Capital Review FAQs

Navigating the release

The following documents were released on 17 December 2025 to support the release of the 2025 review of key capital settings decisions:

- An **FAQ** (this document) which provides context and answers to frequently asked questions.
- A **Decision Document** that summarises our key decisions that were made as a result of the review. This contains appendices that provide an overview of submissions, the high-level implementation approach, risk appetite framework and an overview of the cost benefit analysis.
- Key inputs in reaching final decisions, including **submissions** we received on the consultation paper (where submitters have given consent to publish) and **reports from the independent experts.**

More information will be released in February 2026. This will include a full summary of submissions, a detailed implementation plan, and proactive release of background material (including technical papers and the Board paper, including the cost benefit analysis).

Purpose of this document

This FAQ sheet has been developed to accompany the release of Capital Review materials. It is designed to provide further information to stakeholders and interested parties.

The document provides additional context and addresses frequently asked questions.

How to read this document

Readers are encouraged to review the questions and answers in this document. It starts with a guide to the accompanying Capital Review documents, which can be used to gain a full understanding of the information released.

If you have any further questions, please email external.communications@rbnz.govt.nz

Frequently Asked Questions

What is deposit taker capital?

The money that banks – or deposit takers as we refer to them – get from their owners is known as 'capital'. It is the part of a deposit taker's funding that first absorbs losses if it becomes distressed. The more capital a deposit taker has, the lower the chances are that losses will be borne by depositors (people and businesses who have money in their bank accounts)[1]. Or in other words, the more capital a bank has, the less likely it is that customers' deposits – the money people and businesses keep in their accounts – will be at risk in the event of a major shock.

[1] The Depositor Compensation Scheme covers each depositor for up to $100,000 per deposit taker if their money is held in a DCS-protected account.

What are capital requirements?

- Capital requirements set out the minimum investment that owners of a deposit takers must make in their business. Capital requirements that are set too low risk a deposit taker failing when it faces a shock. On the other hand, capital levels that are too high can increase costs unnecessarily.
- Capital ratio requirements set out the minimum amount of capital a deposit taker needs to use to fund the loans it makes and other banking activities. It is expressed as a percentage of a deposit taker's 'risk-weighted assets'.[2] Deposit takers are required to have more capital for riskier loans, as these are more likely to generate losses.

Currently, there are three 'tiers' of recognised capital in New Zealand:

- **Common Equity Tier 1 (CET1) capital** is the highest quality of capital as it is permanently available to absorb a deposit taker's financial losses. CET1 includes shareholders' investment (ordinary shares) and the deposit taker's retained earnings.
- **Additional Tier 1 (AT1) capital**, which includes perpetual preference shares, is the second highest quality of capital behind CET1.
- **Tier 2 capital**, which includes some subordinated debt, is capital that can generally only absorb losses once a bank has failed. It is therefore considered of lower quality than Tier 1 capital (CET1 or AT1 capital).

Why did you do this Review?

Our 2019 review of New Zealand's capital framework resulted in the decision to increase the quantity and quality of capital that banks were required to operate with by 2028.

We focused on simple, but conservative, capital requirements. However, concerns were raised, including through recent inquiries, that the 2019 capital settings may be undermining or impacting competition and efficiency and that the 2019 review underestimated the impact on the New Zealand economy.

Therefore, on 31 March 2025 we announced a targeted review to test whether we have got our capital settings right.[3] We want capital settings that support a stable financial system which enables a productive and sustainable economy, and ultimately promote the prosperity and well-being of all New Zealanders.

What are the key decisions that were made in this review?

We have reduced requirements for CET1 capital relative to the settings we selected in the 2019 review, but our requirements remain relatively conservative when compared internationally.

A key aspect of the new settings is the introduction of Loss Absorbing Capacity (**LAC**) for the largest deposit takers – a new tool that can help recapitalise a distressed deposit taker. This means:

---

2 Risk-weighted assets are used to determine the minimum amount of capital needed by banks and financial institutions to reduce the risk of insolvency.

3 See the Terms of Reference at 2025-review-of-key-capital-settings-terms-of-reference.pdf

more use of subordinated debt instruments (Tier 2 + LAC) for the largest banks; and changing our approach to those subordinated instruments (e.g. adding conversion and write-off features), to make them work more efficiently with the Australian Prudential Regulation Authority's (**APRA**'s) rules and better able to support the recapitalisation of a distressed Group 1 bank.

The proposals also include a variety of technical adjustments summarised in the decision document, and following Australia in eliminating AT1 capital.

The proposals introduce more proportionality into capital requirements relative to current settings, particularly by introducing more granular and lower risk weights in the standardised approach that is used by mid-sized and smaller deposit takers. [4]

How does this review impact the general public?

These new settings will reduce the overall cost of deposit takers' funding, which we expect to see passed on as benefits to New Zealanders through increased lending and reduced rates, which the Reserve Bank will monitor closely. We also expect the changes for the smaller deposit takers deposit takers will allow them to compete more effectively.

How will you be monitoring the impacts of this review?

Ensuring we understand the impacts of the capital requirements is important to ensuring we have calibrated the capital 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.

We intend to monitor:

- Trends in the 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.
- Changes in observed risk weights and comparisons between modelling and standardised outcomes, and look for opportunities to continuously improve our settings
- Lending trends across Groups – including the extent to which market share is changing.

While we expect competitive impacts to be relatively limited, monitoring these impacts will help assess the extent to which any of the changes affect market dynamics from a competition perspective.

[4] We must take into account the proportionality principle when developing standards for deposit takers under the Deposit Takers Act 2023. Rather than taking a 'one-size-fits-all' approach to prudential regulation, we consider differences in the deposit-taking sector. Our approach to proportionality is set out in the Proportionality Framework: https://www.rbnz.govt.nz/regulation-and-supervision/deposit-takers-act/regulatory-environment-under-the-dta.

The previous review in 2019 was anchored to a risk appetite that ensured there was sufficient capital in the system to avoid capital being fully depleted in a shock once every 200 years. This review has moved away from using this metric, so how should we think about the Reserve Bank's risk appetite now?

While it is common in insurance regulation to refer to a 1-in-x year event, it is not commonly used internationally as a measure for banking capital requirements.

Our full risk appetite framework is available in Appendix C of the Decision Document. This sets out our approach to prudential policy for the deposit taking sector.

We have a low appetite for events that could materially damage financial stability (often referred to as systemic risk), but we do not operate a zero-failure regime. We have a moderate tolerance for risks that may lead to the failure of regulated entities where the impact is understood, manageable, and will not materially damage the financial system.

Our prudential policy settings are:

- **Simple** – focusing on key risks to New Zealand, and only adopting international requirements to the extent they are relevant to New Zealand's financial system
- **Strong** – we set requirements that minimise the likelihood of failure and rely less on mitigating the cost of failure, should it occur
- **Proportionate** – requiring relatively higher requirements for large, systemically important entities
- **Efficient** – we operate a transparent framework, that seeks to minimise compliance costs and recognises the importance of the trans-Tasman regulatory framework.

What did the independent report by Oliver Wyman conclude about New Zealand's capital levels?

To inform this review, we commissioned international management consultancy firm, Oliver Wyman, to benchmark the capital levels of New Zealand's largest banks against international peers. Their report found our New Zealand banks' current Tier 1 capital levels are relatively high by international standards, but that we are fairly typical on metrics of wider loss absorbency (once LAC or international equivalents are included).

What is the role of the international experts and when will their reports be available?

Three independent internationally recognised experts – Professors Thorsten Beck and Elena Carletti and Sir John Vickers – reviewed and challenged our analysis. They met with New Zealand stakeholders and had detailed discussions with Reserve Bank staff and Board members. They wrote independent reports that have been published as part of this release. Their contributions have brought a high level of rigour, challenge, and international expertise to the process.

How did the Reserve Bank come to agreement on decisions? What was the process?

We released a substantial consultation paper in August. This included the detailed Oliver Wyman comparison of New Zealand capital levels to international peers.

The analysis in the consultation paper was refined based on stakeholder feedback, engagements with the Treasury and APRA, and the reports from the international experts. This led to final analysis and recommendation, including a quantitative cost benefit analysis, that supported a decision made by the Reserve Bank Board.

Do the findings represent consensus among reviewers and experts?

We received a range of feedback from submitters and our external experts, which differed on some key areas of the consultation. The Reserve Bank's decisions were based on the purposes and principles set out in our legislation, the Financial Policy Remit issued by the Minister of Finance and consistent with our risk appetite.

There were some broad themes in the feedback that came from different groups of stakeholders:

- Firstly, large deposit taking submitters liked the introduction of LAC, but wanted lower settings (an APRA-like 18.25% total requirement, instead of our 21%).
- Secondly, the experts and some other submitters, who questioned the benefits of reducing CET1 capital and/or were sceptical about the effectiveness of LAC.
- Finally, smaller banks, who sought increased proportionality, including through having more granular and lower risk weights under the Standardised approach.

Why did you decide not to follow the recommendations of the international experts?

Following consultation and considering all the feedback that we received we made decisions that we consider to be the best fit for New Zealand, consistent with the legislative framework for financial stability in New Zealand, including our Financial Policy Remit.

The experts considered that the 2019 review was sound and that New Zealand should have strong capital settings. We agree, but we have updated our risk appetite following consideration of new evidence and consultation paper submissions. Ultimately, we are balancing the:

- benefits to society of preventing or managing the failure of regulated entities.
- costs to society of regulation, for example compliance, administrative, and efficiency costs.

As such, we think that it is appropriate to modernise our capital requirements and place a slightly greater emphasis on our tools and ability to resolve an entity in distress by requiring internal LAC. This is supported by our cost benefit analysis.

In making that choice, we put more weight on aligning our capital decisions with APRA's approach, including consideration of how the loss absorbing resources of the larger New Zealand banks will work if we ever need to coordinate with Australia in stabilising a large trans-Tasman bank. We also sought to mitigate some of the risks associated with the LAC instruments seen in other markets, by limiting these to internally issued instruments between the subsidiary and parent, rather than issuing them into the market.

What are the next steps following the release of this decision?

More detailed information will be published in February 2026, including a detailed Response to Submissions, and proactive release of background material (including the Board paper, and cost-benefit assessment).

We will need to consult on detailed rules (e.g. LAC requirements) later in 2026. Some other changes will be implemented by changing rules for banks and non-bank deposit takers. Appendix

B of the Decision Document provides an indicative roadmap for all deposit takers. The LAC requirements should be finalised by late 2028, but there will likely be a phase-in period after that. We want to ensure that regulated firms have adequate time to plan their transition to the new settings.