



17 December 2015

**To: All locally-incorporated authorised deposit-taking institutions (ADIs) other than purchased payment facility providers**

**Re: Countercyclical capital buffer – amendments to *Prudential Standard APS 110 Capital Adequacy* and draft *Prudential Practice Guide APG 110 Capital Buffers***

On 2 September 2015, the Australian Prudential Regulation Authority (APRA) released for consultation draft amendments to *Prudential Standard APS 110 Capital Adequacy* (APS 110) to clarify requirements relating to the countercyclical capital buffer framework. The letter accompanying that proposal also outlined APRA's intention to provide additional guidance on the calculation of the buffer.

This letter outlines APRA's response to issues raised in the one submission received on the proposed changes to APS 110 and is accompanied by a draft prudential practice guide, *Prudential Practice Guide APG 110 Capital Buffers* (APG 110).

### Consultation summary

The submission, provided by an industry association, sought clarity on a number of technical issues associated with the proposed amendments to APS 110, including:

- appropriately specifying that calculation of the 'ADI-specific buffer' for the purposes of the countercyclical capital buffer framework is limited to certain exposures to private sector counterparties; and
- seeking amendments to replace references in APS 110 to the term 'capital charge' with 'risk-weighted amount' to avoid potential confusion with the accounting use of 'charge' and to align more closely with the terminology of overseas jurisdictions.

APRA has responded to these issues by:

- amending APS 110 to make clearer that the ADI-specific buffer is limited to exposures to private sector counterparties; and
- replacing references to 'capital charge' where possible.

In response to additional questions raised by the submission, APRA also confirms that:

- the treatment of subsidiaries that are part of the Extended Licensed Entity at Level 1, including those that are not ADIs or equivalent overseas deposit-taking institutions, should be included for the purposes of calculating the ADI-specific buffer; and

- an ADI should follow the requirements relating to transitional arrangements that apply in the relevant jurisdiction. Where a jurisdiction is not applying a phase-in limit to its buffer, an ADI should use the full buffer in its calculations.

The submission also asked APRA to amend APS 110 to provide that APRA will notify ADIs of the countercyclical capital buffer rates applying in other jurisdictions in which they have private sector credit exposures. However, ADIs are responsible for monitoring their exposures (including international exposures) and calculating the associated regulatory capital requirements. APRA notes that the Basel Committee on Banking Supervision (Basel Committee) has established a webpage on which any country with a countercyclical buffer – including non-Basel Committee members – may list their buffer requirements. The purpose of this webpage is to provide banks with the information they need to calculate their specific buffer requirements. APRA nonetheless expects ADIs to have in place measures to allow them to be satisfied that they have kept abreast of buffer rates in all jurisdictions in which they operate.

Other issues raised in the submission, such as the basis for calculating offshore exposures and whether sectoral countercyclical buffers must be applied, have been addressed in the draft APG 110.

#### **Invitation to comment on APG 110**

APRA invites feedback on the draft APG 110 released today. Submissions should be provided by Friday 18 March 2016 by email to [adi.policy@apra.gov.au](mailto:adi.policy@apra.gov.au) and addressed to:

Mr Pat Brennan  
General Manager, Policy Development  
Policy and Advice Division  
Australian Prudential Regulation Authority

Yours sincerely



Sarah Goodman  
Executive General Manager  
Policy and Advice Division

**Note:** APRA's policy is to publish all submissions on the APRA website unless a respondent expressly informs APRA in writing that all or part of the submission is to remain in confidence. Automatically generated confidentiality statements in emails do not suffice for this purpose. Where respondents would like only part of their submission to remain in confidence, they should provide this information marked as 'confidential' in a separate attachment.