ASSESSMENT OF TURKEY - Background information

Brief overview of the institutional and legal framework for the financial sector of Turkey

1. Turkey has a sectorial supervisory system in which the Banking and Regulation Supervision Agency (BRSA) is the national supervisory authority for the banks. Securities and derivatives markets as well as related institutions such as investment firms are being supervised by the Capital Markets Board (CMB).

2. Both the BRSA and the CMB have a wide range of supervisory powers, can issue binding secondary regulation and additional guidance to institutions in their capacity as regulatory authorities.

Table 1: Overview on the regulation and supervision of the Turkish financial sector

Financial institutions / instruments	Regulatory body
Banks and other credit institutions	Banking Regulation and Supervision Agency (BRSA)
Banks	
Financial leasing companies	
Factoring companies	
Financial companies	
Capital markets institutions	Capital Market Board (CMB)
Mutual (investment) funds	
Intermediary institutions	
Real estate investment trusts	
Pension investment funds	
Insurance companies	Undersecretariat of Treasury
Payment systems	Central Bank of the Republic of Turkey
Savings insurance system	Saving and Deposit Insurance Fund
Prevention of money laundering and finance of terrorism	MASAK

(Source: The Banks Association of Turkey: Banks in Turkey 2014, June 2015)

2. The BRSA was established as a public legal entity with administrative and financial authority by the Banks Law No. 4389, which was replaced by Banking Law Nr. 5411. The foundation of BRSA was in line with the policies for increasing the efficiency of the supervision and oversight system and establishing independent decision-making mechanisms in financial markets. The Agency was further strengthened in terms of independence, efficiency, scope and capacity through Banking Law No. 5411 (as of November 2005).[1]

3. The BRSA is in charge of the most significant part of the financial sector. Approximately 74% of the overall financial sector and almost 95% of the indirect financing market are covered by the regulation and supervision mandate of the BRSA.

[1] The BRSA: Annual Report 2013, p. 30.

Overview of the Turkish financial system[2]

4. The financial sector size in Turkey compared with international figures is close to the average of developing countries, however it is behind the global and EU average. The ratio of bank assets to GDP in Turkey was lower than the global average. A similar observation can be made regarding the volume of the capital market.

Table 2: Selected financial sector indicators to GDP

	World	Developing countries	Turkey
Bank assets	161%	110%	112%
Capital markets	217%	78%	58%
Shares	84%	39%	32%
Bonds and bills	134%	39%	26%
Total	**379%**	**188%**	**170%**

(Source: The Banks Association of Turkey: Banks in Turkey 2014, June 2015; IMF, Global Financial Stability Report October 2014)

5. According to 2013 data, the ratio of bank assets of EU member states to GDP was 325%, while this ratio was 112% in Turkey. In Turkey, the banking sector has a rather high growth potential when compared in terms of ratio of loans to GDP. The average ratio of loans to GDP in the EU was 178%, and 67% in Turkey. For more indicators comparing the Turkish banking sector with the EU one please refer to the table provided below.

Table 3: Selected banking indicators in the EU and Turkey

	EU	Turkey
Assets / GDP	325%	112%
Loans / GDP	178%	67%
Deposits / GDP	167%	60%
People per employee	173	358
People per branch	2,544	6,396

(Source: The Banks Association of Turkey: Banks in Turkey 2014, June 2015)

6. In 2014 the total assets of Turkish banks, including the participation banks, amounted to 1,994 billion Turkish liras (the Euro equivalent of EUR 666 billion[3]), which constituted 86% of total assets in the Turkish financial sector.

Table 4: Total assets of the Turkish financial sector in 2014

	TRY (million)	EUR (million)	Share (%)
Banks	1,994,159	665,763	86%
Portfolio management companies	81,8676	273,320	4%
Insurance companies	79,028	26,384	3%
Real estate investment trusts	41,400	13,822	2%
Pension investment funds	37,771	12,610	2%
Financial leasing companies	32,563	10,871	1%
Factoring companies	26,512	8,851	1%

[2] Source: The Banks Association of Turkey: Banks in Turkey 2014, June 2015, p. 13 - 22.
[3] As converted at the 30 June 2015 foreign exchange rate published by the ECB.

Financial companies	20,284	6,772	1%
Intermediary institutions	14,116	4,713	1%
Reinsurance companies	2,004	669	<1%
Venture capital funds	769	257	<1%
Securities investment trusts	449	150	<1%
Total	**2,330,923**	**778,194**	**100%**

(Source: The Banks Association of Turkey: Banks in Turkey 2014, June 2015)

7. The following table presents a structure of assets and liabilities in the Turkish banking sector in 2014 (excluding participation banks), expressed both in absolute and relative terms.

Table 5: Overview balance sheet items in the Turkish banking sector in 2014

	TRY (billion)	EUR (billion)	Share
Liquid assets	273	91	14%
Securities	296	99	16%
Loans	1,185	396	63%
Total assets	**1,890**	**631**	**100%**
Deposits	987	330	52%
Non-deposits	534	178	28%
Shareholder equity	222	74	12%
Total liabilities	**1,890**	**631**	**100%**

(Source: The BRSA)

Market participants[4]

8. In 2014 there were 51 banks operating in Turkey, consisting of 4 participation banks, 34 deposit banks and 13 development and investment banks. Participation banks are interest free / Islamic banks. The deposit banks have permission to collect deposits, however apart from offering traditional depository and lending services these banks can also operate in the field of investment banking. On the other hand, the development and investment banks are not allowed to collect deposits. Out of the deposit banks, there is 1 bank under management of the Saving and Deposits Insurance Fund (SDIF) which is operating for collecting the receivables of failed banks. The table below provides more detailed information about the number of banks, as well as the structure of capital ownership of deposit banks.

Table 5: Number of banks and their ownership structure in 2014

	Number of banks
Deposit banks	**34**
State-owned	3
Private	11
Foreign	19
SDIF	1
Development and investment banks	**13**
State-owned	3
Private	6
Foreign	4
Participation banks	**4**
Total	**51**

(Source: The Banks Association of Turkey: 'Banks in Turkey 2014', June 2015; and BAT)

[4] Source: The Banks Association of Turkey: 'Banks in Turkey 2014', June 2015, pp. 13-22.

9. The shares of assets of different types of banks in the Turkish banking sector were the following:

- deposit banks: 91%
- development and investment banks: 4%
- participation banks: 5%

As of December 2014, the share of state-owned deposit banks was 28%; the share of private banks was 48%, and the share of foreign banks was 15% (i.e. where foreign residents hold at least 51% of capital). When shares traded on the Turkish stock exchange (Borsa Istanbul) were excluded, the share of banks owned by foreign residents in total assets was 24.9%.

Structure and performance of the Turkish banking sector

10. In 2014 in the Turkish financial system the shares of the ten largest banks in total assets, deposits and loans amounted to 86%, 90% and 85%, respectively.

11. As of December 2014, the first ten banks were composed of 3 state-owned, 5 private and 2 foreign banks. There were 4 banks with an asset size of more than EUR 70 billion, and 3 banks with an amount of assets between EUR 35 billion and EUR 70 billion. However, over 72% of banks in Turkey held an amount of assets below EUR 10 billion.

12. With reference to financial soundness indicators of the International Monetary Fund, the banking sector in Turkey seems to be considerably strong. In 2014 the average capital adequacy ratio in Turkey was at a level of 16.3% and remained above the minimum level of 12% determined by the BRSA. Regarding different types of banks, deposit banks had a capital adequacy ratio of 15.7%, state-owned banks of 18.2%; private banks of 15.4% and foreign banks of 16%, whereas the capital adequacy ratio of development and investment banks was 32.8%.

Basel III implementation

13. In May 2013 the BRSA adopted, via the Board Decision, the BRSA Strategic Plan (2013-2015) which foresees *inter alia* an implementation of the second pillar of Basel II and Basel III standards, innovations in financial products and information technologies, global approaches to systemic risk management, protection of financial consumers and global reflections of the economic and financial system.

Country: Turkey		Overall country assessment	Equivalent
Assessment of particular Topics and Sections			
Topic I	**Supervisory Framework**		Topic assessment: Equivalent
Rationale for overall topic assessment	The Turkish prudential framework has been assessed as **"Equivalent"** to the EU regime. Both the supervisory framework and the regulatory framework in Turkey are largely in line with the EU regime. As regards the regulatory framework this high level of equivalence is due to the advanced stage of implementation of Basel III in Turkish legislation.		
Section 1	**General questions**		Section assessment: Equivalent
Rationale for section assessment	**Prudential supervision** The Turkish prudential supervision is based on a number of functional supervisors. The BRSA is the main authority in charge of prudential supervision of the financial system including the banking sector. The Capital Markets Board (CMB) is the authority responsible for supervising the securities and derivatives markets, as well as related institutions such as investment firms. There is a clear repartition of supervisory responsibilities, and a wide range of supervisory powers and authorities which are in line with the EU framework as further described below in section two. **Prudential regulation** All principal financial institutions in Turkey are subject to prudential regulation, with banks being regulated by the BRSA and investment firms by the CMB. Both the BRSA and the CMB can issue binding secondary regulation and additional guidance to institutions in their capacity as regulatory authorities. The relevant laws and regulations are legally binding and enforceable for all institutions established in Turkey. A proportionality principle is being applied for the implementation of guidelines considering the scale and risk profile of the institutions as well as the nature and complexity of their activities. The Turkish regulatory framework has been found similar to the EU regime. Some differences were identified such as the absence of provisions for a systemic risk buffer and G-SII/O-SII buffers (as explained below in Topic VII). According to the BRSA, these divergences should be addressed with the further Basel III implementation in Turkey. The phase-in and phase-out provisions introduced in the Turkish legislation are also in line with the ones applied in the EU framework.		
Section 2	**Competencies of supervisory authorities**		Section assessment: Equivalent
Rationale for section assessment	**Supervisory rights and powers** Both for the BRSA and the CMB there are clear provisions in place with regard to their supervisory rights and powers, independence, autonomy and cooperation with other domestic and international authorities. **Licensing of credit institutions** The BRSA has the power to issue and revoke banking licenses. The Turkish provisions for the authorisation of credit institutions are largely in line with the European framework which requires a minimum of 5 million EUR of initial capital for credit institutions. In the Turkish regulation the initial minimum paid-in capital requirements for banks are 30 million Turkish lira (the Euro equivalent of 10 million EUR, as converted at the 30 June 2015 foreign exchange rate published by the ECB) and for development and investment banks no less than two-thirds of that amount.		

Qualifying shareholder participations

The Turkish legislation has provisions for the notification and verification of qualifying shareholders which are similar to the EU regime. The legislation provides for a verification of the suitability of founding shareholders by the BRSA during the authorisation procedure, as well as cooperation with foreign authorities in this respect. Like in the EU regime, the general definition of qualifying shareholding refers to a share ownership of 10% or more of the capital or voting rights of a bank. The provisions for the notification and prudential assessment of increases in qualifying shareholdings are also similar to the EU framework.

Section 3	Prudential Supervision	Section assessment: Equivalent
Rationale for section assessment	**Supervisory scope** With regards to the supervisory scope, the BRSA exercises supervision both on a consolidated and on an individual institution level. The rules for determining the scope of the regulatory consolidation are broadly similar. The scope of consolidated supervision includes the parent undertaking, its domestic and foreign subsidiaries, jointly-controlled undertakings, branches and representative offices. Unlike in the EU regime, no criteria are foreseen in the regulation to exclude certain institutions from the consolidation scope. However, banks are allowed to use a risk-based approach for the inclusion of related entities in the consolidation scope for the Internal Capital Adequacy Assessment Process (ICAAP) reports. **Supervisory powers** The BRSA is legally empowered to impose on institutions a set of administrative measures and penalties which are similar to the ones foreseen in the EU framework. The BRSA has a scale of measures at its disposal that can be applied according to the gravity of the situation, including the right to withdraw the operating licence. However, unlike in the EU framework there are no similar provisions for publication of administrative penalties. Moreover, the Turkish legislation provides for the same reporting duty as foreseen in the EU framework for independent auditors. They are required to promptly report to the supervisory authority any evidence demonstrating breaches of the law or of the articles of association, as well as any issues that may endanger the existence of the bank.	

Section 4	Supervisory Review Process	Section assessment: Largely Equivalent
Rationale for section assessment	**ICAAP** The Turkish regulation requires banks to have an Internal Capital Adequacy Assessment Process (ICAAP) in place in order to assure an adequate amount of capital for the risks they are exposed to on a consolidated and non-consolidated basis. The ICAAP and the corresponding internal processes should be proportionate to the nature, scale and complexity of the institution and incorporate stress testing and scenario analysis. The ICAAP should also form an integral part of the management process and decision making culture of the bank and is to be reviewed at least on an annual basis by the bank and the BRSA. The regulation has similar provisions to the EU regime for banks to have in place adequate governance arrangements, effective internal control mechanisms and an independent risk management function. It also requires involvement of the management board in the risk policy, principles, and framework. Unlike in the EU framework, there is no requirement for banks to establish a separate risk committee. Some of the competences with regards to risk management, such as overseeing the implementation of the risk strategy, are being performed within the audit committee. **Supervisory Review and Evaluation Process (SREP)** Similar to the EU SREP, the BRSA conducts a supervisory review process which encompasses the evaluation of risks that institutions are exposed to, the assessment of their risk management systems and capital adequacy.	

		Supervisory powers to levy higher capital/liquidity requirements Similar to the EU regime, the Turkish legislation empowers the BRSA to levy higher capital requirements taking into consideration the banks' internal systems as well as their asset and financial structures. The BRSA is also empowered to levy higher liquidity requirements but the Turkish provisions in this area are less detailed than the EU ones. **Supervisory review of internal models** Credit institutions require approval from the BRSA for using internal models for the calculation of risk-weighted assets. The BRSA can perform on-site and off-site reviews of the internal models for credit risk, operational risk and market risk. Nevertheless, there is no fixed frequency set in Turkey for the supervisory review of internal models as in the EU regime which requires for a supervisory review of the models at least every 3 years.	
	Section 5	**Professional secrecy and international cooperation**	Section assessment Equivalent
	Rationale for section assessment	**Professional secrecy** The BRSA has professional secrecy provisions in place which are aligned with the EU regime. In the Turkish legislation there is no specific definition for the term "confidential information", but it is defined in a consistent way in the provisions. In line with the EU framework, professional secrecy is established as an ongoing obligation for persons who work or have worked for the BRSA, and auditors or experts acting or having acted on behalf of the BRSA. Similar to the EU regime, the legal provisions specify that confidential information can only be disclosed in restricted and clearly defined circumstances, except for cases covered by criminal law, while the unauthorised disclosure of confidential information is regarded as a criminal offence. **International cooperation** Legal provisions are in place for the BRSA to cooperate with national and international authorities in view of exercising its supervisory function within the framework of bilateral Memoranda of Understanding (MoUs). The BRSA has MoUs in place with 34 countries, including the EU counterparts, which enable cross-border cooperation and information exchange.	
Topic II		**Own Funds**	Topic assessment Equivalent
Rationale for overall topic assessment		The framework for own funds in Turkey has been found "**Equivalent**" to the EU one, as the quantitative requirements are exactly the same and the quality of capital, within the different categories is comparable both in terms of the items included and in terms of adjustments and deductions. The regulatory reporting framework is also aligned to the EU one.	

	Section 6	Own Funds	Section assessment: Equivalent
	Rationale for section assessment	**Own funds requirements** The own funds requirements - in quantitative terms - are aligned with the ones envisaged in the CRR, i.e. 4.5% CET1; 6% T1 and 8% TC ratios. Moreover, the Turkish regulatory framework features an additional requirement of 12% for banks willing to open a branch or issue bonds. The eligibility conditions of CET1 items are also in line with the CRR: CET1 comprises paid-in share capital, excluding cumulative preferential shares, reserves from profit and profit of the bank as well as other items that are perpetual and can be used to cover losses on a going concern without delay. **Elements of own funds and deductions** Adjustments of own funds are largely in line with the European framework, as the Turkish law envisages prudential filters for gains from securitised assets, for cash flow hedge reserves and for changes in the values of own liabilities stemming from changes in the own credit rating, as well as for unrealised gains and losses measured at fair value. The BRSA has approved a draft regulation for Additional Valuation Adjustments (AVAs), under which AVAs will be taken into account. Nevertheless, this draft regulation has not been taken into account in this assessment. In terms of deductions, the Turkish framework is equivalent to the one in force in the EU: goodwill and intangibles, DTAs, shortfall (of EL versus LLP), investments in financial institutions, and defined benefit obligations are deducted from own funds according to a framework which is in line with the EU regime. **Other provisions** Eligibility criteria for Additional Tier 1 (AT1) and Tier 2 (T2) instruments are equivalent to the ones in the CRR in terms of subordination, perpetuity, ability to redeem/call, distributution of payments and potential reductions (where a minor difference can be found in the provision envisaging an assessment on profitability when reduction of own funds is occurring via replacement with another instrument). With regards to the inclusion of minority interests in core capital, the Turkish regulation features the same provisions as in the CRR. Moreover, the framework is even more restrictive, as it envisages that minority interests are excluded if the parent bank is funding SPVs. Finally, reduction of own funds is largely in line with the EU framework, as the BRSA approval is necessary to reduce CET1 instruments or call/redeem AT1/T2 instruments. On the latter, the domestic regulation requires that the instrument should be replaced with capital of the same or better quality, also considering income sustainability, and that after the replacement capital requirement is above the highest between internal capital according to the ICAAP and the regulatory requirement. Also tax and regulatory events are taken into account, in line with the CRR.	
	Section 7	**Capital Requirements – General requirements, Valuation and Reporting**	Section assessment: Equivalent
	Rationale for section assessment	The Turkish own funds requirements cover credit, market and operational risk, which is aligned with the EU framework. Also the prudential reporting in place in Turkey is in line with the CRR.	

Topic III	Credit Risk Requirements	Topic assessment: Equivalent
Rationale for overall topic assessment	Turkish regulations on credit risk, encompassing rules on capital requirements for credit risk, credit risk mitigation and securitisation are "**Equivalent**" to the EU framework. Many rules of Turkish regulations are either based on the same principles or identical to the relevant CRR provisions. In particular, it refers to the Turkish regulatory requirements for the Standardised Approach and IRB Approach for credit risk, as well as to rules for using credit risk mitigation techniques. The Turkish securitisation framework introduces all CRR requirements (covering also exposures to transferred credit risk). The Turkish CRR regime is more stringent than the EU regime by not allowing banks to use the IRB Approach for securitisation positions, which might result in assigning more favourable risk weights to certain securitisation exposures. There are some limited areas where the Turkish regulator introduced rules which are divergent from the CRR provisions, however an assessment of the materiality of such differences and their prudential impact lead to the conclusion that the overall credit risk framework is equivalent to the EU one.	

	Section 8	Capital Requirements for Credit Risk	Section assessment: Equivalent
	Rationale for section assessment	**Regulatory framework for credit risk** The vast majority of credit risk requirements applied in Turkey are either identical or very similar to the CRR rules for the Standardised Approach and the IRB Approach. The overview of the major divergences with regard to both approaches is provided below. **Standardised Approach** Generally, the prudential requirements governing the Standardised Approach are similar to those of the CRR. In some cases, Turkey introduced some divergent but at the same time more conservative rules (i.e. resulting in applying higher risk weights) for high risk exposures and for collective investment undertakings (CIUs) under an equity investments exposure class (where Turkey also limits banks' flexibility in using alternative approaches envisaged in the CRR which might produce more favourable risk weights). Moreover, Turkey envisages rules for covered bonds that differ from EU law. In Turkey there are less conservative and less transparent rules for determining the equivalence of foreign jurisdictions for the purpose of assigning preferable risk weights, because the BRSA sets the principles for equivalence assessment, while banks are required to collect necessary information and conduct the equivalence assessment. **IRB Approach** The Turkish regulations for the IRB Approach to a large extent transpose the CRR provisions into the national law. A few material differences have been identified, however in such cases Turkish rules provide more prudential treatment of similar exposures than under the CRR. In particular, the more conservative rules are applicable in Turkey for specialised lending under corporate exposure class; as well as for equity exposures (in terms of definition, simple risk weights approach; floors for the Internal Model Method (IMM) and treatment of investments in CIUs). It should be noted that at the moment of the equivalence assessment no bank in Turkey received a supervisory permission to use the IRB Approach for calculating capital requirements for credit risk. Therefore, it would be very important to put emphasis on the actual implementation of Turkish regulations on credit risk, as well as ensuring high transparency and appropriate disclosures by supervised institutions.	

	Section 9	**Credit Risk Mitigation**	Section assessment Equivalent
	Rationale for section assessment	Domestic rules applied in Turkey for credit risk mitigation techniques constitute a detailed transposition of the CRR requirements in this respect, with some provisions of Turkish regulations exactly matching the CRR ones.	
	Section 10	**Securitisation**	Section assessment Super-Equivalent
	Rationale for section assessment	Turkish requirements for securitisation constitute a transposition of the CRR rules in this area. The only difference is that Turkey does not consider the IRB Approach within its securitisation framework because of the size and limited prospects of its securitization market. Taking into account the fact that risk weights calculated under the IRB Approach are generally lower than those calculated under the Standardised Approach, for the same rating category and that the Supervisory Formula Approach (which usually assigns very low risk weights for unrated exposures) is not mentioned in the Turkish regulations, the conclusion is that Turkish rules are more stringent than the CRR ones.	
	Section 15	**Exposure to Transferred Credit Risk**	Section assessment Equivalent
	Rationale for section assessment	Turkish legislation concerning exposures to transferred credit risk are based on the relevant provisions of the CRR. In particular, the Turkish rules envisage requirements for maintaining minimum risk retention, as well as for conducting investor's due diligence.	
Topic IV		**Market Risk**	Topic assessment Largely Equivalent
Rationale for overall topic assessment		The regulations on counterparty credit risk and market risk in Turkey are "**Largely Equivalent**" to the respective provisions of the CRR. The legislation is based on the same ideas and principles as the CRR's provisions for these types of risks. Differences are limited to detailed issues which do not prevent similar outcomes. Regarding the Basel Committee's most recent changes to the counterparty credit risk and CVA risk frameworks which are already considered in the CRR, Turkey had not yet implemented those in national legislation at the time of the assessment.	
	Section 11	**Counterparty credit risk**	Section assessment Partially Equivalent
	Rationale for section assessment	In general, Turkey's legal provisions for counterparty credit risk (CCR) are comparable to the respective provisions of the CRR both with regard to the methods to calculate the respective own funds requirements (including recognition of contractual netting agreements) and to accompanying operational requirements (e.g. requirements for the risk management system if the IMM is used). Differences are limited to details. At the time of the assessment, Turkey was transposing Basel III's novelties regarding the CCR into national law. Since the respective legislation has not been in force, it has not been taken into account for the assessment. The new CCR provisions which would be implemented in Turkey in the near future (e.g. provisions for stressed EAD calculation, rules for exposures to CCPs) are expected to be comparable to the respective provisions of the CRR.	

	Section 13	Own Funds Requirement for market risk, settlement risk and CVA risk	Section assessment: Largely Equivalent
	Rationale for section assessment	Turkey has a trading book concept in place which is very similar to the concept of the CRR with little differences (e.g. no derogation rule for small trading book business, explicit requirement to exclude / include specific instruments in the trading book). Own funds requirements for market risk (i.e. foreign exchange, commodities and position risks) are either calculated by standardised approaches, which correspond to those implemented in the CRR, and/or draw on results of internal models. In the latter case, the own funds requirement and accompanying qualitative and quantitative requirements are comparable to CRR's requirements. Regarding both standardised and internal models approaches, the small differences between Turkey's regulation and the CRR (e.g. sporadically lower/higher own funds charges) are not expected to result in considerably different outcomes. Turkey's legal provisions for settlement risk are very similar to those of the CRR. At the time of the assessment, Turkey did not have a CVA risk framework in place, so the respective provisions have not been considered in the assessment. Considering the entirety of provisions for market, CVA and settlement risks applicable at the time of the assessment, Turkey's regulation is considered largely equivalent to the respective provisions of the CRR. The CVA framework which will be implemented in Turkey in the future is expected to be similar to CRR's provisions for this type of risk.	
Topic V		**Operational Risk**	Topic assessment: Equivalent
Rationale for overall topic assessment		The framework for operational risk in Turkey has been found "**Equivalent**" to the EU rules.	
	Section 12	Own Funds Requirement for Operational Risk	Section assessment: Equivalent
	Rationale for section assessment	**Regulation** The Turkish regulations are driven by the same principles and follow the same direction as within the EU. The framework for operational risk in Turkey can be seen as equivalent to the EU regime. **Supervision** No Turkish bank has currently chosen to use the Standardised Approach or Advanced Measurement Approach for estimating the own funds requirements for operational risk. Since the Basis Indicator Approach (BIA) imposes on banks only very limited prudential requirements of qualitative nature, this results in low qualitative operational risk requirements for Turkish banks. The BRSA has accepted the use of the BIA for all institutions, including internationally active ones.	
Topic VI		**Liquidity**	Topic assessment: Largely Equivalent
Rationale for overall topic assessment		The Turkish liquidity framework was found "**Largely Equivalent**". A different approach has been taken with regard to the Liquidity Coverage Ratio (LCR) regime. There are two short-term liquidity requirements with different caps in place. Additionally there is no long term LCR requirement in place. The definition of high quality liquid assets (HQLA) is similar to the European one.	

	Section 16	Liquidity	Section assessment Largely Equivalent
	Rationale for section assessment	The Turkish regulation foresees two separate LCR-requirements for local (100%) and foreign (60%) currency, which is different from the EU rules. The target of the Turkish requirements is to cover their stressed net outflows during the following 7 days and 30 days. In Turkey the application of a long term LCR is missing. The Turkish definition of HQLA is clear and similar to the CRR one. A general framework on stable funding reporting has been set up in the Turkish legislation. The Net Stable Funding Ratio (NSFR) requirement is currently under development in Turkey and has not been covered in this equivalence assessment.	
Topic VII		Capital buffers and macro-prudential tools	Topic assessment Largely Equivalent
Rationale for overall topic assessment		Overall the capital buffer and macro-prudential framework of Turkey is regarded as "**Largely Equivalent**" to the EU framework. A high level of equivalence has been observed with regards to the macro-prudential instruments implemented in Turkey. Some differences with the EU framework have been observed in the capital buffer framework. The main differences relate to the absence of the buffers for systemic risk as well as for global systemically important institutions (G-SIIs) and other systemically important institutions (O-SIIs) in the Turkish regulation.	
	Section 18	Capital buffers	Section assessment Partially Equivalent
	Rationale for section assessment	The capital buffer framework of Turkey contains provisions for a capital conservation buffer and a countercyclical buffer. The capital conservation buffer was set at 2.5% of the risk-weighted assets with a transitional period in line with the phase-in provisions used in the EU regime. A bank-specific countercyclical buffer is also included in the regulation. This buffer is to be calculated on a bank-specific basis using the counter-cyclical buffer ratio which is publicly announced. However, unlike in the EU framework, no systemic risk buffer and no G-SII/O-SII buffers have been implemented in the Turkish regulation. According to the BRSA, a draft regulation on additional capital requirements for O-SIIs is currently being developed. This regulation is expected to be implemented as from 1 January 2016 and has not been part of this assessment. Similar to the EU framework, a breach of the combined buffer requirement triggers capital conservation measures and the obligation to submit a capital conservation plan for approval to the BRSA. The time period for submitting the plan is longer than the one foreseen in the EU regime (1 month in Turkey versus 5 to maximum 10 days in the EU).	
	Section 19	Macro-prudential tools	Section assessment Equivalent
	Rationale for section assessment	The Financial Stability Committee (FSC) acts as the overall macro-prudential authority responsible for monitoring systemic risk in the financial system and coordinating macro-prudential actions. The macro-prudential tools are being applied by the relevant authorities including the BRSA. A large range of macro-prudential tools has been implemented in the local legislation to address macro-prudential or systemic risk. The set of macro-prudential tools includes Basel III macro-prudential tools which have been implemented in the Turkish legislation.	

Topic VIII	Other requirements	Topic assessment Largely Equivalent
Rationale for overall topic assessment	Topic VIII (Other requirements), which encompasses large exposures, leverage and disclosures, has been assessed as "**Largely Equivalent**". The Turkish large exposures requirements are largely equivalent because the capital basis for large exposure purposes is slightly more extended than the CRR one; whereas the quality of the recognised capital elements is regarded equal to the EU provisions. The Turkish requirements on leverage are in line with the CRR rules; therefore they can be considered as equivalent. Some material deficits have been identified in Turkish requirements for Pillar 3 disclosure by institutions and supervisory disclosure, therefore Turkish regulation is regarded as partially equivalent in this area.	
Section 14	**Large Exposures**	Section assessment Largely Equivalent
Rationale for section assessment	Unlike the EU regime, the Turkish regulation defines the limits for large exposure with reference to own funds. Hence, in consideration of the rules on the definition of own funds (please refer to Topic II), these limits result in an effective amount that is higher than in the EU regime. Individual large exposure limits are set at 25% of the net exposure amount by counterparty, which is equal to the threshold established in the European regime. The notion of connected counterparties is applied under the Turkish regime both on solo and consolidated level. There are exemptions in Turkey to the application of the large exposures regime. The most important exemptions are: - exposures arising from transactions carried out among banks; - loans at call and loans with a maturity up to three months without any postponement, that are mutually extended by banks; - repo transactions. The use of credit risk mitigation (CRM) techniques in the context of large exposures is admitted in a way similar to the EU provisions. The relevant large exposure reporting requirements are in place in Turkey.	
Section 17	**Leverage**	Section assessment Equivalent
Rationale for section assessment	The Turkish leverage framework is in line with the EU rules. The leverage ratio cap is set at the level of 3%. Additionally the leverage requirements are included in the Pillar II capital requirements calculation. The leverage reporting requirements introduced in Turkey are comparable with the CRR ones.	
Section 21	**Disclosure**	Section assessment Partially Equivalent
Rationale for section assessment	The Turkish legislation does not require institutions to disclose all qualitative information (e.g. risk management objectives and policies, governance arrangemnets) envisaged by the CRR under Pillar 3 requirements. The quantitative disclosure requirements (e.g. the amount of own funds, capital adequacy ratios) are broadly comparable with the EU requirements. With regards to the supervisory disclosure, some gaps have also been identified in the area of the disclosure of the Turkish supervisory review and evaluation procedures. Some of the differences in this area might be eliminated by a new regulation which is already planned in Turkey, but has not been implemented yet therefore it has not been subject to this equivalence assessment.	

ASSESSMENT OF NEW ZEALAND – Background information

Brief overview of the institutional and legal framework for the financial sector of New Zealand

1. The Reserve Bank of New Zealand (Reserve Bank) is the central bank of New Zealand, and also acts as the national authority responsible for supervision and regulation of banks, and insurance companies. The Reserve Bank also licenses and regulates Non-Bank Deposit Takers (NBDTs)[1]. The NBDTs are supervised by trustees.

2. Under the Reserve Bank of New Zealand Act 1989, the Reserve Bank is responsible for formulating and implementing monetary policy, promoting a sound and efficient financial system, and carrying out oversight of payment systems and designation of settlement systems.

3. The Reserve Bank has the power to set conditions of registration for banks, and monitor each registered bank's financial condition and compliance with its conditions of registration. The Reserve Bank can also recommend that a bank in financial distress be placed into statutory management. New Zealand does not operate a bank deposit insurance or deposit guarantee scheme.

4. The Financial Markets Authority (FMA) is responsible for the regulation and supervision of investment firms. It is responsible for ensuring public confidence in New Zealand's financial markets.

Overview of the New Zealand financial system

Market participants

5. The banking system comprises the majority of lending to the private sector in New Zealand. Direct capital market funding (issuance of corporate bonds) and non-bank lending institutions together account for only six percent of the total private sector credit.[2] The New Zealand banking system is highly concentrated, with four large Australian-owned banks responsible for 87 percent of bank lending.

6. The majority of the New Zealand banks are foreign-owned, with overseas investors owning 19 of the 25 registered banks and controlling 93% of the banking system assets. The majority of banks and bank assets are controlled by Australian banking groups. The banking sector is concentrated with the top four banks accounting for 82% of the total assets.

[1] Non-bank deposit takers (NBDTs) are entities that offer debt securities to the public and carry on the business of borrowing and lending money, or providing financial services, or both. They do not include registered banks.

[2] Other providers of intermediated credit include Non-Bank Deposit Takers (NBDTs) – savings institutions (credit unions and building societies) and deposit-taking finance companies – as well as non-deposit taking finance companies. These entities comprise the Non-Bank Lending Institution (NBLI) sector.

Table 1: New Zealand banking system – total assets of banks (NZD million) (Source: Reserve Bank)

	Previous years: Jun-13	Jun-14	Quarterly: Sep-14	Dec-14	Mar-15	Jun-15
Incorporated overseas	308,596	316,368	321,363	324,060	332,786	**352,766**
Incorporated in New Zealand	371,534	383,396	392,591	398,310	409,356	**431,843**
Overseas owned	384,831	392,670	401,391	404,856	415,465	**439,639**
New Zealand owned	27,579	29,183	29,702	30,246	31,284	**32,081**

Table 2: New Zealand banking system ownership structure as at 31 December 2014 (Source: Reserve Bank)

	% of total assets	number of banks
Australia	86.49	7
New Zealand	6.95	5
Netherlands	3.12	2
United Kingdom	1.22	1
Japan	0.74	1
United States of America	0.69	2
Germany	0.49	1
China	0.19	3
South Korea	0.09	1
India	0.03	2

7. Australia also controls 53% of the NBDT sector with the remaining 47% under New Zealand ownership. With total assets of NZD 4,549 million (the Euro equivalent of EUR 2,748 million[3]), the NBDT sector is much smaller than the banking sector which has a total of NZD 435,101 million assets (the Euro equivalent of EUR 262,932 million).[4]

Structure and performance of the New Zealand banking sector[5]

8. The financial system of New Zealand is sound and operating effectively. The banking system maintains capital and funding buffers in excess of minimum requirements. The profitability of banks remains strong with improving asset quality, cost containment and asset growth. Non-performing loan ratios are low with system-wide NPLs at 0.6% of lending. The reliance of banks in New Zealand on offshore funding is high by international standards and remains a

[3] As converted at the 30 June 2015 foreign exchange rate published by the ECB.
[4] Figures as at 31 December 2014 (source: Reserve Bank). As converted at the 30 June 2015 foreign exchange rate published by the ECB.
[5] Source: Reserve Bank, *Financial Stability Report*, November 2015.

source of risk to the banking system liquidity.[6]

9. The aggregate system-wide CET1 ratio for banks as at June 2015 was 10.4% of risk-weighted assets (RWA). This level of high-quality capital also meets the 2.5% capital conservation buffer, which provides further loss-absorbing capacity in times of stress. Banks are allowed to operate inside the buffer but, if they do so, they will be subject to restrictions on distributions to shareholders. The Reserve Bank is conducting a review of its capital settings to ensure they appropriately reflect current and expected financial conditions.

10. Bank profits are solid with continued cost containment and cost-income-ratios around 40% in 2015. New Zealand banks' operating costs are low compared to their international counterparts, although this difference can be partly explained by their primary focus on traditional deposit and lending activities.

Implementation of Basel III standards

11. When the Basel III rules were published, New Zealand banks were already well capitalized and the Reserve Bank was able to adopt the Basel III standards for capital ahead of the Basel schedule. Domestically-owned banks and banks incorporated in New Zealand have been required to comply with the new minimum ratios since 1 January 2013.[7] The capital conservation buffer and provisions for the Reserve Bank to set a countercyclical buffer came into effect on 1 January 2014. Although the Reserve Bank largely adopted the Basel III framework, some modifications were made. The main differences relate to the liquidity regime, and the non-implementation of a leverage ratio in New Zealand.

[6] Source: IMF, *New Zealand: 2014 Article IV Consultation-Staff Report*, June 2014 (IMF Country Report No. 14/158).

[7] The Reserve Bank's requirements also largely align with the requirements set by the Australian Prudential Regulation Authority (APRA). This is important for banks that are subsidiaries of Australian incorporated banks, because they seek to have their capital recognised under both the Reserve Bank's rules and APRA's rules (for the Australian parent (on a group consolidated basis) and for the New Zealand subsidiary). Source: *The Reserve Bank's application of the Basel III capital requirements for banks,* Reserve Bank Bulletin Vol. 78, No. 5, June 2015.

Country: New Zealand			Overall country assessment	Equivalent
Assessment of particular topics and sections				
Topic I		**Supervisory framework**		Topic assessment: Largely Equivalent
Rationale for overall topic assessment		The prudential framework of New Zealand has been assessed as **"largely equivalent"** to the EU framework. There is a good level of equivalence between the supervisory framework and regulatory framework in New Zealand, and the EU regime, although some differences have been identified. However, these differences are generally not assessed as material or they are offset by other supervisory measures. Overall the framework is largely in line with the EU framework.		
	Section 1	**General questions**		Section assessment: Largely Equivalent
	Rationale for section assessment	**Prudential supervision** The prudential supervision in New Zealand is based on a number of functional supervisors. The Reserve Bank of New Zealand (RBNZ) is the main authority in charge of prudential supervision of the financial system including banks, and insurance companies. The Financial Markets Authority (FMA) is responsible for the regulation and supervision of investment firms. It is responsible for ensuring public confidence in New Zealand's financial markets. There is a clear repartition of supervisory responsibilities, and a wide range of supervisory powers which are largely in line with the EU framework as further described in section two. **Prudential regulation** All principal financial institutions in New Zealand are subject to prudential regulation, with banks being regulated by the RBNZ and investment firms being regulated by the FMA. Non-Bank Deposit Takers (NBDTs) are also regulated (and licensed) by the RBNZ although they are supervised by trustees. NBDTs are entities that offer debt securities to the public and carry on the business of borrowing and lending money, or providing financial services, or both. The RBNZ can issue binding secondary regulation for banks under the form of Orders in Council (OIC) as well as additional guidance on laws and regulations. The relevant laws and regulations are legally binding and enforceable for all banking institutions to which they pertain. The Basel III regulatory framework has been adopted in New Zealand with modifications, reflecting its particular circumstances. There are some differences mainly with regards to the liquidity regime, as further explained in Topic VI, and the non-implementation of a leverage ratio in New Zealand. In terms of transitional provisions, no phase-in provisions are being applied but certain phase-out provisions are in place for eligible capital instruments.		
	Section 2	**Competencies of supervisory authorities**		Section assessment: Largely Equivalent
	Rationale for section assessment	**Supervisory rights and powers** Clear provisions are in place for the supervisory rights and powers of the RBNZ, as well as its independence and autonomy. **Licensing of credit institutions** The RBNZ has the power to issue and revoke banking licenses. The provisions for the authorisation of credit institutions are largely in line with the European framework. The initial minimum capital requirements for banks are higher in the New Zealand regulation than the 5 million EUR in the CRD provisions. Locally incorporated banks are required to have a minimum of 30 million New Zealand dollars in capital (the Euro equivalent of 18 million EUR, as converted at the 30 June 2015 foreign exchange rate published by the ECB). Minimum capital requirements are reflected in banks' conditions of registration. The conditions of registration are a fundamental component of the prudential framework in New Zealand. Most of the RBNZ prudential requirements for banks are implemented through the conditions of registration. A breach of the conditions of registration must be disclosed by the bank and can lead to sanctions including the withdrawal of the banking license. **Qualifying shareholder participations** Similar to the EU regime, the New Zealand legislation has provisions for the notification and verification of qualifying shareholders. The legislation provides for a verification of the suitability of founding shareholders by the RBNZ during the authorisation procedure. There are also provisions for the notification and prudential assessment of increases in participation. The criteria for increases in participation that require prior consent from the RBNZ are expressed in terms of acquiring or increasing significant influence (which is defined as the ability to directly or indirectly appoint 25% or more of the board of directors, or a direct or indirect qualifying interest in 10% or more of the voting securities). No maximum period is foreseen in New Zealand law for the assessment and decision on a proposed increase in qualifying holdings (like the maximum of 60 working days foreseen in the CRD).		

Section 3	Prudential Supervision	Section assessment: Largely Equivalent
Rationale for section assessment	**Supervisory scope** Prudential supervision for banks in New Zealand is performed at the consolidated level. While banks are registered at the individual level, conditions of registration apply at the banking group level except for those related to corporate governance, outsourcing, internal framework of liquidity risk management, open bank resolution and loan to value restrictions. Public disclosure requirements are applicable at group level except for specific areas pertaining to credit ratings, and solo capital adequacy as relevant for each registered entity. **Supervisory powers** Similar to the EU regime, the RBNZ is legally empowered to impose a set of administrative powers, penalties and other administrative measures on institutions. The RBNZ appears to have sufficient authority to pursue its powers in relation to breaches of laws, conditions of registration and ensuing penalties, information gathering and disclosure powers, and investigatory powers and inspections. The New Zealand legislation provides for a similar obligation for auditors of a registered bank to inform the supervisory authorities about their findings related to any material breach of laws or regulations, or serious financial difficulties of the bank. A difference with the EU regime is that in New Zealand auditors need to inform the bank of their intention to disclose the information and the nature of the information prior to reporting to the RBNZ, whereas the CRD foresees for the disclosure to happen simultaneously to the supervisory authority and to the bank.	

Section 4	Supervisory Review Process	Section assessment: Largely Equivalent
Rationale for section assessment	**ICAAP** All registered banks in New Zealand are required to have an Internal Capital Adequacy Assessment Process (ICAAP) in place to ensure an adequate amount of capital for the risks they are exposed to. The ICAAP should be proportionate to the size, nature and complexity of the bank's business, and include forward-looking stress tests. The regulation also has similar provisions to the EU regime for banks to have in place adequate governance arrangements, and effective internal control mechanisms. Unlike in the EU framework, there is no requirement for banks to establish a separate risk committee. However, banks are expected to have appropriate structures, policies and procedures in place as part of good governance and risk management. **SREP** A Supervisory Review and Evaluation Process (SREP) of the risk profile of the banks is performed at least semi-annually by the RBNZ to assess whether they have adequate risk management processes and capability, capital, and liquidity. The requirements for the supervisory review process are less detailed than those in the EU regime. **Supervisory powers to levy higher capital/liquidity requirements** The RBNZ has the power to alter banks' conditions of registration. According to the RBNZ it can use the amendment of the bank's conditions of registration to impose higher capital or specific liquidity requirements. **Supervisory review of internal models** Like in the EU regime, banks in New Zealand require prior approval from the RBNZ for using internal models for the calculation of risk-weighted assets. Upon receipt of such approval, banks must maintain a compendium of approved models with the RBNZ. The compendium lists basic model-related information and information from the most recent annual validation reports. The compendium is reviewed and relevant sections updated at least annually and as soon as practicable after a model change has been approved by the RBNZ.	

	Section 5	Professional secrecy and international cooperation	Section assessment: Largely Equivalent
	Rationale for section assessment	**Professional secrecy** The RBNZ has professional secrecy requirements in place but there are some differences between the regime in New Zealand and that provided in the EU framework. The term "confidential information" is clearly defined in the legal provisions. A professional secrecy obligation is established but unlike in the EU framework, the legal provisions do not provide for this obligation to extend beyond the employment or engagement at the RBNZ. However, according to the RBNZ individual contracts between members of staff and the RBNZ protect the confidentiality of information both during and after employment, and similar requirements apply to experts appointed by the RBNZ. The unauthorized disclosure of confidential information is regarded as a criminal offence. Similar to the EU regime, the legal provisions establish that confidential information can only be disclosed in restricted and clearly defined circumstances, but the provisions are less detailed than the ones from the EU regime. **International cooperation** As regards international cooperation, specific provisions are foreseen in the legislation and additional agreements are in place for a trans-Tasman cooperation of the RBNZ with the Australian financial authorities. The RBNZ has also entered into Memoranda of Understanding (MoUs) with the Australian Prudential Regulation Authority, the UK Prudential Regulation Authority, South Korea Financial Services Commission, China Banking Regulatory Commission, and with the Reserve Bank of India.	
Topic II		Own funds	Topic assessment: Largely Equivalent
Rationale for overall topic assessment		In nearly all respects, New Zealand's own funds regime is equivalent to that in the CRR. There are some differences in terms of deductions from own funds and the framework for reduction of CET1 instruments, but overall the provisions for Own Funds and for disclosure and reporting can be considered **"largely equivalent"** to the EU ones.	
	Section 6	Own funds	Section assessment: Largely Equivalent
	Rationale for section assessment	**Own funds requirements** The quantitative requirements for the composition of own funds are the same as in the CRR: 4.5% CET1, 6% T1 and 8% TCR. Also in qualitative terms, the provisions are in line with the European framework, as CET1 items consist of ordinary shares, share premium accounts, retained earnings, Accumulated Other Comprehensive Income (AOCI), and other reserves and funds for general banking risk. Characteristics of the AT1 and T2 instruments are also in line with the CRR provisions in terms of eligibility, seniority and payment distribution. **Adjustments and deductions** The framework for adjustments and deductions is equivalent to the one envisaged by the CRR. Prudential filters are the same as in the CRR: unrealised gains/losses stemming from changes in the fair value of liabilities due to a change in its own credit rating, cash flow hedge reserve, Additional Valuation Adjustments and unrealised gains and losses at fair value. Deductions applied to own funds are largely the same as in the CRR and include: goodwill and intangibles, Defined Benefit Obligations, shortfall of Loan Loss Provision vs. Expected Losses under IRB Approach. There are slight differences for the deductions of holdings in financial sector entities, DTAs and securitization exposures. Non-significant holdings are deducted for the portion above 10% of the CET1 (as in the CRR), but no risk-weights are applied to the amounts below the threshold (slightly a less conservative approach); significant holdings are deducted in full, a more conservative approach than CRR, where a threshold is applied. Similarly, all DTAs are	

		deducted in full (no thresholds are applied as in the CRR). Credit enhancements provided to associated funds management and securitization vehicles are also deducted, while the amount of aggregate funding to affiliated insurance groups and associated securitization vehicles are deducted if such amount exceeds 10% of CET1. **Other provisions** The way to calculate the inclusion of minority interest into own funds is in line with the CRR provisions. However, there is a slight difference with regard to the concerned entities: while in the CRR the subsidiary is an institution as defined in the CRR, in the local framework there might be minority interests of entities that are not "banks" in the strict sense of the CRR, which can be included in the consolidated T1 and Total Capital. In any case, the New Zealand regulation makes it clear that the instrument has to meet the CET1 criteria in any case. With regard to the own funds reduction, the New Zealand regime for AT1 and T2 instruments has the same characteristics as the European one: instruments may be callable or redeemable after a minimum of five years; the bank must be required to receive the prior written approval of the Reserve Bank; and not provide any feature that might give rise to an expectation that the instrument will be repaid. Moreover, the local framework also recognises tax and regulatory calls. Additionally, it is requested that the instrument is replaced with a paid-up capital instrument of the same or better quality and the terms and conditions of the replacement instrument are sustainable. For CET1, it is required that banks notify the RBNZ of repayments of CET1 that result in a reduction of CET1 by 10%, prior to making the repayment. In addition to that, the RBNZ could make a legally binding direction to the bank not to proceed with a repayment if it is considered as not prudent or inappropriate.	
	Section 7	**Capital requirements – general requirements, valuation and reporting**	Section assessment Largely Equivalent
	Rationale for section assessment	Banks hold capital for credit, market and operational risk and must undertake an Internal Capital Adequacy Assessment Process (ICAAP). The RBNZ can require a bank to hold capital above the minimum requirements if additional risks are identified. Key risks are reported monthly or quarterly (e.g. capital, liquidity, income, balance sheet). New Zealand has a well developed public disclosure regime for banks, as it places strong emphasis on market participants being informed. Banks are subject to detailed disclosure requirements and must publish disclosure statements each quarter. Prudential requirements include also reporting on all the components on capital, buffers, deductions, credit quality and credit concentration. Overall, the regime for disclosure and reporting can be considered largely equivalent.	
Topic III		**Credit risk requirements**	Topic assessment Largely Equivalent
Rationale for overall topic assessment		New Zealand regulations on credit risk, encompassing rules on capital requirements for credit risk, credit risk mitigation and securitisation, are **"largely equivalent"** to the EU framework. Many requirements introduced in New Zealand are based on the same principles as CRR, and they envisage similar regulatory requirements for the Standardised Approach and IRB Approach for credit risk, as well as with regard to recognition of credit risk mitigation techniques. Nevertheless, some material differences exist with regard to usage of capital floors and supervisory correction factor used in a formula for calculating risk weights under the IRB Approach. Additionally, New Zealand has not introduced a securitisation framework which could be considered as equivalent to the EU securitisation regime (neither for risk weighting of securitisation positions, nor for treating exposures to transferred credit risk), which implies the absence of due diligence requirements and risk retention rules, as well as an improper computation of capital requirements in the case of bank investments in risky securitisation positions. Nevertheless, the largely equivalent assessment of the New Zealand credit risk framework was agreed taking due account of the limited extent of securitisation positions in New Zealand.	

	Section 8	**Capital requirements for credit risk**	Section assessment Largely Equivalent
	Rationale for section assessment	**Regulatory framework for credit risk** The majority of credit risk requirements applied in New Zealand are either identical or very similar to the CRR rules for the Standardised Approach and the IRB Approach. The overview of the major divergences with regard to both approaches is provided below. **Standardised Approach** Despite many similarities in the rules governing the Standardised Approach to calculating capital requirements for credit risk New Zealand adopted different but more prudent rules for: (i) determining the scope of exposure classes related to public sector entities; (ii) for assigning relatively more conservative risk weights for claims on sovereigns and central banks; claims on public sector entities; unrated long-term claims on corporates; and claims on residential mortgages. Moreover, there are differences in the way how New Zealand treats equity claims and how it applies sovereign ceiling for unrated banks, rated banks and corporates. **IRB Approach** Even though the majority of the CRR requirements for the IRB Approach were also introduced in New Zealand, some significant prudential provisions from the EU framework are missing. In particular, New Zealand does not apply Basel I capital floors for IRB institutions, and it does not use in a formula for calculating risk weights any supervisory adjustment, whereas under CRR this supervisory adjustment amounts to 1.06. Furthermore, within the New Zealand requirements for IRB models, for retail exposures there is no obligation to review obligor ratings and facility ratings at least annually; there is also less detailed prescription of validation rules and less requirements for LGD and PD estimations. Additionally, New Zealand does not apply any Credit Conversion Factor (CCF) estimation for non-retail exposures and national regulation introduced different treatment of specialised lending exposures (according to supervisory categories, unlike the CRR treatment which is based on maturity). On the other hand, New Zealand introduced more conservative rules for: (i) the additional exposure class - Farm Lending; (ii) risk weighing of residential mortgages both under retail and non-retail exposure classes; and (iii) Expected Loss (EL) values for specialised lending categories.	
	Section 9	**Credit Risk Mitigation**	Section assessment Equivalent
	Rationale for section assessment	New Zealand requirements for the recognition of credit risk mitigation (CRM) are generally aligned to those included in the Basel accords. There are only a few differences, however they can be considered as at least as conservative as the CRR rules.	
	Section 10	**Securitisation**	Section assessment Not Equivalent
	Rationale for section assessment	New Zealand does not have any specific risk-weighting treatment for a bank owning a security created under another bank's securitisation. Therefore, a treatment for this type of exposure in New Zealand would be the same as for any bond issued by a corporate entity, with the risk weight (under the Standardised Approach) varying according to the credit rating of the issue. This implies that this kind of exposure could receive much lower capital charges (under the general credit risk framework), in the case of low rated securitisation exposures, in comparison with the CRR securitisation framework.	
	Section 15	**Exposure to transferred credit risk**	Section assessment Not Equivalent
	Rationale for section assessment	New Zealand does not require an originator of securitisation positions to retain any part of the exposure (i.e. retain some risks), and there are also no requirements for conducting investor's due diligence.	
Topic IV		**Market risk**	Topic assessment Largely Equivalent
Rationale for overall topic assessment		The market risk regulation in New Zealand is **"largely equivalent"** to the CRR regulation. In general, New Zealand's capital adequacy regulation takes account both of counterparty credit and market risks, although distinct (sub)types of risk are considered as insignificant and are not subject to own funds requirements under Pillar I. Additional differences which impede an immediate comparison between New Zealand's regulation and the CRR stem from the absence of a trading book concept (see section on market risk below). But overall, New Zealand's provisions on counterparty credit and market risk are comparable to the respective provisions of the CRR.	
	Section 11	**Counterparty credit risk**	Section assessment Equivalent
	Rationale for section assessment	New Zealand's rules for the treatment of counterparty credit risk (CCR) allow only for the application of the simpler, less risk-sensitive approaches (mark-to-market method, alternative approach for CCP exposures), but the methodology underlying these approaches is comparable to the methodology of the CRR. Regarding the operational requirements accompanying the own funds requirements definition (e.g. with regard to the monitoring of netting agreements) and some details of the own funds requirements definition itself (especially regarding exposures to CCPs), New Zealand's regulation is less comprehensive than the CRR. Overall, i.e. considering all elements of the counterparty credit risk regulation, New Zealand's rules are comparable to those of the CRR.	

	Section 13	Own funds requirement for market risk, settlement risk and CVA risk	Section assessment: Largely Equivalent
	Rationale for section assessment	New Zealand has not implemented a trading book concept for regulatory purposes. As a consequence of this, the issuer-related risk (specific risk) of debt instruments and equity instruments is subject to the own funds requirements for credit risk. On the other hand, the market risk rules for general interest rate risk of debt instruments and for general equity risk apply to any respective instrument whether assigned to the trading book or not. Regarding the approaches to calculate own funds requirements, New Zealand's regulation only allows for the application of the standardised approaches; the outputs of internal models are, if at all, considered only for the disclosure of additional risk metrics ("peak exposure"). The basic elements of the methods to calculate own funds for foreign exchange and position risk are comparable to those of the CRR. For one thing, differences in the methodology occur as a consequence of the absence of a trading book definition (e.g. distinct provisions for the treatment of interest rate insensitive products in interest rate risk). For another thing, other differences (such as a different way to aggregate own funds requirements for interest rate risk across currencies or different charges) exist. Own funds requirements for commodities risk are not defined as New Zealand's banks' exposure to this type of risk is considered negligible. For the same reason, there are very little and – with regard to the scope of institutions subject to those own funds requirements – not fully unambiguous provisions on the treatment of options (although a global reference to the Basel framework's provisions in this regard is included in New Zealand's regulation). Considering the elementary differences in the scope of application of the market risk rules and the necessary adaption of the methodology to take account of these differences in scope, the effect of the application of New Zealand's regulation and the CRR with regard to **market risks** will not be equal. But taking into account the similarity of the basic principles and existing cross-references to the credit risk rules in CRR, it is assumed that the differences are not material. New Zealand has implemented a **CVA risk** framework, but the respective regulation only envisages – in line with the non-consideration negligence of internal model outputs in the calculation of own funds requirements for market risk – the application of the standardised formula and its accompanying provisions. Except for the scope of application of the CVA framework, which is broader in New Zealand, legal provisions are comparable to those of the CRR. Institutions in New Zealand are not required to calculate own funds requirements for **settlement risk**. Summarising, existing differences between New Zealand's provisions for the treatment of market, CVA and settlement risk and the respective provisions of the CRR will not lead to significant differences in the effect of the application of these rules. Against this background, New Zealand's capital adequacy regulation is considered equivalent with regard to these topics.	
Topic V		**Operational risk**	Topic assessment: Super-Equivalent
Rationale for overall topic assessment		The New Zealand operational risk regime is regarded as **"super-equivalent"**. The regulation is driven by the same principles and follows the same direction as within the EU but is more conservative in several ways. The regulation limits the options (approaches) to choose from for the institutions; it limits the amount of possible reductions of the relevant indicator and it applies in some parts (retail banking) higher ratios when calculating the capital requirement.	
	Section 12	Own funds requirement for operational risk	Section assessment: Super-Equivalent
	Rationale for section assessment	The regulation is driven by the same principles and follows the same direction as within the EU but it limits the options to choose from to only two approaches. Either an institutions uses internal models for Operational Risk (and simultaneously also for Credit Risk) or the modified Alternative Standardized Approach for operational risk. Institutions have to use either a model or formula driven approach for all risk areas where nationally models are allowed (Credit Risk and Operational Risk). This reduces the options for banks to reduce their capital requirement. **In the formula based approach additionally:** - institutions are limited to the "(modified) ASA" which is per average very conservative especially for a developed country - furthermore the national "modification" increases the capital requirement for retail banking by another 25% in comparison to the EU version of the ASA **In the model approaches additionally:** - unlike to the Basel Standard and in the EU a reduction of capital requirements through Expected Loss and Correlations is not allowed - the NSA has the option to establish a floor for capital requirement denominated in an amount of local currency. This option is frequently used and on a level that effectively increases the capital requirement.	

Topic VI		Liquidity	Topic assessment: Largely Equivalent
Rationale for overall topic assessment		The New Zealand regulation for liquidity risk is **"largely equivalent"** to the EU requirements. Even though all tools are in place in a few limited cases the national regulation is more lenient than the EU requirements - notably the inclusion of items rated as BBB- or BBB+ into the list of High Quality Liquid Assets (HQLA).	
	Section 16	Liquidity	Section assessment: Largely Equivalent
	Rationale for section assessment	A LCR and NSFR are in place (short & Long term liquidity measure). For the calculation a 30 day timeframe is used and also stressed conditions are applied. There are differences in the definition of the HQLA, notably the inclusion of items rated as BBB- or BBB+. As a reason for this deviation to the CRR the RBNZ gives the relative shortage of HQLA in the local market and in local currency.	
Topic VII		Capital buffers and macroprudential tools	Topic assessment: Largely Equivalent
Rationale for overall topic assessment		Overall the capital buffer and macroprudential framework of New Zealand is regarded as **"largely equivalent"** to the EU framework. A high level of equivalence has been observed with regards to the macroprudential framework implemented in New Zealand. Some differences with the EU framework have been observed in the capital buffer framework. Whereas the implementation of the capital conservation buffer without applying the phase-in provisions used in the EU framework can be considered to be super-equivalent, no systemic risk buffer or G-SII/O-SII buffers have been implemented in New Zealand. The absence of these buffers is partially compensated by the presence of a clear macroprudential framework with a dedicated macroprudential authority and a range of macroprudential tools that can be used to address macroprudential or systemic risk.	
	Section 18	Capital buffers	Section assessment: Partially Equivalent
	Rationale for section assessment	The capital framework in New Zealand contains provisions for a countercyclical buffer and a capital conservation buffer which was immediately implemented at 2.5% of the risk-weighted assets without applying the phase-in provisions used in the EU framework. However, unlike in the EU framework, no systemic risk buffer and no G-SII/O-SII buffers have been implemented in New Zealand. The absence of a systemic risk buffer and G-SII/O-SII buffers is partially compensated by the presence of a clear macroprudential framework. Similar to the EU framework, a breach of the combined buffer requirement triggers capital conservation measures and the obligation to submit a capital conservation plan for approval to the RBNZ within 5 days.	
	Section 19	Macroprudential tools	Section assessment: Equivalent
	Rationale for section assessment	A clear macroprudential framework has been implemented in New Zealand. It includes a macroprudential policy and operational guidelines that have been agreed between the the RBNZ and the Ministry of Finance. The RBNZ acts as the macroprudential authority responsible for maintaining and promoting a sound and efficient financial system. A range of macroprudential tools have been implemented to address macroprudential or systemic risk. Macroprudential tools such as temporary limits on high loan-to-value ratio (LVR) residential mortgage lending are actively being used by the RBNZ.	
Topic VIII		Other requirements	Topic assessment: Partially Equivalent
Rationale for overall topic assessment		The national implementation of the additional requirements is **"partially equivalent"**. New Zealand has a regulation in place that shows significant differences in comparison to the CRR/CRD. The 'connected exposures policy', which is the local substitute for the EU Large Exposure Requirement, is applicable to banks that are not foreign branches, but only provides a rudimentary protection in comparison to the EU regulation. Especially critical has to be seen that within the connected exposures policy for certain kinds of exposures the large (high quality) exposure limit is as high as 75%, additionally no Leverage requirement or framework is in place. Due to the existing - though deviating - regulation and the good level of equivalence in disclosure requirements the regulation is still partially compliant.	

	Section 14	Large exposures	Section assessment
			Not Equivalent
	Rationale for section assessment	In general there is no mandatory limit on Large Exposures. For banks that are not foreign branches (i.e. 89.5% of the market is covered) there is a "connected exposures policy" in place, limiting exposures to between 75% and 15% of Tier 1 Capital depending on the credit rating of the lending entity. But this requirement is limited to counterparties that are connected via equity participation. Within these limits credit exposures to a non-bank connected person are limited to 15% of the banking groups Tier 1 capital. The eligible capital is not defined as in the European regime, but more conservative due to the fact that the definition of eligible capital results in a lower amount to which the limit to the large exposures will be applied. With the limitations mentioned above the Large Exposures regime is applicable on consolidated level only. The notion of connected counterparties is applied in the local regime. There are no exemptions to the application of the Large Exposures regime outside the limitations mentioned above. Disclosure requirements are in place.	
	Section 17	Leverage	Section assessment
			Not Equivalent
	Rationale for section assessment	New Zealand does not have a leverage requirement.	
	Section 21	Disclosure	Section assessment
			Equivalent
	Rationale for section assessment	New Zealand disclosure regulation was implemented to enhance the equivalence with Basel III requirements. Therefore they apply quantitative and qualitative as well as disclosure requirements for own funds. In terms of supervisory disclosure it can be seen that all relevant requirements on banks are published. Moreover, in New Zealand the "Banking Supervisory Handbook" is published which sets out conditions and details in terms of registration and delivering other guidance material. Disclosure regulations are formally notified in the Gazette.	