Memo for Christian Hawkesby

Copied to	Kate Le Quesne, Kerry Watt
From	Charles Lilly, Financial Stability Assessment & Strategy Jess Rowe, Prudential Policy
Date	21 March 2024
Subject	Commerce Commission market study on personal banking services: draft report
For your	Information

Background

The Commerce Commission today released its draft report and findings from its market study on personal banking services:

Exec Summary.pdf   Abridged Draft Report.pdf   Full Draft Report.pdf

This note:

- summarises the overall findings in the draft report,
- highlights specific recommendations for the Reserve Bank to consider,
- offers some initial thoughts on these, and
- discusses the next steps for the market study and how we plan to engage.

Out of Scope [redacted]

The Commission sees **four main factors limiting competition**:

- Out of Scope [redacted]
- Regulatory barriers to entry and expansion – new entry at scale is unlikely due to the time needed and barriers to surpass to build sufficient scale and market share to be profitable.

Prudential capital requirements have limited entry and expansion and entrenched the position of the major banks over the past 15 years.

- Out of Scope [redacted]

The Commission suggests a **range of solutions** are needed to improve competition:

- Improve the capital position of small banks (including Kiwibank). The RBNZ should review capital settings to take account of competition, including reducing any remaining capital advantages that internal models banks (the four large banks) have compared to other banks for home loans. Kiwibank's owner should consider increasing its access to capital and adopt a more aggressive competitive strategy with major banks.
- Out of Scope [redacted]

Recommendations specific to the Reserve Bank

In following table we highlight some of the specific recommendations for the Reserve Bank:

Recommendations most relevant to Reserve Bank
Recommendation 1 Prudential capital settings should be reviewed to ensure they are competitively neutral and smaller players are better able to compete. The Reserve Bank should: • Consider whether the same level of capital should be required where the risk is likely to be identical, e.g. have no difference in risk weights between IRB and Standardised risk weights for some home loans. • Consider increasing the floor on IRB risk-weighted assets (85% of Standardised outcomes). • Consider making it easier to acquire IRB accreditation. • Provide further information on any increase in capital requirements NBDTs will face under the DTA, and explicitly and transparently articulate how it is thinking about setting these with reference to the principles and purposes set out in the DTA.

Initial thoughts on recommendations

Our initial impression is the report is somewhat unbalanced, lacking a holistic quantitative assessment of the impact of prudential requirements on competition, and is silent on the expected scale of benefits of changes in regulation, including in relation to the other areas covered in the recommendations. It tends to focus on specific elements such as risk weights in limiting competition but dismissing the impact the D-SIB buffer – which our analysis suggests largely cancel each other out. The report also seems to underplay how we already, and will continue to, consider competition elements within our policy development and that fact that competition is one of many principles we legally need to consider in pursuing our primary objective of promoting financial stability.

Capital requirements (recommendation 1) are highlighted as an ongoing competitive barrier, despite the significant changes made as part of the Capital Review (85% floor on IRB models, 2% DSIB buffer requirement). While there is still a difference in capital outcomes between the large and small banks, the report doesn't provide much detail on the materiality of this in terms of the extent to which it affects the average cost of banks' funding.

We provided the Commission with some illustrative estimates of the impact that the capital differences imply for banks' loan pricing, which suggested the difference in capital requirements could amount to c. 9bps prior to the Capital Review changes, and 7bps afterwards (0bps if the DSIB buffer is also factored in). The draft report places a lot of emphasis on the difference in capital requirements and how this acts as a barrier to competition but doesn't include quantitative estimates of the impact further "levelling of the playing field" would have on small banks' ability to offer more competitive loan pricing.

Process and next steps

The draft report is open for submissions until the 18th of April. Following this, the Commission will hold a conference to discuss the draft report with stakeholders and experts between 13th to 16th May. The conference format is a combination of open and confidential sessions in which Commission staff discuss their findings and recommendations and ask specific questions of interested parties and experts.

A final report is due to be published on 20th August. Under the Act, the Minister of Commerce and Consumer Affairs is required to respond to the final report within a reasonable timeframe following its publication.

Out of Scope [redacted]

FSG Directors are establishing a small team to draft a more thorough response which, subject to further discussion, may become a formal submission on the draft report (including our legal, financial inclusion and ESAS colleagues). We have also reached out to the Treasury team leading this work to ensure our responses are co-ordinated. Out of Scope [redacted]

[redacted]

From:	Michaela Halse
To:	Richard Downing; Charles Lilly
Subject:	FW: ComCom study - topics from recommendation 1 Monday, 25 March
Date:	2024 5:20:36 pm
Attachments:	image001.png image002.png image003.png image004.png image005.png image006.png

Richard/Charles

Further to my initial email, I have noted the paragraphs which set out the specific elements of the recommendation. I'm not sure if either of you have started putting together a response on this recommendation, but happy to make a start now that we have a word limit. The IRB regime recommendations would justify the majority of the focus, with the NBDT recommendation being able to be dealt with by way of largely referencing the upcoming consultation. So the question is how much focus (if any) do we want to give to topics not explicitly covered in the recommendation section?

IRB regime:

- Paragraph 10.9 explains that this draft recommendation includes that the RB s**hould review the role and the operation of the IRB regime for home loans** as part of the upcoming consultation on the Capital Standard later this year to ensure that the same level of capital is held where the risk is likely to be equivalent.

- Paragraph 10.9.1 further states that the RB should **consider whether the same level of capital should be held where risk is likely is likely to be identica**l (regardless of whether the lender is IRB accredited).

- Paragraph 10.9.2 then suggests the RB should **consider making it easier to acquire IRB accreditation**.

NBDTs:

- Paragraph 10.12 states the RB should **provide further information about its views on the prudential requirements that NBDTs** may have under the DTA including the policy reasons for proposed changes to the status quo, and to do so with explicit reference to the purposes and principles of the DTA.

Other:

- Paragraph 7.56.4 omits reference to **Mutual Capital Instruments** and references an out of date version of BPR120.
- Paragraph 7.59.2.2 suggests the **output floor** could be set higher (this is 1 of the 3 examples given of whether there should be adjustments to the current capital settings – the other 2 examples were included in the recommendation section – paras 10.9.1 and 10.9.2)
- Paragraph 7.55 referring to the **entrenched competitive advantage** due to the capital settings since 2008

Thanks
Michaela

From: Michaela Halse
Sent: Friday, March 22, 2024 2:21 PM
To: Richard Downing <Richard.Downing@rbnz.govt.nz>; Charles Lilly <Charles.Lilly@rbnz.govt.nz>
Subject: ComCom study - topics from recommendation 1

At Richard's request, I've pulled out some themes from the first recommendation as a starter:

IRB regime

- Entrenched competitive advantage – there is no recommendation here but an underlying theme is that we are where we are due to RB regulation (especially IRB modelling) from 2008 on. We could ignore, or acknowledge noting this was flagged during the Capital Review and the changes would go towards redressing some of the perceived imbalance.
- Modelling – in particular, the recommendation suggests certain home loan exposures shouldn't be modelled.
- IRB accreditation – the recommendation is that this should be easier.
- Output floor – the main body of the report also suggests we could consider raising the output floor (7.59.2.2) but this doesn't seem to have flowed through to the recommendation section
- Broader review - the recommendation that we should include a review of the IRB regime fpo home loans as part of this year's standards consultation feels disingenuous as it would be impossible to do so from a practical sense. This might need addressing from an external stakeholder expectation management perspective.

Out of Scope

[redacted]

There are various small issues that were raised in chapter 7 of the report that do not lead to any specific comment in the recommendation section. For example:

- Para 7.56.4 – there doesn't seem to be acknowledgement of the introduction of MCIs: they have referred to an out of date version of BPR120 (July 2021) which predates the October 2023 version which was revised to include MCIs.
- The focus is quite heavily on the output floor and the DSIB buffer. There is only a passing reference to the scalar. Also its quite a nuanced point, and it depends on how frequently we expect the output floor to be triggered, but the cap review sought to impact RWA by combining reductions to the exposures that can be modelled with the scalar and the output floor, and so it feels the report's focus on the output floor is a bit simplistic.

Thanks
Michaela

Michaela Halse
Senior Analyst, Financial Policy

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PO Box 5240, Victoria St West, Auckland 1142

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Document 04

3/26 2:02 PM Michaela Halse

Hi Charles Lilly, as an FYI I've spoken with Richard this afternoon and agreed to start putting together a draft intro to our response to recommendation 1, and then to put some bullets under each individual topic identified as part of that recommendation. I'll circulate that later today/tomorrow morning as a starter.

3/26 3:13 PM Michaela Halse

Here is the document I referred to in my previous message. It includes a generic intro and then breaks down the main parts of the recommendation with some bullets. Please let me know what you would like me to build out further and/or if there are other areas to consider.

Draft recommendation 1 response framework.docx

Out of Scope [redacted]

[redacted]

Out of Scope [redacted]

[redacted]

3/27 1:53 PM Richard Downing

Hi Michaela. I will have a look at those notes you sent around. Looks like they are on teh right track. There is nothing else waiting on completion from my perspective, unless there are particular things Charles wants you to pick up.

3/27 1:54 PM Michaela Halse

Thanks Richard - I saw your comments on the intro so will deal with those now

3/27 1:55 PM Richard Downing

Out of [redacted] For that section I would just keep it general

3/27 2:11 PM Michaela Halse

How general? Avoid mentioning the cap review at all? or just pare it right back to a brief mention?

3/27 2:12 PM Richard Downing

Referencing cap review is fine, just the detailed principles I would avoid, and focus on the general idea ie. to meet financial stability objectives

3/27 2:43 PM Michaela Halse

I've revised the intro para - let me know what you think

3/28 9:05 AM Michaela Halse

If you've both had a chance to look at the points in my initial draft, I'll start turning them into actual prose. If there are other points I should include, or if I have some wrong, please say.

3/28 9:12 AM Richard Downing

Good plan. I have added a few more comments to your document.

3/28 12:36 PM Michaela Halse

I have just about finished drafting a suggested response for of the areas I highlighted. The one remaining one is the suggestion we should consider whether the same level of capital should be held where the risks is likely to be identical (irrespective of IRB status). the bullets I noted included:

- Conceptually support removing the ability to model certain exposures where the risk is likely to be identical.
- Need to understand scale of any practical issues – ie. can banks isolate relevant exposures.

3/28 12:38 PM Michaela Halse

Neither of you have commented on this - do I take it you agree? Its a fairly big shift from current practice

3/28 12:39 PM Michaela Halse

Out of Scope [redacted] ... otherwise my suggested drafting is all in blue in the doc linked further above in this chat

[3/28 12:46 PM] Richard Downing

Out of Scope [redacted] My general comment is that we should emphasise that our framework, to the extent it is possible, aligns credit risk weights to the credit risks that are associated with an exposure. So in principle I don't see a disagreement with the statement. The "irrespective of IRB status" creates a difficulty though since it is the extra info from IRB that gives us the confidence that an approved model will generate a risk weight aligned with risk. So the use of IRB is central to that assessment, whereas in the standardised there is less info to give the extra granularity to the risk weight. S once we say "irrespective of IRB status" it becomes hard to reconcile.

[3/28 12:51 PM] Michaela Halse

I'll put something together - I suspect there is plenty you will want to change for all of the topics but hopefully it gives you something to start with. Out of Scope [redacted]

Out of Scope [redacted]

[redacted]

4/2 10:28 AM Michaela Halse

[redacted]

4/2 10:34 AM Richard Downing

[redacted] Do you have an updated version of those notes you

k l k h

were wor ing on ast wee ? I ave some time to look at that properly today. Otherwise, I am happy to

wait for Charles for further instruction

4/2 10:49 AM Michaela Halse

The document linked above is in sharepoint so is up to date

4/2 10:50 AM Michaela Halse

let me know if you have issues accessing it

4/2 5:22 PM Charles Lilly

I've been going through the doc this afternoon - thanks both for contributing (especially Michaela). I've tried to edit down some of the detail and reordered the sections so that the IRB material is in the same place, I think this helps with the flow. I am also putting in an annex, which will provide the quantitative example of how little this matters for loan pricing. Mostly this is taken from the information we sent ComCom via emails which didn't make it into the draft report [redacted]

[4/3 11:05 AM] Michaela Halse

Just been through and accepted changes to tidy it up. We are currently well over the word limit. Removing the preface to each section will knock off about 250 words but we are still over 1500.

[4/3 11:16 AM] Michaela Halse

Richard Downing - are you aware of the data Ian Woolford referred to in relation to costs of maintaining an IRB framework? If we can access it easily, it would fit nicely with our response to the IRB accreditation recommendation.

[4/3 11:43 AM] Richard Downing

Hi Michael. We talked to Commerce Commission about this. I think Charles might have the info for this.

[4/3 11:44 AM] Charles Lilly

Have just forwarded my notes on this

[4/3 11:58 AM] Michaela Halse

Thanks Charles - Ian referred to specific $ amounts, is that detail we also have? big numbers can help focus attention...

[4/3 12:11 PM] Charles Lilly

It's not a number I would have any confidence in to put in the submission, it was something we looked at when we were doing the denominator paper for the Capital Review (around 2018), was about $8m I think for one of the four banks

[4/3 12:11 PM] Charles Lilly

But that's a very rough number

[4/3 12:11 PM] Michaela Halse

ok - noted

Document 05

These were the notes I made – I would estimate around 10-20 FTE for ongoing IRB accreditation, plus any systems costs

From: Charles Lilly
Sent: Thursday, January 25, 2024 10:58 AM
To: Kerry Watt <Kerry.Watt@rbnz.govt.nz>; Jess Rowe <Jess.Rowe@rbnz.govt.nz>; Chris Hunt <Chris.Hunt@rbnz.govt.nz>; David Hargreaves <David.Hargreaves@rbnz.govt.nz>; David Law <David.Law@rbnz.govt.nz>; Richard Downing <Richard.Downing@rbnz.govt.nz>; James Painter <James.Painter@rbnz.govt.nz>; Angus McGregor <Angus.Mcgregor@rbnz.govt.nz>; Benjamin Hammond <Benjamin.Hammond@rbnz.govt.nz>; Robbie Taylor <Robbie.Taylor@rbnz.govt.nz>; Ian Woolford <Ian.Woolford@rbnz.govt.nz>
Subject: RE: Pre-meet for MBIE meeting

Some notes on the IRB approach

Key messages:

- IRB involves material ongoing operating costs that Standardised banks don't face.
- Among IRB banks, risk weights don't vary too much given similar business strategies/credit risks in the NZ market.
- The output floor and DSIB buffer effectively offset the benefit of lower risk weights under IRB.
- Any impact of IRB on loan pricing is minor compared to other factors.

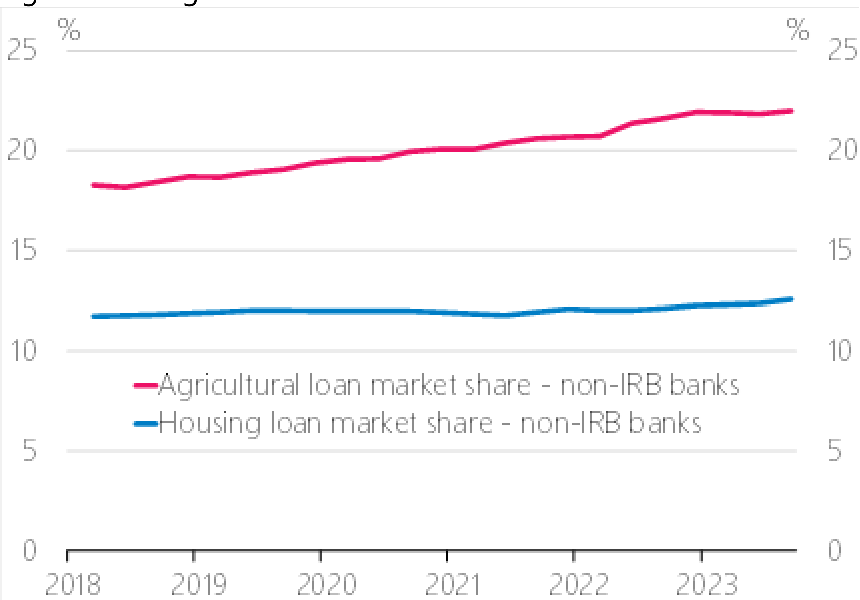
More detailed points:

- IRB accreditation is a complex process which entails both setup and ongoing costs (e.g. developing and validating models, maintaining data systems, additional reporting requirements, and additional prudential requirements). IRB banks in NZ would typically have 10-20 local FTE focussed on IRB models and compliance, in addition to drawing on Group resources.
- It is common for only the largest and most complex banks to be accredited to use IRB models in most banking markets – e.g. the four largest in NZ, the six largest in Australia.
- IRB model outcomes can vary between the four IRB banks within different lending categories, reflecting differences in underlying credit quality as well as modelling methodologies. The RBNZ must approve any IRB model before a bank is able to use it in its capital calculation. Our review process involves peer benchmarking and generally the differences in risk weight outcomes across the four banks are small, which reflects that the four banks' credit policies and business strategies are fairly similar to one another in the NZ market.
- Since January 2022 an output floor has applied to IRB banks' risk-weighted asset (RWA) calculations which means that RWAs calculated using IRB models can be no less than 85 percent of the equivalent value that would be calculated using the Standardised approach used by all other locally incorporated banks. In most jurisdictions the output floor on the IRB approach is set lower, at 72.5 percent of RWA, i.e. our framework has a tighter limit on the potential RWA benefit from IRB.
- The four NZ IRB banks are also subject to a domestic-systemically important bank (DSIB) capital buffer requirement of 2 percent of CET1. While the output floor and DSIB buffer have distinct objectives and policy rationales, their net effect is that the

four NZ IRB banks face similar overall capital requirements as the other locally incorporated banks.

- The difference in RWA outcomes between IRB and Standardised banks could in theory lead to IRB banks being able to offer lending at a lower cost to borrowers due to a lower weighted-average cost of funding. However, in practice the extent of any differential is likely to be very small and we do not consider it to be a major contributor to loan pricing when compared to other factors such as movements in banks' debt funding costs and their operating costs.
    - Rabobank NZ, which uses the Standardised approach, is the third largest agricultural lender and has steadily grown its market share in recent years (see figure). Under the Standardised approach, agricultural lending has a 100 percent risk weight, compared to an average of around 70 percent under IRB (before the output floor).
    - In our rules residential mortgages for investors have approximately 20 percent higher capital requirements than owner-occupier loans at a given loan-to-value ratio, under both IRB and Standardised approaches. We do not observe differential pricing for investor mortgages in the market, suggesting the difference in capital requirements has only a minor impact on banks' loan pricing behaviour.

Figure: Lending market share of non-IRB banks



Source: RBNZ dashboard

Document 06

From: Kerry Watt
To: FSC General; FSC; FSCAG
Cc: Scott McKinnon; Christian Hawkesby; Adam Richardson; Kate Le Quesne; Matt Haigh; Susan Livengood; Adrian Orr; Kerry Beaumont; Angus McGregor; Karen Silk; Ian Woolford; Michaela Halse; Simone Robbers; Charles Lilly; Olivia Tutty; John Grey; Anshuman Chakraborty; Nick McBride; David Law; David Hargreaves; Jess Rowe; Paul Conway; Richard Downing
Subject: RE: Extra-ordinary combined FSC & FSCAG - Discussion on ComCom Market Study response
Date: Friday, 5 April 2024 6:04:31 pm
Attachments: comcom table.docx
ComCom narrative.docx

Kia Ora

Please find attached some material in advance of Monday's meeting to consider our response to the ComCom market Study. Apologies for the short turn around.

The two docs outline our introductory **narrative** and a **table** that noting specific recommendations and our proposed response to these. These are based on input from SME's from across the RB and we have more detail if anyone wants it – we will need to include some of this material in the final response, e.g. tables and calculations, but haven't included them here.

From Monday's meeting we want views and ideally agreement on:

1. The **key messages/themes** in the narrative (any additions or amendments, points of emphasis?)
2. Our **proposed responses to the recommendations,** these are support, support with amends, or not support.

We plan to update this material and provide to FSOC on Monday afternoon, in advance of their meeting on Thursday.

We still have a couple of weeks post these meetings to draft and finalise the actual response doc in which we will aim to:

- Provide a clear narrative up front of how we think about competition as a prudential regulator and central bank
- Be positive and constructive, identifying recommendations we support but be clear on areas where we disagree with the Commission's findings
- Be short and concise…

A big thanks to Charles in pulling this together, along with Jess and all those who have contributed to date.

Thanks
Kerry

-----Original Appointment-----

From: FSC General <xxxxxxxxxx@xxxx.xxxx.xx>
Sent: Monday, March 25, 2024 1:35 PM
To: FSC General; FSC General; FSC; FSCAG
Cc: Scott McKinnon; Christian Hawkesby; Adam Richardson; Kate Le Quesne; Kerry Watt; Matt Haigh; Susan Livengood; Adrian Orr; Kerry Beaumont; Angus McGregor; Karen Silk; Ian Woolford; Michaela Halse; Simone Robbers; Charles Lilly
Subject: Extra-ordinary combined FSC & FSCAG - Discussion on ComCom Market Study response
When: Monday, 8 April 2024 1:00 pm-2:00 pm (UTC+12:00) Auckland, Wellington.
Where: 8th Floor - Aoraki Room - Teams Meeting Room - External; Auckland Office 13th Floor Waitematā Room (18 Seats)

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Document 07

From:	Katy Simpson
To:	Richard Downing; Charles Lilly
Cc:	Jess Rowe; Kerry Watt; Michaela Halse
Subject:	RE: Extra-ordinary combined FSC & FSCAG - Discussion on ComCom Market Study response
Date:	Monday, 8 April 2024 9:26:40 am
Attachments:	comcom table - KS comments on the first row.docx ComCom narrative KS.docx

Thanks for forwarding this on Richard, and well done Charles for your quick work to bring this together.

I've had a quick look this morning and have some comments – mostly on the first row of the table. I think we should do a bit more there to reinforce the scale of the work we did as part of the capital review and that implementation is ongoing. I also think we could add in some footnotes or links to explain some of the technical things, especially where ComCom got them wrong in the main report – I think this is our main (only?) opportunity to influence on these points. Where this is not possible before going to FSOC, I wonder if we just add some placeholder footnotes?

On the key messages section, I've put in some ideas for some opening framing and a few other thoughts, just in case they're useful – I know you're under time pressure and will have comments from others so feel free to ignore of they don't fit.

Please could I be added to the call at 1?

Thanks

Katy

From: Richard Downing <xxxxxxx.xxxxxxx@xxxx.xxxx.xx>
Sent: Monday, April 8, 2024 8:23 AM
To: Katy Simpson <xxxx.xxxxxxx@xxxx.xxxx.xx>
Subject: FW: Extra-ordinary combined FSC & FSCAG - Discussion on ComCom Market Study response

Hi Katy – not sure whether you have seen this. I saw the earlier versions, and Charles and Jess have completed it.

Kerry has sent me the meeting invite. I intend to dial in at 1pm.

Richard

From: Kerry Watt <xxxxx.xxxx@xxxx.xxxx.xx>
Sent: Friday, April 5, 2024 6:04 PM
To: FSC General <xxxxxxxxxx@xxxx.xxxx.xx>; FSC <xxx@xxxx.xxxx.xx>; FSCAG <xxxxx@xxxx.xxxx.xx>
Cc: Scott McKinnon <xxxxx.xxxxxxxx@xxxx.xxxx.xx>; Christian Hawkesby <xxxxxxxxx.xxxxxxxx@xxxx.xxxx.xx>; Adam Richardson <xxxx.xxxxxxxxxx@xxxx.xxxx.xx>; Kate Le Quesne <xxxx.xxxxxxxx@xxxx.xxxx.xx>; Matt Haigh <xxxx.xxxxx@xxxx.xxxx.xx>; Susan Livengood <xxxxx.xxxxxxxxx@xxxx.xxxx.xx>; Adrian Orr <xxxxxx.xxx@xxxx.xxxx.xx>; Kerry Beaumont <xxxxx.xxxxxxxx@xxxx.xxxx.xx>; Angus McGregor

<xxxxx.xxxxxxxx@xxxx.xxxx.xx>; Karen Silk <xxxxx.xxxx@xxxx.xxxx.xx>; Ian Woolford <xxx.xxxxxxxx@xxxx.xxxx.xx>; Michaela Halse <xxxxxxxx.xxxxx@xxxx.xxxx.xx>; Simone Robbers <xxxxxx.xxxxxxx@xxxx.xxxx.xx>; Charles Lilly <xxxxxxx.xxxxx@xxxx.xxxx.xx>; Olivia Tutty <xxxxxx.xxxxx@xxxx.xxxx.xx>; John Grey <xxxx.xxxx@xxxx.xxxx.xx>; Anshuman Chakraborty <xxxxxxxx.xxxxxxxxxxx@xxxx.xxxx.xx>; Nick McBride <xxxx.xxxxxxx@xxxx.xxxx.xx>; David Law <xxxxx.xxx@xxxx.xxxx.xx>; David Hargreaves <xxxxx.xxxxxxxxxx@xxxx.xxxx.xx>; Jess Rowe <xxxx.xxxx@xxxx.xxxx.xx>; Paul Conway <xxxx.xxxxxx@xxxx.xxxx.xx>; Richard Downing <xxxxxxx.xxxxxxx@xxxx.xxxx.xx>
Subject: RE: Extra-ordinary combined FSC & FSCAG - Discussion on ComCom Market Study response

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A big thanks to Charles in pulling this together, along with Jess and all those who have contributed to date.

Thanks
Kerry

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From: FSC General <xxxxxxxxxx@xxxx.xxxx.xx >
Sent: Monday, March 25, 2024 1:35 PM
To: FSC General; FSC General; FSC; FSCAG
Cc: Scott McKinnon; Christian Hawkesby; Adam Richardson; Kate Le Quesne; Kerry Watt; Matt Haigh; Susan Livengood; Adrian Orr; Kerry Beaumont; Angus McGregor; Karen Silk; Ian Woolford; Michaela Halse; Simone Robbers; Charles Lilly
Subject: Extra-ordinary combined FSC & FSCAG - Discussion on ComCom Market Study response
When: Monday, 8 April 2024 1:00 pm-2:00 pm (UTC+12:00) Auckland, Wellington.
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Document 08

[...]

Recommendation 1 (prudential settings)

The committees considered this was a good place to give global context, that its not credible to 'throw IRB out the window'. Comments also covered maybe giving some context around non-IRB banks as a footnote, to note where banks currently sit in relation to the output floor (c 90s%), also to provide more detail about how resource intensive IRB modelling is (though it was noted that we had previously provided ComCom with this type of information).

[...]

Document 10

Kerry Watt introduced the paper, giving an overview of the RBNZ's proposed response to the Commerce Commission's draft report including the high-level messages and views on individual recommendations. Kerry invited feedback from Committee members.

While the draft report describes the landscape in the banking sector, Committee members felt there were some shortcomings in the depth of report's analysis of market structure and competition dynamics in the banking sector.

Committee members considered that the RBNZ's response could be more robust in explaining the contributions that the Reserve Bank has been making to levelling the playing field through initiatives such as the Capital Review. It should also be clear from the response that the Reserve Bank is confident in the decisions it has made on regulatory settings for banks and non-bank deposit takers.

Item

The Committee discussed the actions that are most likely to move the competition dial, noting that open banking is likely to be a more significant driver of meaningful change than regulatory settings for capital and risk-weighted assets.

Chris McDonald and Charles Lilly left the meeting.

Document 11

From:	Katy Simpson
To:	Richard Downing; Michaela Halse
Subject:	RE: Extra-ordinary combined FSC & FSCAG - Discussion on ComCom Market Study response
Date:	Monday, 15 April 2024 2:12:25 pm
Attachments:	ComCom Market Study Draft Report - RBNZ submission KS.docx

Hi both

I've attached my thoughts in the attached. Happy to discuss and combine our comments if that works?

My only remaining niggle is whether there is anything we can do to pre-empt the ComCom line that the 2% D-SIB buffer is there for a different reason and therefore shouldn't count in the comparison of IRB and standardised approaches? I think they're saying that DSIBs should hold more capital (to internalise their possible externality?), but in effect we're allow them to hold the same as non-DSIBs because they get to do IRB modelling. Is our line that because IRB leads to better risk management, we're comfortable if they end up in a similar place than they would be without the DSIB buffer under the standardised approach – the IRB modelling is reducing the risk/externality? I don't think that really comes across – but maybe that's fine…

Thanks

Katy

From: Kerry Watt <xxxxx.xxxx@xxxx.xxxx.xx>
Sent: Monday, April 15, 2024 9:40 AM
To: FSC <xxx@xxxx.xxxx.xx>; FSCAG <xxxxx@xxxx.xxxx.xx>
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Subject: Extra-ordinary combined FSC & FSCAG - Discussion on ComCom Market Study response

Kia Ora

Please find attached our draft response to the ComCom's draft report. Can you (or teams) please review for factual accuracy and get comments back to Charles and I by CoP Tuesday 16 April.

The response reflects feedback from FSC and FOSC. The key piece of feedback from FSOC was to add more spine to the response, i.e. being clearer and more forceful where we disagreed. We think the attached achieves that balance between constructive and forceful.

Given the response is due on Thursday, and the clear steer we have from FSC and FSOC, at this stage we are not after sweeping comments but rather specific comments on tone, positioning and facts.

Thanks in advance
Kerry and Charles