



Executive Summary

Capital Review Implementation Consultation

In 2017 the Reserve Bank began a comprehensive review of the capital adequacy framework for locally incorporated registered banks in New Zealand, which became known as the 'Capital Review'.

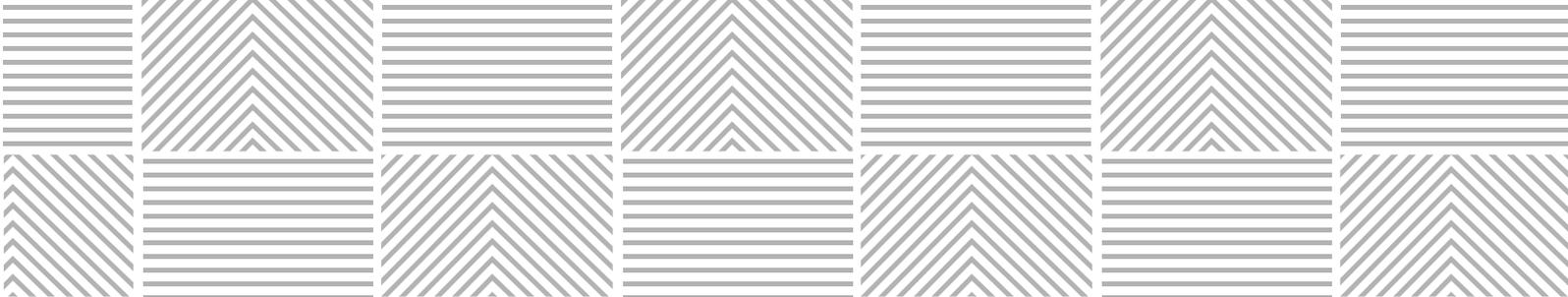
The purpose of the review was to identify the most appropriate capital requirements for New Zealand banks, taking into account how the current framework operates and international developments in bank capital requirements.

Final decisions were announced by the Reserve Bank on 5 December 2019. One of the key decisions was to increase banks' total capital ratios from 10.5 percent to 18 percent for the four large banks (identified as 'Domestic Systemically Important Banks') and 16 percent for the remaining smaller banks.

The central factor for the decisions was to make the banking system safer for all New Zealanders – as more capital in the banking system better enables banks to weather economic volatility and maintain good, long-term, customer outcomes.

The final policy decisions were shaped by earlier consultation papers and wide-ranging engagement with industry and other stakeholders. The Reserve Bank is now consulting on 'exposure drafts' of the changes to the *Banking Supervision Handbook* before the new policy is finalised. The *Banking Supervision Handbook* sets out the details of the policy framework and rules that apply to registered banks in New Zealand.

These changes are detailed in the consultation paper, '*Changes to the Banking Supervision Handbook: Exposure Draft for Capital Review Changes*'.



The main changes covered in the consultation material relate to:

- Changes to restrictions on distributions as banks enter their new capital buffers
- Guidance on likely supervisory actions in response to any buffer breach
- The inclusion of terms sheets that outline the Reserve Bank's requirements for different types of financial instruments that can qualify as bank capital.
- The proposed replacement to the non-objection process relating to capital instruments.

The *Banking Supervision Handbook* has also undergone a restructuring process, as this was one of the key areas for improvement identified during a Regulatory Stocktake that the Reserve Bank undertook in 2015. As part of this consultation, we are taking the chance to modernise the Handbook, including changing its name to *Banking Prudential Requirements* to better reflect its purpose

For the majority of the new *Banking Prudential Requirements* material, no major policy changes are intended, but some minor changes have been made to clarify areas of ambiguity.

To assist stakeholders in navigating the changes across the documents, the Reserve Bank has published a consultation paper outlining the key questions, and a number of additional pieces of supporting material alongside the detailed handbook documents.

This supporting material covers:

- Correspondence tables – these show how the current *Banking Supervision Handbook* maps to the new *Banking Prudential Requirements*.
- Descriptive commentary – these documents explain the rationale for the particular drafting approach taken in the draft Banking Prudential Requirements.
- 'Redlined' copies of a few existing policy documents to show consequential amendments that will be needed. These include the disclosure Orders in Council – the Reserve Bank will make recommendations to the Minister of Finance for Amending Orders to be made to deliver these changes, subject to any consultation feedback.

The Reserve Bank welcomes comment from stakeholders on any aspect of the implementation of the December 2019 Capital Review final decisions.

Consultation will run until 31 March 2021.

The Reserve Bank intends to review submissions, make final decisions and publish the finalised set of *Banking Prudential Requirements* before 1 July 2021.

The Reserve Bank is not seeking submissions on the December 2019 Capital Review decisions – the scope for the consultation is limited to the way the Reserve Bank proposes to implement the decisions. Any new decisions are clearly signposted throughout the document for feedback.

Links to the detailed consultation material can be found here: [Exposure draft of revised Banking Supervision Handbook consultation material](#).
