Agenda Item 13(b).1
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APRA releases discussion paper on implementation of Basel III capital reforms

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The Australian Prudential Regulation Authority (APRA) has released for consultation a discussion paper outlining its proposed implementation of the Basel III capital reforms in Australia.

The discussion paper is a response to a package of measures released by the Basel Committee on Banking Supervision in December 2010, and revised in June 2011, to raise the level and quality of capital in the global banking system.

APRA has been actively involved in developing these global capital reforms and fully supports their implementation in Australia. Accordingly, APRA proposes to broadly adopt the minimum Basel III requirements for the definition and measurement of capital for authorised deposit-taking institutions (ADIs). Alignment will require APRA to amend its current policies in a number of areas, taking a stricter approach than at present in some but a less conservative approach in others. In certain areas, however, there are strong in-principle reasons to continue APRA's current policies; these involve the treatment of deferred tax assets, investments in non-consolidated financial institutions and investments in commercial institutions.

APRA also proposes to introduce the new Basel III capital buffer regimes and the leverage ratio.

APRA Chairman Dr John Laker said the proposed capital reforms will clearly strengthen the Australian banking system. "By requiring ADIs to hold higher minimum levels of better quality capital, supplemented by minimum capital buffers, the reforms will enhance APRA's current prudential capital framework for ADIs, with positive benefits for depositors, other stakeholders and the stability of the banking system as a whole."

Dr Laker added: "APRA's proposals seek to achieve a prudent balance between the industry's wish for greater international consistency of capital measures and the fundamental need to ensure that capital held by ADIs in Australia is genuinely available to absorb losses."

Following consideration of submissions received on this paper, APRA will undertake a second consultation in early 2012 on the detailed prudential and reporting requirements that will give effect to the Basel III capital reforms in Australia.

In APRA's view, ADIs in Australia are well placed to meet the new minimum capital requirements and APRA is therefore proposing to accelerate aspects of the Basel Committee's timetable. It is proposing to require ADIs to meet the revised Basel III minimum capital ratios and regulatory adjustments in full from 1 January 2013, and to meet the capital conservation buffer in full from 1 January 2016. APRA will adopt transitional arrangements for capital instruments that no longer qualify as Additional Tier 1 capital or Tier 2 capital. For ADIs that wish to issue capital instruments prior to the new capital standards being finalised and implemented, APRA confirms that its existing guidance (as set out in its letters to ADIs of 17 September 2010 and 27 May 2011) is unaffected by these proposals and remains in force.

The discussion paper can be found on the APRA website at www.apra.gov.au/adi/Pages/adi-consultation-packages.aspx.
The Australian Prudential Regulation Authority (APRA) is the prudential regulator of the financial services industry. It oversees banks, credit unions, building societies, general insurance and reinsurance companies, life insurance, friendly societies, and most members of the superannuation industry. APRA is funded largely by the industries that it supervises. It was established on 1 July 1998. APRA currently supervises institutions holding approximately $3.7 trillion in assets for 22 million Australian depositors, policyholders and superannuation fund members.

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