RCAP jurisdictional assessments: self-reporting monitoring template for RCAP follow-up actions

Jurisdiction: Australia

Status as of: 31 December 2017

With reference to RCAP report(s): Assessment of Basel III regulations – Australia (March 2014) and LCR regulations – Australia (October 2017)

Part A[1]

Post-RCAP follow up: Changes applied to local regulations of the Basel Framework relating to risk-based capital standards (RCAP-Capital)

Table A

(1) Issue and/or relevant Basel paragraph number(s)	(2) Detailed description of finding (please indicate as precisely as possible the finding as identified in the relevant RCAP assessment report)	(3) Detailed reference to the domestic legislation/regulation that addresses the finding	(4) Summary description of amendment or rectification made
Basel III – paragraphs 52 –53	APRA has not explicitly stated that the criteria for inclusion in common equity criteria apply to non-joint stock companies. Footnote 12 to paragraph 53 of Basel III states the common equity criteria also applies to non-joint stock companies, such as mutual, cooperatives or savings institutions. However, APRA applies its capital standards under the Basel Framework to all domestically incorporated authorised deposit-taking institutions (ADIs), including those mutually owned by members. APRA has indicated that work is still being finalised on specifically addressing how the common share criteria will apply to non-joint stock companies and any	*Prudential Standard APS 111 Capital Adequacy: Measurement of Capital* (APS 111), paragraph 20, Attachments B and K (effective 1 January 2018)	Since the 2016 post-assessment follow-up report, APRA has developed tailored criteria for common equity instruments that may be directly issued by mutually owned ADIs. This allows non-joint stock companies to issue common equity instruments from 1 January 2018.

[1] To be completed only for those findings where action has been taken or initiated. Any plans for addressing other findings may be indicated in Part B.

Post-RCAP follow up: Changes applied to local regulations of the Basel Framework relating to risk-based capital standards (RCAP-Capital)

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	changes to Prudential Standards will be communicated once the work is finished.		
Basel III paragraphs 131, 147 and 148	Because of the inadvertent omission of a 'less than or equal' symbol, the minimum capital conservation ratio according to the table in *Prudential Standard APS 110 Capital Adequacy* (APS 110) Attachment B paragraph 1 for an ADI with a CET1 ratio of 5.125% and CET1 prudential capital requirement of 4.5% would be 80%, whereas according to the table of Basel III paragraph 131 it would be 100%.	APS 110 Attachment B paragraph 1 Table 1	APRA has now rectified this omission.
Basel III paragraphs 132(a)-(b)	With reference to the capital conservation buffer, Basel III stipulates where a bank does not have positive earnings and has a CET1 ratio less than 7%, it would be restricted from making positive net distributions.	APS 110 Attachment B paragraph 3	APRA has now rectified this omission.
Basel III paragraph 149	APRA's standards did not explicitly state that the calculation and disclosure of an ADI's countercyclical capital buffer should be based on the latest relevant jurisdictional countercyclical buffers that are available at the date they calculate their minimum capital requirement.	*Prudential Standard APS 330 Public Disclosure* (APS 330) Attachment A Table 1A item 64	APRA has now rectified this omission.
Basel II paragraph 60	*Prudential Standard APS 112 Capital Adequacy: Standardised Approach to Credit Risk* (APS 112) does not include the sovereign floor whereby no claim on an unrated bank may receive a risk weight lower than that applied to claims on its sovereign of incorporation.	APS 112 Attachment A item 9	APRA is revising APS 112 and, under the measures subject to consultation in 2016, proposed to incorporate the sovereign floor. This issue will be rectified when APS 112 is finalised.

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Basel II paragraph 82	APRA standards do not include the statement regarding counterparty risk weightings for OTC derivative transactions will not be subject to any specific ceiling.	APS 112 Attachment B paragraph 10	APRA is revising APS 112 and, under the measures subject to consultation in 2016, proposed to incorporate the statement that counterparty risk weightings for OTC derivative transactions will not be subject to any specific ceiling in draft *Prudential Standard APS 180 Capital Adequacy: Counterparty Credit Risk* (APS 180) Attachment E paragraph 10. This issue will be rectified when APS 180 is finalised.
Basel II paragraph 539	Basel II paragraph 539 demands for a traditional securitisation at least two different stratified risk positions or tranches reflecting different degrees of credit risk. According to APS 120 paragraph 12(s), a warehouse SPV is a securitisation even if it does not have at least two different tranches of creditors or securities.	*Prudential Standard APS 120 Securitisation* (APS 120) paragraph 11(s) (effective January 2018)	In 2016, APRA released a revised APS 120 (which will be effective from 1 January 2018) under which the definition of securitisation does not include the reference to warehouse SPVs with only one tranche. This issue will be rectified when the new APS 120 takes effect.
Basel II paragraph 608	Under Basel II paragraph 608, where there is no specific Internal Ratings- based (IRB) treatment for the underlying asset type, originating banks that have received approval to use the IRB approach must calculate capital charges on their securitisation exposures using the standardised approach in the securitisation framework and investing banks with approval to use the IRB approach must apply the Ratings-Based Approach (RBA). APRA has not implemented this provision.	APS 120 (effective January 2018)	APRA notes that Basel II paragraph 608 has since been revised by the Basel Committee's July 2016 *Revisions to the securitisation framework*. Further, the IRB approach has not been included in APRA's revised securitisation framework and as a result this issue will no longer be applicable.
Basel II paragraphs 609 and 619	Pursuant to Basel II paragraph 609, the RBA must be applied to securitisation exposures that are	APS 120 (effective January 2018)	The IRB approach (including the IAA) for securitisation exposures has not been included in APRA's revised

	rated, or where a rating can be inferred. Where an external or an inferred rating is not available, either the Supervisory Formula Approach (SFA) or the Internal Assessment Approach (IAA) must be applied. The IAA is only available to exposures (eg liquidity facilities and credit enhancements) that banks (including third-party banks) extend to ABCP programmes. In contrast, APS 120 Attachment D paragraph 2 does not restrict the IAA to exposures that banks extend to ABCP programmes. Instead, subject to APRA's approval, the IAA could also be used for facilities that the ADI extends to another kind of securitisation, where the RBA and the SFA cannot be used.		securitisation framework and as a result this issue will no longer be applicable.
Basel II paragraph 629	APRA did not implement one requirement relating to the calculation of regulatory capital requirements under the IRB approach for securitisation. (APS 120 Attachment B paragraph 15 and Attachment D paragraph 35)	APS 120 (effective January 2018)	The IRB approach for securitisation exposures has not been included in APRA's revised securitisation framework and as a result this issue will no longer be applicable.
Basel II paragraph 660	The qualifying criteria for the standardised approach to operational risk were not explicitly mentioned in *Prudential Standard APS 114 Capital Adequacy: Standardised Approach to Operational Risk*. The risk management standard *Prudential Standard CPS 220 Risk Management* (CPS 220), which will come into place in January 2015, incorporates the Basel II qualifying requirements.	CPS 220 paragraphs 13, 21-27	APRA has rectified this issue: CPS 220 came into effect on 1 January 2015 and includes the qualifying criteria.
Basel II paragraph 30	APRA did not require ADIs to include the main features of capital instruments in their published Pillar 3 reports or provide a link to these disclosures.	APS 330 paragraphs 9 and 31 and Attachment B	APRA has rectified this omission.
Basel II Table 8, as amended by Basel II.5	APRA omitted some parts of the table relating to counterparty credit risk.	APS 330 Attachment D Table 11	APRA has rectified this omission.
Basel II Table 11, as amended by Basel II.5	APRA omitted some parts of this table relating to market risk disclosures for banks using the internal models approach for trading portfolios.	APS 330 Attachment D Table 14	APRA has rectified this omission.

Post-RCAP follow up: Changes applied to local regulations of the Basel Framework relating to risk-based capital standards (RCAP-LCR)

Table B

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Part B

The capital RCAP report identified a number of material and non-material differences between the Basel capital framework and APRA's prudential requirements. APRA has addressed the majority of these differences (set out in previous responses) and some identified differences are no longer relevant as a result of subsequent revisions to the Basel III capital framework. APRA will review any outstanding differences as part of its implementation of these latest reforms.

The LCR RCAP report identified one material deviation in respect of the definition of high-quality liquid assets. APRA is awaiting further guidance from the Basel Committee on this issue, after which it will review its prudential requirements. The report also identified nine non-material deviations from the Basel framework in respect of the definition of high-quality liquid assets (numerator), outflows (denominator) and inflows (denominator). In implementing these measures, APRA sought to reflect the characteristics of the Australian market while adhering to the spirit of the Basel Committee's measures. APRA will, however, review its approach to these measures when it next reviews its LCR prudential requirements.