

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

Jurisdiction: Australia

Status as of: 31 December 2018

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

Part A¹

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 | <i>Prudential Standard APS 111 Capital Adequacy: Measurement of Capital</i> (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.

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| | companies and any 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 <i>Prudential Standard APS 110 Capital Adequacy</i> (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. | <i>Prudential Standard APS 330 Public Disclosure</i> (APS 330) Attachment A Table 1A item 64 | APRA has now rectified this omission. |
| Basel II paragraph 60 | <i>Prudential Standard APS 112 Capital Adequacy: Standardised Approach to Credit Risk</i> (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 paragraphs 9-10 | APRA has rectified this omission, with the revised standard effective from 1 July 2019. |

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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 180 Attachment E paragraph 18 (effective 1 July 2019) | APRA has rectified this omission. |
| Basel II paragraph 539 Basel II paragraph 608 | 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. 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. | <i>Prudential Standard APS 120 Securitisation</i> (APS 120) paragraph 11(s) (effective January 2018) APS 120 (effective January 2018) | This issue has been rectified. The Basel II paragraph 608 has since been revised by the Basel Committee's July 2016 <i>Revisions to the securitisation framework</i> . This issue is no longer applicable. |
| Basel II paragraphs 609 and 619 | Pursuant to Basel II paragraph 609, the RBA must be applied to securitisation exposures that are 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 | APS 120 (effective January 2018) | The IRB approach (including the IAA) for securitisation exposures has not been included in APRA's revised securitisation framework and as a result this issue is no longer applicable. |

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| | 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. | | |
| 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 is no longer applicable. |
| Basel II paragraph 660 | The qualifying criteria for the standardised approach to operational risk were not explicitly mentioned in <i>Prudential Standard APS 114 Capital Adequacy: Standardised Approach to Operational Risk</i> . The risk management standard <i>Prudential Standard CPS 220 Risk Management (CPS 220)</i> , 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. |
| 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 liquidity coverage ratio standards (RCAP-LCR)

Table B

| (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 |
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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 now addressed the majority of these differences.

The LCR RCAP report identified one material deviation in respect of the definition of high-quality liquid assets. It was subsequently acknowledged that this was an interpretive issue, with later discussions at the WGL concluding that the treatment was appropriate. 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.