



11 April 2008

To IRB Accredited Authorised Deposit-Taking Institutions (ADIs)

Basel II: Application of the IRB Scaling Factor

This letter refers to the application of the scaling factor as detailed in *Prudential Standard APS 113 Capital Adequacy: Internal Ratings-based Approach to Credit Risk*. For the purposes of Level 2 regulatory reporting to APRA, an ADI need only apply the standard 1.06 scaling factor for any New Zealand residential mortgage exposures. That is the additional 15 per cent supervisory adjustment for housing loan exposures as required for reporting to the Reserve Bank of New Zealand need not be applied for Level 2 regulatory reporting to APRA.

Sincerely

A handwritten signature in black ink, appearing to read 'K. Squires', written over a light grey rectangular background.

Katrina Squires
Senior Manager Basel II - Diversified Institutions Division