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Update: Review of Key Capital Settings at 31 October 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 4 November 2025.

Key updates

- We received more than 40 high quality submissions, from a range of stakeholders.
- Stakeholder engagement continues to go well, including through workshops where stakeholders could speak directly to the international experts.
- The submissions have not raised any matters of concern, and we remain on track with timing for the Review.
- The key issues of focus for us now are:
 - the articulation of the Board’s risk appetite,
 - the comparison with the Australian Prudential Regulation Authority’s rules,
 - whether there can be additional granularity in some risk weights,
 - re-testing the proposals on the output floor and scalar in light of competing feedback from small and large deposit takers, and
 - refining our external communications strategy – which will be key to ensuring the outcomes are well understood and enduring, and stakeholders feel as though we have addressed all of their feedback.
- We have collaborated closely with the Treasury to address their feedback.

Consultation Paper submissions

Consultation on the Review's Consultation Paper (**Consultation Paper**) ran from 25 August to 3 October 2025. We received 43 submissions from different stakeholders including:

- **6(a)**
- 6 submissions from Group 1 deposit takers / parent banks
- 8 submissions from Group 2 deposit takers
- 5 submissions from Group 3 deposit takers
- 14 submissions from industry bodies / other organisations
- 9 submissions from individuals.

High level summary of the feedback on the Consultation Paper

Most submitters are supportive of the direction of travel – though many deposit takers, not unexpectedly, are pushing for us to lower capital further. This section provides a high-level summary of the feedback, and **Annex 1** goes into more detail on the submissions we received.

There is strong support for removing AT1 capital and more granular standardised risk weights. We are currently analysing the additional data we have received on risk weights to consider further refinements.

Feedback from submitters on the options (Option 1 is an option without Loss-Absorbing Capacity (or **LAC**) instruments and Option 2 is an option that includes LAC instruments) is:

- **Group 1 deposit takers** all prefer Option 2 with the additional LAC instruments – though many have suggested we go further than this option and consider an option that is aligned with Australia's requirements. We are undertaking further analysis on this feedback, and this is discussed in further detail in the 'Focus of analysis ahead of making final decisions' section below.
- **Group 2 deposit takers** 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. They also want standardised risk weights reduced further to match with Australian requirements.
- **Group 3 deposit takers** continue to push for early adoption of new risk weights, including further reductions in 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 commentors** – with some arguing there should be no reductions in capital at all, and others arguing capital should be reduced further than our proposals.

Focus of analysis ahead of making final decisions

We are analysing all the feedback very carefully and considering where changes may be needed on the back of the feedback. Through this process we have worked closely with the Treasury to explain our analysis as we undertake it and hear their feedback in their role as providing challenge to our advice in the Review. The matters raised in T2025/2719 have largely been addressed, and many of the suggestions relate to the way the decisions are communicated. The Board is carefully considering the communication strategy, and we will share this with your office in advance of announcements.

It is important that the decisions in the Review are credible and enduring to ensure that we have a capital framework that is **simple, strong, and proportionate**. This is why we have moved away “1-in-X year event” basis for our risk appetite and instead have focused on benchmarking against a range of comparator countries. We also intend to monitor our position over time.

Alignment with Australia

As noted above, Group 1 deposit takers argued for aligning with the capital ratio requirements in Australia. For Group 1 deposit takers, the Australian Prudential Regulation Authority (APRA) require 18.25% capital, including LAC, compared with 21% proposed under Option 2. We are analysing this option fully (including updating our cost benefit analysis for this option) ahead of seeking final decisions from the Board in December.

While aligning with Australian settings could bring efficiencies (e.g. requiring a New Zealand subsidiary to hold capital instruments that could be accepted by APRA would decrease funding costs to the parent), it is important to ensure we are clear about what this would mean. The proposals in the consultation would go a long way towards aligning our overall framework more closely with Australia’s, especially under Option 2. For example, we would be applying the same simple categories of instruments as Australia (Tier 1 and Tier 2/LAC), supporting trans-Tasman resolution.

However, “aligning with APRA” does not mean adopting the same statutory ratios for capital, as this is not comparing like-with-like. **6(a)**



Figure 1: Comparison of Group 1 capital requirements

	Option 1 (%)	Option 2 (%)	APRA requirements (%)	Observed capital ratios for Australian Group 1 equivalent banks (%)	Difference between requirements and observed ratios in Australia
Tier 1	14	12	10.5	~12.3	~1.8
Tier 2 (including LAC)	3	9	7.75	~8.65	~0.9

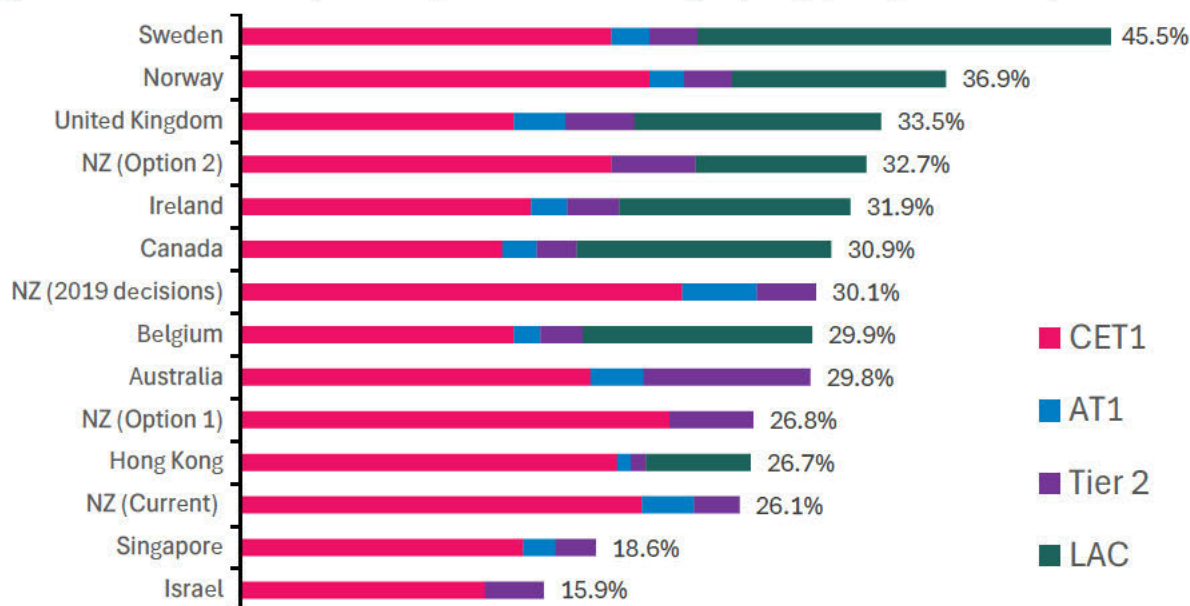
	Option 1 (%)	Option 2 (%)	APRA requirements (%)	Observed capital ratios for Australian Group 1 equivalent banks (%)	Difference between requirements and observed ratios in Australia
Total	17	21	18.25	~21	~2.75

Australia does mostly have lower average risk weights than we do. Australia also applies a lower output floor and scalar to the calculation of risk weights in Internal Rating-Based (IRB) model approaches – which means the largest banks’ average risk weights can deviate further from the risk weights other banks apply. Many of the smaller banks in New Zealand already consider the output floor of 85% to be too low. Reducing this to 72.5% as in Australia would further reduce the risk weights for the large banks relative to the smaller ones. However, our proposals in the consultation would more closely align our standardised risk weights with Australia’s, and we are considering feedback on whether there are further changes we should make.¹

The Oliver Wyman report commissioned as part of the review helps illustrate the difference between Australia and New Zealand when differences in risk weights and output floors are taken into account. Our analysis suggests that aligning with APRA’s ratio, output floor, scalar and risk weight requirements would likely leave New Zealand below Australia in Figure 2 below **6(a)**

6(a)

Figure 2: International comparisons of Total Loss-Absorbing Capacity (TLAC) and its 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.

Furthermore, there are features of our system that suggest we should have more capital than Australia – rather than less as could be implied by alignment. There is not an easy way to identify

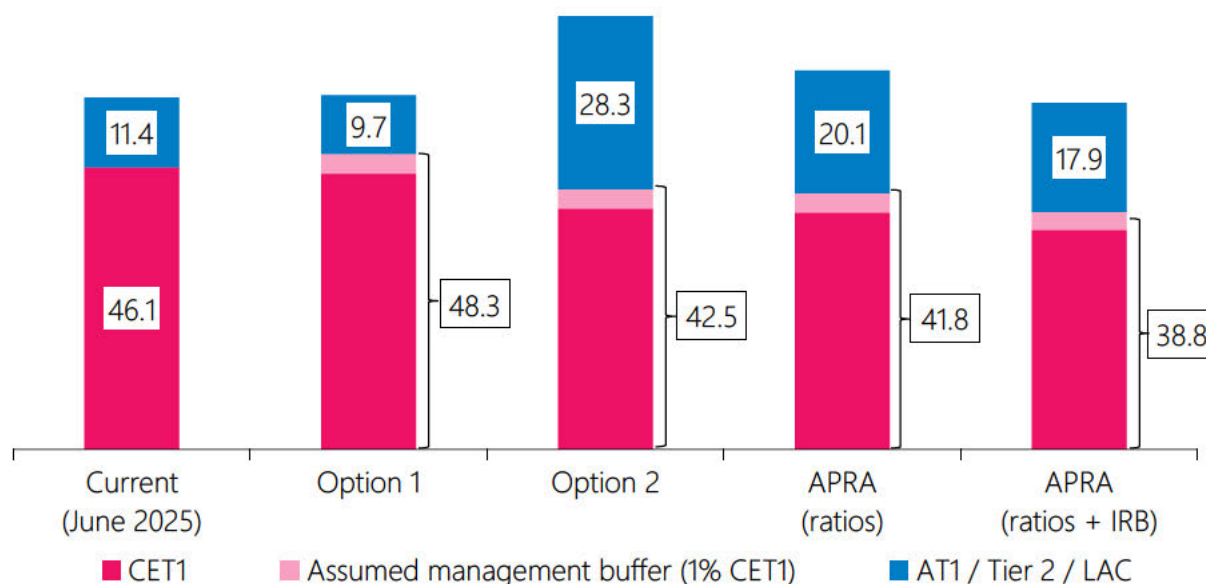
¹ Oliver Wyman made a 780bps adjustment to current NZ CET1 ratios for differences to Basel (including standardised risk weights). Using the risk weights we consulted on, we estimate the New Zealand adjustment would reduce to around 650bps – leaving it much closer to the Australian adjustment of around 600bps.

how much each of these contributes to the overall level we set above Australia, nevertheless they are all important considerations.

- We are a host jurisdiction, so we need to ensure that the NZ subsidiaries are well capitalised and self-sufficient. Host jurisdictions tend to have higher requirements as they are not able to fully observe and supervise all group risk, nor can capital elsewhere in the banking group be relied upon to readily absorb local losses.
- The New Zealand economy and banking industry is less diversified and riskier than Australia's. This is acknowledged for example in rating agencies' reports on NZ's major banks, which receive a lower standalone credit rating than their parents. Risk-weighting rules under the Standardised approach do not try to capture these 'macroeconomic' differences. This justifies higher capital levels to mitigate the risk to remain within the statutory and Board risk appetite.
- There is no legislative barrier to the Australian Government providing support to a failing entity, while in contrast our legislation explicitly requires us to minimise the risk of government support. Therefore, our risk appetite for failure is lower by statute.
- Our market participants, and the Reserve Bank as a regulator, are smaller and less well-resourced than in Australia. This means we do not have the data, expertise and resource to model risk to the same extent as in Australia. This lends itself to a simpler, but somewhat more conservative, approach to regulation – in particular our higher output floor and scalar.

Finally, alignment with APRA on ratios and the output floor and scalar would see a large fall in 'going concern' high-quality Common Equity Tier 1 (CET1) capital for Group 1 deposit takers compared with current levels (see Figure 3 below). This could potentially result in an outflow of equity capital from New Zealand back to Australia in the form of dividends, share redemptions or other financial transactions.

Figure 3: Group 1 impacts of options on nominal amounts of capital (\$bn)



Note: APRA (ratios + IRB) assumes a 72.5% output floor and a 1.1 IRB scalar. This is based on the risk weights included in the Consultation Paper.

Other analysis

As well as considering an option with full alignment with APRA, we are actively considering the pros and cons of range of other feedback. In particular, we are:

- Developing the design of **LAC instruments**.
- Considering the minimum viable settings for **Group 3 deposit takers** and whether there is any scope to adjust their settings to increase proportionality while maintaining the safety and soundness of individual deposit takers.
- Conducting analysis on any **refined capital ratio options**, including updated cost benefit analysis.
- Working through the feedback on **standardised risk weights** and considering where further granularity may be warranted.
- Developing a **transition plan** for AT1 capital instruments.

Stakeholder engagement

Industry

We continued to meet with stakeholders during the consultation period (RBNZ #6315 refers), and feedback on our engagement approach has highlighted that stakeholders feel our engagement is constructive and positive. As we continue to analyse the submissions we received on the Consultation Paper, we are also meeting with some deposit takers, including Community Housing Providers and non-bank deposit takers (**NBDTs**), to better understand their submissions.

As we intend to prioritise bringing forward the Review's decisions where practicable, we will also advise the Board on an implementation timeline. To ensure that what we propose is manageable for NBDTs, we are meeting with the NBDT Reference Group in November to understand the feasibility of different implementation timings. This will inform our advice to you on amending the NBDT regulations to enable these changes that we will provide you once decisions are made.

Independent international experts' meetings with stakeholders

On 15 October, we organised and facilitated a session for the independent international experts to hear oral submissions from stakeholders. This involved closed door meetings with some New Zealand Banking Association members (ANZ, ASB, BNZ, Westpac, Kiwibank, Heartland, Rabobank) and the NBDT Association. This provided submitters an opportunity for them to present the nuances of their submissions, and for the international experts to ask questions in response. Feedback on these meetings has been positive, and stakeholders appreciated the opportunity to engage with the independent international experts directly.

APRA

We regularly engage with APRA on Trans-Tasman crisis preparedness for the Group 1 banks. We are currently engaging with them on the potential design of internal LAC. **6(a)**

6(a) We are concerned to avoid any unintended interactions between the way we envisage designing LAC instruments and the Australian regulatory framework. **6(a)**

international guidance (particularly the Financial Stability Board Internal TLAC Standard), which matches our intentions. We will engage further before reaching final decisions **6(a)** [REDACTED] If LAC is included in the final framework, we would consult on the detailed design of instruments during 2026.

Next steps

As previously updated (RBNZ #6315 refers), the main milestones until the end of the year are:

Month	Targeted milestone
November	<p>We will continue to refine options based on consultation feedback and feedback from the independent international experts.</p> <p>We will update you at our November meeting on the progress of the review.</p> <p>You will meet with the independent international experts on 12 November to hear their views.</p>
December	<p>The independent international experts will finalise their reports confirming their views on the finalised capital settings decided by the Board.</p> <p>The Board will meet to decide on finalised capital settings.</p> <p>We will update you on the Board's decision on finalised capital settings</p>

High-level implementation plan for Review decisions

Figure 4 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 you 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.

Figure 4: 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 to submissions, an updated cost benefit analysis 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> <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>	
H2 2026	<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>	
2027		<p>February-April 2027: Consultation on an exposure draft of a "Bail-in Standard".</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>
2028	<p>1 December 2028: Capital Standard commences, annual step change in capital ratios.</p> <p>Late 2028: Crisis Preparedness Standard issued.</p>	
2029 and beyond	TBC: Implementation of new capital ratio requirements expected to be complete in 2029.	TBC: Finalise transition to new capital ratio requirements and introduce LAC requirements.

Monitoring the impacts of capital requirements

Ensuring we understand the impacts of the capital requirements is important to ensuring we have the calibrated the settings correctly for New Zealand and is core to our role as regulatory stewards. We expect to monitor the impacts and publish our findings every two years as we have been doing under the 2019 Capital Review.

The kinds of things we would expect to monitor are:

- Trends in amounts and prices of different capital instruments issued, and whether costs of capital are tracking in line with our expectations.
- Trends in lending rates (by sector), banks' profits and return on equity.

We note that the changes will be implemented over several years to give deposit takers time to adjust and need to be in place for a period before we can assess the impacts of the decisions. Therefore, our first monitoring report would likely be in 2027 or 2028 in order to allow deposit takers to transition.

We also intend to monitor changes in observed risk weights and comparisons between modelling and standardised outcomes and look for opportunities to continuously improve our settings.

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Annex 1 – Summary of Consultation Paper submissions

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Capital stack

Group 1 deposit takers

The majority of Group 1 deposit takers support Option 2 over Option 1

However, this is mainly conditional on LAC instruments (and revised Tier 2 capital) satisfying APRA rules (e.g. being Basel/FSB compliant). Some also discussed that they perceived there were potential costs to the New Zealand subsidiary to having substantially different capital compared to APRA.

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

They 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. Many argued lower capital requirements would reduce lending rates and increase lending volumes.

Group 2 deposit takers

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

Some Group 2 deposit takers believe that since Option 2 requires the use of internal LAC, this is a barrier to domestic banks moving to Group 1. They also argued that Option 2 has less proportionality than Option 1 because Group 1 deposit takers benefit more under this option than under Option 1. Concerns were also raised by Group 2s that that an internal LAC model could reduce the depth of the market for Group 2's Tier 2 instruments.

Some deposit takers wanted clarity on how Tier 2 for Group 2 deposit takers would work (i.e. whether these instruments would have write down or conversion features as well). Group 3 deposit takers

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 deposit takers based on a higher risk appetite but did not propose ratio reductions for Group 3 deposit takers (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.

Cross-cutting feedback

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). This would lead to lower risk weights for these deposit takers.

Group 2 deposit takers generally want the output floor increased to 100% to support proportionality. These deposit takers argue that a lower output floor restricts their ability to compete with the larger deposit takers.

Some non-deposit taker respondents oppose any reduction in requirements and prefer we stay with the 2019 decisions.

This included a submission from an independent expert to the 2019 Review. There was concern from these submitters that changes prioritise short-term economic gain at the cost of long-term financial stability.

No opposition to proposal to remove Additional Tier 1 (AT1) – respondents agreed with reasons given in the consultation

Group 1 deposit takers were primarily concerned with orderly transition. Group 3 (and some Group 2) deposit takers want AT1 replaced with more Tier 2 rather than CET1 (consistent with APRA's approach for smaller authorised deposit-taking institutions).

Submitters noted that transitional arrangements need careful management including early communication. There was a greater level of support for a gradual derecognition of AT1 than immediately recognising AT1 as Tier 2 capital. They noted the importance of avoiding market disruption. The greatest impact of removing AT1 is on one Group 3 deposit taker – Nelson Building Society has around 50% of its regulatory capital as perpetual preference shares.

Standardised risk weights

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

Most submitters proposed further reductions to align completely with APRA/Basel or quantitatively justify any deviations from these frameworks. Some submitters proposed other risk weights that should be reduced further to match Basel/APRA.

Submitters noted that they 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 as soon as possible (well before Dec 2028).

Feedback on specific lending categories could be summarised as:

- Most submitters supported residential mortgage lending changes but wanted more granularity and lower risk weights that mirror APRA.
- Submitters supported a new commercial property category, but would like more granularity to better align with risk.
- Support for new small and medium enterprise (**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 agricultural risk weights (with some exceptions); some submitters proposed alternative loan-to-value 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 Community Housing Provider category with its own risk weights (most, but not all, support alignment with residential mortgage lending investor risk weights).

Other themes in submissions

A third of submissions had opposing views on our assessment of how risk and policy settings changes since the last review should impact settings

Some submitters argued that 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. Some submitters also argued that there were additional risks in the economic environment compared to 2019 that we need to account for.

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.

Submitters generally supported the assessment criteria

Some submitters had comments on how we weight particular criterion (e.g. the importance of international alignment, proportionality, and competition). A submitter suggested that the criteria should also include an assessment against the relevant recommendations made in the Finance and Expenditure's inquiry into banking competition (**FEC Inquiry**).

Many submissions agreed that a higher risk appetite is appropriate

There was 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.

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

There were 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 prudential capital buffer).

There were mixed views on not applying to Group 3 deposit takers – there was agreement on taking a consistent approach with other macroprudential tools, but some noted that not applying CCyB to Group 3 deposit takers may lead to competitive imbalances during a downturn.

The specific feedback on the cost benefit analysis 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.