



21 March 2017

TO: ALL AUTHORISED DEPOSIT-TAKING INSTITUTIONS (ADIs)

APRA's review of prudential requirements for traded market risk

In January 2016, the Basel Committee on Banking Supervision (Basel Committee) finalised its revised market risk standard, *Minimum capital requirements for market risk* (also known as the Fundamental Review of the Trading Book, or FRTB).¹

FRTB is intended to replace the Basel Committee's existing market risk requirements, which APRA has largely incorporated into *Prudential Standard APS 116 Capital Adequacy: Market Risk*.² The FRTB reforms have been undertaken in response to deficiencies in the management of traded market risk that were identified during the financial crisis of 2008. The Basel Committee timetable anticipates domestic implementation of these reforms by January 2019.

APRA is advising affected ADIs that it does not envisage a new market risk standard being finalised until the beginning of 2020 at the earliest. Once the standard is finalised, ADIs will have 12 months before it comes in effect. APRA has decided to take this approach to allow for further consideration of the complexities associated with implementation and of the alignment between FRTB and related reforms including those associated with counterparty credit risk.

While it remains APRA's intent to implement FRTB for internationally active banks in Australia, in determining the scope and extent of implementation, APRA will seek to assess the costs and benefits of the various options. APRA will consider whether other options, such as not implementing some elements of FRTB, or adopting simpler approaches, would be more appropriate to the nature, scope and complexity of the risks faced in the Australian context.

APRA will continue to discuss policy settings with ADIs and monitor international developments, and will aim to provide an update regarding its implementation of FRTB within the next 12 months.

If you have any questions in relation to this matter, please contact your Responsible Supervisor.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Pat Brennan'.

Pat Brennan
Executive General Manager
Policy and Advice Division

¹ <http://www.bis.org/bcbs/publ/d352.htm>

² The existing framework is set out in the June 2006 publication of *Basel II: International Convergence of Capital Measurement and Capital Standards – Comprehensive Version* and amendments made to that document thereafter.