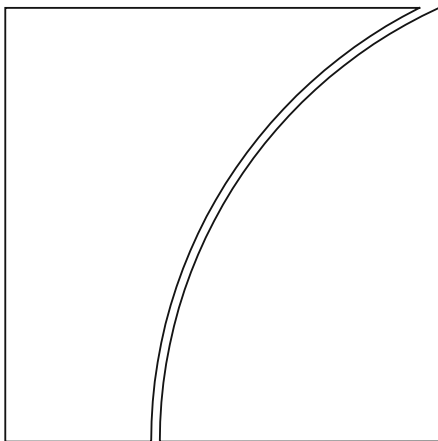


Basel Committee on Banking Supervision



Regulatory Consistency Assessment Programme (RCAP)

Assessment of the leverage ratio framework – Australia

October 2026



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ISBN 978-92-9259-988-1 (online)

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Glossary

ADIs	Authorised deposit-taking institutions
APRA	Australian Prudential Regulation Authority
C	Compliant (grade)
D-SIBs	Domestic systemically important banks
G-SIBs	Global systemically important banks
LC	Largely compliant (grade)
LEV	Leverage ratio framework
LR	Leverage ratio
NC	Non-compliant (grade)
PNC	Partially non-compliant (grade)
RCAP	Regulatory Consistency Assessment Programme
SFT	Securities financing transactions

Preface

The Basel Committee on Banking Supervision places a high priority on the implementation of regulatory standards underpinning the Basel III framework. The prudential benefits from adopting Basel standards can only fully accrue if they are implemented in a full, timely and consistent manner by all member jurisdictions. The Basel Committee established the Regulatory Consistency Assessment Programme (RCAP) to monitor, assess and evaluate its members' implementation of the Basel III framework.

This report presents the findings of an RCAP Assessment Team (Assessment Team) on the adoption of the Basel leverage ratio framework (LEV) in Australia. The assessment focused on the completeness and consistency of Australia's leverage ratio regulations with the Basel standards and relied on information provided by Australia's authorities.

The Assessment Team was led by Mr Arthur Yuen, Deputy Chief Executive of the Hong Kong Monetary Authority (HKMA), and comprised technical experts from the Central Bank of Brazil, the Reserve Bank of India, Sveriges Riksbank, and the Bank of Spain (see Annex 1). The main counterpart for the assessment was the Australian Prudential Regulation Authority (APRA). The work was coordinated by the Basel Committee Secretariat, with support from staff of HKMA.

The assessment began in October 2025 and comprised: (i) a self-assessment by APRA (October 2025 to January 2026); (ii) an assessment phase (January to June 2026); and (iii) a review phase (July to October 2026) including a review of the Assessment Team's findings by a separate RCAP Review Team and the Basel Committee. This assessment report ultimately reflects the view of the Basel Committee.

The Assessment Team acknowledges the cooperation received from APRA, throughout the assessment process.

Executive summary

In Australia, the Basel leverage ratio standard has been implemented through APRA's Prudential Standard "APS 110 Capital Adequacy" (effective 1 January 2023; updated in December 2025 with changes effective 1 January 2027). The leverage ratio standard applies to Australian banks approved to use the internal ratings-based approach for credit risk, which covers all the Australian internationally active banks. Banks using the standardised approach for credit risk, which are not internationally active, are generally not subject to the leverage standard unless otherwise determined by APRA.

Overall, as of 30 June 2026, the regulations implementing the leverage ratio framework in Australia are assessed as compliant with the Basel Committee standards. This is the highest possible grade. Two of the three applicable components of the Basel leverage ratio standard – definitions and application, and calculation; and exposure measurement – are assessed as compliant. One component – disclosure requirements – is assessed as largely compliant. The component on buffer requirements and transitional arrangements for global systemically important banks (G-SIBs) is not applicable, as there are no G-SIBs headquartered in Australia.

The disclosure requirements grade is driven by one potentially material finding related to APRA allowing a "best estimate" (in some cases based on month-end values) in place of strict daily averages for securities financing transaction (SFT) assets in leverage ratio templates, which could weaken safeguards against window-dressing. In exposure measurement, two deviations were identified and assessed as not material: an ambiguity in APS 110 that could be read as permitting exclusion of retained securitisation exposures from the leverage exposure measure, and the treatment of margin lending outside the SFT definition. Both have limited quantitative impact in the sample.

The Assessment Team also noted significant areas of super-equivalence: Australia requires the leverage ratio to be calculated using Common Equity Tier 1 (CET1) capital as the numerator (rather than Tier 1 capital) and sets a more conservative minimum leverage ratio of 3.25% (compared with the Basel 3% minimum). Additional areas of super-equivalence are listed in Annex 5. In line with the RCAP Handbook, these have not been taken into account as mitigants for the overall or component level assessment.

Response from Australia's authorities

APRA wishes to acknowledge the efforts taken by the RCAP Assessment Team to understand and evaluate Australia's implementation of the Basel leverage ratio requirements. We appreciate the open and professional manner with which the team conducted the assessment and express our thanks to Mr Arthur Yuen and the team for their engagement and the rigour of their assessment process. We would also like to extend our thanks to the Secretariat for its coordination and support throughout the process.

APRA welcomes the overall grade of "compliant" with the Basel leverage ratio framework. As noted in the report, the vast majority of Australia's leverage ratio regulations are consistent with the Basel standards. For a small number of issues, APRA has taken a pragmatic approach to align with the spirit of the Basel standards while having regard to Australian conditions, industry feedback and regulatory burden considerations. We acknowledge the RCAP Assessment Team's reflection of these features in its assessment.

The RCAP process has provided a valuable opportunity to reflect on our implementation of the leverage ratio, benchmark ourselves against our global peers and identify areas for improvement. APRA supports the RCAP's objective of promoting full and consistent implementation of the Basel III framework and is committed to participating in and supporting future assessments.

1 Assessment context

1.1 Regulatory system

Australia has a model of financial supervision in which the prudential oversight of all authorised deposit-taking institutions (ADIs), insurers and superannuation funds (other than self-managed funds) rests with the Australian Prudential Regulation Authority (APRA). The Australian Securities and Investments Commission (ASIC) is responsible for market and corporate conduct, including consumer protection. The Reserve Bank of Australia has responsibility for overseeing financial system stability and the payments system. Coordination takes place through the Council of Financial Regulators (CFR).

APRA was established under the Australian Prudential Regulation Authority Act 1998 on 1 July 1998 and is responsible for authorising and supervising ADIs. APRA is solely responsible for implementing Basel III in Australia. It derives its legal authority to formulate and amend Prudential Standards from the Banking Act 1959. APRA's core mission is "to establish and enforce prudential standards and practices designed to ensure that, under all reasonable circumstances, financial promises made by the institutions APRA supervises are met within a stable, efficient and competitive financial system."

APRA has statutory powers to regulate and intervene in the operations of ADIs, including the power to revoke a supervised entity's authorisation if it fails to meet statutory requirements or prudential standards; make, apply and enforce prudential standards; collect information, conduct onsite examinations and require third-party audits; and act in certain circumstances to protect depositors and to maintain the stability of the financial system by investigating, giving directions and assuming control of ADIs in difficulty. APRA can appoint a statutory manager to assume full control of the ADI.

APRA has developed a regulatory framework for ADIs and non-operating holding companies (NOHCs) based on the banking supervision principles published by the Basel Committee. To assist entities in implementing Prudential Standards, APRA issues prudential practice guides (PPGs), which form an integral component of APRA's prudential framework. PPGs provide guidance on APRA's view of sound practice in particular areas, adoption of which assists entities in complying with the associated Prudential Standards. Prudential Standards may also be accompanied by associated Reporting Standards, issued under the Financial Sector (Collection of Data) Act 2001, which gives APRA the power to collect data from industry. Reporting Standards set out the data that regulated entities must report to APRA and when they must report it.

APRA also acts under the Financial Sector (Collection of Data) Act 2001 as the national statistical agency for the financial sector. ADIs must provide financial data in regular standardised reports to APRA. More information is provided in Annex 2.

1.2 Status of implementation of the leverage ratio framework

APRA implements the Basel leverage ratio in Australia through a set of rules and guidance. The main requirement is in Prudential Standard APS 110 Capital Adequacy (APS 110), which is supported by Prudential Practice Guide APG 110 Capital Adequacy (APG 110), and the related reporting rules are set out in Reporting Standard ARS 110.0 Capital Adequacy (ARS 110.0). APRA first introduced the leverage ratio requirements by publishing a revised APS 110 in November 2021, with the rules taking effect on 1 January 2023. The latest versions were issued in December 2025 to reflect changes to the leverage ratio following APRA's decision to phase out Additional Tier 1 capital; these updates will apply from 1 January 2027.

APRA's Prudential Standards apply to all ADIs in Australia, including small and medium banks that are not internationally active, with a proportionate approach adopted for smaller domestic institutions to reflect their size and activities. The leverage ratio requirement itself applies to ADIs approved by APRA to use the internal ratings-based (IRB) approach to credit risk. These IRB ADIs are the four domestic systemically important banks (D-SIBs): Australia and New Zealand Banking Group, Commonwealth Bank

of Australia, National Australia Bank and Westpac Banking Corporation, plus Macquarie Bank and ING Bank Australia. The four D-SIBs and Macquarie Bank are internationally active, and none of the Australia-incorporated banks are classified as a global systemically important bank (G-SIB). In addition to these five internationally active ADIs, one other IRB bank (ING Bank Australia) is subject to the leverage ratio.

For smaller, less complex ADIs that use the standardised approach to credit risk, APRA has introduced a simplified capital framework that removes the leverage ratio requirement and the associated reporting. APRA monitors these standardised banks to ensure they remain non-internationally active, using ongoing periodic reviews and event-driven reassessments when a bank's business model or geographic footprint changes. In doing so, APRA considers indicators such as offshore assets and liabilities, cross-border exposures and the extent of foreign operations (including offshore branches). If a standardised bank becomes more internationally active or complex, APRA can impose the leverage ratio.

In total, six ADIs in Australia are currently subject to the leverage ratio.

1.3 Scope of the assessment

The Assessment Team considered the leverage ratio framework (LEV) applicable to a sample of internationally active banks in Australia as of 30 June 2025. The assessment had two dimensions:

- a comparison of Australia's regulations with the Basel LEV standards to ascertain that all the required provisions have been adopted (completeness of the regulations); and
- whether there are any differences in substance between Australia's regulations and the Basel LEV and, if so, their significance (consistency of the regulations).

In its assessment, the Assessment Team considered all binding documents that effectively implement the Basel LEV in Australia. Annex 2 lists the Basel standards used as the basis for the assessment. The assessment did not evaluate the resilience of the banking system in Australia, or the supervisory effectiveness of Australia's authorities.

The Assessment Team evaluated the materiality and potential materiality of identified deviations between the Basel LEV and Australia's regulations. The evaluation was made using a sample of Australia's five internationally active banks. Together, as of 30 June 2025, these banks comprise about 98% of the assets of banks in Australia that are subject to the leverage ratio. In addition, the Assessment Team reviewed the non-quantifiable impact of identified deviations and applied expert judgment as to whether the Australian regulations meet the Basel standards in letter and in spirit. The materiality assessment is summarised in Annex 3, which also lists the sample of banks.

The Assessment Team noted that, in some areas, Australia's rules go beyond the minimum Basel standards. Although these elements (listed in Annex 5) provide for a more rigorous implementation of the Basel Framework, they have not been taken into account for the assessment of compliance.

The outcome of the assessment is summarised using a four-grade scale, both at the level of each of the four key components of the Basel leverage ratio framework and of the overall assessment of compliance. The four grades are compliant (C), largely compliant (LC), partially non-compliant (PNC) and non-compliant (NC). The overall grade reflects the level of compliance with the leverage ratio framework, but not with the Basel standards on the definition of the capital, which determines the leverage ratio's numerator. Compliance with the Basel standards on the definition of capital has been assessed as a component of the RCAP Risk-Based Capital assessment conducted in 2014 and was graded largely compliant.¹

¹ See Basel Committee on Banking Supervision, *Regulatory Consistency Assessment Programme (RCAP) assessment of Basel III regulations – Australia*, 2014; www.bis.org/bcb/implementation/I2_au.htm.

2 Assessment findings

2.1 Assessment grades and summary of findings

Overall, the Assessment Team finds the implementation of the Basel LEV in Australia to be compliant. This grade is based on the materiality assessment as summarised in Annex 3.

Assessment grades		Table 1
Component of the Basel leverage ratio framework	Grade	
Overall grade	C	
Definitions and application, and calculation	C	
Exposure measurement	C	
Buffer requirements and transitional arrangements for global systemically important banks	NA	
Disclosure requirements	LC	
Assessment scale: C (compliant), LC (largely compliant), PNC (partially non-compliant) and NC (non-compliant).		

2.1.1 Definitions and application, and calculation

This component is assessed as compliant with the Basel standard. No findings were identified.

2.1.2 Exposure measurement

This component is assessed as compliant with the Basel standard. Two not material findings were identified: (i) wording in the Australian regulation could be read as permitting the exclusion of retained securitisation exposures from the leverage exposure measure; and (ii) margin lending is not included in the Australian definition of SFTs and is instead treated as loans/commitments. Both deviations have limited quantitative impact in the sample.

2.1.3 Buffer requirements and transitional arrangements for global systemically important banks (GSIBs)

This component is not applicable in Australia, as there are no G-SIBs headquartered in Australia.

2.1.4 Disclosure requirements

This component is assessed as largely compliant with the Basel standard. One potentially material finding was identified, relating to APRA allowing a "best estimate" (in some cases using month-end values) instead of strict daily averages for SFT assets in templates KM1 and LR2. One not material finding was also identified: APRA requires disclosure of LR1 on a semi-annual (rather than quarterly) basis, while key leverage metrics in LR2 are disclosed quarterly.

2.2 Detailed assessment findings

2.2.1 Definitions and application, and calculation

This component is assessed as compliant with the Basel standard. No findings were identified.

2.2.2 Exposure measurement

Section grade	Compliant
Basel paragraph number	LEV30.5: Exclusion of securitised exposures
Reference in the domestic regulation	APS 110, Attachment D, para 2(c); APS 120
Finding	LEV30.5 allows an originating bank to exclude securitised exposures from its leverage ratio exposure measure if the transaction meets the operational requirements for risk transfer in CRE40.24. Importantly, even when risk transfer is recognised, banks must include any retained securitisation exposures (for example, retained tranches, liquidity facilities, swaps and servicing assets) in their leverage ratio exposure measure. Under APRA's framework, APS 110 states "securitisation exposures which meet the operational requirements for regulatory capital relief" may be excluded, but it does not explicitly restate the Basel obligation to include back in the leverage ratio exposure amount "any retained securitisation exposures". APS 120 defines "securitisation exposures" as "on-balance sheet and off-balance sheet risk positions held by an ADI arising from a securitisation including, but not limited to, investments in securities issued by special purpose vehicle (SPV), credit enhancements, liquidity and other funding facilities and derivatives transactions." This definition makes clear that "securitisation exposures" refers to the bank's positions in a securitisation, not the underlying securitised assets in the pool. Read together, while the reference in APS 110 to meeting the risk transfer test can be interpreted as allowing exclusion of the <u>underlying pool</u> (which would align with LEV30.5), a literal reading would permit exclusion of securitisation positions themselves, including retained tranches, which would understate the exposure measure relative to LEV30.5. APRA acknowledges that the wording of prudential standard APS 110 is ambiguous in this respect. Although APRA's reporting instructions direct banks to hold regulatory capital for retained securitisation exposures in the regulatory capital calculation, supervisory evidence shows that sample banks interpreted and applied the requirement inconsistently in leverage ratio calculation, confirming the ambiguity. APRA considers the impact to be minimal and has initiated amendments to APS 110 to make this obligation explicit. As these amendments will take effect after the RCAP cutoff date, they cannot be considered in this assessment. Given the limited impact of an average increase of 0.04% in the LR exposure measure of sample banks and a maximum of 0.14% for the most affected bank, the Assessment Team deems this deviation not material.
Materiality	Not material
Basel paragraph number	LEV30.36: Definition of securities financing transactions (SFTs)
Reference in the domestic regulation	APS 112, paragraph 14(aa)
Finding	The Basel definition of SFTs provided in LEV30.36 includes margin lending transactions. APRA does not include margin lending transactions in the definition of SFTs. For leverage ratio purposes they are treated as an off-balance sheet commitment, ie the credit conversion factor (CCF) of 40% for "other commitments" would be applied against the undrawn committed amount; the drawn amount is treated as an on-balance sheet exposure. This differs from the Basel treatment foreseen for SFTs. APRA justifies the omission of margin lending transactions from the scope of SFTs given the existing approaches by ADIs to setting conservative lending limits for their margin lending products. APRA opted for a simplified approach to margin lending capital requirements. The Assessment Team assesses that APRA's treatment of margin lending (drawn amount treated like an on-balance sheet loan and applying a 40% CCF to undrawn commitments), can be less conservative than the Basel SFT treatment where the fair value of collateral is below the cash advanced, because the Basel Framework requires inclusion of a current exposure component in addition to the gross SFT asset. Conversely, the treatments are broadly equivalent when the collateral's fair value equals or exceeds the cash advanced, and APRA's approach may be more conservative for undrawn facilities where a 40% CCF is applied in circumstances in which the Basel Framework permits a 10% CCF for unconditionally cancellable commitments.

	Empirically, only a limited number of sample banks have margin lending exposures; for those that do, aligning to the Basel treatment results in a very small change in the leverage ratio exposure measure, with an average increase of 0.02% and a maximum of 0.16% for the most affected bank. In light of the limited footprint of margin lending and the small quantitative impact, the Assessment Team considers this deviation to be not material.
Materiality	Not material

2.2.3 Buffer requirements and transitional arrangements for G-SIBs

In the absence of G-SIB headquartered in Australia, this component of the leverage ratio is not part of the Australian framework.

2.2.4 Disclosure requirements

Section grade	Largely compliant
Basel paragraph number	DIS80.2 Frequency of leverage ratio disclosure
Reference in the domestic regulation	APS 330, Attachment A, paragraph 43
Finding	DIS80.2 prescribes a quarterly frequency for the publication of leverage ratio disclosures. APRA only requires the disclosure of template LR1 on a semi-annual basis, instead of quarterly. APRA deemed that the added value of a quarterly frequency was limited compared with the added regulatory burden, also taking into account the semi-annual frequency for disclosure of regulatory capital composition (Basel template CC1) as well as published financial statements. Given that APRA requires the disclosure of leverage ratio components in template LR2 on a quarterly frequency, the Assessment Team considers the deviation as not material.
Materiality	Not material
Basel paragraph number	DIS20 and DIS80: Templates KM1 and LR2 – disclosure of mean value of SFT assets
Reference in the domestic regulation	APS 330, Attachment A, paragraph 42
Finding	Basel disclosure templates KM1 and LR2 require the disclosure of mean value of SFT assets (only available in LR2) as well as the exposure measure and leverage ratio incorporating the mean value of SFT assets, calculated as the average of daily values over the reporting quarter. This was part of the measures adopted in 2019 to address specifically window-dressing behaviour of banks, ie temporary reductions of transaction volumes around reference dates resulting in the reporting and public disclosure of artificially elevated leverage ratios. However, APRA allows the average of daily values to be calculated as a “best estimate”, provided that this is undertaken on a consistent and prudent basis, with appropriate supporting governance and procedures. Some Australian banks use average month-end values accordingly. Based on consultation feedback, APRA believes that this option reduces the operational burden of strict daily averaging, while preserving disincentives to engage in window-dressing behaviour. APRA has neither observed any manipulation of daily averages nor heard feedback from market participants that would indicate window dressing is a concern or prevalent in Australia. APRA further notes that the sample banks have low exposure to SFT assets, and the banks are not close to breaching the minimum leverage ratio requirement.

	The Assessment Team considers the use of “best estimate”, in some cases month-end values, as less conservative. It can hinder the capacity of market participants to assess whether Australian banks’ disclosed leverage ratios are affected by potential window-dressing behaviour. In view of this, the Assessment Team considers the deviation as potentially material.
Materiality	Potentially material

2.3 Observations

The following observations highlight certain special features of the regulatory implementation of the Basel leverage ratio framework in Australia. These are presented to provide additional context and information. Observations are considered compliant with the Basel standards and do not have a bearing on the assessment outcome.

2.3.1 Exposure measurement

Basel paragraph number	LEV30.56 Treatment of off-balance sheet securitisation exposures
Reference in the domestic regulation	APS 110, Attachment D, paragraph 13; APS 120, paragraph 44
Observation	Regarding off-balance sheet securitisation exposures, LEV30.56, in conjunction with CRE40.20(2), provides for a national discretion. Specifically, it allows both the undrawn portion of servicer cash advances and facilities that are unconditionally cancellable without prior notice to receive the 10% CCF for unconditionally cancellable commitments that applies under the standardised approach to credit risk (CRE20). APRA departs from the Basel treatment in two ways. First, APRA does not recognise a separate category of unconditionally cancellable commitments in its risk-based or leverage frameworks; as a result, facilities that are unconditionally cancellable without prior notice receive the higher 40% CCF for “other commitments” rather than 10%, which is more conservative than Basel. Second, APRA applies a 0% CCF to undrawn servicer cash advances, which is less conservative than Basel’s 10%; APRA explains that its regulation has not reflected Basel III’s increase from 0% to 10% for unconditionally cancellable commitments. As the treatment of off-balance sheet securitisation exposure in the leverage ratio standard originates from the securitisation requirements outlined in CRE40, which have not been subject to a prior RCAP, it is treated as an observation, in accordance with the RCAP Handbook, and as a follow-up item for a future RCAP.

Annexes

Annex 1 RCAP Assessment Team and Review Team

Assessment Team Leader

Mr Arthur Yuen	Hong Kong Monetary Authority
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Assessment Team members

Mr Fabiano Ruiz Dutra	Central Bank of Brazil
Ms Camilla Ferenius	Sveriges Riksbank
Mr Akhilesh Gokhale	Reserve Bank of India
Mr Diego Hernández	Bank of Spain

Supporting members

Mr Donald Chen	Hong Kong Monetary Authority
Mr Richard Chu	Hong Kong Monetary Authority
Mr Ivan Hui	Hong Kong Monetary Authority
Ms Amy Siu	Hong Kong Monetary Authority
Mr Carsten Folkertsma	Basel Committee Secretariat
Mr Pradeep Kumar	Basel Committee Secretariat
Ms Mathilde Lalaude-Labayle	Basel Committee Secretariat
Mr Noel Reynolds	Basel Committee Secretariat

Review Team members

Mr Stefan Hohl	Basel Committee Secretariat
Ms Alexandra Gebauer	German Federal Financial Supervisory Authority – BaFin
Mr Bülent Şevik	Turkish Banking Regulation and Supervision Agency
Ms Bingzhe Zhao	People's Bank of China

Annex 2 List of Basel standards and implementing regulations issued by Australia's authorities

The RCAP-LEV assesses member jurisdictions' compliance with the Basel leverage ratio framework. The scope of RCAP-LEV includes:

- The revised leverage ratio as published by the Basel Committee in December 2017 that includes the various refinements to the 2014 definition of the leverage ratio exposure measure. These refinements include modifying the way in which derivatives are reflected in the exposure measure and updating the treatment of off-balance sheet exposures to ensure consistency with their measurement in the standardised approach to credit risk.
- The June 2019 revision to the leverage ratio related to the treatment of client cleared derivatives.
- The leverage ratio global systemically important bank (G-SIB) buffer introduced by the 2017 reforms. The G-SIB buffer must be met with Tier 1 capital and is set at 50% of a G-SIB's risk-weighted higher-loss absorbency requirements.
- The disclosure requirements for the leverage ratio, including the key prudential metrics related to that framework. This will capture the revisions to the LEV disclosure requirements published by the Basel Committee in June 2019 (the requirements for banks to disclose their leverage ratios based on quarter-end and on daily average values of securities financing transactions).

In accordance with this scope, the chapters of the consolidated Basel Framework listed in Table A.1 were used as the basis of this RCAP assessment:

Chapters of the Basel Framework	Table A.1
	Chapter
Definitions and application	LEV10
Calculation	LEV20
Exposure measurement	LEV30
Buffer requirements for global systemically important banks	LEV40
Transition	LEV90
Disclosure requirements (key metrics related to leverage ratio and disclosure requirements for the leverage ratio)	DIS20 (Template KM1, rows 13–14d) and DIS80

Table A.2 lists the regulations issued by Australia's authorities to implement the Basel III leverage ratio framework in Australia. A previous RCAP assessment of Australia's implementation of the Basel standards considered the binding nature of its regulatory documents.² This RCAP Assessment Team did not repeat that assessment but instead relied on its findings. That assessment concluded that the types of instruments described in Table A.2 could be considered as binding on banks and supervisors for the purposes of an RCAP assessment.

² See Annex 7 of Basel Committee on Banking Supervision, *Regulatory Consistency Assessment Programme (RCAP) assessment of Basel III regulations – Australia*, 2014, www.bis.org/bcbis/implementation/I2_au.htm.

Overview of relevant Basel III regulations in Australia

Table A.2

Domestic regulations	Type, version and date
Banking Act 1959	Banking Act 1959, version compiled in March 2026
Prudential Standard APS 110 Capital Adequacy (APS 110)	Prudential Standard APS 110 Capital Adequacy, revised in December 2025
Prudential Practice Guide APG 110 Capital Adequacy (APG 110)	Prudential Practice Guide APG 110 Capital Adequacy, revised in December 2025
Reporting Standard ARS 110.0 Capital Adequacy (ARS 110.0)	Reporting Standard ARS 110.0 Capital Adequacy, revised in December 2025
Prudential Standard APS 111 Capital Adequacy: Measurement of Capital (APS 111)	Prudential Standard APS 111 Capital Adequacy: Measurement of Capital, revised in December 2025
Prudential Standard APS 112 Capital Adequacy: Standardised Approach to Credit Risk (APS 112)	Prudential Standard APS 112 Capital Adequacy: Standardised Approach to Credit Risk, revised in July 2025
Prudential Practice Guide APG 112 Capital Adequacy: Standardised Approach to Credit Risk (APG 112)	Prudential Practice Guide APG 112 Capital Adequacy: Standardised Approach to Credit Risk, revised in June 2024
Prudential Standard APS 120 Securitisation (APS 120)	Prudential Standard APS 120 Securitisation, revised in January 2024
Prudential Practice Guide APG 120 Securitisation (APG 120)	Prudential Practice Guide APG 120 Securitisation, revised in January 2018
Prudential Standard APS 330 Public Disclosure (APS 330)	Prudential Standard APS 330 Public Disclosure, revised in December 2025

Source: APRA.

Annex 3 Materiality assessment

The outcome of the RCAP assessment is based on the materiality of the findings described in Section 2.2 and summarised in Table A.3. The Assessment Team evaluates the materiality of findings quantitatively where possible, or using expert judgment when the impact cannot be quantified.

The materiality assessment for quantifiable gaps is based on the cumulative impact of the identified deviations on the reported leverage ratio exposure measure of banks in the RCAP sample. These banks are listed in Table A.4.

Number of deviations by component			Table A.3
Component	Not material	Potentially material	Material
Definitions and application, and calculation	0	0	0
Exposure measurement	2	0	0
Buffer requirements and transitional arrangements for global systemically important banks	NA	NA	NA
Disclosure requirements	1	1	0

RCAP sample banks		Table A.4
Banking group	Share of banks' assets in the total assets of Australian banks to which the Basel Framework is applied as of 30 June 2025	
Australia and New Zealand Banking Group Limited	24.4%	
Commonwealth Bank of Australia	24.5%	
National Australia Bank Limited	20.7%	
Westpac Banking Corporation	21.3%	
Macquarie Bank Limited.	7.3%	

For this purpose, banking assets are measured using the total exposures from the leverage ratio, which include both on-balance sheet and off-balance sheet exposures. For none of the sample banks, was the leverage ratio the binding constraint. That is, no banks have Tier 1 capital required for the leverage ratio (including any G-SIB buffer) that is higher than the Tier 1 capital required to meet risk-based capital requirements (including the capital conservation buffer plus any higher loss absorbency requirements for G-SIBs, any countercyclical capital buffer requirements and any other higher domestic Pillar 1 loss absorbency requirements, including for D-SIBs).

Source: APRA.

Annex 4 Issues for follow-up RCAP assessments

For off-balance-sheet (OBS) securitisation exposures, LEV30.56 in conjunction with CRE40.20(2), allows both the undrawn portion of servicer cash advances and facilities that are unconditionally cancellable without prior notice to receive the 10% credit conversion factor (CCF) for unconditionally cancellable commitments that applies under the standardised approach to credit risk (CRE20). APRA applies a 0% CCF to undrawn servicer cash advances, which is less conservative than the 10% CCF set out in the Basel Framework.

As the paragraph of the Basel Framework on which this finding is based (CRE40.20(2)) is not within the scope of the RCAP-LEV, it is treated as an issue for a follow-up RCAP assessment.

Annex 5 Areas where Australia's rules are stricter than the Basel standards

In several areas, Australia's authorities have adopted a stricter approach than the minimum standards prescribed by the Basel Committee. These are listed below for information. These stricter rules have not been taken into account as mitigants for the overall or component level assessment of compliance.

Capital measure for the leverage ratio (LEV20.4)

- LEV20.4 defines the leverage numerator as Tier 1 capital.
- Australian rules require the leverage ratio to be calculated with Common Equity Tier 1 (CET1) capital as the numerator (APS 110, Attachment D, paragraph 1). Using CET1 (rather than Tier 1) is more conservative.

Leverage ratio minimum requirement (LEV20.7)

- LEV20.7 requires banks to meet a 3% (Tier 1) leverage ratio minimum requirement at all times.
- Australian rules require banks subject to the leverage ratio (see Section 1.2) to maintain a minimum leverage ratio of 3.25% (CET1) at all times (APS 110, paragraph 39), which is more conservative.

Cash pooling recognition (LEV30.12)

- LEV30.12 allows recognition of a single pooled balance when transfers occur daily; it also permits recognition for non-daily transfers if strict conditions are met.
- Recognition of a single pooled balance is allowed only where transfers occur at least daily and the bank is not liable on an individual account basis; otherwise, individual balances must be reflected separately (APS 110, Attachment D, paragraphs 10–11). Australian rules do not permit the Basel allowance for non-daily pooling even when the additional conditions are met, resulting in a more conservative exposure measure.

Client-cleared derivatives: higher-level client exemption (LEV30.26)

- LEV30.26 permits certain "higher-level client" exclusions in multi-level client clearing structures if stringent conditions are met.
- Australian rules implement the core clearing member (CM) treatment and the exclusion where the CM is not obligated to reimburse the client if a qualifying central counterparty (QCCP) defaults (APS 110, Attachment D, paragraphs 25–26), but do not provide the additional "higher-level client" exclusion (APS 110, Attachment D, paragraphs 27–29). By not offering the multi-level client exemption, Australia's treatment is more conservative.

Conditions for offsetting derivatives (LEV30.33)

- LEV30.33 allows purchased credit protection to offset written credit derivatives on a pool of reference names provided that the credit protection purchased covers the entirety of the subset of the pool on which the credit protection has been sold.
- Australian rules do not permit offsetting of credit protection sold on individual reference names (APS 110, Attachment D, paragraph 34). Credit protection purchased must cover the entire pool in order to be eligible to offset written credit derivatives.

Credit conversion factor (CCF) for unconditionally cancellable commitments (LEV30.54)

- LEV30.54 applies a 10% CCF to unconditionally cancellable commitments (UCCs), with supervisory discretion to apply higher CCFs.
- There is no 10% CCF category for UCCs in Australian rules under either the risk-based or leverage ratio frameworks. They are categorised as "other commitments", attracting a 40% CCF (APS 112, Attachment C, Table 17), which is more conservative than the Basel standards.

Annex 6 National discretions implemented by Australia's authorities

Implementation of national discretions by Australia's authorities

Table A.5

Basel paragraph	Description	National implementation
<u>LEV30.7</u>	Treatment of central bank reserves in exceptional circumstances	APRA may temporarily exclude central bank reserves from the leverage ratio exposure measure in exceptional macroeconomic circumstances. If APRA excludes central bank reserves, it may increase the minimum leverage ratio requirement commensurately to offset the impact of the exclusion. In the event that APRA excludes central bank reserves from the calculation of the exposure measure, an authorised deposit-taking institution (ADI) must publicly disclose the impact of the exclusion, as well as its leverage ratio calculated without the benefit of the exclusion.
<u>LEV30.47</u>	Exemption of certain arrangements from the definition of commitment	In addition to the Basel conditions that must be met for an arrangement to be excluded from the definition of commitment, APS 112 requires the assessment of creditworthiness to be undertaken by an independent party and, at a minimum, to include confirmation of the borrower's good credit standing and that no material adverse information has arisen subsequent to the limit approval or the most recent credit review that would affect the borrower's creditworthiness. The borrower must be a corporate counterparty that is closely monitored on an ongoing basis, and not an SME retail borrower.
<u>LEV30.56</u>	Treatment of certain off-balance sheet securitisation exposures	Basel allows both the undrawn portion of servicer cash advances and facilities that are unconditionally cancellable without prior notice to receive the 10% CCF for unconditionally cancellable commitments that applies under the standardised approach to credit risk (CRE20). APRA departs from the Basel treatment in two ways. First, APRA does not recognise a separate category of unconditionally cancellable commitments in its risk-based or leverage frameworks; as a result, facilities that are unconditionally cancellable without prior notice receive the higher 40% CCF for "other commitments" rather than 10%, which is more conservative than Basel. Second, APRA applies a 0% CCF to undrawn servicer cash advances, which is less conservative than Basel's 10%.

Source: APRA.

Annex 7 Key leverage indicators of the banking system in Australia

Overview of leverage of Australia's banking system as of end-June 2025

Table A.6

Size of banking sector		
	Number of banks	Total assets (AUD, millions)
All banks incorporated in Australia, of which	81	5,994,729
G-SIBs, headquartered in Australia	0	0
Subsidiaries of foreign banks	7	199,194
Banks to which the Basel leverage ratio framework is applied	7 ³	5,355,809
Breakdown of leverage ratio for five RCAP sample banks (AUD, millions)		
Tier 1 capital		282,776
Total on-balance sheet exposures (excluding derivatives and SFTs, but including collateral)		4,720,432
Total derivative exposures		222,363
Total SFT exposures		359,017
Off-balance sheet items		520,848
Total leverage ratio exposure measure		5,822,660
Adjustments for temporary exemption of central bank reserves (if applicable)		-
Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)		4.86%
Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)		4.86%

Source: APRA.

³ APRA recently removed the leverage ratio requirement for one of the smaller, less complex banks using the standardised approach to credit risk, changing the scope of the leverage ratio from seven ADIs to six ADIs (see section 1.2)