



NEW ZEALAND'S EXCHANGE
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By e-mail only: capitalreview@rbnz.gov.nz

NZX Submission: Capital Review Exposure Draft Consultation

1. NZX Limited (**NZX**) is pleased to submit this response to the Reserve Bank of New Zealand's (**RBNZ**) consultation paper 'Changes to the Banking Supervision Handbook: Exposure Draft for Capital Review Changes' (**Consultation Document**).
2. We thank the RBNZ for the opportunity to make this submission and look forward to contributing to the implementation of the revised capital adequacy regime for registered banks in Aotearoa, New Zealand. Nothing in this submission is confidential.

About NZX

3. NZX is a licensed market operator and New Zealand's exchange. NZX operates New Zealand's securities, debt, funds, derivatives and electricity markets. NZX has approximately 200 listed issuers with a total market capitalisation of approximately \$222 billion. NZX's issuers include registered banks with equity securities quoted on the NZX Main Board and debt securities quoted on the NZX Debt Market.

Consultation response

4. NZX supports the purpose of the RBNZ's proposed changes to the banking supervision handbook, of implementing additional banking capital requirements that provide a more resilient banking sector for New Zealanders.
5. While NZX does not have expertise in banking capital requirements and therefore does not have a view as to the appropriate minimum level of regulatory capital for the banking system, NZX understands the importance of the banking sector to New Zealand's economy. We comment below on matters raised in the Consultation Document that are relevant to the listing of AT1 and Tier 2 instruments on NZX's markets.
6. D2.3(c) of the proposed 'BPR110: Capital Definitions' states that one of the criteria which must be met for an instrument to qualify as AT1 capital, is that it must be structured as legal-form equity, reflecting the 2019 policy decision on which RBNZ has already consulted. We note that the RBNZ is working with the FMA to

understand how these instruments would be considered under the FMC Act and how the relevant disclosure requirements in the FMC Regulations, would apply. We understand that the FMA intends to formally consult on these matters.

7. In this regard, NZX will need to consider whether it is appropriate for AT1 instruments to be quoted on the NZX Main Board or NZX Debt Market. NZX currently has several hybrid instruments (in the form of cumulative preference shares and convertible notes) quoted on the NZX Main Board. These instruments fall within the FMC Act and Listing Rule definition of an Equity Security, even though they possess features of a debt instrument. NZX intends to work with the FMA, as the FMA consults on the treatment of AT1 instruments under the FMCA, to develop standards by which to determine whether AT1 instruments should be quoted on the NZX Main Board or NZX Debt Market.
8. D2.5(2) of the proposed 'BPR110: Capital Definitions' allows an AT1 instrument to be callable or redeemable at the initiative of the registered bank after a minimum of five years, and allows for more than one such call or redemption. We support the RBNZ's incorporation of these reset mechanisms, which will provide flexibility and optionality for banks to structure these instruments in a commercial manner that meets their capital structure requirements, while ensuring the features of the AT1 instruments are sufficiently robust from a capital adequacy perspective.
9. We note that the Consultation Document proposes a notification regime whereby registered banks may notify the RBNZ of the issuance of an AT1 or Tier 2 instrument on the basis of a standardised legal opinion and the removal of the current non-objection process. We agree that this process is likely to enable a more efficient mechanism for registered banks to issue capital instruments, while preserving the RBNZ's ability to have oversight of an instrument's adherence to the prescribed regulatory requirements.
10. We would like to thank the RBNZ for this opportunity to provide this submission. We would welcome the opportunity to discuss any aspect of this submission with you.

Yours faithfully,



Kristin Brandon
Head of Policy and Regulatory Affairs