

Submission

to the

Reserve Bank of New Zealand – Te
Pūtea Matua

on the

Deposit Takers Standards –
Tranche 3 Consultation –
Capital Standard and Internal
Models Standards

11 September 2026



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Contact details

3. If you would like to discuss any aspect of this submission, please contact:

Antony Buick-Constable
Deputy Chief Executive & General Counsel
antony.buick-constable@nzba.org.nz

Sam Schuyt
Policy Director & Legal Counsel
sam.schuyt@nzba.org.nz



Introduction

4. NZBA welcomes the opportunity to provide feedback to the Reserve Bank of New Zealand – Te Pūtea Matua (**Reserve Bank**) on its consultation on tranche 3 of the Deposit Takers Act 2023 (**Act**) Standards. This submission relates to the exposure drafts of the Capital Standard and the Internal Models Standard and the related guidance (**Exposure Drafts**). NZBA is making a separate submission on the other tranche 3 standards.
5. We appreciate the opportunity to provide feedback on the Exposure Drafts. In this submission, we provide some general comments on the Exposure Drafts and include further specific comments in the appendix.

General comments

6. Set out below are some general comments on the Consultation.
 - (a) **Imposing licence conditions:** NZBA submits that the discretion provided to the Reserve Bank in the Capital Standard is too broad, and that the Reserve Bank should have to have regard to or follow mandatory considerations or procedural requirements when setting conditions of licence.

Section 24(1)(c) of the Act provides that a condition of licence may provide for anything that the standards say may be provided for by conditions. Section 92 of the Act provides that a standard may provide for a requirement or matter to be specified in a condition of licence if the Reserve Bank is satisfied that the standard (a) sets an appropriate range or limit within which the requirement or matter may be specified by the condition or (b) sets out an appropriate manner for the Reserve Bank to decide on the terms of the condition (for example, by specifying the matters that the Reserve Bank must have regard to, or be satisfied of, when deciding what condition is to apply).

The Capital Standard provides that the Reserve Bank may impose conditions of licence (including capital overlays, buffer overlays, RWA scalars etc) if the Reserve Bank is satisfied that the condition is necessary or desirable to (a) promote the safety and soundness of the deposit taker or (b) avoid or mitigate the adverse effects of risks to the stability of the financial system or a risk from the financial system that may damage the broader economy.

We query whether the mandatory considerations in the Capital Standard meet the requirements in section 92. Although the mandatory considerations correspond to the statutory purposes in clause 3(2)(a) and (d) of the Act, they appear to provide the Reserve Bank with significant discretion to impose conditions of licence. This does not appear to be consistent with the transition away from conditions of registration to standards, which are secondary legislation with Parliamentary oversight, or with the purpose of sections 24 or 92,



which provide that standards should set parameters (ie ranges or limits or procedural requirements) for conditions of licence.

By contrast, the Lending Standard will set ranges and limits for thresholds and speed limits for high LVR and DTI lending that the Reserve Bank can impose via conditions of licence (see clause 23). If the Reserve Bank wanted to impose thresholds or speed limits that are outside of these ranges, the Lending Standard would need to be amended.

We consider that the discretion provided to the Reserve Bank in the Capital Standard is too broad, and that the Reserve Bank should have to have regard to or follow mandatory considerations or procedural requirements when setting conditions of licence (for example, the proportionality principle or the principles in section 4 of the Act).

In respect of overlays, in particular, there should be transparency about the factors the Reserve Bank will consider when imposing an overlay (for example, a defined methodology, perhaps based on the Reserve Bank's models), including in relation to the likely duration of the overlay, and that the Reserve Bank should be required to consider whether a transition period is appropriate when imposing an overlay. Members would also appreciate clarity on how overlays should be reflected in ICAAP and stress testing and whether overlays effectively replace the output floor function.

- (b) **Increased level of approvals:** There seems to be an increased level of Reserve Bank approvals required throughout the Capital Standard and Internal Models Standard (such as under section 173 and 180 of the Capital Standard and clause 48 of the Internal Models Standard). We query the rationale for this. If this shift in regulatory oversight is retained, deposit takers need certainty that such approvals will be provided quickly and efficiently so as to not cause unnecessary delays to deposit takers' operations.
- (c) **Transition from regulation to legislation:** Under the current framework, Condition of Registration 1 sets out the minimum capital requirements, while the detailed calculation requirements sit within the BPRs. In November 2018, the Reserve Bank clarified that although banks are expected to comply with the BPRs and notify any actual or potential calculation errors, minor and inadvertent calculation errors would not automatically constitute a breach of Condition 1. The Reserve Bank also indicated it would take a proportionate approach based on the nature and size of the error.

Under the Capital Standard, the detailed capital calculation requirements will become legislative obligations. As a result, it is unclear whether the Reserve Bank will retain the same flexibility to deal proportionately with immaterial or inadvertent calculation errors. We query whether this outcome is intended and



whether the Reserve Bank expects its supervisory approach to reporting and remediation of minor calculation errors to change under the new regime.

- (d) **Drafting:** The restructuring of content from the BPRs is, in places, more difficult to read and understand, including because some clauses stand alone and others do not. An example is clause 17, which must be read in conjunction with clause 21. Any restructuring of BPR content should result in increased clarity, otherwise it seems preferable for the content not to be restructured.

7. In addition, further specific comments are included in the appendix.



Appendix: Specific submissions

Standard Part / Clause	Corresponding BPR Source	Notes
Deposit Takers (Capital) Standard 2027		
CI 5 – interpretation		The "core market participant" definition should include an overseas bank, to align with the definition in BPR132 B2.7. Under the Act, a person must be carrying on business in New Zealand to be a deposit taker, so the change from "banks" to "deposit taker" in the core market participant definition does not capture overseas banks. The "credit equivalent amount" definition refers to subpart 6 of Part 5. We consider that it should also refer to subpart 7 of Part 5 – see clause 110(2)(f) and our comment on clauses 164 and 165. We query whether the "New Zealand Superannuation Fund" definition should be replaced with a definition of "Guardians of New Zealand Superannuation" or "Guardians" to align with the October 2026 changes to the BPRs. The "precious metal" definition includes gold. Members query whether gold should be treated as a commodity or as a currency in the market risk capital calculations. Ordinarily, gold would be considered a currency component rather than a commodity component. For example, in MAR40.53, gold is treated as a foreign currency. Treating gold as a foreign currency would also be consistent with international regulatory regimes.



Standard Part / Clause	Corresponding BPR Source	Notes
CI 9 – deposit taker must comply with capital requirements in respect of capital group	BPR001 B2.1	The Reserve Bank should have discretion to exclude an entity from a deposit taker's capital group (as it does under the banking group definition in the BPRs).
CII 14 and 37 – use of the terms "combined capital" and "total capital"	BPR100 B1.2	Clause 14 defines " <i>combined</i> capital ratio" as tier 1 and tier 2 capital divided by RWA equivalents. Clause 37 defines " <i>total</i> capital" as tier 1 capital and tier 2 capital. We suggest clarifying the role of loss-absorbing capacity in these definitions – loss-absorbing capacity is mentioned in clause 14(1) (although not in clause 14(2)) but not in clause 37. We also consider that it would be preferable for these definitions to be consistent, and suggest that "total capital" should be used in both.
CI 15 – capital overlay	New requirement	We recommend that the capital overlay framework provides for either a dollar value overlay or percentage-based overlay to be imposed, for the following reasons: • Dollar-based overlays are operationally easier to manage (particularly for those that remain for an extended period of time) as they do not need to be constantly monitored and increased/decreased as the balance sheet changes; • A percentage-based overlay changes as balance sheet size changes over time and could be inconsistently applied over time and across the industry;



Standard Part / Clause	Corresponding BPR Source	Notes
		• The value of a dollar-based overlay is generally easier for external investors, stakeholders and customers to understand than a percentage-based overlay; and • A dollar-based approach can still be applied to limit distributions. Having an option to use either a dollar-based or percentage-based approach will provide the Reserve Bank flexibility to apply an overlay that is proportionate and appropriate in the circumstances. See also our general comment above regarding the imposition of licence conditions.
CI 17 – combined buffer ratio	BPR100 B1	We consider that clause 17 is confusing, difficult to read, and should be reworded to provide clarity, including on how clause 17(2)(a)(ii) and clause 21 are intended to operate in practice following a reduction in the counter-cyclical buffer below 1%. In addition: • The Group 1 buffer should be specified separately, to recognise the distinct purpose of that buffer. • We recommend that 'applicable tier 1 capital', 'combined buffer' and 'combined buffer ratio' are added as defined terms in clause 5 (Interpretation).
CI 18 – capital conservation buffer	BPR100 B1.3(8)	This provision should set out the capital conservation buffer for each type of deposit taker, rather than leaving the CCB to be determined in a deposit taker's licence conditions. We do not consider it is appropriate for capital requirements to be set in a



Standard Part / Clause	Corresponding BPR Source	Notes
		deposit taker's licence conditions given the potential financial stability, competition and proportionality impacts. Capital requirements should be set in standards and subject to broad consultation.
CI 21 – distribution restrictions relating to combined buffer ratio	No direct BPR equivalent	We recommend that the restrictions set out in clause 21(3) be presented in a table format, like they are in BPR100 B1.3, to improve readability. The definition of "applicable tier 1 capital" is not used in this clause.
CI 23 – board must ensure capital adequacy	BPR100 B1.3(2) and D2.1(3)	While clause 23 accurately reflects the position in the BPRs, we query whether it still makes sense for the standard to impose an obligation on the deposit taker's board. The Capital Standard will apply to the deposit taker – not the deposit taker's board. The Governance Standard sets out board responsibilities and includes capital in the audit and risk committee functions and fit and proper criteria.
CI 24 – deposit taker must have internal capital adequacy assessment process (ICAAP)	New requirement	The requirement in clause 24(1)(b) to take all practicable steps to comply with the ICAAP is new. We consider that "practicable steps" should be replaced with "reasonable steps".



Standard Part / Clause	Corresponding BPR Source	Notes
CI 25 – board must approve ICAAP	BPR100 D3.2(2)	The board or board committee's approval should only be required for <i>material</i> amendments to the ICAAP. This would be consistent with the board's role regarding strategy and oversight, as opposed to administrative matters.
CI 29 – ICAAP must be reviewed	BPR100 D3.7-D3.8	We consider that an annual (or bi-annual) review of a deposit taker's ICAAP is neither warranted nor practical, and that clause 29(1) and (2) should be replaced with wording equivalent to the provision used in Australia (see para 19 of APS 110), which provides discretion for the deposit taker to determine how frequently independent reviews should be carried out in light of its specific context, complexity and risk profile. If a minimum frequency is included, it should be 3 years for all deposit takers (Groups 1, 2 and 3). There does not appear to be a strong policy rationale to distinguish between Groups 1 and 2 and Group 3, particularly given the robust governance requirements in place for ICAAP. In addition: • if subclause (3) is retained, the example should be amended to refer to "a <i>material</i> change to the strategic focus of the deposit taker or the establishment of <i>material</i> new operating lines."; and • subclause (5)(a) should be amended to include a reference to complexity.



Standard Part / Clause	Corresponding BPR Source	Notes
CI 30 – ICAAP must have comprehensive coverage	BPR100 D3.3	Clause 30(a) appears to overlap with clause 24(2)(a). We query whether it is necessary to include both provisions.
Subpart 3 of Part 2 – inconsistent use of the terms "material risk" and "risks"	No direct BPR equivalent	Subpart 3 of Part 2 uses the terms "material risk" and "risk" inconsistently. For example, clause 23 refers to the capital group having adequate capital in relation to all the risks in their business, and clause 30 refers to material risks. All references to "risk" in relation to ICAAP should be to "material risks".
CI 38 – meaning of tier 1 capital	BPR110 B1.2 (CET1) and B2.2 (AT1)	There is a cross-referencing error in clause 38(1)(a), being "clauses 39 to 0".
CI 43 – exclusion of fair value gains and losses	BPR110 B 1.7	The terms "group capital ratio calculation" and "solo capital ratio calculation" should be defined (or redrafted to use the existing defined terms).
CI 44 – deduction of cash flow hedge reserve	BPR110 B1.8	The heading of this clause should be changed to refer to "Removal" (consistent with BPR110 B1.8) or "Exclusion" (consistent with clause 43) rather than "Deduction" – a 'deduction' can only reduce tier 1 capital, whereas an 'exclusion' or 'removal' can result in either an increase or decrease in tier 1 capital. In addition, this clause should refer to "tier 1 capital" rather than "capital".



Standard Part / Clause	Corresponding BPR Source	Notes
		We note that there are broader equity reserve developments arising from the adoption of hedge accounting under NZ IFRS 9 that will warrant future clarification from a prudential perspective, including the adoption of the Cost of Hedging Reserve. Clarification of how these accounting developments will be reflected in the standards would be useful for future consideration.
CI 47 – deduction for unrealised loss on securities	BPR110 B1.11	Clause 47(1)(b) should refer to "accounts" rather than "financial statements".
CI 52 – relationship with subpart 2	BPR110 C1.1	There is a cross-referencing error in this clause, being "clauses 39 to 0".
CII 62-64 – requirements for mutual capital instruments to be tier 1 capital	BPR110 D1A.3-D1A.5	There is a formatting error in clause 62(2) in the definition of "total tier 1 capital": "in each case having regard to the minimum capital requirements and accounting standards then applicable" should apply to each of (i)-(iii), not just (iii).
CI 68 – redemption or call dates	BPR110 D3.5	We suggest aligning the "5 years" references in this clause. Currently there are a few variations in the start point – "after issue", "after the date on which the deposit taker irrevocably receives payment for the instrument", and "of the instrument".



Standard Part / Clause	Corresponding BPR Source	Notes
CI 70 – no step-ups or incentives to redeem	BPR110 D3.7	We suggest using a consistent term for "variable interest rate" – "variable rate" and "rate" are also used in this clause.
CII 72(1)(b) and 93 – other requirements for tier 2 instruments and purchases of own capital	BPR110 D3.9(2) and BPR120 C2.3	Clause 72(1)(b) provides that neither a deposit taker nor an entity over which the deposit taker has significant influence may purchase its tier 2 capital instruments. Clause 93 permits a member of a deposit taker's capital group to purchase its previously issued tier 2 capital instruments up to a 5% cap. While these provisions carry over the position in the BPRs in this respect, we suggest clarifying their relationship to each other. On the face of it, they appear inconsistent with each other, and the guidance in BPR120 C2.3 that helped explain their relationship to each other has not been carried over. In addition, we submit that: • Clause 93 should not apply to capital instruments issued under previous rules that do not qualify as capital under the new rules. BPR120 C2.3(2)(b)(ii) provides for this in respect of instruments issued under the rules that applied before the BPR rules, but this has not been carried over to clause 93. • Clarification is required regarding the application of clause 93 to Group 1 internal tier 2 and loss-absorbing capacity instruments. The current drafting creates uncertainty as to whether a Group 1 deposit taker may repurchase, redeem, unwind or restructure internal instruments as such needs arise in the ordinary course of capital management and whether the 5% limit would apply.



Standard Part / Clause	Corresponding BPR Source	Notes
CII 75-80 – minority interests / capital issued by subsidiaries	BPR110 E1.1-E1.7	In clause 77(2)(b), the reference to clause 59 should be to clause 38(2). There are cross-referencing errors in clause 78(1)(a) and (3)(a). There are cross-referencing errors in clause 80(1)(a) and (4)(a).
CII 81-83 – capital instruments issued by SPV	BPR110 E2.1-E2.3	Clause 81 refers to tier 1 instruments. This does not seem correct as AT1 instruments no longer count as capital and ordinary shares cannot be issued under an arrangement that involves an SPV.
CI 86 – documents required for new instrument notice	BPR120 B1.3	Clause 86(3)(a) is expressed more broadly than the corresponding guidance in section B1.3(2) of BPR120, which provides that the permitted foreign law "must not override (or negatively impact) <i>the eligibility requirements that must be met for regulatory capital in Part D of BPR110</i> ". In our view, the BPR position should be retained. In addition, we do not consider it is appropriate for the Reserve Bank to have to approve the deposit taker's reliance on a legal opinion. It should be sufficient that the opinion is provided by a law firm with appropriate expertise in the relevant jurisdiction and in the area of law.
CI 89 – additional information required: capital instrument issued to related entity	BPR120 B1.5	Subclause (2) should be optional for Group 1 deposit takers. Parent banks are expected to manage the LAC and tier 2 on a portfolio basis, meaning that there may not be any direct 'related funding transaction' to refer to at a given point in time.



Standard Part / Clause	Corresponding BPR Source	Notes
CI 92 – redemption of tier 2 capital restricted	BPR120 C2.2	The examples at the end of the guidance in BPR120 C2.2 are not included in subclause (5) or in the Guidance. We suggest including the examples to provide certainty.
CII 96 and 97 – additional documents and information on redemption	BPR120 C3.2	We query whether the requirement in clauses 96(2)(c) and 97(2) to project capital adequacy for 1 year following redemption remains relevant to Group 1 tier 2 and LAC instruments (given the requirement for them to be internally issued), or whether the test is principally intended for existing, transitional or externally issued instruments. We consider that a more proportionate approach could apply to Group 1 internal tier 2 and LAC.
CI 98 – deposit taker must notify Bank of amendment to terms of instrument used for capital requirements	BPR120 C2.5(1)	We suggest including the 5 working day timeframe that currently applies under the BPRs – it is helpful to have certainty in relation to the amount of notice Reserve Bank will expect.
CI 106 – categorising exposure classes	BPR130 C1.5(4)	To align with the October 2026 changes to the BPRs, "corporate" should be amended to "corporate (excluding community housing providers and the Guardians of New Zealand Superannuation)" and the Guardians of New Zealand Superannuation should be added to the list.



Standard Part / Clause	Corresponding BPR Source	Notes
		We also suggest clarifying whether subclause (4) is intended to apply to all exposure classes listed in subclause (1), as some terms are not defined in the Internal Models Standard (such as CHPs) and in some cases the definition of the SME \$2 million threshold differs between the Capital Standard (based on post-credit conversion exposure) and the Internal Models Standard (based on pre-credit conversion total business exposure).
CII 108-113 – Standardised components (total calculation, deductions/exclusions, risk-weighted exposures, RWAs for all other assets, CVA charge, trades on CCPs)	BPR131 A1.4-A1.8	In clause 110(2)(c)(ii) and the related Guidance in paragraph 106, loan-to-value ratio is mentioned in the context of determining the applicable risk weight for residential mortgage lending. We suggest also mentioning LVR in the context of farm and CHP lending. Clause 113(1)(e) has cross-referencing errors – "clause 110(c)" and "clause 110(f)" should be "clause 110(2)(c)" and "clause 110(2)(f)". In clause 113(3), "and" in BPR131 A1.8(2) is replaced with "or". Under BPR131, both conditions (a) and (b) must be satisfied for the exception from CCP RWA treatment to apply (Part G specifies bilateral risk-weighting AND counterparty is modelled). Under clause 113(3), either condition alone suffices (subpart 9 specifies bilateral risk-weighting OR trade is modelled).
CI 119 – inferred ratings if multiple ratings	BPR131 B1.7	This clause should be amended to clarify that it also applies to situations where an instrument has multiple issue-specific credit ratings (in line with cl 117(3)). At present, clause 119 is expressed to apply only for the purposes of determining an inferred



Standard Part / Clause	Corresponding BPR Source	Notes
		rating grade under clause 118. It should also expressly apply for the purposes of determining a rating grade under clause 117(3).
CI 129 – claims on deposit takers and overseas banks	BPR131 C2.5	To align with the recent changes to the BPRs following the capital review, the references to "3 months" should be updated to "104 days". Also, we query whether clause 129 is intended to apply a maturity threshold based on original maturity only. Clause 129 references original maturity only, which seems inconsistent with clauses 134(2)(b) and 135(2)(b), which reference both original and effective maturity.
CI 131 – claims on corporates	BPR131 C2.7	Clause 131(1)(e) provides that the risk weight for rating grade 5 is 100%, whereas the equivalent risk weight in BPR131 Table C2.7 is 150%. We query whether this change is intended.
CI 136 – past due non-mortgage loan	BPR131 C2.12	This clause refers to 90-day past due assets, whereas the satellite survey refers to impaired assets alongside 90-day past due assets. We recommend these are aligned. Clause 136(2) should also refer to an "indemnity".
CI 142 – exposure to small and medium enterprises	BPR131 C2.19	Clause 142(1)(b) and the related Guidance in paragraph 127 refer to "other SME exposure" and "other SME exposure class" rather than "SME corporate" (which is the term used in BPR131 C2.19). We query whether this is intended, and note that it does



Standard Part / Clause	Corresponding BPR Source	Notes
		not align with clause 57(2)(h) of the Disclosure Standard, which refers to "SME corporate". The defined term "SME counterparty" does not appear to be used. To align with the recent changes to the BPRs following the capital review, the definition of "SME exposure" should be updated to permit a deposit taker to treat an exposure as a SME exposure where a corporate counterparty's total annual revenue cannot reasonably be ascertained and the exposure is less than \$5 million. We query whether personal lending should be excluded from the threshold in paragraph (a)(ii) of the "SME retail exposure" definition, for consistency with clause 34(2) of the Internal Models Standard, where the equivalent threshold is based on business-related exposure only (ie excludes personal lending). We recommend that subclause (3) is simplified where possible, particularly subclause (3)(f).
CI 143 – Farm lending exposure	BPR131 C2.20(1)-(4)	Clause 143(4) references clause 159 in relation to past due farm lending exposures. Clause 159 relates to past due RML. This seems like an error – we query whether the reference should instead be to clause 136, which relates to past due assets other than RML or Kāinga Whenua loan products.



Standard Part / Clause	Corresponding BPR Source	Notes
CI 144 – valuation policy for farm lending exposures	BPR131 C2.20	Clause 144(b) provides discount rates for different components of farm lending to be used when calculating LVRs for farm lending exposures. We understand clause 144(b) will be updated for the October 2026 changes to the BPRs, including to provide a discount rate for financial investments (consistent with Table C2.20b in BPR131). We suggest that "financial investments" is defined for this purpose.
CI 145 – community housing provider	BPR131 C2.21	Subclause (5) should be updated to include the specific provisions for past due CHP loans in the October 2026 changes to the BPRs (BPR131 C2.21(3)) rather than references to clauses 158 and 159.
CI 148 – meaning of residential mortgage loan (RML)	BPR131 C3.2	As noted in NZBA's submission on Tranche 1, the definitions of residential mortgage loan in the Lending Standard and the Capital Standard do not align. The definition in the Lending Standard should be updated to align with the definition in the Capital Standard.
CI 150 – loan-to-value ratio (LVR) for residential mortgage loan	BPR131 C3.5	This clause should be amended so that lending facilities that are not tied to or managed as part of the RML are expressly excluded from the definition of "loan value". An exception to this effect is included in the guidance to BPR131 C3.5, and is also included in the related Guidance in paragraph 134. However, the exception should be reflected in the Capital Standard rather than the Guidance. The definition of loan value would, on its face, capture products that are not tied to or managed as part of the RML, and Guidance cannot override the Capital Standard.



Standard Part / Clause	Corresponding BPR Source	Notes
CI 153 – valuation provided by professional valuation service	BPR131 C3.8	The independence requirement set out in subclause (2) should apply only to subclause (1)(b) (and not to subclause (1)(a)), in line with BPR131 C3.8. A model should be independent by design.
CI 158 – risk weight for past due RML with lender's mortgage insurance	BPR131 C3.11(2)-(4)	This clause refers to 90-day past due assets, whereas the satellite survey refers to impaired assets alongside 90-day past due assets. We recommend these are aligned.
CII 163-165 – calculation of counterparty credit risk RWAs	BPR131 E1.3-E1.4	Members queried whether the cross references in these clauses to subpart 6 should instead be to "this subpart 7" – the credit equivalent amounts for derivatives and SFTs are determined under subpart 7 (clauses 166, 170 and 172).
CI 172 – calculation of credit equivalent amount for SFT	BPR131 E4.1	The purpose of the additional wording in subclause (2) "as if that provision relates to the calculation of a credit equivalent amount" is not clear. This wording does not appear in section BPR131 E4.1(2) or in the reference to clause 202 in subclause (1)(a). We suggest clarifying the intention (or removing the wording).
CI 173 – application of credit valuation	BPR131 F1.1	Securities financing transactions are now subject to the credit valuation adjustment capital charge requirements by default unless an exclusion has been approved by the Reserve Bank. Under BPR131 F1.1(4), SFTs were excluded from the CVA unless the



Standard Part / Clause	Corresponding BPR Source	Notes
adjustment capital charge		Reserve Bank determined that the CVA charge should apply. In contrast, subclauses (4)(b) and (5) require Reserve Bank approval for an SFT to be excluded from the CVA requirements. Subclauses (4)(b) and (5) should be updated to reflect BPR131 F1.1(4). It would not be practical for the Reserve Bank to be required to provide approvals for specific SFTs, which would be required in a very timely manner given the short-term nature of SFTs. We are not aware of any issues with the practical application of BPR131 F1.1(4). See also our general comment above regarding the increased level of approvals under the standards.
CII 174-176 – calculating credit valuation adjustment capital charge	BPR131 F2.1-F2.3	In clauses 174(1), 175(1), and 176(1), we suggest that the formula for CVA is preceded with "K =", to reinforce its link to clause 112 ($RWA = 12.5 \times K$). For clarity and to better align with BPR131 F2.1, clause 174(3) should be amended to: <i>"The benefit of a hedge may only be reflected in the calculation of the credit valuation adjustment capital charge if it meets the requirements in clause 178."</i>
CI 175 – calculating credit valuation adjustment capital charge: no eligible hedges and more than 1 counterparty	BPR131 F2.2	The cross reference in clause 175(2) should be to clause 174 rather than clause 173.



Standard Part / Clause	Corresponding BPR Source	Notes
CI 176 – calculating credit valuation adjustment capital charge: no eligible hedges and 1 counterparty	BPR131 F2.3	We query whether the reference in subclause (1) to the capital risk weight "w" (which references clause 177) should expressly permit the use of Reserve Bank-approved internal-to-external rating mappings where the counterparty has no external credit rating, consistent with the express allowance in "w_i" in clause 174(1). The cross reference in the definition of CEA in subclause (1) should be to subpart 7 rather than subpart 6.
CI 180 – meaning of qualifying central counterparty	BPR131 G1.2	We query whether subclause (1)(b) is intended to introduce a stronger governance requirement by requiring express Reserve Bank approval for the use of a non-designated central counterparty, rather than requiring that the CCP complies with CPMI-IOSCO Principles (per the current guidance within BPR131 G1.2(1)(b)). If so, we query the rationale for this change. If subclause (1)(b) is retained, it will be important for the Reserve Bank to ensure that CCPs that deposit takers have existing arrangements with are approved with effect from the date the Capital Standard comes into effect. See also our general comment above regarding the increased level of approvals under the standards.
CI 182 – risk weight if deposit taker is client of qualifying central	BPR131 G2.2	We suggest replacing "clearing member deposit taker" with "clearing member" in subclause (3)(c)(i), to reflect that clearing members may not be deposit takers under the Act.



Standard Part / Clause	Corresponding BPR Source	Notes
counterparty clearing member		
CI 184 – risk weight if deposit taker has posted assets as collateral	BPR131 G2.4	The cross reference in clause 184(4)(c) should be to clause 182(4) rather than 182(3).
CI 185 – requirements for exposures to non-qualifying central counterparties	BPR131 G3.1	We suggest clarifying in clause 185 whether non-qualifying central counterparty exposures are treated as bilateral trades and included in CVA (as is explicit in BPR131 G3.1(1) and (3)), as: • the clause does not explicitly state that these are treated as bilateral trades; and • subclause (2) refers to inclusion in CVA only where the trade meets the requirements in clause 173, which does not appear to specifically address central counterparties.
CI 188 – recognising credit risk mitigation: internal models approach	BPR132 A2.2	Clause 188(2)(d) should also refer to an "indemnity", and to subpart 6 rather than subpart 5.



Standard Part / Clause	Corresponding BPR Source	Notes
CI 195-202 – comprehensive methodology (adjusted exposure, haircuts, zero haircut, SFTs, formula)	BPR132 B2.1-B2.9	In clause 197, references to clause 193(1)(c) should be to clause 193(2)(b). We recommend expanding clause 200(2)(f) to also include references to standard documentation from "International Capital Markets Association and International Securities Lending Association (or similar industry bodies)". This would pick up the Global Master Repurchase Agreement (GMRA) and the Global Master Securities Lending Agreement (GMSLA), which are market standard documents for trading SFTs globally. There is a drafting error in clause 202: in C_i, "transaction I (I= 1 to n)" should be "transaction i (i=1 to n)".
CI 197 – standard supervisory haircuts	BPR132 B2.3	Subclause (2)(d) refers to clause 193(1)(c), which does not exist.
CI 221 – recognising guarantees, indemnities, and credit derivatives for RWA calculation under internal models approach	BPR132 D2.2	Clause 221(3)(b) should also refer to an "indemnity".



Standard Part / Clause	Corresponding BPR Source	Notes
CI 228 – effect of adjustment on expected loss calculation	BPR132 D2.9	Clause 228 should also refer to an "indemnity".
Part 7 (cII 234-285) – capital requirement for market risk	BPR140 A1-A2	As a general comment on Part 7, it is unclear how market risk from CVA/FVA is to be treated. It would be helpful if the Capital Standard provided explicit confirmation that market risks from CVA/FVA are to be treated as traded market risk.
CI 234 – interpretation	BPR140 A1.3	Clause 234 inherits an error from BPR: in the definition of "seasonal rate-insensitive product", there should be a reference to "seasonal rate insensitive asset" (rather than two references to "seasonal rate-insensitive liability"). In addition, the definitions of "core rate-insensitive asset" and "seasonal rate-insensitive asset" both refer to "value" instead of "amount" (which is used in the equivalent definitions in BPR 140). The rationale for the change is not clear, and the word "value" can be interpreted in different ways (including as face value). We suggest clarifying the intention or defining "value" in this context.
CI 235 – restrictions on including own equity and fixed assets in calculations	BPR140 A1.2(2)	Commodity instruments are not excluded from the market risk calculations, as they are under BPR140 A1.2(2). Commodity instruments must be designated as trading or banking book instruments under clause 272. We query whether commodity



Standard Part / Clause	Corresponding BPR Source	Notes
		instruments are intended to be brought in scope of the capital requirement for market risk. In addition, members would appreciate guidance on how the equity maturity profile will be applied and whether there are any rules to substantiate or meet in terms of opting in or out of the approach.
CI 236 – when exposures must be calculated	BPR140 A1.2(3)	Clause 236 refers only to the frequency of the exposures calculations. We query whether it is also intended to apply to the frequency of capital charge calculations. In addition, we consider the requirement in subclause (b) should apply on business days only (rather than daily).
CI 238 – capital charge for market risk: banking book	BPR140 A2.1	Members would appreciate clarification of the treatment of currency risk and foreign exchange risk in this clause, as subclause (b) points to two different sections – subpart 4 or clause 239 (which only applies to the trading book). In addition, does the FX risk for the traded and non-traded books need to be reported separately (as per MAR40)? If so, members would appreciate clarification on what FX risk specifically the Reserve Bank is trying to capture in the banking book (for example, structural FX rather than trading FX positions).



Standard Part / Clause	Corresponding BPR Source	Notes
CI 239 – capital charge for market risk: trading book	New requirement	Members would appreciate further guidance on the expected governance framework for market risk capital methodologies for the trading book, such as the approval process, review timelines, documentation requirements, and the distinction between material and immaterial methodology changes, including when prior Reserve Bank approval is required. Members would like to understand the approval process and timelines (including how it aligns with the 1 June 2028 licence application date and 1 December 2028 commencement date) so that they can plan their development and implementation accordingly. Guidance on ongoing review and monitoring expectations post-implementation would also be beneficial. Given that each deposit taker may develop its own methodology, it would also be helpful to understand how the Reserve Bank intends to promote consistency and comparability of outcomes across the industry, or whether a standardised approach is preferred. Members also consider that it would be preferable to include the relevant provisions of MAR40 in the Capital Standard rather than including a reference to MAR40 (as a whole) at a particular point in time. This would clarify which provisions are relevant for New Zealand and also remove the risk of future MAR40 updates causing misalignment or confusion. MAR40 includes cross references to other Basel standards (for example, CRE22 and CAP50), which is likely to increase this risk.



Standard Part / Clause	Corresponding BPR Source	Notes
		Members had some specific questions on the MAR40 requirements: • MAR40.15: Does this require that credit derivatives receive a 100% capital charge? • MAR40.24: For currencies where the business is insignificant, deposit takers may combine the interest rate risk exposures into a single maturity ladder rather than calculate individual maturity ladders. Can significant or insignificant be defined? Does significant mean greater than 5% of the total foreign currency exposures? • There are more time bands in MAR40 than in the banking book requirements (specifically, 10-to-15-year, 15-to-20-year, and 20-year+ bands). What is the Reserve Bank's intention in this respect? • For the risks most relevant to banking business (interest rate risk and foreign exchange risk), the proposed banking book methodologies and the corresponding MAR40 methodologies have substantial conceptual overlap. May a common calculation architecture, data model and risk aggregation framework be used across banking book and trading book exposures? • What is considered 'consistent with' MAR40?
CI 243 – capital charge for interest rate risk in banking book	BPR140 B1.1	Clause 243(2)(c) provides that a deposit taker <i>must</i> exclude matched short and long positions, but clauses 247 to 250 provide that a deposit taker <i>may</i> exclude matched positions. We suggest adding "if applicable" to clause 243(2)(c).



Standard Part / Clause	Corresponding BPR Source	Notes
CII 244, 268 and 271 – valuation of financial and equity instruments	BPR140 B1.3	Clauses 244(1)(b) and (c)(i) should be updated to the wording below for clarity and to more closely align with MAR40.32: <i>"(b) for a derivative other than an option, the current market valuation of the principal amount, after decomposition under clause 243(3)(b), of the underlying or notional underlying instruments; or</i> <i>(c)...</i> <i>(i) if it is recognised in accordance with NZ IFRS 9, the current market valuation of the principal amount of the underlying or notional underlying instruments."</i> If the current wording is retained, the terms "corresponding instruments" and "corresponding actual instruments" should be defined to provide clarity. For example, it is not clear what the corresponding instrument for a mortgage or term deposit portfolio would be. Equivalent changes should also be made in clauses 268 and 271. In addition: • Clause 244(1)(c)(i) refers to the "principal amount of the instrument updated in line with the current market valuation" for financial instruments recognised under NZ IFRS 9. Members seek clarification as to how this valuation requirement should be applied where NZ IFRS 9 recognition is based on accounting carrying amounts rather than fair value. • Further clarification would be useful on whether accounting adjustments that do not relate to market risk, including expected credit loss (ECL) allowances,



Standard Part / Clause	Corresponding BPR Source	Notes
		should be excluded from the valuation basis used for Part 7 market risk calculations.
CI 245 – treatment of derivatives for interest rate risk	BPR140 B1.4	Members would appreciate guidance on: - the term of a derivative that resets based on a New Zealand Overnight Index Average (NZONIA) rate – this could be based on the OCR rate each day or on the date the coupon rate is set; and - whether a basis swap with a fixed margin between two floating rates, for example OIS/BKBM, decomposes into two floating rates or whether the fixed margin needs to be separated out.
CI 252 – determination of rate-insensitive products	BPR140 B3.2	The definition of "applicable product" in subclause (4) provides that a deposit taker must earn or pay an interest rate on the asset or liability. Zero interest rate products should also be captured (per paragraph 259 of the Guidance).
CI 253 – time bands for rate-insensitive products	BPR140 B3.3	We suggest reallocating the 10% that is in the 5-7 year band to the 4-5 year band, resulting in a 20% allocation to that band. This would better reflect how banks manage risk in practice. Subclause (1) refers to the "total value of all core rate-insensitive products" whereas BPR 140 B3.3 lists assets and liabilities separately. Is the intention that deposit takers can only include the net position for rate insensitive products?



Standard Part / Clause	Corresponding BPR Source	Notes
CI 254 – allocating instruments to time bands	BPR140 B3	In clause 254(3), the time band for "more than 4 years but not more than 5 years" is missing.
CI 257 – calculation of basis risk exposure	BPR140 B	BPR140 provides that the aggregate interest rate risk (IRR) capital charge is the greater of the sum of positive IRRs and absolute value of the sum of negative IRRs across all currencies, with the sign of each currency IRR determined by the directional risk. We request clarification on the treatment of IRR capital charges where no directional risk exists, but vertical and/or horizontal disallowance charges remain.
CI 258 – calculation of basis risk in each time band	BPR140 B5.2	Clause 258(3)(b) should be amended to ensure the order of operations is clear. We suggest: <i>"the greater of:</i> <i>(i) zero; and</i> <i>(ii) 5% multiplied by A (where A is the matched position less the absolute value of the rate-insensitive products)."</i>
CI 267 – scope of calculation	BPR140 C1.2	There is a typo in subclause (1): "...that give rise to an identifiable and definite foreign currency risk the measure of exposure" does not make sense. In addition, the cross reference to subclause (2) should be to subclause (3).



Standard Part / Clause	Corresponding BPR Source	Notes
CI 268 – valuation of financial instrument	BPR140 C1.3	We recommend specifying in subclause (1) that the mid-point of the bid/offer range must be used. This would be consistent with the current requirement under BPR140 C1.3(6) and with market convention, and would ensure consistent application across deposit takers.
CI 270 – scope of calculation	BPR140 D1.2	We query whether minority equity interests such as SWIFT or payment provider joint ventures should be included in the equity risk calculation.
Subpart 6 (cll 272-285) – designation of instruments as trading book or banking book	New requirement	We consider that more clarification is required on what instruments are intended to be trading book or banking book. For example, if a liquidity portfolio is held for liquidity management purposes but is mark-to-market accounted, would the portfolio be considered trading book or banking book? Members suggest that more closely aligning subpart 6 with RBC25 would provide additional clarity. For example, RBC25 clearly sets out which provisions take priority. In contrast, the priority of the clauses in subpart 6 is not clear – as an example, clauses 273, 274(1) and 274(2) should be subject to clauses 272(3) and 276(2).
CI 272 – designation of instrument	New requirement	Clause 274 requires instruments in a "correlation trading portfolio" to be classified as trading book instruments. We suggest including a definition of "correlation trading portfolio" or otherwise clarifying this term.



Standard Part / Clause	Corresponding BPR Source	Notes
CI 273 – instrument held for certain purposes must be included in trading book	New requirement	"Short term"/"short-term" is used in subclauses (a) and (b) but is not defined. We consider the intended meaning should be clarified.
CI 274 – certain instruments must be included in trading book	New requirement	We suggest reconsidering the reference to "accounting trading asset or liability" in clause 274(2)(a). Basel guidance indicates that trading book classification is driven by whether an instrument is held within a trading business model rather than its accounting treatment. Referring to a trading asset or liability may create uncertainty, particularly for assets that are not hedge accounted, but are held within a banking book portfolio (such as overnight indexed swaps to manage short term interest rate risk in the banking book). In addition: • the cross reference in clause 274(2) should be to clause 272(4) rather than 272(1); and • subsection (3) appears to be superfluous.
CI 275 – valuation of trading book instruments	New requirement	Members consider this clause could conflict with accounting standards in terms of how profit and loss account should be reported, and query whether this clause is needed at all.



Standard Part / Clause	Corresponding BPR Source	Notes
		If the clause is retained, we consider the requirement should apply on business days only (rather than daily). In addition, members would appreciate clarification of the intended treatment where an instrument is caught as trading book but accounted as FVOCI or historic cost.
CI 276 – certain instruments must be included in banking book	New requirement	Members would appreciate clarification of the intended treatment where a deposit taker's debt capital markets desk supports a customer by temporarily purchasing their ABS issuance – would this be classified as a banking book product?
CI 277 – deposit taker may get approval to include certain instruments in banking book	New requirement	Clause 277 should be amended to include a discretion for the Reserve Bank to provide approval for a deposit taker to designate all instruments as banking book instruments where the Reserve Bank is satisfied that the instruments of the deposit taker that would otherwise be trading book instruments are insubstantial and, as a result, would not give rise to substantial market risk. This would be a proportionate approach and would recognise that for deposit takers without a substantial trading book, the costs of developing a separate approach for trading book instruments could significantly outweigh the risk management benefits. In addition: • Clause 277 provides that the Reserve Bank's approval is needed in advance to designate certain instruments as banking book instruments. Clause 272



Standard Part / Clause	Corresponding BPR Source	Notes
		requires designation on recognition. We consider the interaction between these clauses should be clarified. • There is a typo in subclause (2): "satisfied that that the instrument is not held for any of the purposes in clause 273".
Clause 278 – deposit taker must have policy and procedures regarding trading book	New requirement	In subclause (2), we recommend an audit frequency of three years (rather than yearly) on the basis that: • it aligns with international practice for ongoing independent validation; and • it aligns with APRA standards and accordingly, for Group 1 deposit takers, would ensure consistency with the deposit taker's wider group's practices while also aligning with the Reserve Bank's proportionate approach to prudential regulation, which recognises the need to balance regulatory benefits against implementation costs; and given the relatively vanilla nature of New Zealand deposit takers' trading and banking book activities, a three-year audit cycle is unlikely to materially increase non-compliance risks. In addition, any material changes to trading or banking book activities, including transfers between the two books, require Reserve Bank approval, providing ongoing supervisory oversight between audit cycles.



Standard Part / Clause	Corresponding BPR Source	Notes
CI 279 – restricted movement of instruments between books	New requirement	This clause requires the Reserve Bank's approval to redesignate a trading/banking book instrument. Is approval required for a correction following a misclassification at initial recognition? It may be helpful to clarify this.
CII 280-285 – internal risk transfers	New requirement	Members would appreciate clarification of how the Reserve Bank envisages deposit takers capture, monitor and achieve internal risk transfers generally. Some more specific comments are set out below.
CI 280 – meaning of internal risk transfer	New requirement	We recommend clarifying the definition of "internal risk transfer" and what constitutes a "record of a transfer of risk". It would be helpful if the Reserve Bank could provide examples of arrangements that constitute internal risk transfers and arrangements that do not. This would assist with consistent implementation and avoid uncertainty regarding treasury allocation processes, portfolio management activities and internal risk management arrangements.
CII 282-285 – internal risk transfer relating to dedicated internal risk transfer trading desk and further provision regarding dedicated	New requirement	Members would appreciate additional guidance on the approval criteria, governance expectations, and ongoing compliance requirements for approved internal risk transfer trading desks, including whether there is a recommended approach to implementing such desks. In addition, members seek clarification on the following points:



Standard Part / Clause	Corresponding BPR Source	Notes
internal risk transfer trading desk		• Clauses 282(2)(a) and 285(3) refer to 'exactly matching' external hedges, but clause 284 does not. Does this mean the Reserve Bank intends a portfolio-based approach to interest rate risk banking book risk transfer? • Is clause 285 intended to address the scenario where (a) a banking book that is used to purchase bonds for liquidity requirements purchases a bond from a dedicated internal risk transfer trading desk (ie desk A), (b) desk A purchases the bond from an external party or through an agent trading desk (ie desk B), and (c) the terms of the bond purchased by desk B from the external party match the terms of the bond sold to the banking book (desk A)?
CII 286-295 – capital requirement for operational risk	New requirement	While the Guidance indicates that Part 8 is based on the Basel standardised approach to operational risk capital requirements in OPE25 and OPE10 and provides certain additional information, members consider that further guidance on Part 8 is required generally. Part 8 may benefit from the inclusion of cross references to the relevant Part 7 clauses to clarify the trading book and banking book definitions. Some more specific comments are set out below.
Clause 286 – interpretation	New requirement	Clause 286 does not specify what information the calculations should be based on, for example internal calculations, audited external information, etc. We consider this should be clarified.



Standard Part / Clause	Corresponding BPR Source	Notes
		We also recommend clarifying that the 12-month periods referred to in clause 286 represent the entity's financial year (rather than <i>any</i> 12-month period), and that the calculation only needs to be updated following the completion of each financial year. In addition, guidance on any allowable lag between the end of the financial year and the updated calculation being applied would be helpful. For example, for a financial year ending 30 September 2026 (FY26): • would the Reserve Bank expect that capital calculations as at 30 September 2026 be disclosed in the Disclosure Statement and regulatory returns be updated for the FY26 data that has only just been completed (and is subject to audit); or • similar to the approach in Australia, would there be a 3-month lag such that the updated capital calculation that uses the FY26 (and FY25 and FY24) data would first need to be applied for capital calculations from 31 December 2026 onwards? The latter approach deals with the practicality of using financial information still subject to audit, and the timing of using the latest data.
Clause 292 – financial component	New requirement	We recommend including guidance or otherwise clarifying that interest income/expense on financial assets or liabilities measured at fair value through profit or loss should not be included in the 'net profit' calculated here, on the basis that interest



Standard Part / Clause	Corresponding BPR Source	Notes
		income/expense on those assets or liabilities is included in the 'interest, finance lease, and dividends component' in clause 290 (if this is the intended approach).
Clause 294 – mergers and acquisitions must be reflected in operational risk capital requirement	New requirement	Members would appreciate confirmation that clause 294 is not intended to apply to the acquisition of an asset (for example, a loan book/portfolio). The term 'business' is not entirely clear in this respect.
Schedule 1		We appreciate that Schedule 1 will be updated for the October 2026 changes to the BPRs (and also for the Standards for Crisis Management and Resolution), but have a few comments in the interim: • Clauses 2, 3 and 6 provide for existing additional tier 1 and tier 2 capital to be used as if it were tier 1 and tier 2 capital for the purposes of certain provisions of the Capital Standard. Consideration should be given to whether existing additional tier 1 and tier 2 capital should be specified as in or out of scope for other provisions (eg the 10% threshold in clause 91). • In clause 3(2)(b), all limbs should be amended to refer to "the additional tier 1 capital <i>the deposit taker had</i> on issue on 1 October 2026". • Clause 5 should be amended to align with BPR100 B2.1, which restricts distributions on additional tier 1 instruments only at Stage 1. Additional tier 1 instruments have been sold to retail investors on this basis.



Standard Part / Clause	Corresponding BPR Source	Notes
		• Clause 9 may need to provide for amendments to the clauses it references, eg clause 92 refers to redemption 'before maturity', whereas additional tier 1 instruments are perpetual. In addition, we query whether this clause should also refer to clause 91 (see the first point above).
Schedule 2		The references to "checklist" should be updated to reflect clause 86(1)(d), which refers to "a document providing evidence of compliance with this subpart in respect of the new instrument including, for that purpose, references to the relevant provisions of the constituting documents".
Schedule 3	BPR120 Appendix 2	Paragraph 3(e) provides that "the amending documents comply in all respects with the requirements... in the standard", which is covered by the opinion in paragraph 3(f). We consider paragraph 3(e) should instead provide that "the amending documents are the only documents that prescribe the terms of the capital instruments" (consistent with the corresponding paragraph in BPR120). The position in BPR120 should be retained. Paragraph 4(e) includes the content in paragraph 4(d), making (d) redundant.
Paras 10 and 20 of the Guidance		The ratios in the examples at the end of these paragraphs should be 9%, 6% and 3% rather than 12%, 9% and 3%, ie "9% made up of 6% tier 1 capital and up to 3% tier 2 capital" (consistent with clauses 13(1)(a) and 14(1)(a)). We expect the LAC requirement applicable to Group 1 deposit takers has not been included for simplicity.



Standard Part / Clause	Corresponding BPR Source	Notes
Para 33 of the Guidance		We recommend that paragraph 33 is updated to specifically refer to clause 17(2) and to provide further guidance on the rationale for, and operation of, clause 17(2)(a)(ii).
Para 75 of the Guidance		There is a typo in this paragraph – we expect "proving" should be "providing".
Para 82 of the Guidance		The second to last sentence of this paragraph can be deleted, as it is covered in the previous sentence. The final sentence appears to be intended to be a heading.
Para 90 of the Guidance		We suggest replacing the words "this document" with "the Capital Standard" for clarity.
Para 147 of the Guidance		There appear to be some typos in the first sentence of this paragraph.
Para 209 of the Guidance		The cross reference to clause 215 should be to clause 210.
Para 212 of the Guidance		The reference to subpart 6 should be to subpart 7.



Standard Part / Clause	Corresponding BPR Source	Notes
Para 254 of the Guidance		Para 254 does not make sense. It should read (consistent with the guidance in BPR140 B1.4(1)(b)): <i>"For the purposes of clause 245(3)(b), the principal amount of the notional financial asset and liability underlying a forward rate agreement should be the contract amount."</i>
Para 259 of the Guidance		Paragraph 259 of the Guidance is carried over from BPR140 and specifically identifies low interest lending as RIP (rate-insensitive products), but a high interest loan product like unsecured credit could also be considered RIP as rates do not tend to move with wholesale rates. We suggest clarifying whether these products can be classified as RIP.
Para 278 of the Guidance		This example is helpful, but needs to be updated as follows to align with the Capital Standard: • The value of the credit card balances and bonds issued by a multilateral development bank should be determined in accordance with clause 244(1)(c)(i) (rather than using the principal amount). • The value of the interest rate swap and long position in interest rate futures should be determined in accordance with clause 244(1)(b) (rather than using the notional amount). It would be helpful to: • Include a mortgage portfolio (or a large loan) in the example.



Standard Part / Clause	Corresponding BPR Source	Notes
		Show the inclusion of equity, including how it can be used to create matched positions for exclusion.
Para 305 of the Guidance		This paragraph provides that clause 267(4)(c) is intended to include to all foreign currency futures and options contracts outstanding at the calculation date. Members would appreciate confirmation on this point, given it seems to cover all instruments but clause 266 applies to foreign currency risk in the banking book only. MAR40.53 also covers foreign exchange risk.
Para 307 of the Guidance		Members would appreciate guidance on the split between the trading book and banking book and, in particular, whether the Reserve Bank intends to adopt some form of Fundamental Review of the Trading Book to monitor the capital boundary.
Deposit Takers (Internal Models) Standard 2027		
Clause 13 – compendium of models	BPR120 E1.5	Under BPR120, the exact compendium content can vary from E1.5(4) if the variation is approved by the Reserve Bank under E1.5(1). This aspect appears to have been removed from clause 13, which suggests that clause 13(3) must be followed exactly. Members would appreciate confirmation as to whether deposit takers are expected to update their existing compendiums to match subclause (3) exactly.



Standard Part / Clause	Corresponding BPR Source	Notes
		In subclause (2)(a), we consider "at least once in a 12-month period" should be changed to "at least once in each calendar year" (consistent with BPR120 E1.5(3)(a)). The current drafting does not make sense, given the following wording "and at intervals of no more than 15 months".
Clause 23 – applications for approval	BPR120 E1.1-E1.4	Members consider additional clarity is required in subclauses (1)(b) and (2)(d), which relate to the Reserve Bank's approval of 'business models [a deposit taker] uses to measure its credit risk' and, in particular, which specific models are intended to be captured within the broad term 'business models'. BPR120 E1.2 only requires approval of internal models used for capital. Subclause (3) provides that approvals are not required for stress-testing or provisioning models, but it is unclear whether approvals are now required for other non-capital related credit risk models such as those used for originations and collections. It is also unclear under subclause (2)(d) whether approvals are now required in order for deposit takers to use their IRB models for wider purposes, such as for monitoring and strategy management, forecasting and pricing, which use the credit inputs of risk weighted assets and expected losses. We query the rationale for any additional approvals. See also our general comment above regarding the increased level of approvals under the standards. Members would also appreciate clarity on the transition arrangements for existing IRB banks if they will be required to reapply for approvals under the Internal Models Standard.



Standard Part / Clause	Corresponding BPR Source	Notes
CI 26 – calculation process	BPR133 A3.2	Members do not consider subclause (2)(b)(ii) is clear. It provides for each credit exposure in the corporate exposure class categorised as specialised lending subject to the slotting approach to be calculated by, for an exposure that is not covered by an approved business model, using the formula in clause 44 – but clause 44 relates to PD estimation. Is subclause (2)(b) intended to be the equivalent of BPR133 A3.2(2)(b)?
CII 27-34 – exposure categories (corporate, retail, specialised lending, farm lending, RMLs, small business)	BPR133 B1-B4	We recommend that clause 29 (Retail exposures) is introduced before clause 28 (Corporate exposures) to help with the flow and readability of these clauses, given the definition of a corporate exposure refers to the requirements for a retail exposure and re-ordering will allow the two subclasses of corporate (specialised lending and farm lending) to follow directly after the corporate exposures clause. Clauses 29 and 32 appear to contain duplication. If clause 32(2) is retained, paragraph (a) should end in "and" rather than "or" (consistent with clause 29(1)). Members consider additional clarity is required in clause 33(2)(a), which appears to introduce a third new residential mortgage loan sub-category that must use the standardised approach, and query the rationale for the requirement. It is unclear what kind of standard RML would meet the definition in subclause (2)(a) and also why such loans would not meet the corporate exposure class definition and must instead be re-directed to the standardised approach.



Standard Part / Clause	Corresponding BPR Source	Notes
CII 35-42 – corporate exposure calculations / Calculation of K	BPR133 C1 and C8	Clause 36(2) should also refer to an "indemnity" to be consistent with other changes. In clause 38, "expressed as a proportion of exposure at default" should be "expressed as a proportion of EAD", as EAD is a defined term. In clause 39(2), the formula for 'b' is different to the formula for 'b' in BPR133 C8.2(1).
CII 43-44 – estimation of PD	BPR133 C2 and C3.4 and BPR134 E5	Clause 44 should also refer to an "indemnity".
CII 45-52 – estimation of LGD (meaning, estimation, residential property, farm lending, Crown guarantee, CRM, guarantees/credit derivatives)	BPR133 C3-C4 and D3.2 and BPR134 E6	Clause 48 appears to be new compared to BPR133. It uses terms and concepts that are similar to those used for retail residential mortgages but that are undefined in the context of corporate exposures. Given this, members would appreciate clarification of the following points: • What is the definition of 'residential property'? Is it the same as the 'residential mortgage loan' definition? • How should deposit takers treat loans that are secured by a mix of residential and non-residential property? • What is the relevance of this clause compared to clause 33(2)(a)? • How should deposit takers differentiate these loans compared to Specialised Lending Income Producing Real Estate? • How is loan-to-value ratio defined?



Standard Part / Clause	Corresponding BPR Source	Notes
		Where deposit takers have existing LGD models for corporate exposures, can these continue to be used? Clause 50 does not align with clause 105(2)(c) of the Capital Standard, which provides that the standardised approach must be used when recognising a credit protection provider that is not a modelled exposure (such as the Crown). The approach in clause 105(2)(c) of the Capital Standard is consistent with BPR132 D2.1 and is also the approach allowed for under the more recent CHP and gas transition loan Crown guarantee schemes (ie 20% standardised risk weight). Clause 51 should also refer to an "indemnity".
CII 53-58 – estimation of EAD (meaning, estimation, on-balance-sheet, netting, contingent liabilities)	BPR133 C5, BPR134 E7 and BPR131 D-E	Clause 56 reads as though items (a) and (b) are cumulative. The test should be not less than <i>the higher of</i> (a) and (b) to follow the approach in section C5.3(1) of BPR133, which is clearer.
CII 59-65 – calculation of M (meaning, calculation, cashflow schedules, committed facilities, netted derivatives, exemptions)	BPR133 C6	The re-drafting of BPR133 C6.7 in clause 65(1) does not work, as "accounting for short-term...transactions" is not a transaction type. In clause 65(3), paragraph (b) is missing its lettering.



Standard Part / Clause	Corresponding BPR Source	Notes
CII 66-70 – calculation of R (meaning, calculation, standard formula, AVC multiplier, firm-size)	BPR133 C7	Clause 67 should also refer to an "indemnity". Clause 68(2) should refer to clause 69 rather than clause (2).
CII 71-74 – slotting approach for corporate specialised lending	BPR133 C9	Clause 72(2)(b) contains cross-referencing errors – we think the references to "clauses 0(2) and 84(b)(2)" and "clause 0" should be to "clauses 58(2) and (3)" and "clause 58".
CI 78 – Calculation of loan-to-value ratio	BPR133 D3.3	There is a cross-referencing error in clause 78(2)(ii) – we think the reference to "clause 84(b)(5)" should be to "85(4)(b)".
CI 86 – RWAs for retail exposure class	BPR133 D6.1	Clause 86(1)(b) refers to the "non-mortgage retail exposure" subclass instead of "other retail exposure" subclass (which is used in BPR133 D6.1(1)(b)). We consider this creates confusion rather than clarity, and suggest the terminology reverts to "other retail".
CI 87 – residential mortgage exposures	BPR133 D6.2	Members request clarity that the formula in subclause (1) is for K rather than RWA, and consider this should be set out clearly. In the table in subclause (2), "0,20" should be "0.20".



Standard Part / Clause	Corresponding BPR Source	Notes
CII 108-117 – adjustments (CRM: collateral, counterparty credit risk, RMLs, CCPs, leases; guarantees)	BPR133 C4, D4, E5 and C5.6, BPR132 D2 and BPR131 E1.3	The reference to clause 72 in clause 111(2) seems odd, as clause 72 deals with slotting – we query whether this reference should be to clause 172 of the Capital Standard. Clause 115 should refer to an "indemnity" to be consistent with subpart 6 of Part 6 of Capital Standard.
CII 118-122 – expected loss and eligible allowances (overview, EL calculation, eligible allowances, removal, capital adjustments)	BPR133 F1	Clause 121 should refer to "capital group" instead of "banking group".