



20 October 2011

To all locally incorporated Authorised Deposit-taking Institutions (ADIs)

### Covered bonds

APRA has today amended *Prudential Standard APS 120 Securitisation* (APS 120) to reflect commencement of the *Banking Amendment (Covered Bonds) Act 2011* (the Covered Bonds Act). The Act has modified the preference provisions of the *Banking Act 1959* to allow for the issuing of covered bonds by ADIs. APRA has accordingly removed the prohibition on the issuing of covered bonds from paragraph 7 of APS 120. The new APS 120 takes effect when it is registered on the Federal Register of Legislative Instruments. It is also available from APRA's web site (<http://www.apra.gov.au>). APRA will make similar amendments to the new APS 120, which incorporates enhancements to the Basel II Framework in Australia and takes effect from 1 January 2012.

APRA intends to release in early November, for a brief consultation period, a discussion paper and draft prudential standard (*Prudential Standard APS 121 Covered Bonds*, APS 121) setting out proposed prudential requirements to apply to ADIs that issue covered bonds in accordance with the Covered Bonds Act. The requirements relate mainly to the capital treatment of covered bonds. It is APRA's intention to issue a final version of APS 121 by early 2012 and APRA's prudential requirements will come into effect from the date of that standard. ADIs are able to issue covered bonds prior to the finalisation of APS 121, but are encouraged to take note of the proposals contained in the discussion paper.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Charles Littrell', written over a light grey rectangular background.

Charles Littrell  
Executive General Manager  
Policy, Research and Statistics