

Te Kete mō te Poari Memo

From	Stephanie Zhang, Adviser, Financial Stability Group and Katy Simpson, Manager, Financial Stability Group
Approved by	Angus McGregor, Acting Assistant Governor Financial Stability
Date	1 October 2025
Subject	Review of Key Capital Settings: Update on process for reaching final decisions
For	Information
Value(s)	Integrity/Tauria Inclusion/Taura
Strategic Theme(s)	Strengthening efficiency and competition

Purpose

This memo provides you with an update on the Review of Key Capital Settings (the **Review**). It covers off key updates from the consultation period to date, sets out the overarching approach for reaching decisions by the end of the year and the high-level plan for implementation in 2026 and beyond.

1. Key Points

1. Public feedback on the consultation paper for the Review is due by 3 October.
2. The next steps are as follows:
 - a. In **October**, we will analyse submissions and provide the Board with key themes from feedback, and initial advice in light of stakeholder feedback.
 - b. In **November**, we will refine the advice following the Board's feedback. The Board will also meet with the three independent experts to the Review who will update the Board with their initial views.
 - c. In **December**, the Board will consider our recommended policy position and make decisions. We are aiming for the Board to announce the outcome of the Review by 16 December.
3. We will then fast track key changes via existing rules for banks and non-bank deposit takers beginning in early 2026. We expect these changes to be enacted in October 2026.
4. Beyond that, implementation will take place under the new Capital Standard from late 2028. We will set out a phased approach for deposit takers to move to the new requirements.
5. A detailed table of relevant Board dates is at **Annex 1**.

2. Background

On 28 July, the Board approved the release of a consultation paper for public consultation from 25 August to 3 October. As set out in the Terms of Reference agreed by the Board, final decisions under the Review are expected in December.

3. Discussion

Updates from the consultation period

Feedback from stakeholders on the consultation paper and approach has been broadly positive. The New Zealand Banking Association (**NZBA**) has publicly commented that the proposals are a step in the right direction that will have differing impacts on various sector players.

On 2 September 2025, we held a 1.5-hour webinar for over 150 stakeholders to explain the consultation paper and its proposals and answer initial questions. A summary of the webinar is published on our website. We have also had bilateral meetings with stakeholders, including WNZL, BNZ and ANZ. We also discussed the Review with bank chief executives at the NZBA Council meeting on 3 September 2025.

Group 1 deposit takers wanted clarity on how the Australian Prudential Regulation Authority (**APRA**) would treat the loss-absorbing capacity (**LAC**) instruments proposed by Option 2, when the instruments were held by their parent banks. 6(a)

We will continue to engage with and keep stakeholders updated as part of the Review.

We have continued to provide the Treasury and Minister of Finance (the **Minister**) with regular updates on progress and feedback.

Plan for engaging with Board ahead of final decisions

A detailed timeline of the plan for engaging with the Board is at **Annex 1**.

To support the Board in taking final decisions at its 11 December meeting, we have scheduled the following meetings:

- In **October**, FSOC and the Board will receive slide packs summarising the main themes that arose through consultation, and initial policy thinking in response to those themes.
- In **November**, FSOC (with the Board invited) will meet with the independent international experts to hear the experts' initial opinions in light of feedback received on the consultation paper.
- In **December**, FSOC and the Board will receive a Board paper with recommended policy positions for approval. The Board paper will include a near-final version of the independent international experts' reports.

Plan for engaging with the Minister of Finance

We will continue to provide the Minister with appropriate updates on the Review through the Reserve Bank's monthly meetings with her. Subject to your comfort, we can provide updates on the direction of travel of the Board's thinking at the meetings in November and December.

- In **October**, we will provide a verbal update on initial feedback we have heard through the consultation period. This will be a preliminary update on feedback as the meeting is three days after submissions close. The Minister has also requested information about how we will monitor the economic impacts of any changes to the capital settings.
- In **November**, we will provide a more comprehensive written summary of the submissions received on the consultation paper. Separately, the Minister will also meet with the international experts to hear their initial views in November. We will support her in this meeting by providing a briefing with a summary of their initial feedback.
- The **December** meeting with the Minister is expected to be after the December FSOC meeting but before the final Board meeting. We intend to provide the Minister with a written summary of the Board's final decisions the day after the Board's consideration of the Board paper.

Plan for communication of final decisions

Announcement of the final decisions is currently planned by 16 December.

Given the short turnaround between final Board decisions on 11 December and the publication of decisions planned by 16 December, the announcement in December will focus on the high-level policy decisions, with more detail provided in a second release in February 2026.

In December we intend to publish:

- A media release outlining the key decisions (capital ratios and risk weights) and a broad implementation timeline (similar to table 1 below).
- Key documents that supported the Board's decision making such as the submissions received on the consultation paper and the independent international experts' finalised reports.

In February 2026 we intend to publish:

- A detailed summary of submissions with our responses in line with the policy decisions made by the Board.
- An updated cost benefit analysis (**CBA**) for the Review.
- A detailed implementation timeline to support deposit takers.

Plan for implementation of final decisions

Table 1 below sets out our high-level plan to implement the decisions resulting from the Review – this plan covers the two categories of options that were consulted on (an option with Loss Absorbing Capacity (**LAC**) and an option without LAC).

All changes will be reflected in the Capital Standard, due to come into force on 1 December 2028. We will reflect the changes in the exposure draft of the Capital Standard due to be consulted on

from June to August 2026. This will not include any material related to LAC requirements if the Board decide to go with an option with LAC – instead, there would be a policy consultation on the details of LAC instruments separately in 2026. More detail is set out in section 80 of the Deposit Takers Act (“Bail-In Standard”) and would be added into the Capital Standard at a later date.

To bring in changes ahead of the Capital Standard coming into force in late 2028, we will need to change the existing rules for banks (the Banking Prudential Requirements, or **BPRs**) and work with the Minister to seek Cabinet approval to change existing regulations for non-bank deposit takers (**NBDTs**). We have plans to do this at pace over 2026. These changes would not include introducing LAC.

We plan to transition to new capital settings in a phased way to give deposit takers time to adapt, similar to the approach taken following the 2017-19 review. Our thinking at this stage is set out below, but we will develop this further and will ask the Board to consider this as part of making decisions in December:

- Increasing capital ratio requirements by around 1% per year (e.g. the same rate as banks have been adjusting under the 2019 decisions) – noting many banks are ahead of current requirements and lower risk weights will offset much of the increase in ratio requirements.
- If the Board decide to remove Additional Tier 1 (**AT1**) capital:
 - We would continue to recognise AT1 capital under the updated BPRs given the short period of time that they will remain in place – though we would not allow banks to issue any new AT1 instruments; and
 - Under the Capital Standard, we would allow deposit takers to count any remaining AT1 towards their Tier 2 allowance for a transition period (noting the Tier 2 allowance would increase from the current level under the options proposed in the consultation paper).

Table 1: High-level implementation plan

Date	No-LAC option chosen	LAC option chosen
December 2025	15 or 16 December (TBC): High-level policy decisions announced, including publication of a media release, independent experts’ reports and consultation paper submissions.	
H1 2026	<p>February 2026: Full documentation published including summary of submissions with our detailed responses, an updated CBA and full implementation schedule.</p> <p>Late February 2026: Expected cabinet meeting seeking approval for changing NBDT regulations to give effect to changes for NBDTs ahead of Capital Standard coming into effect in late 2028.</p> <p>March/April 2026: Short consultation on updated drafting of BPRs to give effect to changes for banks ahead of Capital Standard coming into effect in late 2028.</p> <p>June 2026: Short consultation on updated drafting of NBDTs regulations to give effect to changes for NBDTs ahead of Capital Standard coming into effect in late 2028.</p>	

Date	No-LAC option chosen	LAC option chosen
	<p>June-August 2026: Consultation on Capital Standard exposure draft (rules for all deposit takers from late 2028) and policy consultation on crisis preparedness.</p>	<p>June-August 2026: Consultation on Capital Standard exposure draft (rules for all deposit takers from late 2028) and policy consultation on crisis preparedness PLUS policy consultation on a "Bail-in Standard".</p>
<p>H2 2026</p>	<p>1 October 2026: target date for updated BPRs to come into force, covering new risk weights and first annual step changes in capital ratios.</p> <p>1 October 2026: target date for updated NBDT regulations to come into force with new risk weights and annual step change in capital ratios.</p>	
<p>2027</p>	<p>31 May 2027: Final Capital Standard issued.</p> <p>May 2027: Consultation on exposure draft of Crisis Preparedness Standard.</p> <p>1 October 2027: Annual step change in capital ratios.</p>	<p>February-April 2027: Consultation on an exposure draft of a "Bail-in Standard".</p>
<p>2028</p>	<p>1 December 2028: Capital Standard commences, annual step change in capital ratios.</p> <p>Late 2028: Crisis Preparedness Standard issued.</p>	
<p>2029 and beyond</p>	<p>TBC: Implementation of new capital ratio requirements expected to be complete in 2029.</p>	<p>TBC: Finalise transition to new capital ratio requirements and introduce LAC requirements.</p>

4. Next Steps

Next steps and key dates are summarised at **Annex 1**.

Annex 1: Relevant Board dates until the end of 2025

Meeting date	Date papers received	Product
21 October: FSOC - Update on consultation	17 October	<i>Slide pack</i> Update on main themes from consultation and our initial policy thinking in response to submissions.
30 October: Board – Update on consultation	<i>If updates required post-FSOC, 24 October</i>	<i>Slide pack</i> An update will be provided to the Board, based on the slide pack and the 21 October discussion with FSOC.
7 November: FSOC – International experts' initial views	31 October	<i>Short summaries from the international experts</i> Board will be provided with summaries from the three international experts or their initial views.
1 December: FSOC – Endorse final decisions	22 November	<i>FSOC paper</i> This paper will seek FSOC's endorsement of the final policy positions for the Board. A near-final version of the international experts' reports will be included as appendices to this paper.
11 December: Board – Endorse final decisions	22 November	<i>Board paper</i> We will submit a Board paper that mirrors with the FSOC paper.
	<i>If updates required post-FSOC, 5 December</i>	However, if changes and/or supplementary information is required after the FSOC meeting, we intend to provide this by 5 December.