

Update on the Capital Review consultation

Board meeting

30 October 2025

Note: This pack has been updated following the FSOC meeting on 21 October. Annex 2 includes new slides that address the questions raised in that meeting and subsequently.

Purpose

- **Provide** Board with an update on the feedback received during the capital review consultation.
- **Test** our initial thinking on direction of travel to guide our analysis over the coming weeks.
 - **To note:** As the consultation closed on 3 October, these slides only include preliminary views. We are considering all feedback thoroughly and are open to feedback. We will be working through the feedback in more detail ahead of providing final advice to the Board, including critically engaging with the underlying analysis and arguments presented.

Next steps

- On 7 November, FSOC (with the rest of the Board invited) will meet with the independent international experts to hear the experts' initial opinions in light of consultation feedback.
- On 1 December, we will discuss final decisions with FSOC.
- On 11 December, we will seek the Board's final decisions.
- We intend to publish final decisions in the week commencing 15 December. We want the outcome to be durable and are focussing on how we clearly communicate the rationale for decisions.

Recap on the Board's risk appetite

We have worked towards the Board's risk appetite that has been communicated to us through the Review process

As decisions have been taken in the Review, the Board:

- Has indicated that its risk appetite is **higher than in 2019**, given in part that under the DTA (once fully implemented) we will have more comprehensive tools for supervision and crisis management
- Wants options **calibrated around current actual capital levels**
- **Does not** want options that:
 - May result in a transfer of existing capital out of NZ
 - Causes a higher than expected reduction on 2028 levels



Inputs into final recommendations

Consultation feedback is just one of the elements that will inform the Board's final decisions.

Submissions on Consultation Paper

Discussed in this slide pack

42 submissions:

- **6(a)**
- **6** from Group 1 / parent bank
- **8** from Group 2
- **5** from Group 3
- **14** from industry bodies / other organisations
- **8** from individuals

Updated analysis against criteria

To be included in Board Paper seeking final decisions in December

Updated cost benefit analysis (CBA)

To be included in Board Paper seeking final decisions in December

Independent international experts' reports

FSOC will meet with the experts on 7 November to discuss their views.

The experts' reports will be included with the Board Paper seeking final decisions in December.

Two of the experts provided initial views ahead of the consultation. They were broadly supportive of our existing approach.





Reserve Bank
of New Zealand
Te Pūtea Matua

SUMMARY

High level summary of feedback

- Most submitters are supportive of the direction of travel – though many deposit takers, not unexpectedly, are pushing for us to lower capital further.
- There is strong support for removing AT1 capital and more granular risk weights – and we've had plenty of feedback on the specifics on risk weights, which we will need to work through.
- **Big banks** all prefer Option 2 with the additional Loss Absorbing Capacity (or LAC) instruments – though many have suggested we refine this option to align it with Australia's requirements.
- The **mid-sized banks** have welcomed our proposals to reduce their capital ratio requirements, but some have raised concerns about what the LAC option means for their position relative to the largest banks, and what they consider to be a loss of proportionality in Option 2.
- The **smallest entities** continue to push for early adoption of new risk weights, and some are arguing for lower requirements – in part due to concerns that the proposals have less of a gap between their requirements and the mid-sized banks, reducing proportionality relative to current settings and previous proposals
- There are mixed views from **other commentators** – with some arguing there should be no reductions in capital at all, and others arguing we should go further.



Proposed plan at this stage

- **Confirm** removal of **AT1 capital**. **Consider further** the **transition plan** for AT1.
- **Consider further** new evidence on **risk weights** and where further granularity may be warranted.
- **Consider further** the design of **LAC**, our confidence in its role in crisis management and the implications for Group 2 and 3 deposit takers.
- **Confirm** that **aligning with Australia on capital ratios** is not recommended as it is not consistent with the Board's risk appetite ahead of the consultation.
- **Consider further** whether **other changes to the options** are required, including minimum viable settings for **Group 3, CCyB** and the **output floor and scalar**.
- **Confirm** our **assessment criteria**. **Consider further** criteria analysis of any refined options. **Consider further** **cost benefit analysis** of any refined options.
- **Consider further** our advice for the Board to support them **reaching final decisions**, particularly deciding between an option with and without LAC.

Question for Board: Are you comfortable with this direction of travel?



CAPITAL STACK

Recap of proposals: capital ratio options

Group 1 - Option 1

Simple structure of CET1 and Tier 2

Retain emphasis on prudential capital buffer, at a slightly lower calibration

Group 1 - Option 2

Introduce new layer of loss-absorbing instruments (LAC), on top of Tier 2

LAC requirement (6 ppt.) substitutes some CET1 in the PCB for Group 1

Group 2 and 3 have the same capital stack under both options



Feedback on options from Group 1

Group 1 deposit takers supported Option 2 over Option 1

- Though many noted this is conditional on LAC instruments (and revised T2) satisfying APRA rules (e.g. being Basel/FSB compliant)
- Potential costs of being different to APRA (e.g. if we require extra CET1 and APRA uses T2 or LAC, group may have to issue both, and this can add cost for NZ)

Proposed response for discussion: We are developing our straw person for these instruments, but we expect that any LAC instruments (and revised T2) would satisfy APRA rules.

6(a)

We are also thinking through the feedback about impact on group capital and potential costs.



Feedback on options from Group 1 (cont.)

Many Group 1 deposit takers argue for an alternative option with full alignment with APRA.

- Emphasised Oliver Wyman headline results show New Zealand CET1 requirements are high compared to other countries and would remain high if aligned with APRA requirements.
- Argued lower capital requirements would reduce lending rates and increase lending volumes.

Proposed response for discussion: We think there are a range of factors not fully captured by submitters and do not recommend full alignment with APRA because:

- S&P deem New Zealand's banking industry risk the highest of the comparator countries in the Oliver Wyman report, so remaining at the top of the CET1 comparison is appropriate. S&P consider Australia as one of the lowest risk – they rate Australia as 2/10 and New Zealand as 4/10.
- It would likely lead to banks reducing the amount of CET1 they hold and repaying capital to their owners.
- 6(a) [REDACTED]
- Our analysis suggests the costs to the economy associated with the increased cost of a crisis outweigh the lending rate benefits of lower capital levels. We can provide more details on the costs and benefits in the Board paper.
- We have a statutory purpose to avoid or minimise the use of public funds in a crisis.
- It would reduce the scope for proportionality.

Feedback on options from Group 2

Some Group 2 deposit takers prefer Option 1, mostly due to concerns about LAC and proportionality.

- Argued Option 2 requires the use of internal LAC which is a barrier to domestic banks moving to Group 1. Argued it has less proportionality than Option 1.
- Some questioned how Tier 2 for Group 2 deposit takers would work (i.e. whether these instruments would have write down or conversion features as well).
- Some raised concerns that an internal LAC model could reduce the depth of the market for Group 2's Tier 2 instruments.

Proposed response for discussion: We are considering how any requirements under Option 2 would be varied for different ownership structures (e.g., if a domestic bank grew to be a Group 1 deposit taker), noting the largest Group 2 deposit taker has \$41 billion in assets, compared to the \$100 billion threshold for Group 1.

We are also considering whether there would need to be any changes to Tier 2 for Group 2 and 3.



Feedback on the options from Group 3

Group 3 deposit takers are concerned that there is a **loss of proportionality** compared with 2024 Capital Standard proposals and argue for **lower ratio requirement**.

- They argue we proposed reductions in requirements for Group 1 and 2 based on a higher risk appetite but did not propose ratio reductions for Group 3 (though the impact of more granular risk weights will lower capital requirements for them) – as we felt Group 3 ratios were already at the minimum viable level.

Proposed response for discussion: We will reconsider the minimum viable settings for Group 3 and whether there is any scope to adjust their settings to increase proportionality while maintaining the safety and soundness of individual deposit takers.



Cross-cutting feedback on the options

- **Strong divergence in views about the output floor for IRB credit risk weights.**
 - Group 1 deposit takers generally want a scaling back of the output floor and/or IRB scalar to align with APRA (72.5% output floor and 1.1 scalar)
 - Group 2 generally want the output floor increased to 100% to support proportionality

Proposed response for discussion: We will consider the feedback in more detail, but this topic was considered in detail in 2019. We generally view the current output floor of 85% and scalar of 1.2 as providing a good balance – allowing some benefit from IRB modelling but avoiding large discrepancies between the standardised and IRB approach.

- **Some non-deposit taker respondents oppose any reduction in requirements** and prefer we stay with the 2019 decisions.
 - This included an independent expert to the 2019 Review.
 - Concern that changes prioritise short-term economic gain at the cost of long-term financial stability.



Feedback on proposal to remove AT1

- **No opposition to proposal to remove Additional Tier 1 (AT1)** – respondents agreed with reasons given in the consultation
 - Group 1 primarily concerned with orderly transition
 - Group 3 (and some Group 2) want AT1 replaced with more Tier 2 rather than CET1 (consistent with APRA's approach for smaller ADIs).
- **Transitional arrangements need careful management** including early communication
 - Greater level of support for a gradual derecognition of AT1 than immediately recognising AT1 as Tier 2 capital
 - Important to avoid market disruption
 - 9(2)(b)(ii)

Proposed response for discussion: Confirm removal of AT1 with a phased approach to transition. No new AT1 issuance allowed, but no impact on existing AT1 until Capital Standard comes into force (1 Dec 2028). We will consider the most appropriate approach under the Capital Standard to ensure a smooth transition for all deposit taker groups.





Reserve Bank
of New Zealand
Te Pūtea Matua

RISK WEIGHTS

Recap of proposals: risk weights

Type of lending	Current standardised risk weight (%)	Proposed standardised risk weight (%)
Owner-occupier residential mortgage lending (RML) with loan-to-value ratio (LVR) ≤ 50	35	25
Owner-occupier RML with LVR 50.01 – 60	35	30
Investor RML with LVR ≤ 50	40	30
Investor RML with LVR 50.01 – 60	40	35
Small and medium enterprise (SME) retail	100	75
SME corporate	100	85
Agriculture with LVR ≤ 30	100	50
Agriculture with LVR 30.01 – 50	100	75
Community housing providers / housing co-operatives	New standardised category with the same risk weights as investor RML. IRB accredited deposit takers would be required to use the new standardised category.	



Feedback on proposals for more granular standardised risk weights

Submitters were supportive of the overall risk weight approach, but suggested changes.

- Most proposed further reductions to align completely with APRA/Basel or quantitatively justify any deviations from these frameworks.
- Some proposed other risk weights that should be reviewed to match Basel/APRA.
- Need at least 3-6 months to transition to new risk weights (not including other capital changes), but would like the new risk weights implemented ASAP (well before Dec 2028).

Proposed response for discussion: Full alignment with APRA/Basel is not appropriate, but we are open to using evidence to ensure risk weights reflect risk (*see next slide*).

We intend to bring forward the implementation of revised risk weights for banks and NBDTs. However, we do not recommend implementing risk weight changes separately to capital requirement changes. We are meeting with the NBDT reference group in November to discuss a realistic transition timeline.



Feedback on proposals for more granular standardised risk weights

There was feedback on specific lending categories.

- Most support **RML** changes but want more granularity and lower risk weights that mirror APRA.
- Support **new commercial property category**, but want more granularity to better align with risk.
- Support **new SME categories** and would like clear definitions for SME retail and corporate, including an increased threshold to more closely align with other jurisdictions.
- Broad support for **new agri risk weights** (with some exceptions); a couple proposed alternative LVR bands/risk weights.
- Strongly against raising **unsecured personal lending risk weights** but broadly support more granularity within personal lending to better align with risk.
- Most support **new CHP category** with its own risk weights (most, but not all, support alignment with RML investor risk weights).

Proposed response for discussion: Some deposit takers provided the requested data – we will analyse this data and explore further refinement of risk weights, noting further changes could lower capital in the system. Our follow-up work is focusing on low LVR standardised RML risk weights where a number of deposit takers have provided evidence to suggest our proposed risk weights are too high.



Reserve Bank
of New Zealand
Te Pūtea Matua

OTHER THEMES IN SUBMISSIONS

Other themes in submissions (1)

- **A third of submissions had opposing views on our assessment of how risk and policy settings changes since the last review should impact settings.**
 - 5 submitters argued policy changes since 2019 are expected to lower risk by more than we noted in the consultation. Different submissions focused on different policy changes.
 - An external expert to the 2019 Review was not persuaded that policy changes since 2019 justify changing capital settings now.
 - 2 submitters argued that there were additional risks in the economic environment compared to 2019 that we need to account for.

Proposed response for discussion: We will consider the feedback in more detail, but don't expect to have a large change in view of the context.

- Some submitters noted that the Oliver Wyman report highlights that our rules are more conservative than most countries in the comparison. A few submitters also raised issues with the methodology and the set of comparator countries.

Proposed response for discussion: Limitations to Oliver Wyman's methodology was noted in their report and in the Consultation Paper. We will support the Board in interpreting the results.

Other themes in submissions (2)

- **Submitters generally supported the assessment criteria.**
 - Some submitters had comments on how we weight particular criterion - e.g., submissions emphasised the importance of international alignment, proportionality, and competition.
 - Suggestion that the criteria should also include an assessment against the relevant recommendations made in the FEC Inquiry (ANZ).

Proposed response for discussion: Confirm assessment criteria as consulted.

- **Many submissions agreed that a higher risk appetite is appropriate.**
 - Support for the departure from the '1-in-x year' approach.
 - Some submitters thought that RBNZ should express what our risk appetite is relative to other countries.

Proposed response for discussion: Confirm risk appetite as consulted. Consider further the most appropriate framing of our risk appetite.



Other themes in submissions (3)

There was mixed feedback on the Counter-Cyclical Capital Buffer (CCyB).

- Mixed views on 1% CCyB – some suggestions that long-run CCyB should be higher to give additional flexibility (but with no additional increase to the PCB).
- Mixed views on not applying to G3 – agreement on consistency with other macroprudential tools but not applying CCyB to G3 may lead to competitive imbalances during a downturn.

Proposed response for discussion: We will consider the feedback on the CCyB in more detail as part of our decisions on the capital stack, but don't expect to change much from our proposal at this stage.



Other themes in submissions (4)

The specific feedback on the CBA was largely as expected.

- A few submitters **questioned our continued use of the 2019 models**, in light of past criticism on the models and submissions made as part of the FEC inquiry - including that equity costs are sensitive to the amount of capital, and our modelling of a crisis with a 63% GDP cost.
- Some submitters found the options analysed were too limited and **suggested analysis should be conducted on an APRA-like option**.
- Some Group 2 deposit takers suggested we should include the impact capital has on the **amount of lending** to our analysis.

Proposed response for discussion:

- Confirm continued use of the 2019 Models. Consider and respond to stakeholders on the pros and cons of alternative models (and assumptions).
- Continue to use sensitivity analysis and ranges in CBA.
- Conduct analysis on any refined options.





Reserve Bank
of New Zealand
Te Pūtea Matua

ANNEX 1

Reminder of Option 1: Simpler Capital Reduction

- A buffer-based resilience model focused on simplicity and proportionality
- Reducing prudential capital buffer (PCB) compared to 2019 decisions
 - Group 1: From 9% to 8%
 - Group 2: From 7% to 5%

	Min. CET1 / Min. Tier 1	Min. Total Capital	LAC requirement	PCB requirement	Total CET1	Total Capital + LAC
Group 1	6%	9%	-	8%	14%	17%
Group 2	6%	9%	-	5%	11%	14%
Group 3	6%	9%	-	4% 5% w/o a credit rating	10% 11% w/o a credit rating	13% 14% w/o a credit rating



Reminder of Option 2: Introducing LAC Instruments

- Modified capital structure which trades off buffer capital for LAC
- For Group 1
 - Reducing PCB from 9% to 6%
 - Introducing 6% LAC
- For Groups 2 and 3, same as Option 1

	Min. CET1 / Min. Tier 1	Min. Total Capital	LAC requirement	PCB requirement	Total CET1	Total Capital + LAC
Group 1	6%	9%	6%	6%	12%	21%
Group 2	6%	9%	-	5%	11%	14%
Group 3	6%	9%	-	4% 5% w/o a credit rating	10% 11% w/o a credit rating	13% 14% w/o a credit rating



For info: APRA requirements

%		APRA once AT1 changes implemented	
		Advanced	Standardised
Minimum CET1		6	4.5
Minimum Tier 1		6	4.5
Minimum Total		9.25	8
Tier 2		3.25	3.5
LAC		4.5	0
Prudential Capital Buffer (all CET1)		4.5	3.5
Totals	CET1	10.5	8
	Tier 1	10.5	8
	Total + LAC	18.25	11.5

Note: Tier 2 plus LAC = 7.75 for advanced. Standardised numbers are minimum requirements for all Standardised ADIs, but may be supplemented with undisclosed Pillar 2 capital requirements.



6(a)





Reserve Bank
of New Zealand
Te Pūtea Matua

ANNEX 2

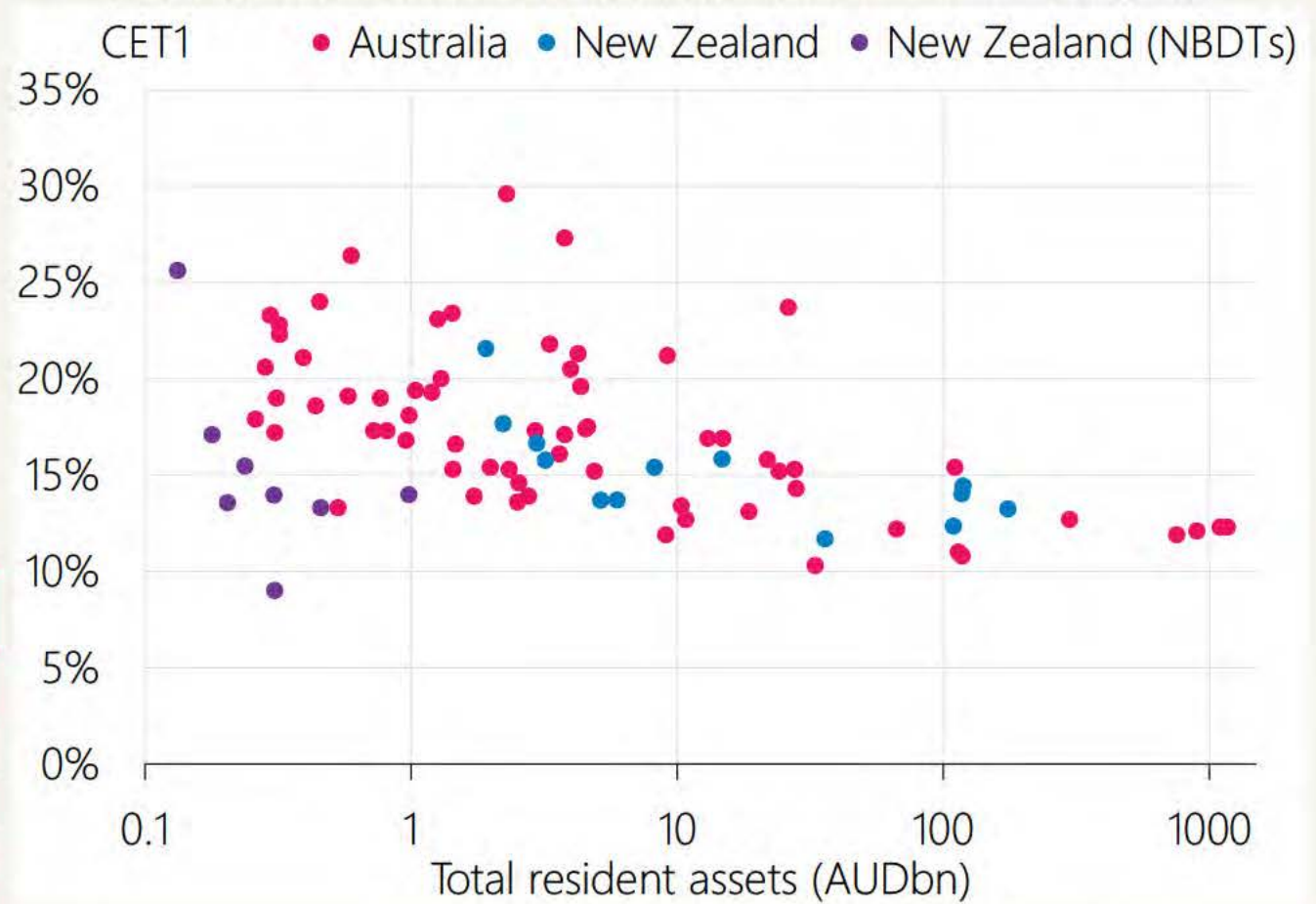
ADDITIONAL SLIDES FOLLOWING SUBMISSION TO FSOC

Pillar 2 is an important part of APRA's capital framework

- The combination of Pillar 2 requirements and supervisory guidance (e.g. through ICAAP) are a material part of APRA's framework, not reflected in baseline minimum ratios
- G2+G3 equivalent DTs in Australia have CET1 ratios in the high teens

Total assets (AUDbn)	Median CET1 ratio (June 2025)	
	New Zealand	Australia
100+	13.6%	12.2%
10-100	13.8%	14.8%
1-10	15.8%	17.4%
0.1-1	14.0%	19.0%

Figure: CET1 ratios vs. balance sheet size for Aus/NZ



Comparison with Australia – ratios

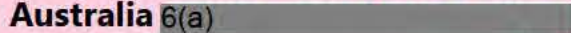
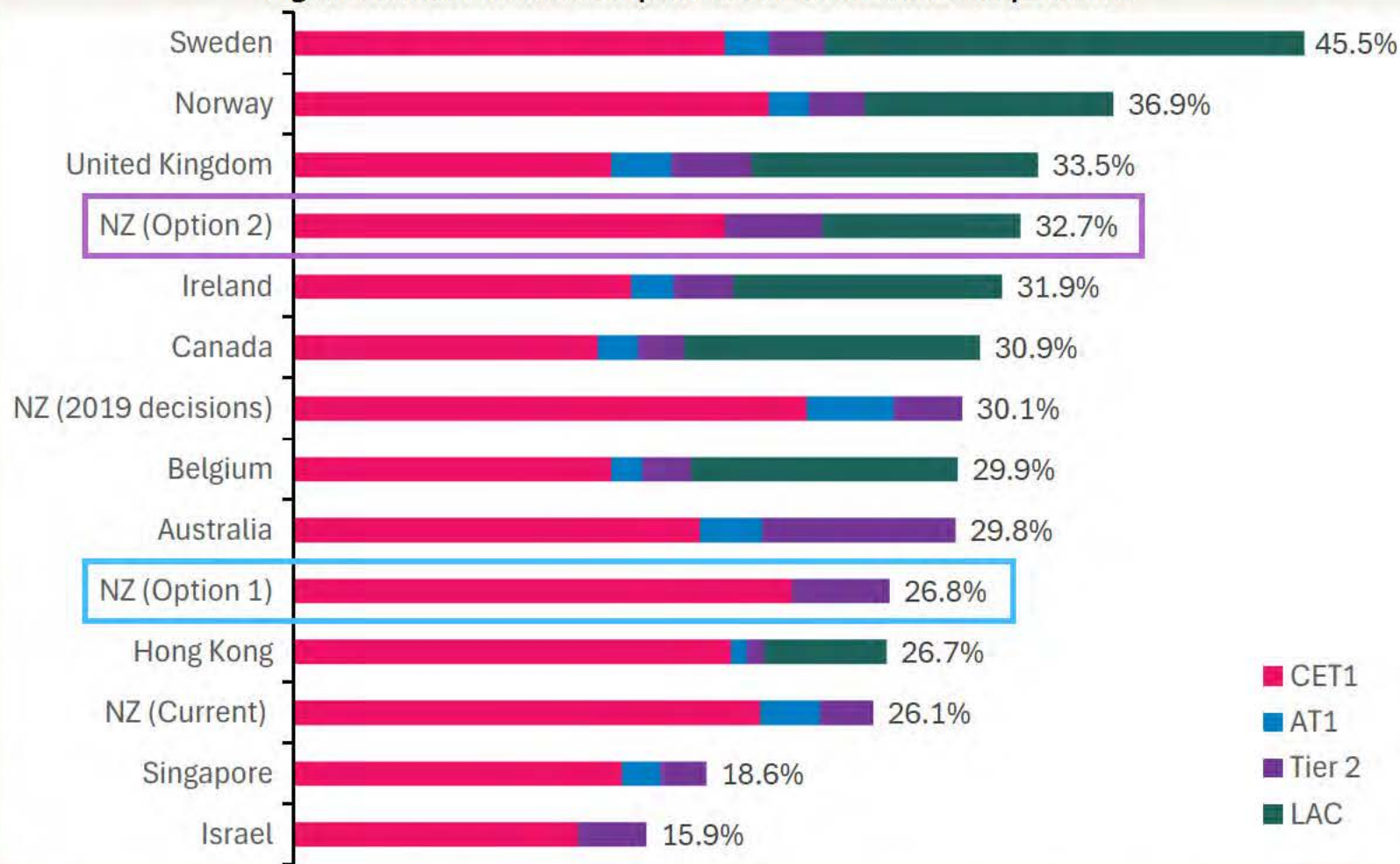
- Comparing capital ratio requirements is challenging – due to Pillar 2 differences, as well as different risk weights and output floors.
- The Oliver Wyman report attempts to adjust actual capital levels observed by country to account for these differences.
- Under **option 2** we are “in the pack” for TLAC, and about 2 percentage points above Australia.
Under **option 1** we are about 3 percentage points below Australia on TLAC (but higher on CET1).
- If we used APRA’s requirements (total=18.25%) instead of option 2 (21%) instead, **we would likely be below Australia 6(a)**  **even with NZ’s higher output floor/scalar and risk weights. We will provide further detail in due course.**

Figure: International comparison of TLAC and components

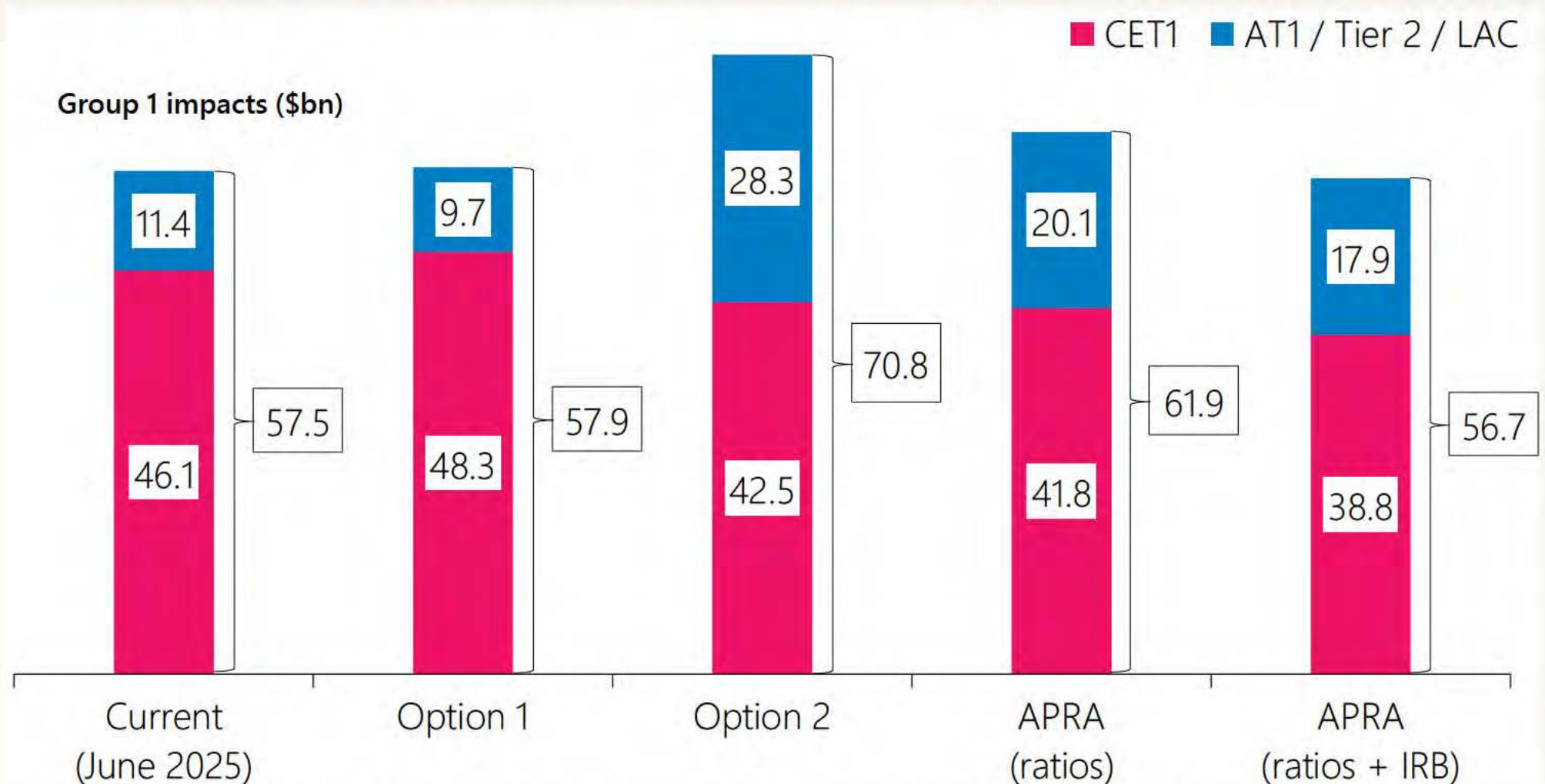


Notes:

- Projections based on 2019 decisions do not account for the impact of changing risk weights as proposed in the consultation paper. Projections for adjusted capital ratios under Options 1 and 2 do account for the proposed changes in risk weights in the consultation.
- Oliver Wyman graph Australia’s LAC as Tier 2 since it must have the same economic form as Tier 2 – it could instead be shaded green without affecting their overall TLAC.
- Option 1 and 2 and the 2019 decisions bars assume a 1% management buffer.



Comparison of Consultation Paper options and APRA stack – nominal capital amounts



Notes: APRA (ratios + IRB) assumes a 72.5% output floor and a 1.1 IRB scalar. APRA stacks do not account for any Pillar 2 requirements. Stacks other than Current (June 2025) assume a 1% CET1 voluntary management buffer. Calculations assume that banks' CET1 levels do not fall below their pre-2019 equivalents (this assumption is subject to further testing/modelling by the team).



Comparison with Australia – risk weights

- The risk weights proposed in the consultation paper are calibrated to the relative riskiness of different types of lending in New Zealand. **Some are higher and some are lower** than APRA.
- Oliver Wyman made a 780bps adjustment to current NZ CET1 ratios for differences to Basel (including standardised risk weights). Using the risk weights we consulted on, we estimate the New Zealand adjustment would reduce to around 650bps – leaving it **much closer to the Australian adjustment** of around 600bps.
- The following four slides show **the risk weights proposed** in the consultation paper and **the corresponding APRA risk weights**.

Key to following four slides

- **Light green** boxes show where APRA has *higher* risk weights than those proposed in the consultation paper
- **Dark green** boxes show where APRA has *lower* risk weights than those proposed in the consultation paper
- **Purple boxes** show where we proposed changes to risk weights in the consultation document



RML risk weights comparison with APRA

Loan type	RBNZ (%)	APRA (%)	Proposed (%)
LMI/No LMI, non-property investment loan, LVR <=50	35	20	25
LMI/No LMI, non-property investment loan, LVR 50.01 - 60	35	25	30
LMI/No LMI, non-property investment loan, LVR 60.01 - 70	35	30	35
LMI/No LMI, non-property investment loan, LVR 70.01 - 80	35	35	35
No LMI, non-property investment loan, LVR 80.01 - 90	50	50	50
No LMI, non-property investment loan, LVR 90.01 - 100	75	70	75
No LMI, non-property investment loan, LVR > 100	100	85	100
LMI, non-property investment loan, LVR 80.01 - 90	35	40	35
LMI, non-property investment loan, LVR 90.01 - 100	50	55	50
LMI, non-property investment loan, LVR > 100	100	70	100
LMI/No LMI, non-property investment interest-only loan, LVR > 80, loan term > 5 yrs / unknown	100	100	100
LMI/No LMI, property investment loan, LVR <=50	40	25	30
LMI/No LMI, property investment loan, LVR 50.01 - 60	40	30	35
LMI/No LMI, property investment loan, LVR 60.01 - 70	40	40	40
LMI/No LMI, property investment loan, LVR 70.01 - 80	40	45	40
No LMI, property investment loan, LVR 80.01 - 90	70	65	70
No LMI, property investment loan, LVR 90.01 - 100	90	85	90
No LMI, property investment loan, LVR > 100	100	105	100
LMI, property investment loan, LVR 80.01 - 90	50	50	50
LMI, property investment loan, LVR 90.01 - 100	75	70	75
LMI, property investment loan, LVR > 100	100	85	100
LMI/No LMI, property investment interest-only loan, LVR > 80, loan term > 5 yrs / unknown	100	100	100

LMI = Lender's Mortgage Insurance

Corporate risk weights comparison with APRA

Rating grade	RBNZ (%)	APRA (%)	New (%)
1	20	20	20
2	50	50	50
3	100	75	100
4	100	100	100
5	150	150	150
6	150	150	150
Unrated	Unrated (subject to sections C2.8 & C2.10): 100	Unrated SME retail: 75 Unrated SME corporate: 85 Other unrated: either all 100 or 'investment grade' = 85 or 'non-investment grade' = 110	Unrated SME retail: 75 Unrated SME corporate: 85
Specialised lending	Project finance: 100 Object & commodities finance: 100	Project finance: 110 Object & commodities finance: 100	Project finance: 100 Object & commodities finance: 100

Agriculture and Community Housing Providers ³⁷

Type of lending	RBNZ(%)	APRA (%)	Proposed (%)
Agriculture with LVR ≤ 30	100	No separate category. Most likely treated as commercial property with LVR<60 = 60% risk weight	50
Agriculture with LVR 30.01 – 50	100	No separate category. Most likely treated as commercial property with LVR<60 = 60% risk weight	75
Agriculture with LVR > 50	100	Likely treated as either SME or commercial property with LVR>60 = 75–110% risk weight	100
Community housing providers / housing co-operatives	No specific category. Treated as corporate or IPRE (risk weight floor of 70%) by IRBs; treated as RML or corporate by Standardised deposit takers, risk weight depends on LVR/credit rating.	No specific category. IRBs have to treat as IPRE (Income-Producing Real Estate); Standardised have to treat as RML.	New category with the same risk weights as investor RML for both Standardised and IRB deposit takers

Other risk weight comparisons with APRA

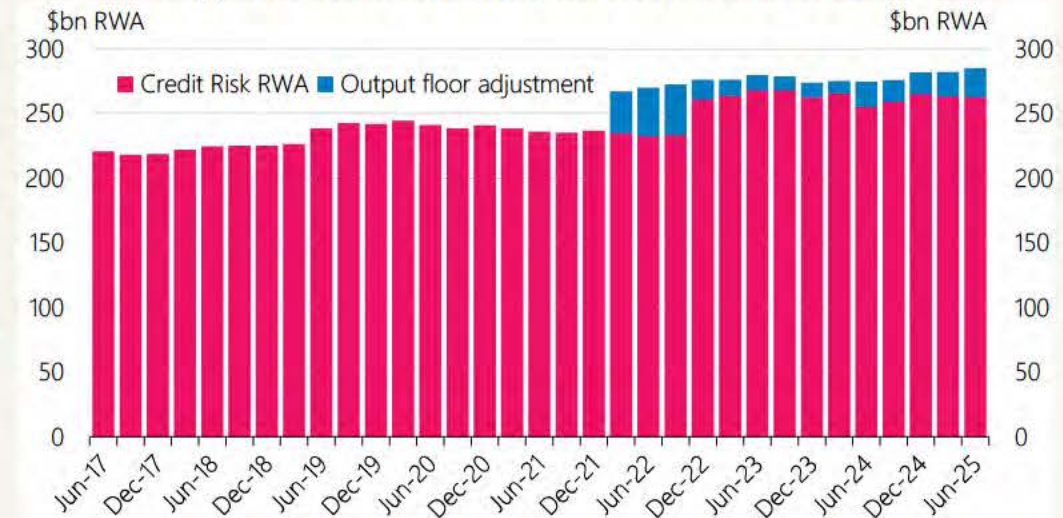
Type of lending	RBNZ(%)	APRA (%)	Our proposed approach
Commercial property	No separate category. Captured under corporate. If rated, then risk weight according to rating (20–150%); if not then 100%	For property dependent on cash flows: LVR \leq 60 = 70 LVR 60.01–80 = 90 LVR > 80 = 110	We proposed a separate category (with 100% risk weight) but needed more data through the consultation. We're open to more granularity, and assessing evidence provided and potential impact of introducing more granularity here.
Personal lending	No separate category. Treated as "Other" exposure with 100% risk weight.	Credit cards: 75 Other retail: 100	We asked about introducing 2 categories (secured and unsecured with 100% and 150% risk weights respectively, aligned with current NBDT treatment) but needed more data through the consultation. We're assessing evidence provided and potential impact of introducing granularity here.
Reverse mortgages	LVR 30.01 – 60 = 50 LVR 60.01 – 80 = 80 LVR > 80.01 = 100	LVR \leq 60 = 50 LVR > 60 = 100 Other non-standard = 100	Reviewed 2 years ago so weren't planning to review again. However, we will assess relevant evidence in the submissions.
Past-due RML	Without LMI = 100% With LMI = RML risk weight	Owner-occupier with LMI = 80 Owner-occupier without LMI = 100 Other standard with LMI = 95 Other standard without LMI = 120 Non-standard = 150	We proposed aligning with the APRA risk weights. We're currently assessing the evidence provided in the submissions and potential impact of doing so.

Output floor and IRB scalar (1)

NZ's output floor (85%) and scalar (1.2x) are calibrated for NZ circumstances to:

- provide meaningful backstop
 - reduce competitive disadvantages
 - preserve risk sensitivity/benefits of models
- Basel 72.5% floor was a political compromise between EU and US supervisors, not an analytical solution
 - A stronger output floor reflects the relatively low complexity/scale of NZ's IRB banks vs. others (limited value add from models for homogenous lending, e.g. mortgages, which make up a large part of banks' portfolios). Non-IRB banks argue there shouldn't be a capital discount for comparable lending in the same market.
 - It is also consistent with a less intensive supervisory approach in NZ and limited resourcing dedicated to model scrutiny

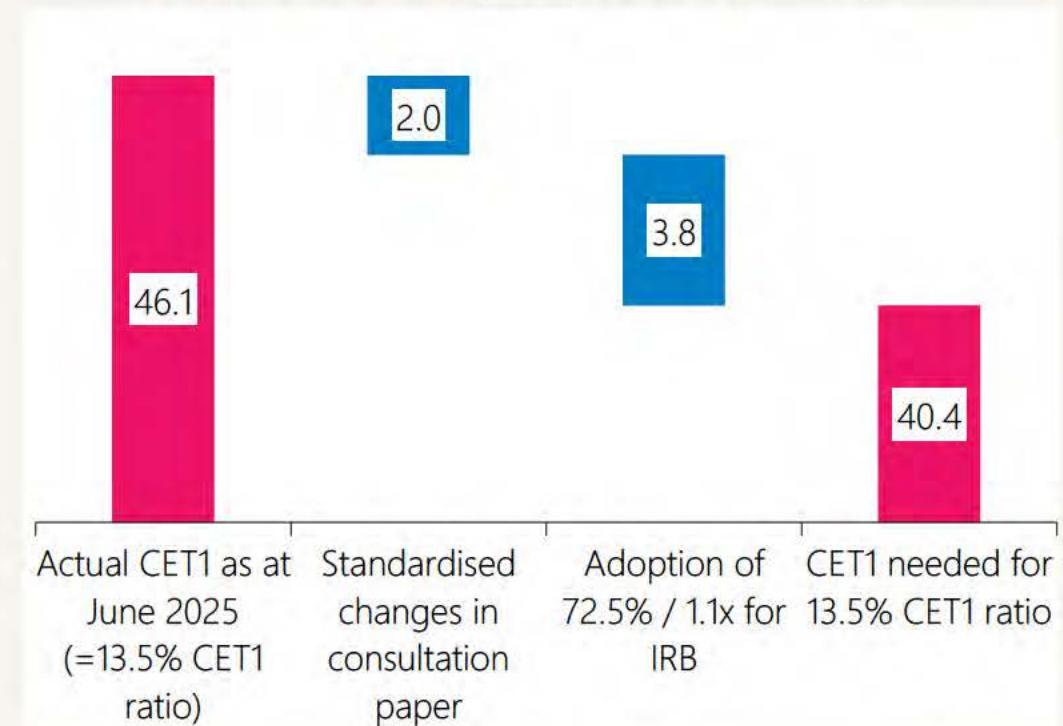
Figure: IRB banks' credit risk RWAs



Output floor and IRB scalar (2)

- APRA does not flow through our floor/scalar at Level 2, so to the extent APRA's Level 2 capital requirements are the binding determinant of capital allocations within the group, a high RBNZ floor is less of a concern
- The proposed Standardised changes already provide an effective relaxation of the output floor (on its own a ~6% reduction in capital required for the 4 IRB banks, in aggregate)
- Adopting APRA's IRB calibration in NZ (72.5%, 1.1x scalar) would further reduce capital needed by ~10%, reducing resilience and exacerbating "level playing field" concerns by non-IRB banks. This effect compounds with changes to capital ratios.

Figure: Incremental impact of risk weight/IRB changes on Group 1 capital

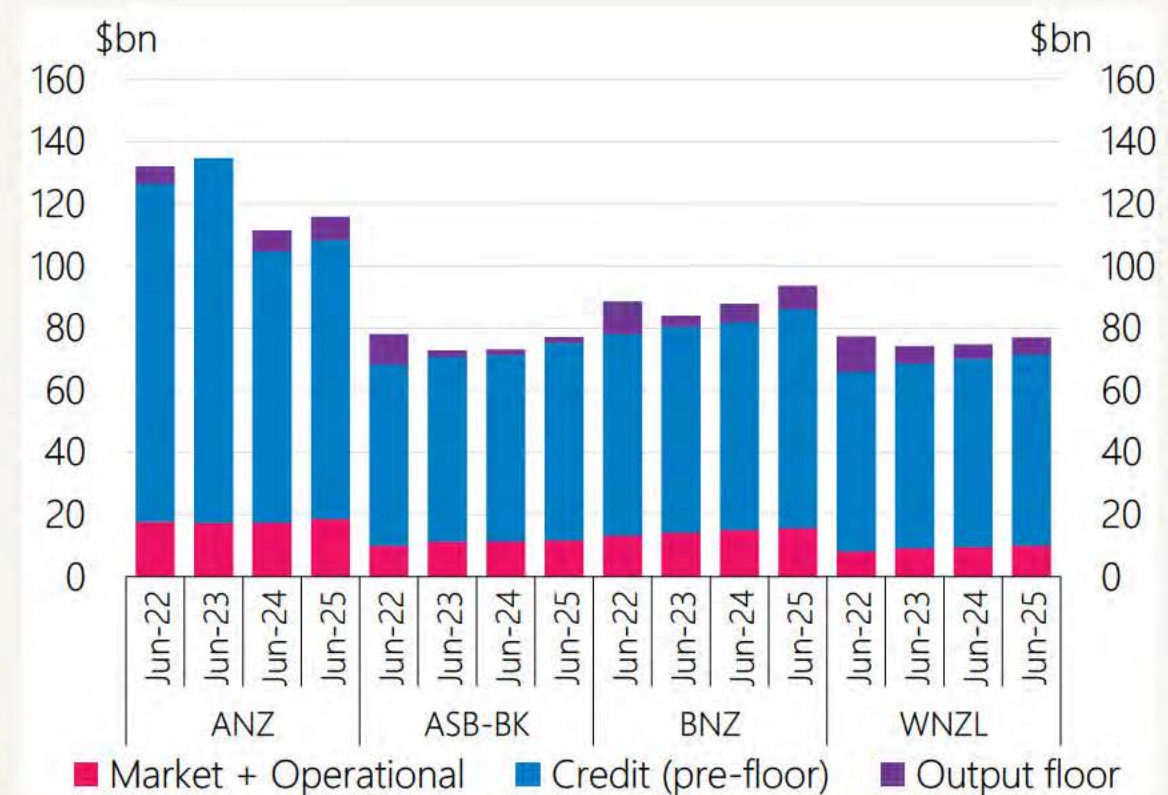


Output floor

- The 'bindingness' of the output floor varies across banks, and across time given IRB risk weights can move more closely to economic cycles
- Changes to Standardised risk weights as proposed in the consultation effectively lessen the impact of the current output floor
- We anticipate it will bind less (and not at all for some banks) – we can provide more detail/analysis on this in due course

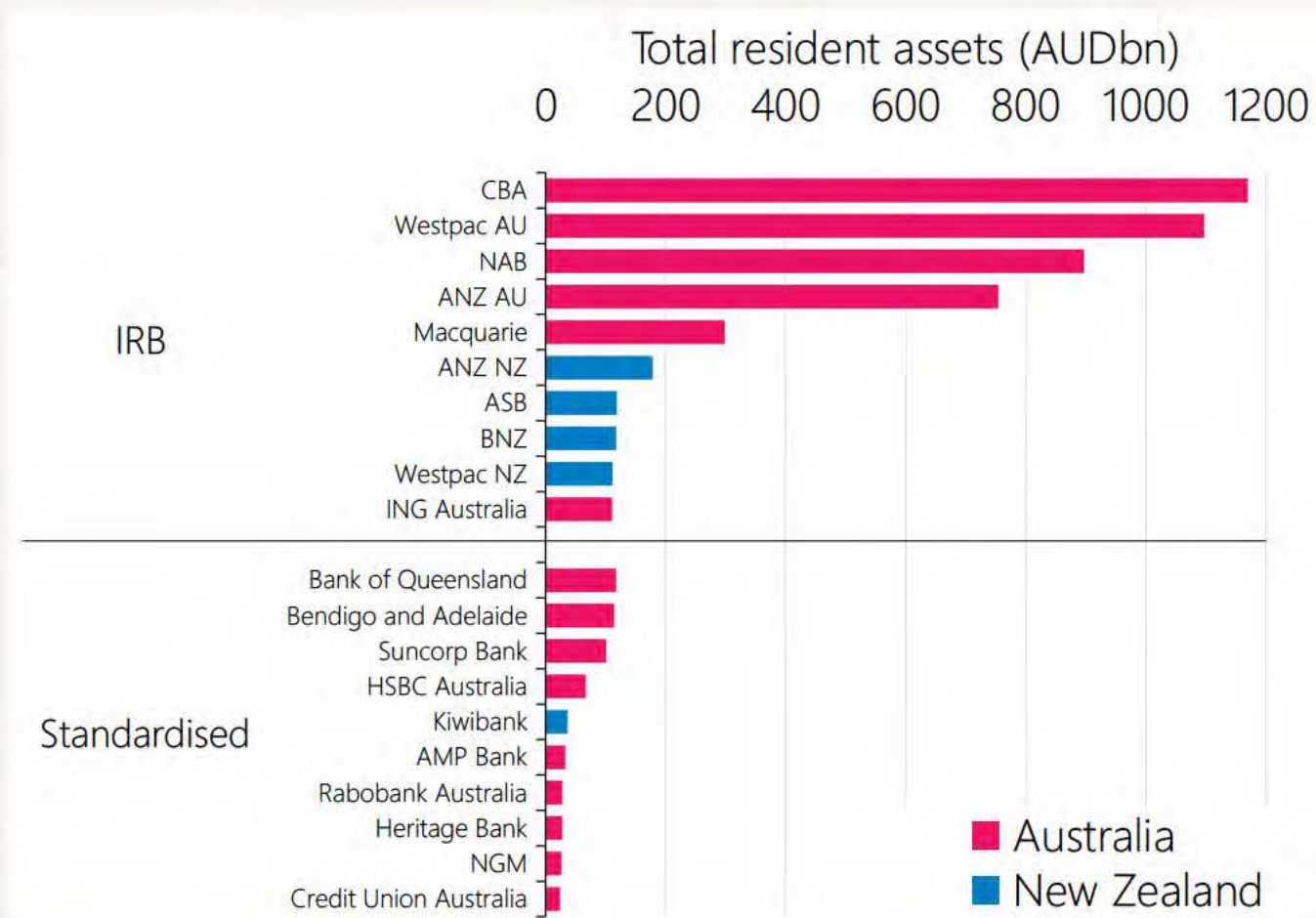
Figure: IRB banks' RWAs by category

(source: RBNZ dashboard)



IRB vs. Standardised banks

- 6 ADIs are accredited in Australia (big 4 plus Macquarie, ING Australia)
- 4 NZ IRB banks are relatively small, though benefit from parents' expertise
- Historically, the bar for accreditation has proven to be relatively high in both countries (due to data, systems, governance requirements etc.)
- APRA is looking at internal process changes that would allow more mid-sized banks to become accredited (e.g. partial use of IRB for some portfolios)



Engagement with stakeholders

Our engagement approach has been to be **proactive and open**

Positive feedback from stakeholders about RBNZ's approach:

- *in listening mode*
- *constructive engagement, positive experience, genuinely listening*
 - *collaborative approach with APRA*

Since we released the Consultation paper

- Held a public webinar for over 150 stakeholders to explain Consultation Paper and answer questions
- Bilateral meetings (*ANZ, BNZ x3, Westpac, Kiwibank, Martien Lubberink*)
- Facilitated meeting with international experts for stakeholders to give their views (closed door bilaterals with *ANZ, ASB, BNZ, Westpac, Kiwibank, Heartland, Rabobank and NBDT Association*)
- Close correspondence with APRA to provide consistent messaging to Industry
- Regular engagement with The Treasury, MoF and MoF's office

Planned future engagements

- Continue bilaterals, including on Community Housing (*ASB, Emerge Aotearoa, Community Housing Aotearoa, Salvation Army*) and with NBDTs (*NBDT Association, NBS*)
- Meeting with NBDT Reference group in November to test NBDT implementation timeline to ensure that it is feasible to implement
- Angus/Jess to engage further with deposit takers
- Continue close engagement with APRA, particularly on the Option 2 design



Next steps to reach decisions

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>If updates required post-FSOC, 5 December</i>	<i>Board paper</i> We will submit a Board paper that mirrors with the FSOC paper. However, if changes and/or supplementary information is required after the FSOC meeting, we intend to provide this by 5 December.



Communications approach for decisions

How we communicate the Review decisions is a key consideration

As set out in our Te Kete of 1 October, after the Board considers final decisions on 11 December, there will be two announcements:

15 or 16 December 2025

- **Media release** containing:
 - Key finalised settings resulting from the Review (capital ratios and risk weights)
 - Broad implementation timeline
- Updating our website with **key documents**:
 - **Submissions** on the Consultation Paper
 - Independent international **experts' reports**

February 2026

- **Media release** for the release of our response to submissions
- Updating our website with the rest of the **supporting documentation**:
 - Summary of submissions with our detailed responses to them
 - Updated CBA
 - Full implementation schedule for deposit takers

