for the RBNZ to conduct this review and notes further engagement with APRA and the broader industry will be required in 2026 before decisions can be made on the final form of LAC. As such, Westpac NZ recommends that the implementation of LAC occurs at



a later date post that 2026 consultation process, but that risk weight adjustments and headline ratio changes be implemented as soon as possible in anticipation of those future LAC discussions.

**Question 8: Do you have any alternative proposals?**

- Please see our Question 7 response for our recommended alternative approach for Option 2. We note the SNP product is commonly used by offshore regulators to achieve LAC requirements. If the RBNZ ultimately decided to externalise LAC requirements, then SNP would be Westpac NZ's preferred approach. A large and deep global market exists for the SNP product which can be issued on more cost-effective terms than Tier 2, thereby enhancing market efficiency and minimising LAC costs for our customers. That said, we are conscious that externalised SNP (or Tier 2) would run counter to the RBNZ (and APRA's) preferred SPE approach.

**Question 9: Do you have any feedback on the proposal for Group 2?**

- No further comments other than to emphasise, assuming Westpac NZ's amended approach to Option 2 is adopted, that we would be supportive of the RBNZ lowering the capital requirements for both Group 2 and 3 deposit takers further to support proportionality and competition objectives.

**Question 10: Do you have any alternative proposals?**

- No comments.

**Question 11: Do you have any feedback on the proposal for Group 3?**

- No comments.

**Question 12: Do you have any alternative proposals?**

- No comments.

**Question 13: Do you agree with the proposal of a 1% Counter-Cyclical Capital Buffer for Group 1 and 2 deposit takers under the options proposed?**

- Westpac NZ supports an overall lower CET1 requirement (Prudential Capital Buffer (**PCB**) and CET1 minimum requirement) but we note there is a risk of potential unintended outcomes where the PCB comprises a lower proportion of the overall CET1 requirement (please also refer to our response to Question 16).
- In isolation, Westpac NZ agrees with the proposal. However, we query whether a reduction in the capital conservation buffer was considered. We would welcome a framework that considers and outlines how both would be reviewed and how the Counter-Cyclical Capital Buffer (**CCyB**) would change during periods of stress as well as guidance on how the CCyB interacts with the Capital Buffer Response Framework (**CBRF**).

**Question 14: Do you agree with the proposal that the Counter-Cyclical Capital Buffer should not apply to Group 3 deposit takers?**

- No comments.

**Question 15: Do you have any feedback on our analysis of the proposed options against the criteria?**

- Please refer to our responses to Questions 7 and 8. In addition, as mentioned in Section 1, Westpac NZ welcomes the proposed changes to risk weights which would bring New Zealand in closer alignment with international standards. However, there remains significant levels of conservatism (and therefore cost and

inefficiency implications) in the proposed headline ratio and risk weight settings that are not addressed in the two proposed options for the capital stack. Please refer to our response to question 30 for further comments on this.

- Regarding the simplicity criteria and the RBNZ's reference to LAC adding to complexity under Option 2, we do not believe this should be a significant factor in the decision-making process for this topic. LAC is a commonplace crisis management tool that many comparable international banking jurisdictions have introduced. While Option 2 is not as simple as Option 1, we do not believe that the complexity of Option 2 is material enough to prevent LAC from playing a key role in the RBNZ's future crisis management and resolution toolkit.

**Question 16: Do you think it would be preferable from a crisis management perspective to maintain a higher Prudential Capital Buffer or have a lower Prudential Capital Buffer and Loss-Absorbing Capacity for Group 1?**

- Considered in isolation, Westpac NZ prefers an overall lower CET1 requirement (PCB and CET1 minimum requirement) coupled with LAC.
- However, we have some concerns that increasing the minimum CET1 requirement while decreasing the PCB will reduce flexibility in a stress situation. Our preference would be to have a lower minimum CET1 requirement with a higher PCB to allow deposit takers to recover and continue lending in a time of stress. Furthermore, a lower PCB could necessitate holding a higher management buffer which would diminish the intended reductions in the overall level of CET1 capital held by Group 1 deposit takers, specifically under Option 2.
- We note that the RBNZ intends to review the CBRF as part of its future work on the Crisis Preparedness Standard which will occur after decisions relating to the capital review have been made. Under any future realignment of the CBRF, we would strongly advocate for an even distribution of the PCB across all three Stages and the retention of a 'Useable Band' above Stage one.
- We note the RBNZ's reference on page 55 of the Consultation Paper that internal LAC (under Option 2) *"may be a cheaper option for the industry given the lower cost of issuing internal LAC instruments"*. We can confirm that the pricing borne by Westpac NZ's New Zealand operations for any internal LAC (for example, Tier 2) issued to the parent will be very similar to the New Zealand entity raising the Tier 2 externally (assuming the LAC instrument is APRA compliant). This is due to the full pass-through direct cost attribution approach taken between parent and subsidiary entities.

**Question 17: If you consider that one option is preferable, what are the reasons why?**

- Provided that APRA, Basel or FSB-compliant structuring terms are included under Option 2, LAC will provide both New Zealand and Australian regulators with important new means of dealing with a deposit taker in distress, thereby enhancing the resolution toolkit.
- Lower CET1 requirements under Option 2 should also deliver enhanced efficiency with flow-on benefits to customers and the broader economy.

**Question 18: Do you have any feedback on the degree of proportionality across the proposed options and capital stacks?**

- Please refer to our responses to Questions 7, 9, 16, 19, 21 and 23.

**Question 19: Do you have any feedback on the implications for competition from our proposed options?**

- Westpac NZ welcomes and supports competition across the New Zealand banking industry while noting that the right capital settings also need to be place for Group 1 deposit takers to drive economic

growth and deliver real cost benefits to their customers who comprise approximately 85% of the New Zealand market.

**Question 20: Do you have any feedback on our analysis of the options against the assessment criteria?**

- Please refer to our response to Question 6 which outlines our view that the overall conservatism in the current New Zealand settings has not been fully addressed within the options.
- Implementation of either Option 1 or Option 2 would still mean that New Zealand major banks adjusted CET1 ratios will be the highest of all the comparator countries used in the Oliver Wyman report, as highlighted by the RBNZ in the Consultation Paper (see page 62).

**Question 21: Do you have any feedback on our approach to the cost benefit analysis?**

- Regarding the suggestion in the Consultation Paper that there will be more frequent bank failures, we query how the RBNZ has reached this conclusion, given that overall capital levels are not expected to change materially from the current 2028 track. We also believe that the likelihood of New Zealand bank failures is expected to remain very low given how conservative our capital settings would be under either option on a global basis. This was noted in the Consultation Paper (page 62) which highlights “...the major banks’ adjusted CET1 ratio would still be the highest in the set of comparator countries with either option”.
- In addition, as noted in our response to Question 2 above, the level of capital that is being proposed under the RBNZ’s higher risk appetite has deposit takers effectively operating at a conservative ‘one-in-200 years’ capital level. This would suggest that there will be little change in the frequency of bank failures, particularly (as noted in the Consultation Paper) as there has been little recent experience of severe banking crises in New Zealand.

**Question 22: Do you have any feedback about the results of the cost benefit analysis?**

- Please refer to our response to Questions 21 and 23. We would reinforce the RBNZ’s cost benefit analysis (CBA) observations regarding the specific importance that CET1 requirements have in reducing cost to the broader New Zealand economy. CET1 (and by extension the underlying risk weight settings that comprise the CET1 ratio calculation) is the most expensive and influential type of capital affecting deposit taker lending volumes and pricing decisions. Hence Westpac NZ believes addressing the CET1 headline ratio and RWA calculations under Option 2 will be the single most important factor in lowering future lending costs for the New Zealand economy.
- Westpac NZ also notes that the CBA in Annex E of the Consultation Paper frequently cites Modigliani-Miller (MM) theorems suggesting that when firms are funded with more equity, the risk to investors falls and consequently this lowers the cost of debt funding for that firm. While Westpac NZ broadly agrees with the concept, there are key New Zealand-specific practical nuances which can limit the benefits available. The most important limitation is that global investors primarily focus on RBNZ-reported CET1 capital ratios, noting the lack of broadly available officially harmonised data across the global bank issuer sector. What this means in practice is that official New Zealand bank (i.e. RBNZ-reported CET1) capital ratios appear relatively modest in a global context. For example, RBNZ-reported CET1 currently averages approximately 13.4% amongst the five largest New Zealand banks. However, if New Zealand banks had more globally harmonised RWA calculation methodologies and published RBNZ-reported CET1 ratios in the context of 21% today, this could deliver increased practical MM benefits.

**Question 23: Do you have any additional evidence that should be considered in the cost benefit analysis?**

- Under Option 2 as it is currently proposed, Westpac NZ anticipates that meeting the RBNZ’s 9% (combined) requirement for Tier 2 capital and LAC will result in an estimated annual subordinated



premium cost of approximately NZ\$ [REDACTED]. This expense will have to be factored into the pricing of products and services offered to customers, meaning it will directly influence lending rates and other customer charges. We believe lower combined Tier 2 and LAC requirements (matching APRA) would still deliver the RBNZ's crisis management objectives at a lower overall cost to the economy and our customers. Westpac NZ notes that utilising Tier 2 to solve LAC requirements, outside of Australia, is rare and most comparator countries use holding company senior or SNP formats which are comparatively more cost effective than Tier 2 (the subordinated premium for Tier 2 is approximately [REDACTED] more expensive than SNP). Therefore, from a market efficiency perspective, it is important for the RBNZ to consider this aspect when setting the size of the New Zealand LAC and Tier 2 requirements and comparing the size of such headline ratios to offshore comparator countries.

- The CBA does not appear to reflect the 'double issuance cost' currently incurred by the sector arising from New Zealand capital instruments not being recognised by APRA. We estimate this currently results in an approximate NZ\$ [REDACTED] per year trans-Tasman cost for Group 1 deposit takers. We acknowledge that the RBNZ has indicated it intends to consult on incorporating APRA, Basel or FSB-compliant structuring into future Tier 2 and LAC instruments. Should such efforts not be successful, then the future cost to the industry and implications for the New Zealand economy would be so significant that it would result in Option 2 being unworkable. As outlined in our response to Question 7, we estimate that LAC that is not APRA compliant would have an approximate NZ\$ [REDACTED] negative impact to WBC's CET1 capital level which would be passed on in full directly to Westpac NZ's New Zealand operations (in addition to the double issuance cost outlined above).

**Question 24: Do you have any comments about the way that Loss-Absorbing Capacity has been incorporated into the approach?**

- Westpac NZ is supportive of LAC being considered as part of the capital review, but as outlined in Sections 1 and 2 and in our response to Questions 6 and 7, we believe that our suggested amendments to Option 2 would materially enhance the current proposal. We believe these changes can deliver significant customer and productivity benefits for the New Zealand economy and can be implemented in a proportionate manner without compromising financial system resilience and competition.

## **Chapter 4: Additional Tier 1**

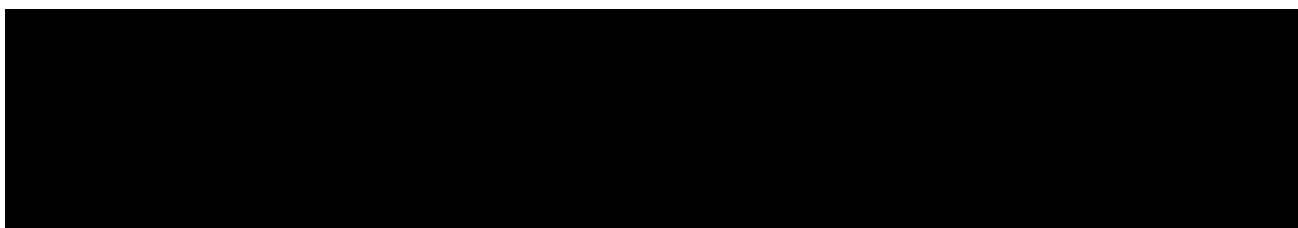
**Question 25: Do you agree with the proposal to remove Additional Tier 1 capital as a form of regulatory capital?**

- Westpac NZ supports the removal of AT1 capital for the reasons outlined in the Consultation Paper. In Westpac NZ's view, removing AT1 will help address macro-economic productivity, proportionality and competition goals.

**Question 26: Are there any other factors that you think we should take into account in making this decision?**

- Westpac NZ believes that the RBNZ has considered all key AT1 aspects in its Consultation Paper analysis and we have no additional factors to add.

**Question 27: 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?**



**Question 28: Are there any additional factors that should be taken into account for Group 3 deposit takers?**

- No comments.

**Chapter 5: Standardised risk weights**

**Question 29: Do you agree that the Reserve Bank should introduce more granular standardised risk weights for mortgage, corporate and agricultural lending?**

- Yes, Westpac NZ is supportive of more granular standardised risk weights for mortgage, corporate and agricultural lending but we recommend expanding this approach further.

**Question 30: Do you have any comments on the proposed changes to standardised risk weights for mortgage, corporate and agricultural lending?**

- While Westpac NZ supports the proposed changes to the standardised risk weights, they remain higher than both APRA and Basel requirements. Without significant further alignment, this conservatism is not readily apparent when considering New Zealand bank's headline capital ratios which make international comparisons more difficult and impact investor discussions.
- The proposed changes to well-secured mortgages and agricultural lending in particular are still overly conservative given the relatively high risk-weights assigned to very well-secured lending. Please refer to Section 2 which outlines Westpac NZ's recommended risk weight amendments in detail.
- In addition, further guidance is recommended regarding the definition of corporate lending. The current BPR133 definition of SME Retail and the current \$1 million threshold is low compared to international peers. Review of this threshold, with greater alignment to peers, would allow consistent management and treatment of smaller businesses that are currently defined as SME Corporate. Clarity on the definitions of SME Retail and SME Corporate would be beneficial.

**Question 31: For deposit takers: Can you quantify the overall and sectoral impact that the proposed changes to standardised risk weights for residential mortgage, corporate, and agricultural lending would have on your institution?**

- Westpac NZ estimates an overall reduction to total RWA of [REDACTED] based on the proposed risk weights for the following portfolios as follows:
  - Mortgages: [REDACTED]
  - SME Corporate and SME Retail: [REDACTED]
  - Agricultural lending: [REDACTED]
- As previously mentioned, these modest changes on their own are unlikely to result in any material flow-through benefits to our customers and the broader economy.

**Question 32: Would you expect more granular residential mortgage lending risk weights to lead to more differentiation in loan pricing to borrowers?**

- The move to more granular risk weights provides greater risk differentiation. However, the RBNZ's proposed risk weights are still conservative when compared to other jurisdictions (refer to Section 2).

- Additionally, there remains conservatism in BPR133 relating to loss given defaults (**LGD**) and correlation floors across a number of portfolios, as well as IRB Scalar and Output Floor calculations.
- This means that depending on how a deposit taker prices at a portfolio level, the complexity between IRB and standardised outcomes may cloud risk differentiation at an individual deal level and therefore pricing signals to risk-based pricing.
- However, with the reduction in RWAs on a portfolio basis there should be a general downward shift in pricing (all else being equal).
- Given the Output Floor concept, the ongoing conservatism in BPR133 does not appear to be necessary.

**Question 33: For deposit takers: Can you provide a lending breakdown for your institution by the following corporate sectors: rating, small and medium-sized enterprise retail, small and medium-sized enterprise corporate, and other unrated corporate?**

- Westpac NZ's total corporate asset class is approximately NZ\$ [REDACTED] of limits, comprising:
  - [REDACTED] small and medium-sized enterprise retail
  - [REDACTED] small and medium-sized enterprise corporates
  - [REDACTED] unrated corporates
  - [REDACTED] rated corporates

**Question 34: Do you agree with creating a new standardised risk weight category for all unrated corporate commercial property lending?**

- Westpac NZ supports having a separate standardised risk weight category for commercial property lending.
- Westpac NZ notes that both APS112 and Basel have standardised risk weights based on LVR for commercial property lending. For exposures that are dependent on property cash flows, risk weights start at 70% regardless of obligor rating or underlying risk characteristics. Westpac NZ would support a similar approach to these other jurisdictions.

**Question 35: For deposit takers: Can you quantify the impact that a 100% risk weight under the standardised approach on all unrated commercial property lending would have on your institution?**

- Currently, unrated commercial property lending that does not qualify for RML treatment is already risk weighted at 100%, so there would be no impact.

**Question 36: Do you have any comments on increasing risk weights for personal lending?**

- Westpac NZ's view is that a 150% risk weight on unsecured personal lending would be overly punitive given this would be higher than:
  - the typical 100% risk weight currently given to past-due non-RML personal lending, as personal lending portfolios tend to attract a higher allowance for expected credit loss;
  - APRA's 75% risk weight on retail credit card exposure; and
  - other jurisdictions where 'Other assets' are risk weighted at 100%.
- Given that personal consumer 90+ day delinquencies have been below 2% for the last 15 years, an increase in risk weights does not appear warranted.

- Additionally, we are concerned that this would add cost and lead to more restrictive lending, potentially driving more customers to use lower tier lenders with more relaxed credit standards but higher costs. This would be a suboptimal customer outcome.

**Question 37: For deposit takers: Can you quantify the impact that a 100% risk weight on secured personal lending and a 150% risk weight on unsecured personal lending would have on your institution?**

- Westpac NZ estimates an overall (total credit) RWA increase of [REDACTED], noting that personal lending (non-RML) is typically considered as unsecured from a risk management perspective.

**Question 38: For deposit takers: Can you provide a lending breakdown for your institution for the following sectors: commercial property (investment, development, and a loan-to-value ratio breakdown within these categories), and personal lending (secured, unsecured, credit card and other)?**

- For Westpac NZ's commercial property portfolio of approximately NZ\$ [REDACTED]
  - [REDACTED] would be categorised as investment with [REDACTED] of these with an LVR less than 60%.
  - [REDACTED] would be categorised as development with [REDACTED] of these with an LVR less than 60%.
- Personal lending, of approximately NZ\$ [REDACTED] is largely treated as unsecured across credit cards, personal loans and overdrafts.

**Question 39: Do you think the proposed standardised risk weights more closely align with the actual risk of the underlying lending? If not, where do you think the biggest discrepancies are?**

- When compared to other jurisdictions and Oliver Wyman's globally harmonised outcomes, the increased granularity and proposed reduction of some risks weights only partially addresses the significant conservatism in the current New Zealand settings.
- For example, the proposed risk weights for agriculture and commercial property remain overly conservative given the amount of security that this lending typically has, hence we do not believe this is reflective of the actual risks.
- Increased alignment with international risk weights (as detailed in Section 2), for example with APRA and / or Basel, would materially improve the relative risk ranking of risk weights as well as enabling more accurate international comparisons. Removal of the conservatism within BPR133 would also increase the alignment of risk weights to underlying risk for all secured portfolios.

**Question 40: For deposit takers: Is there a desired lead-in time to adopt the proposed standardised risk weight categories and updated minimum capital ratio? What are the expected costs (and their magnitude) to systems and processes of the proposed standardised risk weight categories?**

- Based on the information currently available, once the Banking Prudential Requirements for the proposed standardised risk weight categories are updated Westpac NZ expects a six month implementation period would be required to ensure appropriate changes to systems, process data and reporting.
- Westpac NZ's preference and recommendation is that these changes are implemented as soon as possible and well ahead of the 1 December 2028 go-live date for the DTA standards, so that the benefits flow through to our customers and the economy as soon as possible.
- Westpac NZ is supportive of the RBNZ closely engaging with the industry on any transition or implementation plan for the capital review changes, noting that the DTA is also being implemented at the same time.

**Question 41: Is there anything else you think we should consider when contemplating changes to standardised risk weights or analysing their impacts?**

- As noted in our responses, Group 1 deposit takers are likely to see a relatively negligible reduction in risk weights from the proposed changes to the standardised risk weights.
- Westpac NZ's view is that the standardised risk weights should not be considered in isolation from the various other capital settings and adjustments that the RBNZ has made. The Oliver Wyman report shows that these adjustments each add layers of conservatism, so should be considered together to ensure a holistic and comprehensive review of the amendments is undertaken.
- As part of a holistic and comprehensive review, Westpac NZ recommends that the RBNZ consider further alignment of risk weights, the IRB Scalar and Output Floor with international standards.

**Question 42: Do you think the proposed approach to standardised risk weights aligns with the main purpose of the Deposit Takers Act 2023 (section 3(1)) and the additional purposes (section 3(2))?**

- Westpac NZ agrees that the proposed changes to increase the granularity of standardised risk weights and the desire to better align with current international standards is consistent with certain purposes of the DTA.
- Risk weights that better reflect the risk of the underlying assets, provided they are not overly conservative, will result in a more efficient banking system, thereby supporting New Zealanders having enhanced access to financial products and services at a reasonable price (cost).

**Question 43: Do you agree with the proposed approach for risk weights on lending for Community Housing Providers and housing co-operatives? Will this approach accurately reflect the risk of that lending?**

- Westpac NZ agrees that the proposed approach to risk weights for a Community Housing Provider (CHP) and housing co-operatives (which may include papakāinga) more accurately reflects the credit risk associated with such lending.
- We note that the credit risk of a CHP and housing co-operatives does not align directly to the credit risk of an RML. While there is strong security of income, the process for realisation of security in the event of a default is more difficult when the borrower is a CHP or housing co-operative (for example papakāinga). The underlying security for a CHP facility or fundamental housing co-operatives (not including papakāinga covered by Te Ture Whenua Act) is a home provided for the purposes of community housing. In the event of default, the underlying cause of the default may not be directly linked to the family residing in the home (whereas there is a direct link between the borrower and default for an RML). Therefore, the lender may not be able to realise the secured assets without incurring substantial reputational risk and cost.

**Question 44: Do you think the proposed approach for risk weights on lending for Community Housing Providers and housing co-operatives aligns with the main purpose of the Deposit Takers Act 2023 (section 3(1)) and the additional purposes (section 3(2))?**

- Westpac NZ agrees that the proposed approach for risk weights for lending to CHPs and housing co-operatives aligns broadly to the main purpose of the DTA.
- While there is no direct link financially, a link to the purpose of the DTA can be established where a family provided with a home by a CHP and/or housing co-operative will have improved wellbeing and prosperity. The proposed approach would also improve risk sensitivity, and support sound capital allocation that aligns with the proportionality principle in the DTA.

**Question 45: How has the Māori Land Court whenua Māori practice note altered borrowing and lending decisions?**

- The practice note (Tuhinga Ārahi - Nama Pūtea mō Whenua Māori) issued by the Māori Land Court is a great resource that provides clarity for the steps to take and the roles and responsibilities of the Māori Land Court, Māori land owners and lenders.
- We acknowledge the proactive work of the Māori Land Court, including producing the practice note, to normalise lending on whenua Māori and build confidence for both Māori land owners and lenders.
- Westpac NZ works with Māori land owners to find the right solution for them in regard to lending on whenua Māori. We view this as a partnership, and work through options that are best suited to the activity, ability to service the loan, and success of the project for the owners.

**Question 46: For deposit takers: How do you treat lending where whenua Māori is the security? Does this affect your assessment of risk?**

- Westpac NZ's assessment focusses on the borrower's ability to service the debt, rather than the underlying security. This is in part because Westpac NZ is a cashflow lender, but also because of the principle of taonga tuku iho – the protection of the land to remain in the hands of Māori.
- We look at the strength of the borrower and the terms under which the land is registered under the Te Ture Whenua Act.

**Question 47: Does lending secured by whenua Māori have different risk characteristics than other lending, and if so, how should this be incorporated into prudential requirements? Is this relevant for residential mortgage lending, and/or other forms of lending?**

- Lending against whenua Māori is unique because it must take into account land retention for Māori, collective ownership, tikanga values and legal protections. It does require different capital settings, risk assessments and partnership models.
- Innovative financial models like shared equity, leasehold, and joint ventures which include the government have been instrumental in helping whanau into their own homes on ancestral land, both for affordable rental and home ownership. The mixed tenure is a reflection of the community and different stages that they are all at and the ability to support the use of the land for the benefit of all of the owners.

**Question 48: Will lending secured by whenua Māori benefit from the other changes proposed in this Review?**

- Westpac NZ considers that these changes will provide benefits by providing more certainty around access to capital for the purpose of papakāinga and by lowering the cost of capital.

**Question 49: Are there other aspects of the prudential framework that could be addressed to more accurately align risk weights with actual risk for lending secured by whenua Māori?**

- If the leases were longer than the current maximum term allowed to possibly 99 years, it would make it more commercially viable to support these transactions and align to intergenerational wealth and investment.

**Question 50: What are the barriers to borrowing/lending when whenua Māori is used as security?**

- From our experience with lending to Māori where whenua Māori is being offered as security, we need to fully understand what the owners are wanting to achieve, due to the land being a taonga tuku iho but it is also important to understand the alignment to mana motuhake (self-determination) and whakawhanake (development for the economic good of all the land owners). We understand the significant reputational



risk that could be associated with the process and outcomes of realising whenua Māori to recover outstanding debt, balanced with the landowners' full understanding of risk when entering into the arrangement.

**Question 51: For deposit takers: Do you participate in the whenua Māori Lenders Mortgage Insurance underwriting programme run by Kāinga Ora?**

- Westpac NZ does not currently participate in the Kāinga Whenua lending programme.
- Our direct approach based on the strength of relationship currently works better for us as a lender. Our partnerships focus on allowing the borrower to lead the way and make choices suited to their borrowing needs. The Kāinga Whenua programme is quite prescriptive and can lack the flexibility necessary to meet borrowers' unique requirements.

**Question 52: Do you support excluding lending for property development from the proposed approach to risk weights for lending to Community Housing Providers and housing co-operatives?**

- Westpac NZ supports including development funding within the proposed approach to risk weights.
- When assessing any lending facility for the purpose of property development, Westpac NZ assesses the depth of experience and track record of the borrower to complete developments within time, budget and quality constraints. We make this assessment irrespective of whether the borrower is a CHP, housing co-operative or private developer. Therefore, allowing development funding to be part of the proposed risk weight approach would enable a lender to make the development funding available at a lower cost. The reduced risk weights would have little to no impact on the decision to support approval of the facility.

**Question 53: Are the risks during the property development and construction phase different from providing accommodation in finished dwellings?**

- The risks during property development and construction phase are quite different from providing accommodation in finished dwellings.
- The developer faces a much wider variety of challenges (for example, cost escalation of materials, availability of tradespeople, weather delays) which can individually or collectively impact the success of the development. Once the home is complete, there are fewer risks to manage which mostly relate to ongoing cashflow and operational issues with other risks being largely mitigated by insurance.

**Question 54: Do you support excluding lending to third-party providers (who intend to lease to Community Housing Providers or housing co-operatives) from the proposed approach to risk weights for lending to Community Housing Providers and housing co-operatives?**

- Westpac NZ does not support a blanket exclusion. A balanced approach is preferable, provided any inclusion ensures the capital benefit is demonstrably passed through to CHPs, and housing co-operatives that have a charitable purpose and government funding that enables them to reduce costs. Third-party developers can help CHPs establish and manage projects, but intermediated structures introduce additional risk between cashflows and servicing unless mitigated and may increase costs over time. Although current volumes are small relative to total RWAs, the right treatment could act as a catalyst for marginal CHP and housing co-operative projects where pass-through of capital benefits is clear.

**Question 55: Are the risks of lending by third-party borrowers different from lending directly to Community Housing Providers?**

- The risks in any lending arrangement increase if additional entities are positioned between the source of the cashflow and the servicing of the obligation.

# Appendix 1: Securitisation Regulatory Capital Treatment

## Introduction

- Third party securitisation (**Securitisation**) funding in New Zealand faces conservative capital requirements under current RBNZ rules which Westpac NZ believes does not reflect the underlying asset risk. Comparator jurisdictions, including APRA, have implemented a standalone capital approach (APS120) that looks through to the risk associated with the underlying asset. Westpac NZ, as a major New Zealand securitisation market participant, recommends a regulatory approach that supports the funding of small deposit takers and financial institutions. This will both improve market competition and enhance their growth by reducing funding costs to those small deposit takers and financial institutions and their end customers.
- Westpac NZ has reviewed and contributed to the New Zealand Market Subcommittee of the Australian Securitisation Forum's submission and requests that this submission is read alongside that.

## Recommendation

- Westpac NZ recommends the development of a standalone Securitisation standard for the capital treatment of third-party securitisation exposures that more closely aligns with global standards, for example, Basel and APRA.

## Overview of the Securitisation market

- Securitisation is the process of funding a pool of receivables (typically loans and leases in New Zealand) via the issuance of bonds to wholesale investors in the capital markets. These wholesale investors include KiwiSaver and superannuation fund managers, other fund managers, insurance companies, sovereign wealth funds, private credit funds and banks. Securitisation transactions are typically backed by residential mortgages, car loans, fleet leases, equipment loans (diggers, construction equipment, trucks / trailers, forestry equipment), personal loans and credit card receivables.
- Each of these transactions has been incubated in a warehouse (third-party securitisation warehouse). Securitisation warehouses are used by small deposit takers and financial institutions to fund their loan books until they reach a critical mass sufficient to issue bonds into the capital markets. These warehouses are typically funded through a senior / subordinated structure, with Group 1 deposit takers funding the senior position.
- Fourteen financial institutions<sup>1</sup> and deposit takers have issued securitisation transactions in the New Zealand capital markets since 2010 (excluding internal securitisations and covered bonds). The 65 individual transactions raised a total of NZ\$14.2 billion.
- As the securitisation warehouse funding market in New Zealand is private in nature, it is difficult to accurately estimate the size of the sector. For the financial year ending 2024, Westpac NZ and BNZ disclosed an aggregate of over NZ\$8 billion of commitments.<sup>2</sup> Westpac NZ is currently the largest securitisation warehouse provider in the New Zealand financial sector with NZ\$5.9 billion in warehousing limits at the 2024 financial year end.

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<sup>1</sup> Financial institutions that have issued into the New Zealand capital markets include; UDC Finance, MTF Finance, Resimac, Avanti Finance, Fleetpartners, humm (QCard), Latitude, Harmony, Turners Finance and Basecorp Finance.

<sup>2</sup> As disclosed in the Westpac NZ Disclosure Statement for the year ended 30 September 2024, and the BNZ Disclosure Statement for the year ended 30 September 2024.



## Current capital treatment

- Under the current capital framework, a significant portion of these third-party Securitisation warehouses do not have a credit rating so are treated as unrated Corporate exposures for capital purposes. Where the Group 1 deposit taker is bound by the Output Floor it is required to use a risk weight of 100% (subject to an Output Floor of 85%) against these unrated exposures (under the IRB method the risk weighting is ~20% where the unrated senior debt is AAA/AA equivalent).
- The 100% risk weighting applies regardless of the underlying risk of the asset (that is, there is currently no 'look through' to the quality of the underlying asset). This need to hold a higher amount of capital, regardless of the underlying risk of the securitised asset, materially increases the cost and availability of this securitisation warehouse funding for New Zealand's small deposit takers and financial institutions.
- While a lower standardised risk weight can be applied where the senior debt is externally rated, the rating process is particularly burdensome for small deposit takers and financial institutions due to cost and complexity. Requiring an external rating to receive viable capital treatment restricts small deposit takers and financial institutions from participating in the market, reducing competition.

## Double up of capital

- When a Group 2 or 3 deposit taker issues a Securitisation and retains the asset on their balance sheet, they must also hold capital against the underlying asset. This results in both the issuer and the funder holding capital for the same asset, leading to a duplication or 'double up' of capital requirements.
- The following example (see Table 1) illustrates the amount of capital that would be required to be held against a performing, owner occupied residential mortgage loan of \$1 million with a LVR of <80%. In this scenario, the mortgage is 90% senior funded by a Group 1 deposit taker through an unrated warehouse structure.
- The **Group 2 deposit taker**, using a securitisation warehouse to fund the origination of mortgage loans, would be required to risk weight the mortgage exposure of \$1 million at 35% and hold CET1 capital at 11.5% against it (based on existing 2028 requirements).
- The **Group 1 deposit taker** (the securitisation warehouse funder) would be required to risk weight the unrated Corporate exposure of \$0.9 million at 100% (subject to an Output Floor of 85%) and hold CET1 capital at 13.5% against it (based on existing 2028 requirements).

Table 1

	Group 2 Deposit Taker - Originating Loan and Issuer	Group 1 Deposit Taker - Providing Warehouse Funding	System Capital
Mortgage Loan Principal (EAD)	\$1,000,000	\$900,000	\$1,000,000
RWA % (Current)	35%	85%	
RWA \$ (Current)	\$350,000	\$765,000	
CET1 Requirement (2028)	11.50%	13.50%	
<b>CET1 Capital held against loan</b>	<b>\$40,250</b>	<b>\$103,275</b>	<b>\$143,525</b>

- In this example there is approximately 3.6x the amount of capital held against this one mortgage in the New Zealand system than there would be if it had not been securitised and funded by a Group 1 deposit taker.

## Opportunity for alignment with global standards

- In Westpac NZ's view, a standalone securitisation standard for third-party Securitisation exposures, that looks through to the underlying assets in a securitisation warehouse, would more closely align with the credit risk being taken by the funding deposit taker. This would align with global standards (including APRA and Basel).
- Under APRA's approach, Securitisation exposures are subject to APS120, a Securitisation specific standard. Under APS120 where the exposure is not externally rated, there is look through to the underlying assets. Some of the key elements that are considered include loan-to-value ratio, days in arrears and asset class.

## Benefits of alignment

-  Westpac NZ believes that a targeted approach to Securitisation that looks through to the underlying assets would benefit small deposit takers and financial institutions and enhance broader market competition in the following ways:
  - **Double up of capital:** It would remove the current 'double up' of capital held against the same lending exposure (which, as illustrated above, could result in over three times more capital being held), enabling this capital to be re-deployed into the New Zealand economy.
  - **Customer pricing:** The conservative current capital treatment also has direct flow-through volume and pricing impacts for New Zealand's small deposit takers and financial institutions and their customers. Lowering the cost for small deposit takers and financial institutions to fund themselves and their future growth through the securitisation warehousing phase will allow this saving to be passed on to their customers.
  - **Enhance competition:** As small deposit takers and financial institutions rely on securitisation warehousing facilities to fund their businesses and provide financing to their end New Zealand customers, a reduced cost of funding improves their competitiveness.
  - **Growing the securitisation market:** Reducing the capital burden of the deposit takers who fund the securitisation warehouses will improve market efficiency by reducing headline funding margins or providing greater availability of funding. The FEC Report (section 3.5) specifically discusses the benefits of the Australian securitisation market in the competition context: "*The Australian initiative had clear competitive objectives, based on the idea that enhanced access to funding via securitisation markets enabled smaller lenders to compete more with the larger incumbents*". For context, the New Zealand securitisation market and non-bank financial institution market share is currently small, with RBNZ website statistics showing that non-bank financial institutions account for only approximately 1.3% of total New Zealand housing lending (as at July 2025). This compares to approximately 9% in Australia where non-bank financial institutions have grown to have a much larger presence in providing competitive financing options for end customers.
  - **Greater access to funding:** Enhancing the competitiveness of small deposit takers and financial institutions will increase access to funding for underserved pockets of the economy and productive sectors through securitisation of equipment receivables (for example, agriculture and construction), giving these sectors greater choice of lender.
  - **Capital market access and growth:** Increased securitisation bond issuance following the securitisation warehousing phase will support the broader growth of the New Zealand capital markets.



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