



TE TAI ŌHANGA  
THE TREASURY

Reference: 20200228

28 July 2020

s9(2)(a)

Dear s9(2)(a)

Thank you for your Official Information Act request, received on 30 June 2020. You requested the following:

*1. Any Treasury-generated analyses (including cost-benefit analyses), briefings and reports from 2019 related to the Reserve Bank's then proposed bank capital requirement changes. In addition I request, all correspondence within Treasury and between Treasury officials and other parties, either within or outside government, concerning the Reserve Bank's then proposed capital requirement changes. I also request correspondence between the Minister of Finance and or members of his staff with parties either within or outside government, concerning the Reserve Bank's then proposed capital requirement changes.*

*2. Any Treasury-generated analyses, briefings and reports subsequent to the Reserve Bank's Dec 2019 decision on bank capital requirements that consider the cost and timing of those requirements in light of Covid-19 and New Zealand's weakened economy. In addition, all correspondence within Treasury and between Treasury officials and other parties either within or outside government, concerning the cost and timing of the Reserve Bank's new capital requirements in light of Covid-19. I also request correspondence between the Minister of Finance and or members of his staff with parties either within or outside government, concerning the cost and timing of the Reserve Bank's new capital requirements in light of Covid-19.*

### Information being released

Please find enclosed the following documents:

Item	Date	Document Description	Decision
1.	23 May 2019	Email: RE: Draft bank capital review report	Release in part
2.	8 May 2019	Scoping note - Treasury work on RBNZ Bank Capital	Release in full

1 The Terrace  
PO Box 3724  
Wellington 6140  
New Zealand  
tel. +64-4-472-2733

<https://treasury.govt.nz>

I have decided to release the documents listed above, subject to information being withheld under the following section of the Official Information Act, as applicable:

- Certain advice, under section 9(2)(g)(i) – to maintain the effective conduct of public affairs through the free and frank expression of opinions.

In making my decision, I have considered the public interest considerations in section 9(1) of the Official Information Act.

### Information publicly available

The following information is also covered by your request and is, or will be, publicly available on the Treasury website:

Item	Date	Document Description	Website Address
1.	17 January 2018	Aide Memoire: RBNZ Capital Review	<a href="https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf">https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf</a>
2.	26 July 2019	Treasury Report: Reserve Bank review of capital requirements for locally incorporated banks	<a href="https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf">https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf</a>
3.	5 October 2019	Aide Memoire: Reserve Bank Capital Review and Phase 2 of the Reserve Bank Act	To be released on the Treasury website
4.	21 February 2019	Aide Memoire T2019/436: Deposit insurance and the Reserve Bank's capital proposal	<a href="https://treasury.govt.nz/sites/default/files/2019-07/rbnz-p2-4103499.pdf">https://treasury.govt.nz/sites/default/files/2019-07/rbnz-p2-4103499.pdf</a>
5.	28 February 2019	Aide Memoire: Meeting with NZBA	<a href="https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf">https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf</a>
6.	19 March 2019	Treasury Report: Meeting with OECD delegation to discuss their 2019 Draft Survey of New Zealand	<a href="https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf">https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf</a>
7.	4 April 2019	Aide Memoire: Meeting with BNZ	<a href="https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf">https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf</a>
8.	5 April 2019	Aide Memoire: Meeting with ANZ Group Chief Economist	<a href="https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf">https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf</a>
9.	30 April 2019	Aide Memoire: Meeting with ASB	<a href="https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf">https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf</a>
10.	9 May 2019	Treasury Report: OECD Economic Survey Update	<a href="https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf">https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf</a>
11.	9 May 2019	New Zealand Economic Survey – New Zealand 1 pager	<a href="https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf">https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf</a>

12.	6 June 2019	Aide Memoire: Meeting with SBS Bank	<a href="https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf">https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf</a>
13.	11 June 2019	Aide Memoire: Meeting with Oliver Hartwich, The New Zealand Initiative: RBNZ reforms and bank governance	<a href="https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf">https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf</a>
14.	19 June 2019	Aide Memoire: Meeting with Westpac on 25 June 2019	<a href="https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf">https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf</a>
15.	19 June 2019	Treasury Report: Launch of OECD Survey of New Zealand 2019	<a href="https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf">https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf</a>
16.	11 July 2019	Aide Memoire: Talking points for the NZ Initiative lunch	<a href="https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf">https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf</a>
17.	23 July 2019	Aide Memoire: Meetings with Citi on 25 July 2019	<a href="https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf">https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf</a>
18.	19 June 2019	Banking matters – FEC June 19	<a href="https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf">https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf</a>
19.	30 April 2019	Draft RBNZ's Bank Regulatory Capital Proposals: Key topics Treasury internal discussion	<a href="https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf">https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf</a>
20.	21 May 2019	Briefing – Secretary and Deputy Secretary Meeting with Banks	<a href="https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf">https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf</a>
21.	28 May 2019	Internal Working Document: Comparison of RBNZ and Sapere Capital Adequacy Analyses	<a href="https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf">https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf</a>
22.	26 March 2019	Email: Input for aide-memoire for meeting with BNZ	<a href="https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf">https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf</a>
23.	26 March 2019	Attachment: Reserve Bank Aide memoire: Meeting with the National Australia Bank Acting CEO and Chair Designate, and Bank of New Zealand Chairman on 8 April 2019  (attachment to – Email: Input for aide-memoire for meeting with BNZ)	<a href="https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf">https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf</a>
24.	21 May 2019	Email: Re: Background and talking points on Capital Review	<a href="https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf">https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf</a>
25.	21 May 2019	Email: Re: Background and talking points on Capital Review	<a href="https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf">https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf</a>

26.	22 May 2019	Email: TSY-RBNZ discussion on Capital Review	<a href="https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf">https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf</a>
27.	23 May 2019	Email: Re: TSY-RBNZ discussion on Capital Review	<a href="https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf">https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf</a>
28.	23 May 2019	Attachment: Agenda for meeting (attachment to – Email: Re: TSY-RBNZ discussion on Capital Review)	<a href="https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf">https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf</a>
29.	23 May 2019	Attachment: Email: sectoral impacts of capital review (attachment to – Email: Re: TSY-RBNZ discussion on Capital Review)	<a href="https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf">https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf</a>
30.	23 May 2019	Attachment: Stylised example of RWA (attachment to – Email: Re: TSY-RBNZ discussion on Capital Review)	<a href="https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf">https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf</a>
31.	24 May 2019	Email: Re: Follow-up from May 23 meeting	<a href="https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf">https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf</a>
32.	27 May 2019	Email: Follow-up from 23 May meeting	<a href="https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf">https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf</a>
33.	27 May 2019	Attachment: Copy of RBNZ Q&A – The Capital Review (attachment to: Email: Follow-up from 23 May meeting)	<a href="https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf">https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf</a>
34.	28 May 2019	Email: Re: Follow up from 23 May meeting	<a href="https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf">https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf</a>
35.	5 June 2019	Email: Re: Minister's meeting with SBS bank- content on capital review	<a href="https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf">https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf</a>
36.	16 July 2019	Email: Re Treasury advice on capital framework proposal	<a href="https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf">https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf</a>
37.	5 August 2019	Email: Additional Info	<a href="https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf">https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf</a>
38.	11 September 2019	Email: Re: Capital and bank failure	<a href="https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf">https://treasury.govt.nz/sites/default/files/2020-02/oia-20190546-a.pdf</a>
39.	29 January 2019	Email: RE: Capital Review	To be released on the Treasury website
40.	7 February 2019	Email: RE: Capital review meeting with RBNZ	To be released on the Treasury website

41.	5 March 2019	Aide Memoire: Meeting with NZBA	To be released on the Treasury website
42.	5 April 2019	RBNZ Text on Capital Review for ANZ aide memoire	To be released on the Treasury website
43.	9 April 2019	Email: FW: diary request: a meeting for ANZ CEO David Hisco with the Minister? Auckland or Wellington	To be released on the Treasury website
44..	10 May 2019	Email: RE: RBNZ capital review: when is MoF meeting with the RBNZ?	To be released on the Treasury website
45.	20 May 2019	IPANZ briefing on proposal to increase bank capital	To be released on the Treasury website
46.	25 February 2019	Email: Safer Banks for Greater Wellbeing	To be released on the Treasury website
47.	25 February 2019	Email: FW: Summarised paper of Capital Review	To be released on the Treasury website
48	25 February 2019	Email: RE: Safer Banks for Greater Wellbeing	To be released on the Treasury website
49.	27 February 2019	Email: Capital Review	To be released on the Treasury website
50	16 May 2019	Email: RE: Initial work on RBNZ capital framework for feedback	<a href="https://treasury.govt.nz/sites/default/files/2020-02/oia-20190504.pdf">https://treasury.govt.nz/sites/default/files/2020-02/oia-20190504.pdf</a>
51.	17 May 2019	Email: RE: Reaching out to rating agencies	<a href="https://treasury.govt.nz/sites/default/files/2020-02/oia-20190504.pdf">https://treasury.govt.nz/sites/default/files/2020-02/oia-20190504.pdf</a>
52.	17 May 2019	Email: RE: Reaching out to rating agencies	<a href="https://treasury.govt.nz/sites/default/files/2020-02/oia-20190504.pdf">https://treasury.govt.nz/sites/default/files/2020-02/oia-20190504.pdf</a>
53.	21 May 2019	Email: RE: Bank capital - international comparisons	<a href="https://treasury.govt.nz/sites/default/files/2020-02/oia-20190504.pdf">https://treasury.govt.nz/sites/default/files/2020-02/oia-20190504.pdf</a>
54.	31 May 2019	Email: RE: Sapere Analysis	<a href="https://treasury.govt.nz/sites/default/files/2020-02/oia-20190504.pdf">https://treasury.govt.nz/sites/default/files/2020-02/oia-20190504.pdf</a>
55.	10 June 2019	Email: RE: Comments on the Sapere paper (2)	<a href="https://treasury.govt.nz/sites/default/files/2020-02/oia-20190504.pdf">https://treasury.govt.nz/sites/default/files/2020-02/oia-20190504.pdf</a>
56.	12 June 2019	Email: RE: Comments on the Sapere paper	<a href="https://treasury.govt.nz/sites/default/files/2020-02/oia-20190504.pdf">https://treasury.govt.nz/sites/default/files/2020-02/oia-20190504.pdf</a>
57.	12 June 2019	Background for meeting with NZBA / Dr Scott tomorrow	<a href="https://treasury.govt.nz/sites/default/files/2020-02/oia-20190504.pdf">https://treasury.govt.nz/sites/default/files/2020-02/oia-20190504.pdf</a>
58.	10 June 2019	Email: FW: Farming sector impacts – links to Reserve Bank proposals	<a href="https://treasury.govt.nz/sites/default/files/2020-02/oia-20190504.pdf">https://treasury.govt.nz/sites/default/files/2020-02/oia-20190504.pdf</a>

59.	4 July 2019	Email: RE: BNZ's Capital submission	<a href="https://treasury.govt.nz/sites/default/files/2020-02/oia-20190504.pdf">https://treasury.govt.nz/sites/default/files/2020-02/oia-20190504.pdf</a>
60.	16 May 2019	Email: RE: Initial work on RBNZ capital framework for feedback	<a href="https://treasury.govt.nz/sites/default/files/2020-02/oia-20190504.pdf">https://treasury.govt.nz/sites/default/files/2020-02/oia-20190504.pdf</a>
61.	17 May 2019	Email: RE: Reaching out to rating agencies	<a href="https://treasury.govt.nz/sites/default/files/2020-02/oia-20190504.pdf">https://treasury.govt.nz/sites/default/files/2020-02/oia-20190504.pdf</a>

Accordingly, I have refused your request for the documents listed in the above table under section 18(d) of the Official Information Act:

- the information requested is or will soon be publicly available.

Some relevant information has been removed from documents listed in the above table and should continue to be withheld under the Official Information Act, on the grounds described in the documents.

#### **Information to be withheld**

There are additional documents covered by your request that I have decided to withhold in full under one or more of the following sections of the Official Information Act, as applicable:

- section 9(2)(b)(ii) – 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;
- section 9(2)(f)(iv) – to maintain the constitutional conventions for the time being which protect the confidentiality of advice tendered by Ministers of the Crown and officials; and
- section 9(2)(g)(i) – to maintain the effective conduct of public affairs through the free and frank expression of opinions.

In making my decision, I have considered the public interest considerations in section 9(1) of the Official Information Act.

Please note that this letter (with your personal details removed) and enclosed documents may be published on the Treasury website.

This reply addresses the information you requested. You have the right to ask the Ombudsman to investigate and review my decision.

Yours sincerely

Robbie Taylor  
**Manager, Financial Markets**

# 20200228

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1.	<a href="#">RE Draft bank capital review report</a>	1
2.	<a href="#">Scoping note - Treasury work on RBNZ Bank Capital Proposals version 2</a>	3

**Adam Antao [TSY]**

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**From:** Victor Kuipers [TSY]  
**Sent:** Friday, 24 May 2019 9:53 AM  
**To:** Daniel Jury [TSY]  
**Cc:** Brian McCulloch [TSY]  
**Subject:** RE: Draft bank capital review report

Daniel

I undertook to come back to you with some additional words around the international direction of travel:

International developments have often been guided by the principles outlined in the Financial Stability Board's (FSB) total loss absorbing capacity (TLAC) standard. This standard was designed so that failing global systemically important banks have sufficient loss-absorbing and recapitalisation capacity necessary to ensure that, in and immediately following a resolution, critical functions can be continued without taxpayers' funds or financial stability being put at risk. Many countries have implemented frameworks consistent with the FSB TLAC standard that go beyond global systemically important banks in scope, applying it also to domestic systemically important and other large banks.

In line with the FSB TLAC standard, an essential element of other countries' approach is to look at recapitalisation capacity as much as loss absorption, so there is greater allowance for capital instruments other than common equity Tier 1 counting towards regulatory capital requirements – and therefore at lower cost. [You've already cited the Australian example, but you could also cite the EU's MREL, Hong Kong's new loss absorption capital requirements, and [Canada's guidelines released last year.](#)] s9(2)(g)(i)

And a suggested summary sentence to weave in at the appropriate point:

s9(2)(g)(i)

Victor

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**From:** Victor Kuipers [TSY]  
**Sent:** Thursday, 23 May 2019 12:42 PM  
**To:** Daniel Jury [TSY] <Daniel.Jury@treasury.govt.nz>  
**Subject:** FW: Draft bank capital review report

Thanks Daniel

I've marked up some quick thoughts and comments. Generally looks really good (although you'll see that I found the discussion of the Crown balance sheet impacts a little confusing). One thing that seems to be missing so far is what the Treasury recommends the Minister should do. If we're raising a bunch of concerns, then we should also give the Minister some suggestions for what to do about them – especially as he does have options.

Victor

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**From:** Daniel Jury [TSY] <Daniel.Jury@treasury.govt.nz>  
**Sent:** Thursday, 23 May 2019 9:02 AM



**To:** Victor Kuipers [TSY] <Victor.Kuipers@treasury.govt.nz>  
**Subject:** FW: Draft bank capital review report

[IN-CONFIDENCE]

Hi Victor

Here is a copy of the latest draft of the bank capital review report.

Let us know if you have any thoughts on this.

Thanks,  
D

RELEASED UNDER THE  
OFFICIAL INFORMATION ACT

**IN-CONFIDENCE****Scoping note: Treasury work on RBNZ Bank Capital Proposals****Background**

- The Minister of Finance has asked for advice from the Treasury on the RBNZ's bank capital review.
- The Minister will be meeting with the Governor and the Board in the next two weeks to discuss the capital review. Discussion with the Board may include asking about the Board's checks and balances regarding the capital review.
- Bryan Chapple indicated to the Minister that there are different ways into a discussion about the capital review, but that a good approach would be to focus on risk tolerance.
- The Treasury needs to be in a position to talk to the Minister about:
  - risk tolerance and implications
  - the Treasury's view of what the RBNZ has proposed, including trade-offs and key issues.
  - key questions and messages for the MoF to use in engagement with the RBNZ Governor and Board

**Advice to Minister****Format**

- TR plus slides
- Designed to assist discussion with Minister.
- Could take different forms/be sent at different times

**1. Purpose**

- Aid the Minister's understanding of the RBNZ's capital adequacy framework proposal (including the RB's approach to setting its proposal), with a view to having a discussion with the Minister on how he could engage with the Governor and the Board.
- The advice will:
  - include a focus on risk tolerance appetite, the trade-offs involved, and key issues.
  - place the proposal in a wider context, within the broader "financial safety net" framework (which is under consideration as part of the phase 2 review of the RBNZ Act), and alongside international practice (particularly Australia).
  - propose some key questions the Minister could use in discussion with the Governor and Board
  - mention some options open to the Minister and ask if he would like further advice on these.

**2. What are capital requirements and why do we have them?**

- What are capital requirements?
  - "Capital"
  - "RWA"
- Why have capital requirements?

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- Stability, via:
  - loss absorbency (“going concern” capital)
  - resolution options (“gone concern” capital)
- Fits within wider framework, including “financial safety net”:

**3. Capital requirements in context**

- RBNZ’s role
  - Objectives of “stability” and “efficiency” of financial system
  - “independence”
- How capital fits into wider framework, including “financial safety net”:
  - Regulations – incl. capital requirements
  - Resolution tools – incl. capital requirements
  - Deposit Insurance
  - Supervision and monitoring
  - Central bank liquidity
- Wider framework is currently being considered as part of RBNZ Act Review:
  - Review considering “financial safety net” and objectives
  - Decisions relatively soon
  - Possible proposals will be inconsistent with findings of Review
- International perspectives on how to deal with capital:
  - Development of the relevant standards and the direction of travel
  - How countries have responded (including RB).
  - Regulatory complexity vs simplicity
- Australian implications
  - Not aligned with APRA approach to capital.
  - What are implications?

**4. What is RBNZ proposing and approach taken?**

- Summarise proposals
  - Definition of capital
    - T1 consist of common equity and perpetual non-redeemable preference shares
    - T2 not include contingent convertible debt
  - RWA
    - IRB remain, but 90% floor
  - How much capital
    - Higher regulatory capital requirements
    - Treatment of tier 2 capital
    - Leverage ratio requirement
- Summarise approach taken by RBNZ and Treasury thoughts
  - RBNZ approach focusses on risk.
    - Discuss RBNZ ‘risk appetite framework’
    - Used narrow concept of “risk”.
      - Risk of systemic issues
      - Not wider risks, such as
        - risks to future use of monetary policy
        - risks of individual bank failures and resulting risks to Crown balance sheet in event of recapitalisations, etc.

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- Expressed as 1:200 years, but actually is implied from 0.5% chance per year. 1:200 years potentially misleading given that underlying risks/banking businesses will of course be very different far sooner than this timeframe.
    - RBNZ not relied on or yet undertaken cost benefit analysis
    - How efficiency considerations fit into framework
  - Key assumptions made by RBNZ
    - Summarise
    - Treasury or other stakeholder views on assumptions, as applicable, if any
  - RBNZ process and timing
    - Thus far and planned
      - Need clarification from RBNZ on planned timing
    - Note RIS (and cost-benefit analysis) not prepared for consultation

**5. Different risk appetites result in different impacts**

- High level trade-offs involved with different headline capital levels
  - Different risk appetite leads to different levels of capital leads to different impacts
  - Not considering different mixes of different types of capital
- Indicate economic impacts:
  - Different options
    - Quantitative:
      - Tsy model and include figures (either based on RBNZ assumptions or Tsy assumptions)
      - RBNZ model and include figures
      - In either case could include uncertainty
    - Qualitative: Describe at high level relative impacts.
- Indicate Crown balance sheet impacts *[still need to discuss internally with relevant team]*

	<b>RBNZ view (0.5% chance pa)</b>	<b>TSY view (0.5% chance pa)</b>	<b>TSY view (1.0% chance pa)</b>	<b>TSY view (0.1% chance pa)</b>
Economic impact of proposals <ul style="list-style-type: none"> <li>▪ Interest rates (possibly lending and borrowing rates)</li> <li>▪ Lending quantum</li> <li>▪ House prices</li> <li>▪ GDP</li> </ul>				
Crown balance sheet impacts <ul style="list-style-type: none"> <li>▪ Tax</li> <li>▪ Costs of bank recapitalisations</li> <li>▪ Debt</li> <li>▪ Other risks to balance sheet?</li> </ul>				

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- Monetary policy implications
  - RBNZ indicated it could cut OCR due to capital changes
  - Issues with zero lower bound if OCR needs to be cut in future?
- Who bears costs?
  - Shareholders
  - Deposit holders
  - Borrowers
  - Depend somewhat on level of competition.
  - Taxpayers (in resolution)

**6. What stakeholders are saying and Treasury views**

- Key themes
  - Why focus on risk and not cost-benefit
  - Why 1:200 year risk appetite?
  - No cost-benefit analysis with consultation
    - Are costs worth it?
  - Large costs to depositors/borrowers/country
- Incentives of stakeholders
  - Banks want to minimise costs to shareholders (big 4 are owned by Aussie banks)

**7. Next steps**

- RBNZ is "independent", but Minister does have some options:
  - s68B (incl. policy intent)
- Does Minister want further advice on options and implications?

**8. Talking points/questions for Minister's meetings with Governor and Board**

- Governor
  - TBC
- Board
  - TBC

**Timeline for advice**

<b>Date</b>	<b>Task or milestone</b>
Week commencing 6 May 2019	Internal discussions on draft outline of advice Finalise outline of advice Begin discussions with internal stakeholders
Week commencing 13 May 2019	Draft advice Meet with Reserve Bank
Week commencing 20 May 2019	Finalise draft advice and seek comment internally
Week commencing 27 May 2019	QA advice and sign out

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30 May 2019	Advice to Minister
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**IN-CONFIDENCE****Timeline for Capital Review**

May/June 2019	RBNZ publishes submissions and summary of submissions
September quarter 2019 <sup>1</sup>	RBNZ publishes a response to submissions, a regulatory impact statement, and final decisions on the capital adequacy framework <sup>2</sup>

**Key stakeholders – external:**

Stakeholder	Note
Minister of Finance and other Ministers	What do we want Ministers to do with the advice we provide?
Reserve Bank of New Zealand	
Banks	
Public	
APRA	TBC whether to approach

**Key stakeholders – internal:**

Stakeholder	Note
The Treasury's ELT	Keep updated
Ben Gaukrodger / Tamiko Bayliss (Macroeconomic and Fiscal Policy)	Discuss macroeconomic and fiscal policy impacts, particularly on monetary policy
Ryan Walsh	Seek Australian Treasury perspective on capital proposals
Andy Hagan	Impacts on Crown balance sheet
Karam Shaar (Forecasting)	Interested in the capital proposals impact on macroeconomic variables Can assist with any modelling of impacts of proposals
Victor Kuipers (Reserve Bank Act Review)	Links to crisis management (e.g. impact on tier 2 capital requirements)
Joseph Sant (Capital Markets)	Potentially interested in impact of markets for tier 2 capital – <i>have not approached yet</i>
Principal Advisors	Source of expert advice

<sup>1</sup> We will seek greater clarification from the RBNZ on when in these three months (July, August, or September) this is likely to occur.

<sup>2</sup> Decisions on the appropriate risk appetite for banking crises and the level of capital required; on which financial instruments qualify as 'high quality' (Tier 1), and which financial instruments will remain eligible as capital; on changes to the risk-weighted assets framework; and on transition – i.e. how much time banks have to comply with decisions.

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(Bevan Lye, Craig Fookes, Felicity Barker, Tamiko Bayliss)	
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**Resources:**

[Review of the Capital Adequacy Framework for locally incorporated banks: how much capital is enough?](#)

[APRA Discussion Paper: Increasing the loss-absorbing capacity of authorised deposit-taking institutions to support orderly resolution](#)

[Review of the Capital Adequacy Framework for locally incorporated banks: calculation of risk weighted assets](#)

[The calculation of risk weighted assets. Response to submissions](#)  
[Capital Review Paper 2: What should qualify as bank capital? Issues and Options](#)  
[Capital Review Paper 2: What should qualify as bank capital? Response to submissions](#)

[Review of the Capital Adequacy Framework for locally incorporated banks \(PDF 804KB\)](#)  
[Summary of capital review issues paper responses \(PDF 976KB\)](#)

[A framework for identifying domestic systemically important banks](#)

[Carney letter to Treasury Select Committee \(2016\)](#)

<http://www.scoop.co.nz/stories/BU1905/S00039/anz-ceo-says-hes-taking-adrian-orr-at-his-word.htm>

<https://www.nbr.co.nz/story/home-loans-boost-bnz-profits>

<http://www.tailrisk.co.nz/documents/HowMuchCapitalIsEnough.pdf>

Ensuring the cost and risk of bank failure are suitably and cost-effectively managed

[A3: managing the costs and risks of bank failure \(Treasury:3062795v4\)](#)

2014 Literature review: The costs and benefits of higher bank capital

[Literature review: costs and benefits of higher bank capital:2871884](#)

2014 Note: RBNZ modelling of optimal capital requirements

[RBNZ modelling of optimal capital requirements \(Treasury:2880032v1\)](#)

2014 Worksheet: Optimal bank capital

[Worksheet: optimal bank capital \(Treasury:3043644v1\)](#)

FSB, Principles on Loss-absorbing and Recapitalisation Capacity of G-SIBs in Resolution and Total Loss Absorbing Capacity (TLAC) Term Sheet (2015)

Phase 2 consultation material on resolution and recapitalisation.

FSB, Progress and Next Steps Towards Ending "Too-big-to-fail" (2013)