

FOUR FAST FACTS

ON: NEW BANKING PRUDENTIAL REQUIREMENTS

JULY 2021

New requirements

1

The Reserve Bank of New Zealand (RBNZ) has published new Banking Prudential Requirements (BPRs), implementing decisions made in its December 2019 Capital Review.

The BPRs are intended to be more transparent and easier to follow than the capital adequacy provisions of the Banking Supervision Handbook.

Increased minimum capital

2

A transition period will start in July 2022, requiring banks to increase the amount of capital they have over a seven-year period.

Currently, banks are required to hold capital of no less than 8% of their total risk-weighted asset equivalents. This will increase to 9% in year three of the transition period.

Prudential capital buffer

3

Banks will also be expected to hold a “Prudential Capital Buffer” (PCB) above their minimum capital requirement. While failure to hold the full PCB won’t breach a bank’s conditions of registration, it will result in responses from RBNZ under the “Capital Buffer Response Framework”. If a bank’s PCB is not maintained, RBNZ could impose distribution restrictions and supervisory actions (in stages).

Documentation

4

The BPRs are contained in 13 documents that set out the policy framework and the rules that will apply to NZ-incorporated registered banks from 1 October 2021.

The documents are available on RBNZ’s [website](#).