NEW ZEALAND
BANKERS ASSOCIATION

Submission

to the

Reserve Bank of New Zealand

on the

Housing Review Stage Two Consultation Paper

17 April 2015

NEW ZEALAND BANKERS ASSOCIATION
Level 15, 80 The Terrace, PO Box 3043, Wellington 6140, New Zealand
TELEPHONE +64 4 802 3358 FACSIMILE +64 4 473 1698 EMAIL nzba@nzba.org.nz WEB www.nzba.org.nz

Submission by the New Zealand Bankers' Association to the Reserve Bank of New Zealand on the Housing Review Stage Two Consultation Paper

About NZBA

1. NZBA works on behalf of the New Zealand banking industry in conjunction with its member banks. NZBA develops and promotes policy outcomes which contribute to a strong and stable banking system that benefits New Zealanders and the New Zealand economy.

2. The following fifteen registered banks in New Zealand are members of NZBA:
   - ANZ Bank New Zealand Limited
   - ASB Bank Limited
   - Bank of China (NZ) Limited
   - Bank of New Zealand
   - Bank of Tokyo-Mitsubishi, UFJ
   - Citibank, N.A.
   - The Co-operative Bank Limited
   - Heartland Bank Limited
   - The Hongkong and Shanghai Banking Corporation Limited
   - JPMorgan Chase Bank, N.A.
   - Kiwibank Limited
   - Rabobank New Zealand Limited
   - SBS Bank
   - TSB Bank Limited
   - Westpac New Zealand Limited.

Background

3. NZBA is grateful for the opportunity to submit on the Housing Review Stage Two Consultation Paper covering asset class treatment of residential property investment loans in BS2A and BS2B, capital requirements for reverse mortgage loans in BS2A and BS2B, removal of the qualifying revolving retail exposure option in BS2B, and removal of the foundation internal ratings based approach in BS2B.

4. We would also like to acknowledge the positive engagement and consultation on this issue over the past year. We appreciate your consideration of our submission, and have answered in detail select questions posed in the Consultation Paper with a view to assist in the policy decision process.

5. If you would like to discuss any aspect of the submission further, please contact:

James Pearson
Associate Director – Policy & Legal Counsel
04 802 3353 / 021 242 0603
james.pearson@nzba.org.nz

Executive Summary

The following submission makes comments on aspects of the Consultation Paper. We also raise what we consider to be some fundamental differences in opinion with the rationale for this policy, set out in the Consultation Paper, as the basis for these proposed new rules.

In our answer to question one, we have provided a review of the analysis in the Consultation Paper and have highlighted where our views differ, and suggest that the premise of the proposed rules is incorrect.

Despite the different views taken as to the justification and need for this policy, NZBA has engaged in this consultation process with a view to achieving the best policy outcome possible for the implementation of these rules.

The key points NZBA seeks to make in this submission are:

- Notwithstanding the difference of opinion set out in this submission, **Option 1C** (that is, to recognise a separate residential investment lending portfolio these properties must be defined as non-owner-occupied, and the lending classified under a new retail sub-asset class) **is the preferred** (and only realistic) option if RBNZ are going to implement this new policy.
- **Timing for implementation remains a challenge**. NZBA suggests a timeframe of 12 to 18 months for the re-categorisation of existing lending is more appropriate. Significant changes are required to systems and frontline processes, including reassessment of existing customers.
- **Interim Standardised approach is opposed**. NZBA's suggestion is that the International Ratings Bank approach remains in place.
- The Consultation Paper **does not reflect industry practice relating to the cross-collateralisation of loans.** To impose a requirement where the loans themselves need to be identified as being related to one particular property (e.g. a singular relationship between a loan and property, rather than many-to-many) will take significant work and change management.

Part I: Asset class treatment of residential property investment loans under BS2A and BS2B

Question 1: Do you have any comments on this analysis or the Reserve Bank's rationale?

The Reserve Bank's assessment that residential property loans are a distinct and riskier category of loans is based on a misinterpretation of the Irish and UK experiences during and after the GFC. Analysis of that experience shows that investment property loans are not inherently riskier than owner-occupied housing loans. The apparently poorer aggregate performance of Irish and UK investment property loans is entirely explained by their higher LVR and debt servicing burdens. The evidence that property investment loans are not intrinsically riskier is supported by economic logic, by the experiences of New Zealand banks, and by the outputs of an analytical model. The analysis provides no substantive risk based rationale for establishing a separate residential property investor loan class or sub-class for retail loans and applying higher capital charges to that class or subclass.

NZBA approach

Despite the fact that we challenge the premise on which this policy decision is based, we are engaging in this consultation with a view to assist and achieve the best form of this policy as is possible.

On this basis, NZBA members have considered the options presented in the Consultation Paper and take the view that Option 1 is the best approach of those presented.

Assessment of foreign evidence relating to risk of residential investment property presented in Paragraphs 11 and 12

The buy to let market in the UK and Ireland

The analysis of the relative historical performance of residential property investment loans compared to conventional residential property lending loans in the UK and Ireland is based on the performance of the buy-to-let (BTL) lending class.

With this lending class rental income is the primary, or only, source of income supporting the loan and security is provided by the rental property or properties.

The BTL sector emerged in the late 1990s with traditional, conservative lending limits. Initially loans generally required at least a 25 per cent deposit and a rent to mortgage interest ratio of over 125 per cent. As competition in the sector intensified these conditions were progressively relaxed until, in the peak years of the pre-GFC housing boom, investment properties could be funded, often through non-prime lenders, with very small deposits and rent to interest cover as low as 100 per cent.

Irish default performance

Evidence from Lydon and McCarthy paper

The graph presented in paragraph 11 of the Consultation Paper presents data from the paper by Lydon and McCarthy 2011 *“What lies beneath? Understanding recent trends in Irish Mortgage arrears”.* The paper, which was based on a sample of 420,000 loans from four major Irish banks, addressed the question of whether BTL status was in itself a default driver, or whether the higher default experience could be explained by differences in other loan characteristics. It found that, after controlling for differences in LVR and servicing costs, BTL status had no impact on default rates. The observed higher increase in BTL default rates was largely due to vintaging effects. A disproportionate share of BTL loans were made in the lead up to the GFC when underwriting standards were at their lowest point and house prices at a peak.

The results of this test are presented in table 7 of the paper which shows that the coefficient for the marginal impact of BTL status is 0.00. The 0.00 estimate is significant at the 1% level.

In a presentation of the results (*The Irish Mortage market in Context* - Central Bank of Ireland 2011) the following statement was made with respect to BTL default rates:

"Controlling for LTV & MRTI... relative to next-time-buyers (NTB), FTB borrowers are 2% less likely to be in arrears – whereas, no relative difference for BTL"

This paper does not provide evidence that BTL loans are, from a risk perspective, a separate riskier asset class.

<u>*Evidence presented in table 1 Paragraph 12*</u>

Table 1: Ireland residential loans - realised loss estimates, 2011-2013

	Owner Occupier	Investor	Total
Bank of Ireland	5.9%	10.7%	7.0%
Financial Measures Programme (BlackRock Solutions)	7.6%	14.3%	9.2%

Source: "Stress" scenario in The Good, *The Bad and The Impaired: A Credit Risk Model of the Irish Mortgage Market*. Kelly, Central Bank of Ireland, November 2011, pg 25

This paragraph represents the data in table 1 (above) as actual loss outcomes. In our view, they are not. They are forecasts of possible default rates over 2011-13 from an end 2010 starting point. What are described in the table as Bank of Ireland (sic) forecasts are not the official Central Bank of Ireland forecasts. They are forecasts presented in a technical research paper – R. Kelly 2011 *'The Good, the bad and the impaired: a credit risk model of the of the Irish Mortgage market'* .

The following provides brief review of this model and its outputs.

There are two components to the model, loss given defaul (LGD) and probability of default (PD).

The PD model is a simple loan state transition model. Based on historical experience it models loan transitions from performing, to 90 days past due and to 360 days past due. Defaults are defined as 360 days past due and once they have defaulted, loans never cure. Transition probabilities are estimated as a function of the loan vintage, interest rate setting type, loan purpose (e.g. BTL, first time borrower) and geogaphical location. The transition probabilities are assumed not to be sensitive to time (that is, there is no seasoning effect) or economic conditions. Other key risk drivers such as LVR or debt servicing do not appear in the model.

The latter assumption means that the transition probabilities for BTL loans pick up these other loan charactersitics. The forecast outcomes cannot then be interpreted as showing BTL status as an independent driver of the results. What is being picked up is the riskier composition of the BTL sub-porfolio. The vintaging variable also increases forecast BTL defaults because, as already explained, BTL loans were disproportionately originated in vintages with high transition to default probabilities.

Once the model is estimated the default rates rates are generated by rolling out the transition rates over a horizon of three years from the start date at the begining of 2011, using on a sample of 450,000 mortages with the relevant loan specific information.

As a PD forecasting tool, the model has some apparent shortcomings, such as:

- It is not sensitive to economic conditions over the forecast period;
- Aggregate default rates are a simple linear function of time because the same transition probabilities are applied over the forecasting period without regard to seasoning effects; and
- It generates some fairly odd results. For example, first time buyers with tracker mortgages are estimated to have a three year default rate of 19.3 per cent compared to 8.3 per cent for those with an (economically) similar standard variable rate (SVR) mortage. With BTL loans the relatonship is reversed. SVR loans have a default rate of 22 per cent compared to 14 per cent for tracker loans.

The LGD losses are calculated as follows.

"Negative equity in the LGD is calculated as the difference between current house price and the mortgage balance outstanding. As per Kennedy & McIndoe-Calder (2011), current house prices are calculated as the property valuation at origination brought forward using the PTSB index. The additional 20 to 40 per cent losses are an allowance for legal/sale transaction costs and the inevitable downward pressure on house prices resulting from an increase in the supply of housing stock on to the market.

It is clear from this discussion that LVR at origination and vintage will be the key drivers of LGD outcomes, and these factors will generate higher losses for BTL loans. The average LGD results for owner-occupiers and BTL loans are not reported in the paper.

The Black Rock estimates are described in the Financial Measures Programme (FMP) report as follows:

"*The Black Rock-derived three-year projected losses in the stress scenario are significantly more conservative than the banks' own forecast provisions. In part, they are an early recognition of potential losses and serve to add conservatism to the PCAR capital calculations.(p.8) The Central Bank's calculation of projected losses under the stress case ensures that banks will hold capital to meet potential future losses (even if they are to occur only in a severely stressed macroeconomic context) at an early stage. This goes well beyond provisions required under existing accounting standards (p.9)."*

There is insufficent information in the FMP document to make an assessment of what was driving the loss outcomes. However, it is seems that conventional forecasting techniques were used and that the BTL results will be driven by the different composition of this portfolio, which have been noted above. The results do not, and would not have been claimed, to represent a test of the independent contribution of BTL status to borrower default rates.

UK default evidence

Fitch studies

There is no citation for the Fitch study mentioned in the document so it was not possible for NZBA to review it. However, a study by Fitch (Mistropoulos and Zaid 2009, *Relative indicators of default risk among UK residential mortgages*) on the UK residential mortage market could be reviewed. The study covered 500,000 residential mortgaes originated over 2004-2007, and analysed the default experiences of those loans up until March 2009. The study controlled for LVRs and debt serving and found, like the Irish study, that BTL status did not generate higher default rates.

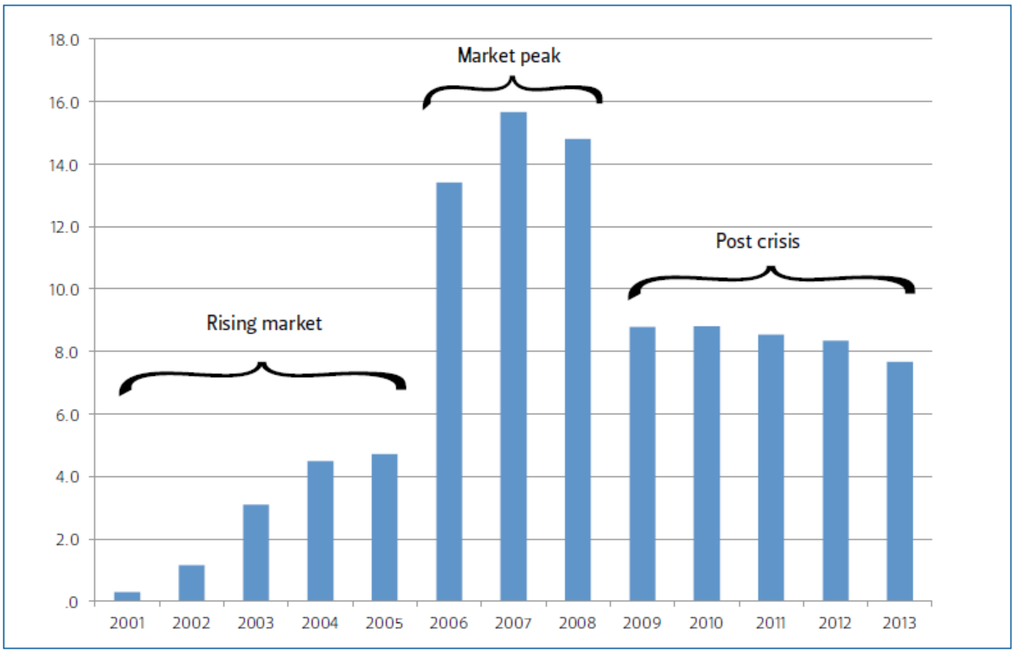
UK Council of Mortgage Lenders arrears data

The UK Council of Mortgage Lenders arrears rate data does not provide support for the argument that residential investment loans are a riskier lending class. The data in the figures in the consultation document only went up to the beginning of 2011 but subsequent data shows that the BTL loans arrears rate has been lower than owner-occupied loans reflecting a reversion to the historical relationship.

The larger relative changes in arrears over the GFC does not reflect some inherently greater vulnerability of BTL loans to systematic shocks as is suggested in the consultation document. It simply reflects the different compositions of borrower characteristics of BTL and owner occupied loans. As in Ireland, there was a marked increase in BTL loans in the lead up to the GFC, and a disproportionate share of BTL loans were originated over the period when property prices were at their peak and origination standards were at their lowest.

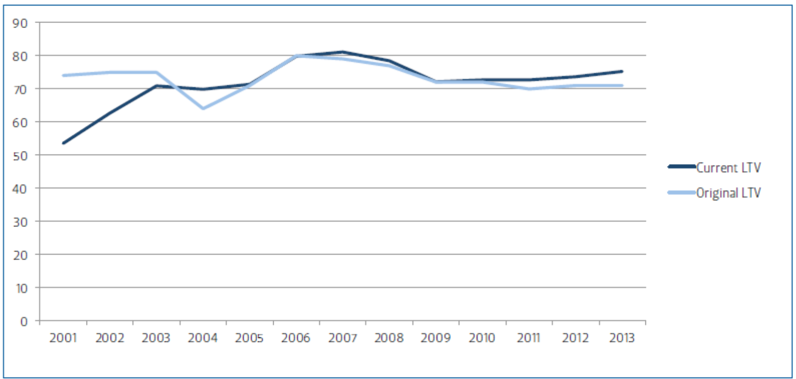
The impact of these factors are explored in a paper called *Buy-to-let arrears: Understanding the factors that influence landlords' mortgage debt* (J. Rugg and A. Wallace, Centre for Housing Policy, 2014). This paper presents an analysis of a database of 338,000 buy-to-let loans to 215,000 borrowers as at Q3 2013. Figures 4.5, 4.6 and 4.22 below present some of the more useful data from this paper, showing the vintaging effect. We note that the Rugg Wallace analysis will tend to understate the impact of impact of vintage on arrears status because by 2013 many of the most vulnerable loans that were originated prior to the GFC would have exited the banks' portfolios as properties were repossessed.

Figure 4.5: Year original loans made to landlord customers (%) (n=338,908)



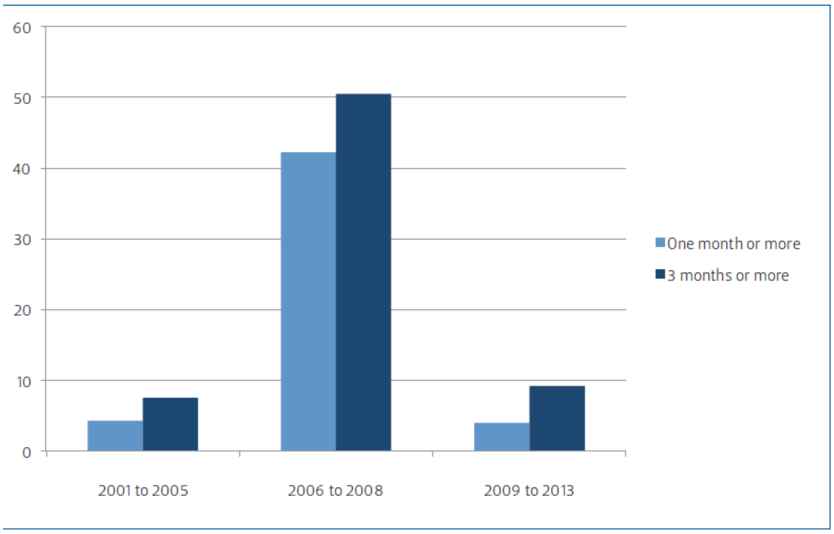
Source: Loan book data

Figure 4.6: Estimated current median loan-to-value by year original loan made. (%) (n=311,532)



Source: Loan book data

Figure 4.22: Proportion of accounts in arrears also in negative equity by year loan advanced (‘
(n= 1462)



Source: Loan book data

Other documents

<u>*Central Bank of Ireland macro–stability consultation document CP87*</u>

The Central Bank of Ireland has recently proposed a lower limit LVR on BTL mortgages. The justification for the lower limit seems to be the following passage on page 14 of the document, which states:

“Individual householder borrowing to finance the purchase of investment property raises further complications. Such lending can be considered more risky for the lender, all other things being equal, even though recovery of the collateral may be less problematic than for owner-occupied collateral. Central Bank research shows that BTL mortgages were more likely to be in arrears and finds evidence that negative equity had an important effect on trends in arrears. This suggests that a lower cap on LTV could be *warranted for these borrowers*.

The only research cited was the Lydon McCarty paper cited above. As discussed above it does not show that BTL in itself generates higher defaults.

<u>*The third interim report (TIR) on the consistency of risk-weighted assets, SME and residential mortgages:external report (EBA 2013)*</u>

The TIR reports on the risk drivers in PD models accross a broad sample of IRB banks. Page 31 of the report states:

“*It appears that occupier versus buy-to-let, interest related variables, amortisation types and maturity at orgination are not reported as relevant in the sample,.”*

NZBA submits that if BTL was an independent driver of default rates, then that should have appeared in at least some models.

New Zealand bank lending practices

Broadly New Zealand bank residential property lending can be divided into two classes. The first is the retail lending class. There is a range of lending arrangements but typically these loans will have many of the following characteristics:

- The borrowers loan servicing capacity is evaluated on the borrowers total income (wage and salary, self employed, other income and rental income);
- Rental income will be less than 50% of total income;
- The bank will have security over both the owner-occupied house and the investment property; and
- The primary security will often be the owner occupied home.

Many of these loans are to financially secure borrowers who have purchased one or more rental properties as part of their retirement savings or investment/wealth plan.

The customer focus distinguishes these loans from BTL loans in the UK and Irish markets where the focus is on just the characteristics of the investment property transaction.

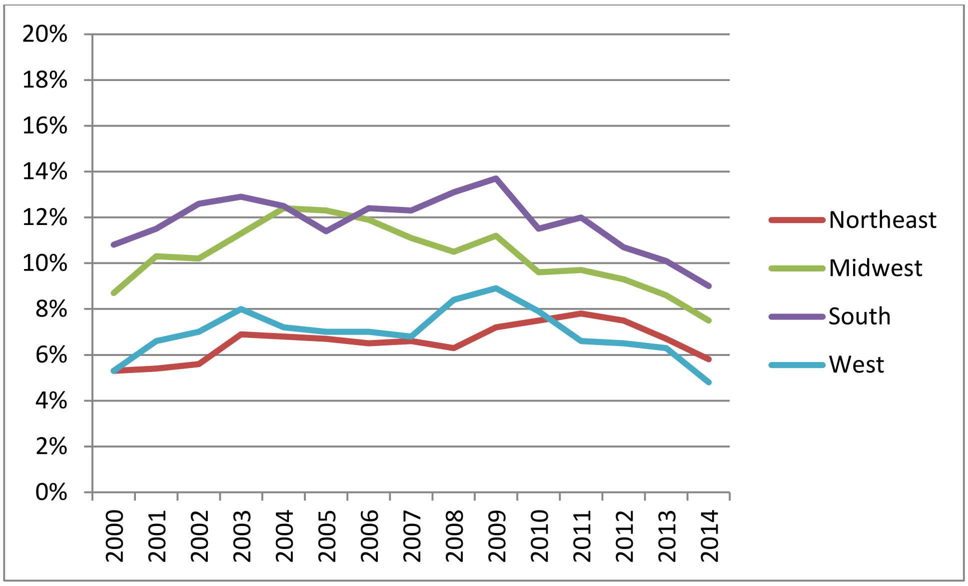
The second class can be described as professional investor loans and have the following characterstics:

- Servicing capacity is based on the rental streams from the investment properties though in some cases account may betaken of the borrowers other income;
- Rental income will be the borrower's primary source of income;
- Loans will generally be larger than retail residential investment property loans; and
- The loans are individually managed in a non-retail or corporate asset class portfolio.

Risk of retail residential investment property loans

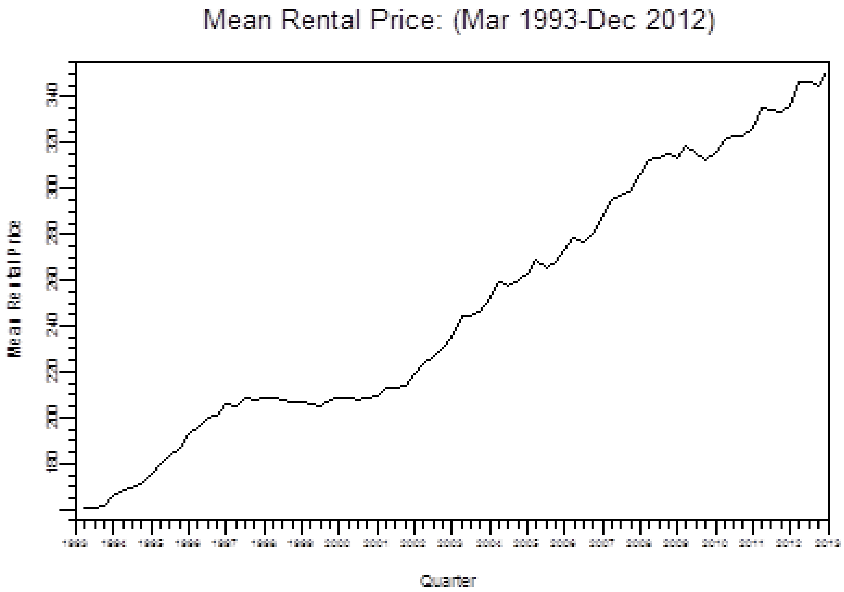
The risk characteristics of residential property rental cash flows is low compared to other asset classes. This is because:

- Vacancy rates are relatively low and are not strongly related to economic downturns. Figure 1 which presents New Zealand residential vacancy shows that vacancies have declined to low levels since 2004 and that the GFC had only a limited impact on this trend. This insensitivity to a systematic downturn is not explained by New Zealand's relatively benign GFC downturn experience. The US regional experience over 2000-2014 (see below) shows that there was some response in vacancy rates to the GFC but even in the West, where the economic downturn was acute, the effect was relatively small and short-lived.



US rental vacancy rates by region (Source: US Census Bureau)

- Rental rates are also relatively insenitive to economic conditions. The graph below shows that there was small and short lived response to the New Zealand GFC downturn.



(Source: Ministry of Business, Innovation and Employment)

- Even in Ireland, where there was a much more severe downturn and a pre-crisis supply shock, average rental levels did not fall precipitously. The Irish Private Residential Tenancy Board rental index showed a 20 per cent downturn from a peak in Q1 2008 to where it bottomed out in Q4 2010.

These outcomes contrast sharply with the commerial property market behaviour where effective rents (allowing for inducements) and vacancy rates are much more responsive to economic shocks.

(Source NZIER)

Risk diversification

Retail borrowers with a primary source of income and rental incomes will be better diversified against economic shocks than owner-occupier borrowers, with the same leverage, who rely on just their primary income to support the loan. Effectively unemployment risk is diversified over a number of income earners.

Comments on statements in paragraphs 14 and 15 of the Consultation Paper

The evidence from Ireland and the UK does not show residential property loans are more strongly correlated with systematic risk factors. It does show that more highly leveraged loans are more highly correlated with systematic risk. The Reserve Bank has already adjusted for leverage by increasing the correlation factor for high LVR loans.

The BS2B LGDs were not calibrated to owner-occupied loans. They were calibrated to match, on average, the 20 per cent LGD that APRA decided to apply to all AIRB banks that did not have a satisfactory downturn LGD model. The Australian LGD was calibrated to apply to all residential mortgage loans.

Further, both the Australian and New Zealand calibrations were set conservatively to give AIRB banks an incentive to develop their own downturn LGD models. There is no evidence that the LGDs for residential investment loans are higher than for pure owner-occupier loans. If there is any difference in average LGDs it should be more than covered by the conservative overlay. In any event, in many cases the bulk of the bank's security will be the owner occupier dwelling and it does not make sense to apply a higher LGD to this security because the borrower also has an investment property.

This argument for higher LGDs in set out in paragraph 46 does not capture one of two key determinants of LGDs, the cure rate. There is no reason to believe that cure rates on housing loans with an investment element are lower than on purely owner-occupied loans in a downturn.

Nor is it obvious that the value of investment properties that are repossessed in a downturn will be systematically degraded by occupant behavior to a greater extent than owner-occupied properties. The tenant will not have a grievance against the bank. The owner-occupier might do, and these could result in damage to the property. As noted above, in many cases the bulk of the security is in the owner-occupied dwelling.

Question 5: Can you anticipate any implementation issues with these options? Please indicate how these issues could be overcome.

Timing

NZBA notes that the work that will be required to implement such a policy will be significant, with considerable compliance costs involved for banks. These changes will involve reviewing and updating of bank policies, communication and training to frontline staff, development of front end data capture and decision systems, creating mainframe systems and tables, transferring data from local systems to the global data warehouse, conducting asset class segmentation, implementing rule changes in the credit risk engine, and updating financial reporting requirements.

We acknowledge that the Consultation Paper provides for a transition period for banks' back books, but we submit that a timeframe of 18 months to two years is a more realistic and appropriate timeframe to implement the changes outlined above for both new lending and the back book. This adequately reflects the fact that the changes required are complex and will require multiple systems changes and staff training, which is not achievable in the 1 July 2015 timeframe proposed.

Models

NZBA submits that it would be helpful for banks if RBNZ would provide assurances as to timeframes for the review of models submitted by banks. This is particularly relevant if banks are submitting four or five models at once. An assurance that RBNZ will come back within a reasonable timeframe would make this modelling process worthwhile for banks.

Cost to customers

It is also important to make clear that there will be a cost to customers of implementing this process, irrespective of which option is selected. This is because of the significant work involved in re-categorising these loans, which will involve re-pricing and re-documenting existing loans.

Question 6: What are the benefits of each option overall as well as relative to the other options?

NZBA is not in a position to analyse the relative benefits of the options in the Consultation Paper.

Question 7: Do you have any suggestions as to how the proposed options could be improved or any other comments on the Reserve Bank's proposed definition?

A major flaw of the policy approach is that it assumes that banks take a loan by loan approach. This is contrary to current industry practice. Rather, banks conduct a customer centric approach. To shift to a requirement where the loans themselves need to be identified as being related to one particular property (e.g. a singular relationship between a loan and property, rather than many to many) would take significant work and change management. Banks would need to alter the process relating to the recording of whether a property is owner occupied or not. At present this is static and not subject to verification. Additional guidance from RBNZ will also be needed to ensure the playing field is level between competitors.

Further, we make the following comments on the drafting of the proposed definitions:

Option 1

Option 1 would restrict the current retail residential mortgage class to owner-occupiers only. It is stated in the consultation document that:

"*This option is closely aligned with the relevant Basel II IRB requirement that states (emphasis added):*

'...Residential mortgage loans (including first and subsequent liens, term loans and revolving home equity lines of credit) are eligible for retail treatment regardless of exposure size so long as the credit is ***extended to an individual that is an owneroccupier of the property.'"***

This quotation omits, what we consider in this context is an essential qualifier. The above section goes on:

"...(*with the understanding that supervisors exercise reasonable flexibility regarding buildings containing only a few rental units –otherwise they are treated as corporate). Loans secured by a single or small number of condominium or co-operative residential housing units in a single building or complex also fall within the scope of the residential mortgage category. National supervisors may set limits on the maximum number of housing units per exposure."*

The section clearly reflects the intent that small residential property investors not be treated as corporates. The fact that the qualifier refers to a single building simply reflects the country environment the drafters were familiar with. It does not obviate the substantive distinction they were making between small and bigger typically professional investors.

Option 2A

NZBA submits that Option 2A is a sensible option if 'predominantly' is defined correctly. 50% is a reasonable dividing line between retail and professional investors and is consistent with the substance of Basel II.

The problem with the proposal is that income is defined as net of living expenses and other committed income and is much more restrictive than it appears. This approach does not make economic sense. A borrower's risk is determined by total income; the risk of the components of that income; their overall committed expenses; and their security. Applying a rule that assigns expenditure to just one component of income will not generate consistent and coherent risk classification.

Option 2B

Option 2B extends the furtherest and will capture the most activity. However, NZBA considers that there are likely to be serious consequences to Option 2B which we submit are not outweighed by any benefit that the policy might achieve.

Negative side effects could include the following:

- A dispropriate impact on new and low income borrowers who let rooms to boarders and attached flats to help support a loan. They will be assigned to a riskier loan class.
- A disproportionate impact on low income renters who often rely on the type of accommodation mentioned above. This is likely to have a disproportionately high impact on some socio-economic or cultural groups/communities where living with extended family as a boarder is particularly common.
- Unnecessary transaction costs as borrowers rearrange their affairs (particulary to avoid possible future macro-stability based constraints) to avoid the measures. Some borrowers could secure all their borrowings against their home and equity fund their rental property. There could also be a cost to borrowers if it becomes more difficult or uncertain to obtain a tax deduction for the borrowing that was originally undertaken to purchase the rental property.
- The above loan restructuring would mean that the bank could be less well secured than it was previously.

Question 8: Are there any other asset class options the Reserve Bank should consider?

NZBA does not have any other asset class options for RBNZ to consider, and supports RBNZ's preferred option of a new sub-asset class within the retail asset class, rather than being categorised as corporate lending.

Question 9: What are the costs for your bank to migrate residential property investment loans to a new retail asset class?

As noted in our answer to Question 5, there will be significant work involved in implementing whichever option is selected. Our estimated cost to banks is at least $20 million across the industry. This cost is made up of:

- Communications and training to frontline;
- Front end data capture/decision systems;
- Mainframe systems/tables;
- The cost of transferring data from local systems to the global data warehouse;
- Asset class segmentation;
- Implementing rule changes in the credit risk engine; and
- Financial reporting.

The cost of building, testing and implementing a new model is not included in the estimate.

NZBA also notes the inconvenience, confusion and costs to customers of implementing this policy, andthe increased capital costs on banks.

Question 10: Do you have any comments on the Reserve Bank's preferred option of grouping residential property investment loans in a new retail asset class?

Members considered this a natural function of choosing Option C, and did not have any issues with this. Our only comment would be to reiterate the importance of getting the definition correct. A new retail residential lending asset class would make sense if it captured just professional investment property lenders in the new asset class. At present most of these loans fall into the IPRE category which is inappropriate because they have different risk characteristics to commercial property loans. A new asset class is not necessary for AIRB banks to monitor and as appropriate identify and capture risks relating to retail residential mortgage loans with an investment element.

Question 11: How long do you envisage it would take to implement the proposed new requirements?

Please refer to our answer to Question 5 above.

Question 12: Do you have any comments on the proposed interim arrangements?

NZBA does not support the proposed interim arrangements for IRB banks to operate under standardised banks' risk weight requirements. We understand that some of our members have proposed alternatives for the interim period and we are supportive of this approach.

It will also be important to know how the new rules will be promulgated. I If it is intended that these changes form part of a Condition of Registration (and therefore have zero tolerance of error) then this will have a huge impact on how banks implement this policy.

Part III: Removal of the qualifying revolving retail exposure option from BS2B

Question 17: Do you have any comments on the Reserve Bank's rationale for and proposal of removing the QRRE category from BS2B?

NZBA notes that RBNZ has never been open to granting this status, so the removal of this category is just solidifying the status quo. On this basis, while we note that from a theoretical perspective it would be useful to retain this category and have it available for use, its removal will not have any practical implications on banks.

Part IV: Removal of foundation IRB approach

Question 18: Do you have any comments on the proposal to remove the foundation IRB approach from BS2B?

NZBA supports the removal of the foundation IRB approach from BS2B.