



4 September 2012

To: All locally incorporated authorised deposit-taking institutions

### Basel III capital - reductions in capital

In September 2011, APRA released a discussion paper on its proposals for implementing the Basel III capital reforms in Australia.<sup>1</sup> This was followed in March 2012 by a response to submissions paper and a draft of *Prudential Standard APS 110 Capital Adequacy* (APS 110).<sup>2</sup>

Draft APS 110 requires an authorised deposit-taking institution (ADI) to obtain APRA's written approval prior to making any planned reduction in capital. A planned reduction in capital includes payment of dividends or interest on paid-up ordinary shares and non-common equity capital instruments that exceed after-tax earnings, after taking into account any payments on more senior capital instruments.

After considering submissions on the above points, APRA remains of the view that requiring prior approval for planned capital reductions arising from ordinary share dividends is a valuable supervisory tool. For preference equity and subordinated debt, however, APRA now considers that the costs associated with this requirement likely outweigh the supervisory benefits.

Accordingly, APRA intends to remove the requirement for APRA approval of payments in relation to Additional Tier 1 and Tier 2 instruments, for both future and currently outstanding issues.

The requirement in relation to ordinary shares will remain.

Further details will be provided in APRA's next response to submissions, which is expected to be released by the end of September, and will be reflected in the final prudential standards to be released at that time.

Any questions in relation to this letter should be directed to Neil Grummitt, General Manager, Policy Development ([neil.grummitt@apra.gov.au](mailto:neil.grummitt@apra.gov.au), 02 9210 3560).

Yours sincerely

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<sup>1</sup> <http://www.apra.gov.au/adi/PrudentialFramework/Pages/Basel-III-Capital-Reforms-September-2011.aspx>

<sup>2</sup> <http://www.apra.gov.au/adi/PrudentialFramework/Pages/Basel-III-Capital-Reforms-March-2012.aspx>