

REFERENCE: #6315

DATE: 5 September 2025

TO: Hon Nicola Willis, Minister of Finance

FROM: Jess Rowe – Director, Prudential Policy
Jess.Rowe@rbnz.govt.nz s 9(2)(a)

MAIN CONTACT: Jess Rowe – Director, Prudential Policy
Jess.Rowe@rbnz.govt.nz s 9(2)(a)

Update: Review of Key Capital Settings at 5 September 2025

Purpose

To provide you with a regular update on the Review of Key Capital Settings (**the Review**) ahead of your meeting with the Reserve Bank on 10 September 2025.

Key updates

Publication of the Review's Consultation Paper (**Consultation Paper**) and associated documents went as planned on 25 August 2025 (RBNZ #6308 refers) and will run until 3 October 2025. This aide memoire provides an update on what we have heard during this consultation period so far.

Stakeholder engagement

On 25 August 2025, we held a media briefing with a range of economic journalists. This was a closed session, where staff ran through the proposals, and took questions to support the reporting and public understanding of the proposals. This went well, and we consider the reporting so far to have been factual and balanced.

On 2 September 2025, we held a 1.5 hour webinar for stakeholders to explain the Consultation Paper and its proposals and answer initial questions. The webinar slides and a summary of the session will be published on our website. We will share this with your office when it is available.

There were approximately 170 webinar attendees, including:

- Banks and their representative bodies (all Group 1 deposit takers and their parent banks, and some Group 2s, as well as the New Zealand Banking Association (**NZBA**)).
- Some non-bank deposit takers.
- Entities seeking to be licensed by the Reserve Bank.
- Others with interest in the Review, including financial service providers, law firms, a credit rating agency and Government agencies.

Stakeholders were interested in understanding:

- How we came up with proposals for standardised risk weights. We talked through the underlying evidence, which was based on information provided by banks and stress testing results.
- How decisions will be implemented. We confirmed we will take a phased approach, and details will be announced once the Board has made final decisions at the end of the year.
- How Option 2 (which introduces Loss-Absorbing Capacity (**LAC**)) might work and how it would interact with the Australian regime. This is discussed in the 'Interest in how Australia would treat LAC instruments under Option 2' section below.

In addition to the webinar, we are also meeting with deposit takers who have requested bilateral meetings during the consultation period.

Initial reactions and commentary

There has been a lot of interest in the proposals in the Consultation Paper. Overall, initial reactions indicate that the consultation options are viewed as reasonable recalibration of the 2019 policy positions. Commentary has been supportive of the focus on benchmarking our requirements against comparable international countries.

The NZBA has publicly commented that the proposals are a step in the right direction that will have differing impacts on various sector players. We also discussed the Review with bank chief executives at the NZBA Council meeting on 3 September 2025.

Fitch, a credit rating agency, noted that they do not expect the proposals to have an immediate impact on bank ratings. They also stated that the standardised risk weight proposals would most benefit smaller banks as it improves their competitive standing.

Interest in how Australia would treat LAC instruments under Option 2

Some deposit takers and media sources have been interested in how the Australian Prudential Regulation Authority (**APRA**) would treat the LAC instruments that Group 1 deposit takers would issue to their Australian parents under Option 2. This is because it may impact the costs to Group 1 deposit takers of issuing these LAC instruments and could have capital implications for the Australian parents.

The treatment of LAC in Australia (as an asset of the parent banks) is a decision for APRA and will likely depend on APRA's rules and the precise contractual terms of the instrument. We are seeking feedback on our working assumption is that LAC costs for the subsidiary might be broadly similar to the costs the parent faces when issuing Tier 2 capital (which are quite a bit lower than our estimates of the cost of equity).

In developing the options in the Consultation Paper, we have actively engaged with APRA and will continue to do so as the Review moves forward. If we were to introduce Option 2, we expect that further consultation would be required on the detailed design of LAC instruments.

Proactively Released