



To All Authorised Deposit-taking Institutions (ADIs)

PROPOSALS TO STRENGTHEN THE RESILIENCE OF THE BANKING SECTOR

On 17 December 2009, the Basel Committee on Banking Supervision released two consultative documents, *Strengthening the Resilience of the Banking Sector* and *International Framework for Liquidity Risk Management, Standards and Monitoring*. The documents set out the Basel Committee's proposals to strengthen global capital and liquidity requirements, with the goal of promoting a more resilient international banking system.

During 2010, the Basel Committee has consulted widely on these proposals and has undertaken a detailed Quantitative Impact Study. A number of Australian ADIs participated in this Study.

On 26 July 2010, the Group of Governors and Heads of Supervision, the oversight body for the Basel Committee, announced that it had reached broad agreement on the overall design of the capital and liquidity reform package. In particular, this includes the definition of capital, the treatment of counterparty credit risk, the leverage ratio and the global liquidity standard. The Governors and Heads of Supervision also agreed to finalise the calibration and phase-in arrangements at their next meeting in September. The press release can be located on the Bank for International Settlements' website: www.bis.org.

The Basel Committee will now finalise the role of regulatory capital buffers and the details of the capital and liquidity reforms. The Committee's intention is to present a fully calibrated, comprehensive set of proposals to the G20 Heads of Government meeting in November and issue the proposals by the end of 2010.

APRA's general approach to the implementation of the Basel Committee reforms was set out in our letter to you of 18 December 2009. We will provide further guidance on transition arrangements when the international timetable has been finalised, although we do not expect that ADIs in Australia will need an extensive transition period to meet new minimum global capital requirements. In the case of the global liquidity standard, the Governors and Heads of Supervision have acknowledged the circumstances of jurisdictions such as Australia that do not have sufficient high quality (Level 1) liquid assets to meet the standard. APRA is working closely with the Basel Committee and continuing to consult with industry on appropriate liquidity standards for such jurisdictions.

As part of its on-going consultations, APRA will be co-hosting with Finsia a conference on the Basel Committee's reforms in Sydney on 6 September. Your organisation will shortly receive an invitation from Finsia to attend this conference.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Charles Littrell'.

Charles Littrell
Executive General Manager
Policy, Research and Statistics Division