

Sent via email on 5 May

Dear Regulatory Affairs Manager,

The Exposure Draft consultation for the Capital Review implementation closed on 31 March 2021. Thank you for the contributions of your bank to the formal consultation processes.

We received feedback across a range of topics and intend to publish the final Banking Prudential Requirements (BPRs) documents to implement the Capital Review in early June.

Some of the feedback we received in the submissions asked for changes in the timetable for implementing the Capital Review. The Reserve Bank's Financial Stability Report was published today and included the following decisions relating to the implementation timetable.

- The formal start date for implementing the BPRs will be extended from 1 July 2021 to 1 October 2021. This will provide banks more time after the final BPRs are published to adjust their systems and internal processes to accommodate the changes.
- Before the 1 October date, the Reserve Bank intends to recognise Tier 2 capital instruments issued in accordance with the new BPRs. We will communicate with industry on how this will work when the BPRs are published in June.
- The start date for the derecognition of existing non-compliant capital instruments will be extended to 1 January 2022. This is an extension of six months and helps provide more time for banks to prepare for issuing new instruments.
- All other implementation dates will remain the same as previously communicated, including the 1 January 2022 introduction of an output floor set at 85% of the standardised outcome for IRB risk weighted assets.

We have announced these decisions ahead of the final BPR documents so that banks have more time to adjust to the new framework.

The extension of the formal start date of the new framework to 1 October means that banks with 30 September financial year-ends will need to produce their year-end material in accordance with the existing prudential requirements, not the new BPR documents.

The extension of the formal start date to 1 October 2021 does mean that there is a delay to when the capital definitions will change. In particular, the new definitions for Additional Tier 1 capital and for Tier 2 instruments will now take effect from 1 October 2021, not 1 July as previously planned.

While the new rules will not take effect until 1 October 2021, we intend to revise some of our processes for the period up to 30 September 2021 to allow banks to issue new Tier 2 instruments that meet the revised capital definitions. This will help embed the new definitions, as well as providing an option for banks wishing to issue capital instruments more promptly. We will provide more information about how this will operate when the final BPR documents are published in June, but is likely to be reflected via changes in Conditions of Registration and other processes.

Please contact your bank's supervisor if you require more information about any aspect of this letter.

Yours sincerely

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Manager, Financial Policy