

## Review of key capital settings: Documents to support consultation

<b>To</b>	Hon Nicola Willis Minister of Finance	<b>Date</b>	14 August 2025
<b>Authorised by</b>	Angus McGregor, Acting Assistant Governor Financial Stability	<b>Report no</b>	#6308
<b>Prepared by</b>	Stephanie Zhang, Adviser, Prudential Policy	<b>Security</b>	In-Confidence

### Action Sought

Action sought	Deadline
<p><b>Note</b> the attachments that will be published on or around 25 August.</p> <p><b>Note</b> that you can discuss this report and its attachments at your meeting with the Reserve Bank on 21 August.</p>	21 August 2025

### Reserve Bank Contact for Telephone Discussion (if required)

Name	Position	Telephone
Jess Rowe	Director, Prudential Policy	s 9(2)(a)
Katy Simpson	Manager, Capital & Solvency, Prudential Policy	s 9(2)(a)

### Actions for the Minister's Office Staff

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Note any feedback on the quality of the report.

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### Attachments –

Attachment 1: Review of key capital settings Consultation Paper.

Attachment 2: Deposit Takers Act Core Standards: Summary of Submissions and Policy Decisions for the Capital Standard.

Attachment 3: Independent report by Oliver Wyman – *Comparing New Zealand Bank Capital Ratios to International Peers*.

## Review of key capital settings: Documents to support consultation

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### Purpose

1. The Reserve Bank intends to consult on policy proposals for feedback as part of the Review of key capital settings (the Review) from 25 August to 3 October 2025. Attached to this report are key documents that will be released to support this consultation:
  - Review of key capital settings Consultation Paper (Consultation Paper) (Attachment 1)
  - Deposit Takers Act Core Standards: Summary of Submissions and Policy Decisions for the Capital Standard (Attachment 2)
  - Independent report by Oliver Wyman – Comparing New Zealand Bank Capital Ratios to International Peers (Attachment 3).
2. You are being provided with this for your information, ahead of its release on or around 25 August. We note that it may be subject to minor or editorial changes before being released. We will advise you of any material changes to the consultation in advance of it being published.
3. To support public engagement with the Review, we are also developing summary documents (a non-technical overview of the Consultation Paper, and a factsheet with key figures) that will be published alongside the Consultation Paper.
4. We are meeting with you on 21 August, and can respond to any questions you may have on this Report or the attached documents at this meeting.
5. Annex 1 provides a short update on securing a third independent international expert and an updated dashboard since your last update on 10 July (RBNZ #6299 refers).

### Background

6. On 31 March 2025, we announced that we would undertake a review of key capital settings with the intention of reaching final decisions by the end of the year (RBNZ #6266 refers).
7. As agreed in the Terms of Reference (RBNZ #6278 refers), a key part of our approach to the Review is to consult on policy proposals to ensure that New Zealand's capital settings are calibrated at an appropriate level to support a stable financial system – one where resilient financial markets, institutions and infrastructures enable a productive and sustainable economy and ultimately promote the prosperity and wellbeing of all New Zealanders.

### Review of key capital settings Consultation Paper (Attachment 1)

8. The Consultation Paper has four main chapters discussing developments since the last review and key proposals we are seeking feedback on:

- Chapter 2: Sets out how the context has changed since the previous review, including the passage of the Deposit Takers Act 2023 (DTA), the issuing of a new financial policy remit, feedback from stakeholders, how we compare internationally and how changes impact risk.
  - Chapter 3: Sets out two policy options for capital ratio requirements (explained below) for feedback and explains our analysis of these options.
  - Chapter 4: Sets out our proposal to replace Additional Tier 1 (AT1) capital with more simple forms of capital to simplify the requirements.
  - Chapter 5: Sets out proposals for more granular standardised risk weights.
9. More broadly, the Consultation Paper seeks to test whether a change in our approach to capital settings is now warranted.
10. We propose two changes that industry has previously raised:
- Phasing out AT1 capital in our requirements. This will simplify the capital stack and is more aligned with the Australian approach.
  - More granular risk weights to more efficiently mirror risk. This includes lower risk weights in some areas and will translate to a sizable reduction in the amount of capital required (approximately 5.7%). It also addresses recommendations in the Commerce Commission's market study into personal banking services and concerns raised by submitters to the Finance and Expenditure Committee's banking inquiry, namely (but not limited to):
    - i. *Creating new categories for agricultural lending that have lower risk weights for lending that have lower loan-to-value ratios (LVRs).* Currently, all agricultural lending likely receives the same risk weight under the standardised approach (100%). Our proposal more accurately reflects the riskiness of this type of lending. For example, agricultural lending where the LVR is equal to or below 30 would have a proposed risk weight of 50%.
    - ii. *Creating a separate category for Community Housing Providers and housing co-operatives.* Internal ratings-based (IRB) deposit takers would also be required to use this risk weight, and it would be based on the risk weights for *property* investment residential mortgage lending. We estimate that lending rates for borrowers could fall by 0.4 – 0.8 percentage points as a result of the proposed approach. We expect the standardised risk weight changes to benefit lending secured by whenua Māori, but we are seeking further information through the Consultation Paper to see if there are any additional barriers.
11. The Consultation Paper sets out two options for overall capital ratios that builds on the reductions in proposals at paragraph 10 above. The Consultation Paper does not set out a preferred option. At this stage of the review, we are seeking stakeholder feedback on these options and our preliminary analysis of their costs and benefits – and we are open to views that suggest adjusting these options.
12. The proposed options promote financial system stability and the safety and soundness of individual deposit takers, but are likely to reduce the cost of regulation compared to the 2019 framework. The two options have different settings for Group

1 deposit takers, but both options have the same requirements for Group 2 and Group 3 deposit takers.

13. The two tables below show the two options. We have also included a ‘status quo’ column as a comparison, showing the fully implemented (i.e. 2028) decisions from the 2019 capital review for Group 1:

**Option 1:** Follows a similar form of capital to our current requirements but reduces the amount. We estimate that option 1 has a funding cost reduction of approximately 6.5 basis points compared to the 2028 status quo.

	Status Quo for Group 1: 2019 Capital Review decisions – once fully implemented in 2028	Group 1	Group 2	Group 3
	(% risk weighted assets)			
Minimum Common Equity Tier 1 (CET1)/Tier 1 capital	7 (see <sup>1</sup> )	6	6	6
Prudential capital buffer (PCB)	9	8	5	4 (see <sup>2</sup> )
<b>Total CET1/Tier 1</b>	<b>16</b>	<b>14</b>	<b>11</b>	<b>10</b>
Tier 2 capital	2	3	3	3
Minimum Total capital	9	9	9	9
<b>Total capital including PCB</b>	<b>18</b>	<b>17</b>	<b>14</b>	<b>13</b>
Internal Loss Absorbing Capacity (LAC)	-	-		
<b>Total LAC</b>	<b>18</b>	<b>17</b>		

Option 2 is discussed on the next page.

<sup>1</sup> Made up of CET1 of at least 4.5% of RWA and up to 2.5% of AT1 to meet Tier 1 minimum.

<sup>2</sup> We are proposing that an additional PCB of 1% would apply to Group 3 deposit takers without a credit rating.

**Option 2:** Adjusts the form of capital by introducing additional LAC<sup>3</sup>, which should be a cheaper option for industry given the lower cost of a parent issuing an internal LAC instrument to their subsidiary. So, while the headline total capital requirement may look higher (at 21% for Group 1), the actual cost of that capital could be materially lower and thus may be preferred by stakeholders.

We estimate that option 2 has a funding cost reduction of approximately 11.3 basis points compared to the 2028 status quo.

	Status Quo for Group 1: 2019 Capital Review decisions – once fully implemented in 2028	Group 1	Group 2	Group 3
	(% risk weighted assets)			
Minimum CET1/Tier 1 capital	7 (see 1)	6	6	6
PCB	9	6	5	4 (see 2)
<b>Total CET1/Tier 1</b>	<b>16</b>	<b>12</b>	<b>11</b>	<b>10</b>
Tier 2 capital	2	3	3	3
Minimum Total capital	9	9	9	9
<b>Total capital including PCB</b>	<b>18</b>	<b>15</b>	<b>14</b>	<b>13</b>
Internal LAC	-	6		
<b>Total LAC</b>	<b>18</b>	<b>21</b>		

*Comment from Treasury*

14. Treasury is comfortable with the Reserve Bank (RBNZ) moving to public consultation as it has proposed. RBNZ has actively engaged with Treasury through the capital review process, including sharing an earlier draft of the consultation paper for feedback. Treasury's assessment is that there are benefits in progressing to public consultation now to enable the review to be completed by the end of 2025 and that the consultation paper will elicit good public engagement and feedback (particularly as the deposit-taking sector is well-positioned to provide robust feedback) that will be valuable for further analysis and consideration in the next phase of the work. In parallel with the public consultation, Treasury will continue to work closely with the RBNZ and conduct further analysis including in light of consultation feedback.

<sup>3</sup> Additional loss absorbing capacity (LAC) instruments are debt instruments that make up part of a deposit taker's funding and are pre-positioned to allow for bail-in.

## **Summary of Submissions and Policy Decisions for the Capital Standard (Attachment 2)**

15. On 1 May 2025, we published our response to submissions received on the deposit takers core standards consultation. This release covered the Liquidity, Disclosure and Depositor Compensation Scheme Standards (RBNZ #6257 refers).
16. The Capital Standard was originally going to be included in the core standard response document released in May, but was delayed in order to ensure that the proposals in the Review could be taken into account.
17. We intend to release the policy decisions for the Capital Standard alongside the Consultation Paper. This will provide industry with certainty on more technical changes that will need to be made to be compliant under the DTA. This keeps Capital Standard on track with the broader DTA implementation timeline.
18. We note one key decision from this response document is the reduction of the minimum capital requirement for deposit takers from \$30 million to \$5 million. This is on the lower end of the range that was consulted on and will form part of the minimum licensing requirements. Separately, in October 2025, we plan to consult on the use of the term 'bank' in name or title once the DTA comes into force. These address recommendations from the Commerce Commission's market study into personal banking services.

## **Independent report by Oliver Wyman – *Comparing New Zealand Bank Capital Ratios to International Peers* (Attachment 3)**

19. We commissioned Oliver Wyman<sup>4</sup> to produce an independent report benchmarking capital ratios for New Zealand's five largest registered banks (ANZ, ASB, BNZ, Westpac, Kiwibank) against major banks in a set of comparator countries (RBNZ #6299 refers). This report will be published alongside the Consultation Paper to inform submissions.
20. As mentioned in our update in July, Oliver Wyman sought feedback from members of the New Zealand Banking Association and Non-Bank Deposit Takers Reference Group on Oliver Wyman's proposed methodology to undertake the comparison. The Oliver Wyman analysis takes broadly the same approach as reports the NZBA has previously commissioned.
21. Oliver Wyman found that that current levels of Tier 1 capital in New Zealand are likely one of the highest of our comparator countries. However, it also found New Zealand has lower Total Loss-Absorbing Capacity than many comparator countries.

### **Next steps**

22. Subject to minor or editorial changes, the attachments are intended to be released on our webpage around 25 August. We will be publishing a media release when the consultation paper is published (and as discussed above, we will notify you prior to publication if there are any material changes before it is released). We will provide your office with a copy of the proposed media statement, and can work with your office if you would also like to issue a press release.

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<sup>4</sup> Oliver Wyman is an international management consultancy, with expertise in the financial services sector.

23. Consultation will be open for 6 weeks and is expected to end on 3 October. To support engagement during and after the consultation period we will:

- Run a webinar in early September to explain the Consultation Paper and its proposals and to answer initial questions.
- In October, provide the opportunity for interested deposit takers to discuss their submissions with the independent international experts.

24. More broadly, the main milestones until the end of the year are:

Month	Targeted milestone
25 August	Consultation seeking feedback on policy proposals begins.
September	We will run a public webinar and engage stakeholders during the consultation period.
October	Consultation closes on 3 October.
	There will be an opportunity for interested deposit takers to discuss their submissions with the independent international experts.
	<b>We will update you at our October meeting on the initial feedback we received.</b> This feedback will inform the next stage of analysis.
November	We will continue to refine options based on consultation feedback and feedback from the independent international experts.
	<b>We will update you at our November meeting on the progress of the review.</b>
	<b>You will have the opportunity to meet with the independent international experts to hear their views.</b>
December	The independent international experts will finalise their reports confirming their views on the finalised capital settings decided by the Board.
	The Board will meet to decide on finalised capital settings.
	<b>We will update you on the Board's decision on finalised capital settings.</b>

## Recommendation

25. It is recommended that you:

- a) **note** the attachments (subject to minor and editorial changes) will be published on or around 25 August.

- b) **note** that you can discuss this Report and its attachments at your meeting with the Reserve Bank on 21 August.



Hon Nicola Willis  
**Minister of Finance**

Angus McGregor  
**Acting Assistant Governor Financial  
Stability  
Reserve Bank of New Zealand**

14/08/2025

Proactively Released

## Annex 1 - Review of key capital settings update at 14 August 2025

### Independent international experts

In addition to the already onboarded independent international experts (Thorsten Beck and Sir John Vickers – RBNZ #6288 refers), we secured and onboarded Elena Carletti as our third and final expert to review our analysis, options and recommendations, and to support our decisionmakers. Elena is a Professor of Finance at Bocconi University. She is the Vice-Chair of the Board of Directors of UniCredit, a former member of the Advisory Scientific Committee of the European Systemic Risk Board and past-President of the European Finance Association. She is an expert in banking, finance and regulation.

### Status update at 14 August 2025

KEY MILESTONES								
April	May	June	July	August	September	October	November	December
Scoping and procurement	Analysis		Decisions on consultation positions	Finalising position paper	6-week public consultation	Post-consultation analysis	Final decisions	
RAG	DELIVERABLES		UPDATE				DUE	
INDEPENDENT INTERNATIONAL EXPERTS								
	<b>Review of RBNZ analysis by independent international experts</b>		Experts provided their initial thoughts on our proposed approach and draft proposals in July. Their initial views are that the 2019 decisions were sound and still hold today.  There will be an opportunity for interested deposit takers to discuss their submissions with the independent international experts in October.				<b>Final Report:</b> December	
CONSULTATION PAPER								
	<b>Comparison of international capital requirements</b>		Oliver Wyman has completed and finalised their report, <i>Comparing New Zealand Bank Capital Ratios to International Peers</i> (Appendix 3). This will be published alongside the Consultation Paper to inform submissions				Completed	
	<b>Assess key developments since the 2019 Capital Review</b>		In July, the Board approved two policy proposals to consult on in the Consultation Paper. The Consultation Paper has been drafted to reflect these options.  Public consultation is intended from 25 August to 3 October (6 weeks). We will run a webinar to support public engagement.				<b>Intended publication:</b> 25 August	
	<b>Consider whether risk weights accurately reflect risk</b>							
	<b>Develop range of potential options to seek feedback on</b>							
	<b>Consider the costs and benefits of all potential options</b>							