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TO: Hon Nicola Willis, Minister of Finance

FROM: Christian Hawkesby, Acting Governor
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Aide Memoire: Wide ranging evidence-based review of our capital settings

Purpose

1. This aide memoire provides information on our proposed wide-ranging evidence-based review of our capital settings, as discussed at your meeting with Chair, Governor, and Deputy Governor.
2. We intend to announce this review at our appearance at the Finance and Expenditure Committee (FEC) hearing for the inquiry into banking competition (the Inquiry) on Wednesday 26 March.

Announcement of the evidence-based review

3. We have received a lot of feedback on the capital rules through our recent consultation and have undertaken additional work on the risk weight categories we use.
4. We have recently provided you with advice on how the application of any possible changes to risk weights can be accelerated under the existing legislation (RBNZ#6263 refers). This is likely to lower capital levels if lower risk weights are implemented.
5. We have also been closely following the Inquiry and will appear before the Committee next Wednesday.
6. In light of submissions to the Inquiry, we are planning to undertake a wide ranging, evidence-based review of other aspects of the capital regime and lessons learnt.
7. This will build on our 2-yearly reviews the Capital Review implementation (the latest of which can be found in the 2023 Bulletin article¹).
8. Given the need for the review's evidence base to be robust and credible, we will engage international independent experts to assist us. This is consistent with the previous Capital Review and the monetary policy review.

¹ [Biennial Assessment 2023 - Monitoring Capital Review Implementation](#)

**SENSITIVE
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9. This international perspective is important, noting the recent IMF comments in their Article IV review², specifically “Government policies to strengthen banking competition will need to be carefully designed to preserve the primacy of financial stability...The primary objective of prudential regulation should be to safeguard financial stability, calibrated to the risks and vulnerabilities faced by New Zealand.”

Next steps

10. We will endeavour to carry out this review promptly (approximately 6-12 months), to mitigate any regulatory uncertainty and prevent unnecessary delay to implementation to the DTA. At this stage, we expect this can be managed within the existing legislative timeframe for implementation (mid-2029). However, we expect we will need to re-sequence some of the prudential standards and make trade-offs across our work programme.
11. If this assessment changes, we will report to you recommending options for legislative change.
12. We will also provide practical guidance to the industry on the impact on their current capital level and the planned increases in July, and future years. We are currently working through this and may³ need to pause the scheduled increase in July until we settle the new settings.
13. We have also advised APRA of this development at high level given the interdependencies of the system.
14. There may be some additional flow on impacts that we will need to work through e.g. the impact (if any) on the depositor compensation scheme settings and the proposed report to you on the need for statutory bail-in. We will work closely with Treasury on these issues given the dual responsibilities.
15. We note that this information may be market moving, so we are currently treating this as sensitive.
16. We are available to meet with you to discuss this at your convenience.

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**Christian Hawkesby
Acting Governor
Reserve Bank of New Zealand**

² [New Zealand: Staff Concluding Statement of the 2025 Article IV Mission](#)

³ This decision needs to be taken through the proper decision-making process so we cannot yet confirm this, but will look to do so over the next few weeks.