



Discussion Paper

Basel III disclosure requirements: leverage ratio; liquidity coverage ratio; the identification of potential global systemically important banks; and other minor amendments

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Preamble

This discussion paper outlines the Australian Prudential Regulation Authority's (APRA's) proposed implementation of the internationally-agreed disclosure framework designed to give effect to the Basel III reforms in relation to:

- the leverage ratio;
- the liquidity coverage ratio (LCR); and
- the identification of potential global systemically important banks (G-SIBs).

The disclosure measures are founded on the Basel Committee on Banking Supervision's (the Basel Committee's) *Basel III leverage ratio framework and disclosure requirements* (January 2014); *Liquidity coverage ratio disclosure standards* (January 2014); and *Global systemically important banks: updated assessment methodology and the higher loss absorbency requirement* (July 2013), respectively. They have been modified in places for Australian circumstances.

The paper also outlines proposed minor amendments to *Prudential Standard APS 110 Capital Adequacy* (APS 110) and *Prudential Standard APS 330 Public Disclosure* (APS 330) to remedy minor deviations from the Basel framework that were identified during the Basel Committee's Regulatory Consistency Assessment Programme (RCAP). These proposed amendments will provide clarity around APRA's existing capital adequacy and disclosure requirements and ensure Australia's continued consistency with the Basel framework.

APRA invites written submissions on the proposals in this discussion paper. Following consideration of submissions received, APRA intends to finalise APS 110 and APS 330, with proposed effect from 1 January 2015.

This discussion paper is available on APRA's website at www.apra.gov.au. Written submissions should be sent to APS330@apra.gov.au by 31 October 2014 and addressed to:

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Important disclosure notice - publication of submissions

All information in submissions will be made available to the public on the APRA website unless a respondent expressly requests that all or part of the submission is to remain in confidence. Automatically generated confidentiality statements in emails do not suffice for this purpose. Respondents who would like part of their submission to remain in confidence should provide this information marked as confidential in a separate attachment.

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Glossary

Term	Definition
ADI	Authorised deposit-taking institution
APRA	Australian Prudential Regulation Authority
Draft APS 110	<i>Draft Prudential Standard APS 110 Capital Adequacy</i>
APS 111	<i>Prudential Standard APS 111 Capital Adequacy: Measurement of Capital</i>
APS 113	<i>Prudential Standard APS 113 Capital Adequacy: Internal Ratings-based Approach to Credit Risk</i>
APS 210	<i>Prudential Standard APS 210 Liquidity</i>
Draft APS 330	<i>Draft Prudential Standard APS 330 Public Disclosure</i>
Basel III	<i>Basel III: A global regulatory framework for more resilient banks and banking systems</i> , Basel Committee, December 2010 (revised June 2011)
Basel Committee	Basel Committee on Banking Supervision
Corporations Act	<i>Corporations Act 2001</i>
D2A	'Direct to APRA' application
G20	The Group of Twenty, a forum for international economic cooperation and decision-making
G-SIB	Global systemically important bank
G-SIB disclosing ADI	An ADI with a leverage ratio exposure measure of more than EUR 200 billion
G-SIB framework	<i>Global systemically important banks: updated assessment methodology and the higher loss absorbency requirement</i> , Basel Committee, updated in July 2013
HLA	Higher loss absorbency
HQLA	High-quality liquid assets
IRB ADIs	ADIs with approval from APRA to use the internal ratings-based approach to credit risk under APS 113

Term	Definition
LCR	Liquidity coverage ratio
LCR ADI	An ADI classified as an LCR ADI under APS 210
Leverage ratio exposure measure	The exposure measure component of the leverage ratio set out in Attachment D to draft APS 110
NSFR	Net Stable Funding Ratio
QIS	Quantitative Impact Study
RCAP	Regulatory Consistency Assessment Programme of the Basel Committee
RCAP report	<i>Regulatory Consistency Assessment Programme (RCAP): Assessment of Basel III regulations - Australia</i> , Basel Committee, March 2014
SFT	Securities financing transaction
<i>Liquidity Sound Principles</i>	<i>Principles for sound liquidity risk management and supervision</i> , Basel Committee, September 2008

Executive summary

In response to the global financial crisis, international standard setters released a series of measures designed to promote a more resilient global banking system. Included in these measures are the Basel III leverage ratio framework¹, the liquidity coverage ratio (LCR) framework² and the global systemically important bank (G-SIB) framework.³ This discussion paper outlines APRA's proposed implementation of the disclosures related to these measures. The paper also outlines proposed minor amendments to *Prudential Standard APS 110 Capital Adequacy* (APS 110) and *Prudential Standard APS 330 Public Disclosure* (APS 330) to rectify minor deviations from the Basel framework identified during the Basel Committee on Banking Supervision's (Basel Committee's) review of the Australian regulatory framework under its Regulatory Consistency Assessment Programme (RCAP).⁴

Leverage ratio disclosures

An underlying cause of the global financial crisis was the build-up of excessive on- and off-balance sheet leverage in the banking system. In many cases, banks built up excessive leverage while apparently maintaining strong risk-based capital ratios. The leverage ratio is a metric for the identification of excessive leverage. Although the Basel Committee has indicated its intention to introduce a minimum leverage ratio requirement from 1 January 2018, it has agreed that disclosure of bank leverage ratios using an internationally standardised definition should commence from 1 January 2015. APRA proposes to follow this

approach, with a disclosure requirement for certain ADIs to commence from 1 January 2015.

A decision on when and how to introduce a minimum leverage ratio requirement in Australia will be taken after the Basel Committee has completed its deliberations.

At this stage, APRA is proposing to apply the leverage ratio disclosure requirements only to authorised deposit-taking institutions (ADIs) with approval from APRA to use the internal ratings-based approach to credit risk under *Prudential Standard APS 113 Capital Adequacy: Internal Ratings-based Approach to Credit Risk* (APS 113) (IRB ADIs). These ADIs are already reporting the leverage ratio to APRA as part of the Basel Committee's monitoring process. A decision about extending disclosure requirements to other ADIs will be made after the Basel Committee has settled the final calibration of a minimum leverage ratio requirement, and confirmed its final design and implementation date.

Under APRA's proposals, IRB ADIs will be required to make the following public disclosures:

- a summary table comparing the ADI's total accounting assets and leverage ratio exposures;
- a leverage ratio disclosure template that provides a breakdown of the main leverage ratio elements; and
- a reconciliation that details the source(s) of material differences between the ADI's total balance sheet assets in its financial statements, and the on-balance sheet exposures reported in the leverage ratio disclosure template.

APRA also proposes that an IRB ADI explain the key drivers of material changes in its Basel III leverage ratio observed from the end of the previous reporting period to the end of the current reporting period.

1 *Basel III leverage ratio framework and disclosure requirements*, Basel Committee, January 2014: <http://www.bis.org/publ/bcbs270.pdf>

2 *Liquidity coverage ratio disclosure standards*, Basel Committee, January 2014: <http://www.bis.org/publ/bcbs272.pdf>

3 *Global systemically important banks: updated assessment methodology and the higher loss absorbency requirement*, Basel Committee, July 2013: <http://www.bis.org/publ/bcbs255.pdf>

4 *Regulatory Consistency Assessment Programme (RCAP): Assessment of Basel III regulations - Australia*, Basel Committee, March 2014

APRA proposes that an IRB ADI comply with the disclosure requirements from the date of lodgement of the ADI's first financial report under the *Corporations Act 2001* (Corporations Act), on or after 1 January 2015. The intention is that the complete disclosures would be made with the same frequency as, and concurrent with, the lodgement of the ADI's financial reports under the Corporations Act: for current IRB ADIs, this means semi-annually. To align with the disclosure of other summary information and in line with the Basel framework, APRA proposes that an IRB ADI also disclose its total Tier 1 Capital, exposure measure and leverage ratio on a quarterly basis.

Liquidity Coverage Ratio (LCR) disclosures

In December 2013, APRA released *Prudential Standard APS 210 Liquidity* (APS 210), which set out how the LCR is to be applied in Australia⁵. The LCR requirement aims to ensure that an ADI has sufficient high-quality liquid assets (HQLA) to survive a significant liquidity stress scenario for a minimum period of 30 calendar days. The LCR will apply to the larger, more complex ADIs (LCR ADIs) from 1 January 2015.

Supplementing the LCR requirement, APRA proposes that LCR ADIs should also comply with public disclosure requirements on their liquidity risk position from 1 January 2015. The LCR disclosure requirements are intended to enhance market discipline by enabling market participants to assess an ADI's liquidity risk position. It is proposed that an LCR ADI be required to publicly disclose prescribed data on its LCR in a common template set out in APS 330. In line with the internationally-agreed framework, an LCR ADI would also be required to provide sufficient qualitative discussion around its LCR to facilitate users' understanding of the results and data provided in the LCR disclosure template.

⁵ [Implementing Basel III liquidity reforms in Australia - December 2013](#)

APRA is proposing that LCR ADIs comply with the disclosure requirements from the date of their first reporting period after 1 January 2015. The intention is that disclosures be made with the same frequency as, and concurrent with, the lodgement of an ADI's financial statements under the Corporations Act.

Disclosures for the identification of potential G-SIBs

In response to the Group of Twenty's (G20's) strongly held view that that no financial firm should be 'too big to fail' and that taxpayers should not bear the cost of resolution in the event that a bank fails, in November 2011 the Basel Committee released its framework for dealing with G-SIBs (G-SIB framework)⁶. The policy measures for G-SIBs aim to address the moral hazard that arises from the perception that certain banks are too big or too interconnected to fail. The measures include a requirement that banks identified as G-SIBs have a greater capacity to absorb losses through higher capital requirements. No Australian bank is on the current list of G-SIBs.

The G-SIB framework requires reporting by the world's 75 largest banks of a set of indicators used to assess 'systemicness'. The selected indicators have been chosen to reflect the characteristics that most generate negative externalities and/or make a bank critical for the stability of the financial system. As the identification of G-SIBs will be ongoing, and to facilitate transparency as to how the additional capital requirements for G-SIBs are being applied, it has been agreed that banks with a leverage ratio exposure measure above EUR 200 billion should disclose the G-SIB indicators.

⁶ *Global systemically important banks: updated assessment methodology and the higher loss absorbency requirement*, Basel Committee, updated in July 2013: <http://www.bis.org/publ/bcbs255.htm>.

Although not currently identified as G-SIBs, the four largest Australian ADIs (Australia and New Zealand Banking Group, Commonwealth Bank of Australia, National Australia Bank and Westpac Banking Corporation) presently meet the EUR 200 billion threshold for disclosure and, therefore, APRA proposes that the disclosures for the identification of potential G-SIBs will apply to this limited subset of ADIs. Accordingly, APRA proposes to give effect to the G-SIB disclosure framework by amending APS 330 so that an ADI required by APRA must disclose the 12 G-SIB indicators in a common template from 1 January 2015. APRA will publish a current list of ADIs required to make the disclosures (G-SIB disclosing ADIs) on its website.

Commencing from its first balance sheet date on or after 1 January 2015, APRA proposes that a G-SIB disclosing ADI make the disclosures on an annual basis, not later than four months after the date on which the ADI's indicator values are based, but, in any case, not later than 31 July.

Minor amendments to rectify deviations from the Basel framework

APRA is also taking the opportunity make a number of minor amendments to APS 110 and APS 330 to remedy several areas where the standards inadvertently deviate from the Basel framework. These minor deviations were identified during the RCAP in 2014 and will provide clarity around APRA's existing capital adequacy and disclosure requirements.

Summary: proposed scope of application

The following table summarises the proposed scope of application in relation to each disclosure requirement.

Disclosure requirement	Scope of application
Leverage ratio disclosures	An ADI with approval to use the internal ratings-based approach to credit risk under APS 113 (IRB ADI).
LCR disclosures	An ADI classified as an LCR ADI under APS 210 (LCR ADI).
Disclosures for the identification of potential G-SIBs	An ADI required by APRA to make the G-SIB disclosures (currently the four largest Australian ADIs (Australia and New Zealand Banking Group, Commonwealth Bank of Australia, National Australia Bank and Westpac Banking Corporation)).

Consultation with industry and other interested stakeholders

APRA invites written submissions on its proposals to implement the leverage ratio, LCR and G-SIB disclosure requirements, as well as on the proposed amendments to remedy minor deviations from the Basel framework identified during the Basel Committee's RCAP. Submissions should also comment on the compliance impact of the proposals. More detail on the cost-benefit analysis information requested is provided in Chapter 5.

Chapter 1 – Leverage ratio disclosures

One of the underlying features of the global financial crisis was the build-up of excessive on- and off-balance sheet leverage in the global banking system, despite the fact that many banks reported strong risk-based capital ratios. During the most severe phase of the crisis, markets forced the banking system to reduce its leverage in a manner that amplified downward pressure on asset prices, further exacerbating the feedback loop between losses, declines in bank capital and contraction in credit availability.

To address this, the Basel Committee developed a simple, transparent, non-risk based leverage ratio that is calibrated to act as a supplementary measure to the risk-based capital requirements. When set as a minimum requirement, the Basel III leverage ratio is intended to:

- restrict the build-up of excessive leverage in the banking system, helping to avoid a destabilising deleveraging process that could damage the broader financial system and the economy; and
- reinforce the risk-based requirements with a simple ‘backstop’ measure that provides additional safeguards against model risk and measurement error.

Implementation of the leverage ratio disclosure requirements began with a subset of ADIs reporting the leverage ratio and its components to APRA in 2013. APRA now proposes that those ADIs with approval under APS 113 to use the IRB approach to calculate their risk-weighted assets for credit risk (IRB ADIs) should commence public disclosure of their leverage ratio.

The final calibration of the leverage ratio, and any further adjustments to its definition, will be completed by the Basel Committee by 2017, with a view to migrating to a Pillar 1 (minimum capital requirement) treatment on 1 January 2018. In its September 2011 discussion paper, *Implementing Basel III Capital Reforms In Australia*⁷, APRA proposed the introduction of the Basel III leverage ratio as part of its prudential capital regime. However, given the Basel Committee’s intention to undertake further analysis before introducing the leverage ratio as a Pillar 1 requirement in 2018, APRA does not consider it appropriate to implement a minimum leverage ratio requirement at this stage. Nevertheless, there is merit in IRB ADIs making clear and consistent disclosure of their leverage ratios in the meantime. APRA will continue to assess the impact of the proposed disclosures and will consult at a later date on the application of the leverage ratio as a minimum requirement and on extending the disclosure requirements to other ADIs.

Draft APS 330 released with this discussion paper gives effect to the Basel Committee’s leverage ratio disclosure framework, with modifications in places to reflect Australian circumstances. Draft APS 110 does not introduce the leverage ratio as a minimum requirement on ADIs; rather, it outlines APRA’s proposed requirements for calculating the leverage ratio and its components to ensure compatibility for the purposes of the APS 330 public disclosure requirements.

⁷ www.apra.gov.au/adi/Documents/Basel-III-discussion-paper-September-2011.pdf.

1.1 Basel III leverage ratio measure

The Basel III leverage ratio is defined as the capital measure (the numerator) divided by the exposure measure (the denominator), with the ratio expressed as a percentage:

$$\text{Leverage ratio} = \frac{\text{Capital measure}}{\text{Exposure measure}}$$

The capital measure is an ADI's Tier 1 Capital under the risk-based framework, calculated in accordance with *Prudential Standard APS 111 Capital Adequacy: Measurement of Capital* (APS 111).

The leverage ratio exposure measure methodology is set out in Attachment D to draft APS 110 and is the sum of the following exposure types:

- a) on-balance sheet exposures;
- b) derivative exposures;
- c) securities financing transaction (SFT) exposures; and
- d) other off-balance sheet exposures.

APRA proposes that the calculation of the exposure measure should follow Australian Accounting Standards, subject to the following:

- on-balance sheet, non-derivative exposures are included in the exposure measure net of specific provisions or accounting valuation adjustments;
- unless specified otherwise, ADIs must not take account of physical or financial collateral, guarantees or other credit risk mitigation techniques to reduce the exposure measure; and
- netting of loans and deposits is not allowed.

The specific treatments for these four main exposure types are set out in Attachment D of draft APS 110 released with this discussion paper.

1.2 Leverage ratio disclosure requirements

The leverage ratio disclosure requirements are intended to enhance market discipline by enabling market participants to reconcile leverage ratio disclosures with an IRB ADI's published financial statements. The proposed disclosures are also intended to improve the transparency of regulatory capital reporting by facilitating comparisons of the capital adequacy of IRB ADIs with their international peers.

APRA proposes to give effect to the Basel Committee's leverage ratio disclosure framework by requiring public disclosure of the main components of an IRB ADI's leverage ratio from 1 January 2015.

Accordingly, APRA proposes the following public disclosures:

- a summary table comparing an IRB ADI's total accounting assets and leverage ratio exposures;
- a leverage ratio disclosure template; and
- a reconciliation requirement.

As indicated above, to make these disclosures, an IRB ADI would need to refer to the exposure measure methodology set out in draft APS 110 and to the calculation of its Tier 1 Capital in accordance with APS 111. Consistent with the Basel Committee's disclosure framework, APRA proposes that IRB ADIs should explain the key drivers of material changes in their leverage ratio observed from the end of the previous reporting period to the end of the current reporting period (whether these changes stem from changes in the ADI's Tier 1 Capital and/or the leverage ratio exposure measure).

1.2.1 Scope of application

Pending finalisation of the leverage ratio regime by the Basel Committee, APRA proposes to apply the leverage ratio disclosure requirements to IRB banks only, on a Level 2 (consolidated) basis.

1.2.2 Summary comparison table

APRA proposes that IRB ADIs disclose a reconciliation of the assets on their statement of financial position from their published financial reports with the leverage ratio exposure measure. This reconciliation would be made in accordance with Table 19 of Attachment E to draft APS 330.

1.2.3 Leverage ratio disclosure items

APRA proposes that IRB ADIs publish a range of leverage ratio disclosure items that provide a breakdown of the main leverage ratio regulatory elements into four main exposure types: on-balance sheet exposures, derivative exposures, SFT exposures and other off-balance sheet items. The leverage ratio disclosure items are contained in Table 18 of Attachment E to draft APS 330. In completing Table 18, it is proposed that IRB ADIs have regard to Table 18A, which sets out an explanation of each row in Table 18.

1.2.4 Leverage ratio reconciliation requirement

APRA proposes that IRB ADIs be required to detail the source(s) of material differences between total balance sheet assets (net of on-balance sheet derivative and SFT assets) as reported in their audited financial statements and their on-balance sheet exposures used for leverage ratio disclosure purposes.

1.3 Implementation date, frequency, timing, location and archiving

APRA is proposing that IRB ADIs comply with the leverage ratio disclosure requirements from the date of lodgement of the ADI's first financial report under the Corporations Act, on or after 1 January 2015. Subsequent disclosures would be required to be made with the same frequency as, and concurrent with, the lodgement of the ADI's financial reports under the Corporations Act. Irrespective of the frequency of lodgement of its financial reports, it is proposed that an IRB ADI be required to disclose the following on a quarterly basis (together with the figures for the previous three quarters (once these disclosures have been made)):

- (a) Tier 1 Capital;
- (b) exposure measure; and
- (c) leverage ratio.

Consistent with the location of an IRB ADI's capital disclosures, APRA proposes that the leverage ratio disclosures must either be included in an IRB ADI's financial statements or, at a minimum, these financial statements must include a direct link to the completed disclosures on the ADI's website. Regarding the disclosures required to be made on a quarterly basis, where a quarterly reporting period does not coincide with the lodgement of an IRB ADI's financial report under the Corporations Act, APRA proposes that the disclosures must be published on the 'Regulatory Disclosures' section of the ADI's website within 40 business days after the end of the period to which they relate.

Finally, for consistency with the current requirements in APS 330, APRA proposes that an IRB ADI make publicly available its leverage ratio disclosures in the 'Regulatory Disclosures' section of its website for a minimum period of 12 months.

Chapter 2 – Liquidity coverage ratio (LCR) disclosures

In December 2013, APRA released its final position on implementation of the main elements of the Basel III liquidity reforms for ADIs in Australia⁸. The liquidity reforms involve two new quantitative measures – a 30 day LCR to address an acute stress scenario and a Net Stable Funding Ratio (NSFR) to encourage longer-term funding resilience. While the Basel Committee is continuing to review the specification of the NSFR, the LCR requirement (contained in APS 210) has been finalised and has effect from 1 January 2015.

In January 2014, the Basel Committee issued a disclosure framework focused on disclosure requirements for the LCR⁹. The disclosure framework aims to ‘improve the transparency of regulatory liquidity requirements, reinforce the *Principles for sound liquidity risk management and supervision (Liquidity Sound Principles)*¹⁰, enhance market discipline and reduce uncertainty in the markets as the LCR is implemented’. The LCR disclosure requirements constitute the final measures needed to ensure the full implementation of the LCR framework in Australia.

This chapter sets out APRA’s proposed implementation of the LCR disclosure measures for LCR ADIs, as set out in the draft APS 330 released with this discussion paper.

2.1 Scope of application

Consistent with the scope of application of the LCR requirement in APS 210, APRA proposes to apply the LCR disclosure requirements to all ADIs classified as ‘LCR ADIs’ under APS 210. The disclosure requirements are proposed to apply to LCR ADIs on a Level 2 basis or, where Level 2 is not applicable, on a Level 1 basis.

2.2 LCR disclosure template

The disclosure requirements include a common template to report the various components of the LCR. To reflect some idiosyncrasies in relation to Australia’s implementation of the LCR requirement, APRA proposes to amend the Basel Committee template to require a disclosure of the value of ‘Alternative liquid assets’ and ‘Reserve Bank of New Zealand securities’ that are included in the HQLA of an LCR ADI. The proposed LCR disclosure template is set out in Attachment F to draft APS 330.

It is proposed that the LCR information be presented as simple averages of daily observations over the previous quarter (i.e. the average to be calculated over a period of, typically, 90 days)¹¹. Even though LCR ADIs must have the operational capacity to produce a daily liquidity report from 1 April 2015¹², APRA may permit an LCR ADI to disclose data based on averages of monthly observations over the previous quarter until the first reporting period after 1 January 2017. It is also proposed that LCR ADIs publish the number of data points used in calculating the average figures in the LCR disclosure template.

8 <http://www.apra.gov.au/adi/PrudentialFramework/Pages/Implementing-Basel-III-liquidity-reforms-in-Australia-December-2013.aspx>

9 www.bis.org/publ/bcbs272.pdf.

10 www.bis.org/publ/bcbs144.pdf

11 For ADIs reporting on a semi-annual basis, the annual LCR must be reported for each of the two preceding quarters. For ADIs reporting on an annual basis, the LCR must be reported for each of the preceding four quarters.

12 <http://www.apra.gov.au/adi/Documents/140411-Ltr-to-all-ADIs-changes-to-liquidity-reporting-arrangements.pdf>

2.3 Qualitative disclosure requirement

APRA proposes to require that LCR ADIs provide sufficient qualitative discussion around their LCR to facilitate users' understanding of the results and data provided in the LCR disclosure template. Where significant to the LCR, an LCR ADI could discuss:

- the main drivers of its LCR results and the evolution of the contribution of inputs to the LCR's calculation over time;
- intra-period changes as well as changes over time;
- the composition of HQLA;
- concentration of funding sources;
- derivative exposures and potential collateral calls;
- currency mismatch in the LCR;
- where appropriate, the degree of centralisation of liquidity management and interaction between the Level 2 group's units; and
- other inflows and outflows in the LCR calculation that are not captured in the LCR disclosure template but that the ADI considers to be relevant for its liquidity profile.

An LCR ADI may refer to the *Liquidity Sound Principles* as a basis for providing greater qualitative information on its approach to liquidity risk management.

2.4 Implementation date, frequency, timing, location and archiving

APRA is proposing that an LCR ADI comply with the LCR disclosure requirements from the date of its first reporting period after 1 January 2015¹³ and for each subsequent year. Subsequent disclosures would be made with the same frequency as, and concurrent with, the lodgement of an ADI's financial reports under the Corporations Act, commencing with the lodgement of the first financial report on or after 1 January 2015.

APRA proposes that the LCR disclosures would either be included in an ADI's financial statements or, at a minimum, that these statements provide a direct link to the disclosures on the 'Regulatory Disclosures' section of an ADI's website. Consistent with the requirement for existing prudential disclosures, an ADI would need to provide ready access to its LCR disclosures on its website for a minimum period of 12 months.

2.5 Confidentiality of ADIs' liquidity reporting data

APRA is taking this opportunity to provide an update on the separate, but related, issue of the confidentiality of ADI liquidity data reported to APRA under *Reporting Standard ARS 210.0 Liquidity*. In its December 2013 paper, '*Response to Submissions - Implementing Basel III liquidity reforms in Australia*'¹⁴, APRA indicated that it would not consider whether to determine such data non-confidential until finalisation of the LCR disclosure requirements. APRA has since decided that the data will remain confidential until, or unless, APRA indicates otherwise.

¹³ That is, where all reference dates used in the calculation occur on or after 1 January 2015.

¹⁴ www.apra.gov.au/adi/PrudentialFramework/Pages/Implementing-Basel-III-liquidity-reforms-in-Australia-December-2013.aspx

Chapter 3 – Disclosures for the identification of potential G-SIBs

The G-SIB framework was developed in the aftermath of the global financial crisis and responds to the strongly held view of the G20 leaders, including Australia, that no financial entity should be ‘too big to fail’ and that taxpayers should not bear the cost of resolution. In its July 2013 publication, *Global systemically important banks: updated assessment methodology and the higher loss absorbency requirement*¹⁵, the Basel Committee outlined its framework for addressing the risks posed by G-SIBs.

To be able to identify those banks that should be designated as systemically important from a global perspective, the Basel Committee requires a large sample of banks to report a set of 12 indicators that reflect their size, their interconnectedness, the availability or absence of readily available substitutes or financial institution infrastructure for the services they provide, their global (cross-jurisdictional) activity and their complexity. These indicators are then used to calculate each bank’s ‘systemicness’ score. Banks above a cut-off score are identified as G-SIBs. Higher loss absorbency (HLA) requirements are imposed on individual banks depending on their distance above the cut-off score.

Banks fulfilling any of the following criteria will be included in the sample:

- banks that the Basel Committee identifies as the 75 largest global banks, based on the financial year-end Basel III leverage ratio exposure measure;
- banks that were designated as G-SIBs in the previous year (unless national authorities agree that there is a compelling reason to exclude them); and

- banks that have been added to the sample by national authorities using supervisory judgement (subject to certain criteria).

To enhance the transparency of the G-SIB identification exercise, the G-SIB framework indicates that all banks with a leverage ratio exposure measure exceeding EUR 200 billion¹⁶ should be required by national authorities to ensure that the 12 indicators used in the G-SIB assessment methodology are made publicly available. The Basel Committee has set the EUR 200 billion threshold with the objective of ensuring that:

- the 75 largest global banks that are automatically included in the sample used to calculate banks’ scores are subject to the disclosure requirements; and
- some banks below the largest 75 are subject to the disclosure requirements to ensure that, should they enter the list of the largest 75 banks, they are ready and able to accurately report the data necessary to determine the G-SIB scores.

3.1 Scope of application

While no Australian bank is on the current list of G-SIBs, the four largest Australian ADIs (Australia and New Zealand Banking Group, Commonwealth Bank of Australia, National Australia Bank and Westpac Banking Corporation) currently meet the EUR 200 billion threshold for public disclosure. These banks are already providing the necessary data, via APRA, to the Basel Committee.

APRA proposes to amend APS 330 so that an ADI, if required by APRA, must publicly disclose the 12 indicators in a common format. APRA proposes to list the ‘G-SIB disclosing ADIs’ on its website and to review this list regularly.

¹⁵ <http://www.bis.org/publ/bcbs255.pdf>

¹⁶ Using the exchange rate applicable at the financial year-end.

3.2 Disclosures for the identification of potential G-SIBs template

The draft 'disclosures for the identification of potential G-SIBs' template is set out in Attachment H to draft APS 330. The four largest ADIs have been reporting this data to both APRA and the Basel Committee, at a more granular level, since January 2011 as part of the Basel Committee's ongoing Quantitative Impact Study (QIS) for the G-SIB framework. APRA does not propose to require that ADIs publicly disclose the more granular breakdown of the 12 indicators provided for the QIS.

3.3 Implementation date, frequency, timing, location and archiving

APRA proposes that a 'G-SIB disclosing ADI' must disclose the 12 indicators from its first balance sheet date occurring on or after 1 January 2015 and for each subsequent year. APRA proposes that the disclosures be published not later than four months after the date on which the indicator values are based, but, in any case, not later than 31 July.

Ideally, the G-SIB indicators would be reported as at 31 December each year to maximise the comparability with indicators produced by other banks. However, since none of the large Australian ADIs have a balance date that coincides with calendar year-end, APRA proposes that the G-SIB indicator values be reported as at an ADI's financial year-end. APRA may also permit an ADI with a 30 June financial year-end to disclose the indicator values based on its position as at 31 December; this will ensure that, as per the Basel Committee's request, the disclosures are made by 31 July to enable the Committee sufficient time to calculate banks' scores¹⁷.

APRA is also proposing that the required disclosures either be included in an ADI's annual financial report or in the 'Regulatory Disclosures' section of an ADI's website, provided the ADI includes a direct link to the disclosures on its website in the first annual financial report lodged under the Corporations Act after the date the disclosures are published on its website.

Consistent with the current requirements in APS 330, APRA proposes that an ADI make publicly available the 12 G-SIB indicators on its website for a minimum period of 12 months.

3.4 Alternative to individual publication: centralised publication of the G-SIB indicators

As an alternative to disclosures by individual ADIs, APRA could facilitate centralised reporting of the G-SIB indicators. Under this proposal, the G-SIB disclosing ADIs would report against the 12 indicators through APRA's 'Direct to APRA' (D2A) application instead of through the current QIS process. APRA would then publish this data in the format set out in Attachment H to draft APS 330. If this approach was adopted, Attachment H would be replaced with a new reporting standard replicating the data required for each of the 12 indicators from Attachment H. APRA invites submissions on whether ADIs would prefer APRA to collect and disclose the relevant data on their behalf. In particular, APRA seeks feedback as to whether this approach would reduce the cost to ADIs of producing the required disclosures.

¹⁷ Updates to the list of G-SIBs are determined by the Basel Committee each September, and published by the Financial Stability Board each November.

Chapter 4 – Minor amendments, including to rectify deviations from the Basel framework

4.1 Minor amendments to rectify deviations from the Basel framework

APRA is taking the opportunity to consult on a number of proposed amendments to APS 110 and APS 330 to remedy areas where those standards unintentionally deviate from the internationally-agreed framework. These ‘non-material’ deviations were identified during the Basel Committee’s RCAP assessment of APRA’s domestic adoption of the Basel framework in March 2014¹⁸. The relevant amendments are intended to provide clarity around APRA’s existing capital adequacy and disclosure requirements.

The deviations are as follows:

- the omission of a ‘less than’ symbol in Table 1 of Attachment B to APS 110, which sets out constraints on capital distributions in the event of an ADI breaching specified minimum capital requirements;
- APS 110 should stipulate that where an ADI does not have positive earnings and has a Common Equity Tier 1 ratio less than the sum of its Common Equity Tier 1 prudential capital requirement plus the capital conservation buffer, it would be restricted from making positive net distributions;
- the omission of some quantitative disclosures regarding exposures in relation to counterparty credit risk in APS 330;
- the omission of certain qualitative disclosures for ADIs using the internal models approach for trading portfolios in APS 330;

- APS 330 should require that where an ADI’s capital-related disclosures are published on the regulatory disclosure section of its website, the information should also be included in the ADI’s published financial reports or, at a minimum, a link to the regulatory disclosure website provided; and
- APS 330 should require ADIs subject to the countercyclical capital buffer to disclose the geographic breakdown of their private sector credit exposures in the calculation of the buffer requirement. APS 330 should also explicitly state that the countercyclical capital buffer should be based on the latest relevant jurisdictional countercyclical buffers available.

4.2 Other minor amendments

APRA is also proposing to amend APS 110 and APS 330 to include a paragraph in the ‘Interpretation’ sections stating that, where the standards provide for APRA to exercise a power or discretion, this power or discretion is to be exercised in writing. Consequently, subsequent references to APRA exercising a specific power or discretion in writing have been deleted.

Further, to facilitate ADIs’ understanding of the requirements around the frequency and timing of both the existing and proposed disclosures, APRA has summarised these requirements in a table in a separate attachment to APS 330 (refer Attachment I to draft APS 330 released with this discussion paper). There are no proposed changes to the frequency and timing requirements for the existing public disclosures; the table merely reflects the requirements contained in the current APS 330.

¹⁸ [Regulatory Consistency Assessment Programme \(RCAP\): Assessment of Basel III regulations - Australia, Basel Committee, March 2014.](#)

Chapter 5 – Request for cost-benefit analysis information

To improve the quality of regulation, the Australian Government requires all proposals to undergo a preliminary assessment to establish whether it is likely that there will be business compliance costs. The preliminary assessments for the proposals outlined in this discussion paper concluded that measurable compliance costs are likely and thus a formal Regulation Impact Statement (RIS) will be required. In order to perform this comprehensive cost-benefit analysis, APRA requests that all interested stakeholders use this consultation opportunity to provide information on the compliance impact of the proposed changes and any other substantive costs associated with the changes. Compliance costs are defined as direct costs to businesses of performing activities associated with complying with government regulation. Specifically, information is sought on any increases or decreases to the compliance costs incurred by businesses as a result of this proposal.

Consistent with the Government's approach, APRA will use the methodology behind the Regulatory Burden Measurement Tool to assess compliance costs. This tool is designed to capture the relevant costs in a structured way, including a separate assessment of upfront costs and ongoing costs. It is available at <https://rbm.obpr.gov.au/home.aspx>.

Respondents are requested to use this methodology to estimate costs to ensure that the data supplied to APRA can be aggregated and used in an industry-wide assessment. When submitting their cost assessment to APRA, respondents are asked to include any assumptions made and, where relevant, any limitations inherent in their assessment. Feedback should address the additional costs incurred as a result of complying with APRA's requirements or expectations, not activities that institutions would undertake regardless of regulatory requirements in their ordinary course of business.



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