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TO: Hon Nicola Willis, Minister of Finance

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Update: Review of Key Capital Settings (as of 29 May 2025)

Purpose

At our meeting on 14 May 2025, we offered to provide you with regular updates on the Review of Key Capital Settings (**the Review**) and arrange 2-3 weekly meetings to discuss the progress on the Review and other prudential policy matters (especially those matters where you are the decision maker).

This is the first such update and provides you with information on the Review to support our meeting on 3 June.

It should be read alongside the accompanying paper (RBNZ #6289) on our reprioritised prudential policy work programme.

Key updates

The finalised Terms of Reference (which incorporated your feedback) was published on the Reserve Bank's webpage¹ alongside the release of the May 2025 Financial Stability Report.

Project planning

We have developed a project plan and timeframe to ensure delivery of a position paper for public consultation by August/September. This will allow decisions to be made in December and accelerated implementation of these decisions to commence in early 2026. Annex 1 shows the high-level timeframe and provides status updates on key workstreams.

Stakeholder communication plan

We intend to regularly update the Review website, including with the project plan and timeframes. This will ensure consultation is fast and efficient.

¹ At <https://www.rbnz.govt.nz/regulation-and-supervision/oversight-of-banks/how-we-regulate-and-supervise-banks/our-policy-work-for-bank-oversight/2025-review-of-key-capital-settings>

International experts

We are pleased to have secured two of the top banking and competition experts in the world to review our analysis, options and recommendations, and to support our decisionmakers:

- Sir John Vickers, Professor of Economics at Oxford University. Sir John is a former Chief Economist at the Bank of England and was Chair of the 2010-11 UK Independent Commission on Banking. He is an expert in competition and regulation.
- Thorsten Beck is Director, European University Institute and is co-chair of the Advisory Scientific Committee of the European Systemic Risk Board. He is an expert in the relationship between finance and economic development.

We are in the process of finalising their procurement. We are also in discussions with a third international expert who also has bank/commercial experience.

We are also in the process of procuring an independent report comparing capital requirements in New Zealand with overseas jurisdictions. This is a complex technical exercise, and it has been challenging to source firms that have the capability and capacity to deliver this report in the timeframes required. However, we are pleased to now have a short list of firms that have the skills and expertise to perform this work.

Analysis

We are progressing policy analysis to inform the position paper in August/September.

Annex 2 shows an overview of our analytical approach to the Review. Our current focus is on:

- Assessing key developments since the 2019 Capital Review (e.g. an enhanced crisis management framework including the introduction of the Deposit Compensation Scheme), including ensuring that we captured key commentary (e.g. submissions to the Finance and Expenditure's banking inquiry)
- Determining the role of Additional Tier 1 capital
- Developing options for more granular risk weights based on the additional data sourced from banks earlier in the year
- Testing a range of options for overall capital ratios and other settings – considering proportionality and the balance between going concern and gone concern capital.

Involvement of the Treasury

The Treasury was consulted on this aide memoire. They will play a significant role in testing and challenging our analysis (as per their roles under the RBNZ/Treasury Memorandum of Understanding).

Next steps

The high-level steps for the next few months are:

Month	Milestone
June	The Reserve Bank's Board will review our initial analysis.
	We will brief our international experts on New Zealand's capital settings and support them in their reviewing of our analysis.
	We will commence engagement with deposit takers (banks and non-bank deposit takers) ahead of the consultation to outline the review's analytical approach and timeline.
	We will meet with you and provide you with another update in late June. We are also able to keep your office updated on a more informal and frequent basis if that would be helpful.
July	We expect the Reserve Bank Board to reach preferred policy positions to consult on, following discussion with the international experts.
	We will update you on those positions ahead of publication and seek your feedback.
August	We will publish a consultation paper seeking feedback on our analysis and proposed options and we will commence workshops with stakeholders.
	We will provide you with a further update as we receive feedback from stakeholders that will inform the next stage of analysis.

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Annex 1 – Status update at 29 May 2025

Annex 2 – Overview of analytical approach

Review of Key Capital Settings Dashboard – 29 May 2025

KEY MILESTONES								
April	May	June	July	August	September	October	November	December
Scoping and procurement	Analysis		Decisions on consultation positions	6-week public consultation		Post-consultation analysis		Final decisions

RAG	DELIVERABLES	UPDATE	DUE
INDEPENDENT INTERNATIONAL EXPERTS			
	Review of RBNZ analysis by independent international experts	Finalising contracts with international experts. Expect to onboard them in June.	Initial views to support decisionmakers: July Final Report: December
CONSULTATION PAPER			
	Comparison of international capital requirements	In negotiation with a short list of firms to deliver this comparison in June.	End June
	Assess key developments since the 2019 Capital Review	Initial analysis is progressing well. Discussing and seeking feedback on direction of travel with the RBNZ Board in June.	End July
	Consider whether risk weights accurately reflect risk		
	Develop range of potential options to seek feedback on		
	Consider the costs and benefits of all potential options		

Annex 2 – Overview of analytical approach

