



Response to Submissions

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

In September 2014, the Australian Prudential Regulation Authority (APRA) released for consultation a package outlining its proposed implementation of the internationally-agreed disclosure framework 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*; *Liquidity coverage ratio disclosure standards*; and *Global systemically important banks: updated assessment methodology and the higher loss absorbency requirement*, respectively.

The package also outlined proposed minor amendments to *Prudential Standard APS 110 Capital Adequacy* (APS 110) and *Prudential Standard APS 330 Public Disclosure* (APS 330) to remedy slight deviations from the Basel

framework that were identified during the Basel Committee's Regulatory Consistency Assessment Programme (RCAP) review of Australia.

This paper sets out APRA's response to submissions received during consultation on:

- the discussion paper, *Basel III disclosure requirements: leverage ratio; liquidity coverage ratio; the identification of potential global systemically important banks; and other minor amendments*;
- proposed changes to APS 110; and
- proposed changes to APS 330.

Accompanying this paper are the final versions of APS 110 and APS 330, which will come into force on 1 July 2015.

This response paper and the final prudential standards are available on APRA's website at <http://www.apra.gov.au/adi/Pages/May-2015-Response-disclosure-leverage-ratio-LCR-G-SIBs.aspx>

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Glossary

Term	Definition
ADI	Authorised deposit-taking institution
APRA	Australian Prudential Regulation Authority
APS 110	<i>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>
APS 330	<i>Prudential Standard APS 330 Public Disclosure</i>
ARS 210.0	<i>Reporting Standard ARS 210.0 Liquidity</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>
Discussion paper	<i>Basel III disclosure requirements: leverage ratio; liquidity coverage ratio; the identification of potential global systemically important banks; and other minor amendments</i>
D2A	Direct-to-APRA
G20	The Group of Twenty, a forum for international economic cooperation and decision-making
G-SIB	Global systemically important bank, as determined by the Basel Committee
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
IRB ADIs	ADIs with approval from APRA to use the internal ratings-based approach to credit risk under APS 113
LCR	Liquidity coverage ratio as defined in APS 210
LCR ADI	An ADI classified as an LCR ADI under APS 210

Term	Definition
Leverage ratio exposure measure	The exposure measure component of the leverage ratio set out in Attachment D to APS 110
QIS	Quantitative Impact Study
RCAP	Regulatory Consistency Assessment Programme of the Basel Committee

Executive summary

In response to the global financial crisis, international standard-setters finalised a series of measures designed to promote a more resilient global banking system. These included:

- a new leverage ratio;
- liquidity measures; and
- measures to reduce the likelihood and severity of problems that emanate from the failure of global systemically important banks (G-SIBs).

A key component of these reforms was to facilitate improved market discipline through enhanced public disclosure. In September 2014, APRA sought feedback on its proposed implementation of these disclosure requirements through amendments to *Prudential Standard APS 110 Capital Adequacy* (APS 110) and *Prudential Standard APS 330 Public Disclosure* (APS 330). The package also included

proposed amendments to rectify slight 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).

This paper sets out APRA's response to submissions received during that consultation. APRA received three submissions from industry groups, which were broadly supportive of its approach, and one request for technical clarification from an ADI. The main issues raised in submissions concerned the publication timeframe for the first set of disclosures, frequency of the leverage ratio disclosure requirement and the information to be included in the disclosures about the leverage ratio and the G-SIB framework. APRA has also amended the prudential standards in response to some of these issues.

Chapter 1 – Introduction

1.1 Background

In September 2014, APRA released a discussion paper, *Basel III disclosure requirements: leverage ratio; liquidity coverage ratio; the identification of potential global systemically important banks; and other minor amendments* (the discussion paper)¹, outlining its proposed approach to implementing the following disclosure requirements:

- the leverage ratio in accordance with *Basel III leverage ratio framework and disclosure requirements*²;
- the liquidity coverage ratio (LCR) in accordance with *Liquidity coverage ratio disclosure standards*³; and
- factors relevant to the identification of potential G-SIBs, in accordance with *Global systemically important banks: updated assessment methodology and the higher loss absorbency requirement*⁴.

Also released for comment were draft versions of APS 110 and APS 330 that incorporated the proposed measures.

The package also included proposed minor amendments to APS 110 and APS 330 to rectify slight deviations in APRA's implementation of the Basel capital framework that were identified

during the Basel Committee's 2014 RCAP review of Australia⁵.

1.2 Feedback from consultation

APRA received three submissions from industry bodies and one query from an ADI. The feedback received was broadly supportive of APRA's objectives but queried some aspects of the proposed measures.

1.3 Structure of this paper

This paper summarises the main issues raised in submissions, along with APRA's responses. Chapter 2 provides APRA's response on issues related to the leverage ratio disclosures while chapters 3 and 4 address issues related to the LCR disclosures and disclosures for the identification of potential G-SIBs, respectively. Finally, chapter 5 addresses comments made in relation to the proposals arising from the RCAP review and other issues.

1.4 Timetable

APRA is now releasing APS 110 and APS 330 in final form. The new disclosure requirements will have effect from 1 July 2015. Specific issues raised in submissions regarding implementation dates are addressed in the relevant chapters of this response paper.

1 <http://www.apra.gov.au/adi/Pages/September-2014-Consultation-disclosure-leverage-ratio-LCR-GSIBs.aspx>

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

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

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

5 *Regulatory Consistency Assessment Programme (RCAP): Assessment of Basel III regulations - Australia*, Basel Committee, March 2014: www.bis.org/bcbs/implementation/l2_au.pdf

Chapter 2 – Leverage ratio disclosures

In its September 2014 discussion paper, APRA proposed that those ADIs with approval to use the internal ratings-based approach to credit risk to calculate risk-weighted assets for capital purposes (IRB ADIs) should publish on a semi-annual basis:

- information in accordance with a leverage ratio disclosure template;
- a summary table comparing its total accounting assets and leverage ratio exposures; and
- a reconciliation of its financial statements and on-balance sheet exposures under the leverage ratio.

APRA also proposed that an IRB ADI publish each quarter the total amount of Tier 1 Capital and on- and off-balance sheet exposures together with the leverage ratio derived from these amounts.

These measures are broadly consistent with the Basel Committee's approach to introducing the new leverage ratio metric, under which banks submit data on their leverage to national supervisors from 2013 before moving to public disclosure from 2015. The Basel Committee intends to use this information to assist its calibration of a minimum leverage ratio requirement that will become enforceable from 2018.

Some submissions related to the last stage of this process - that is, the imposition of the leverage ratio as a minimum requirement. APRA confirms that the leverage ratio is a disclosure requirement only at this stage. When the Basel Committee finalises the calibration of the leverage ratio, APRA intends to consult on the appropriate application of the leverage ratio as a minimum requirement in Australia.

2.1 Frequency of disclosures

Under current Pillar 3 capital requirements, ADIs are required to disclose key capital ratios and elements of their risk profile on a quarterly basis, including Common Equity Tier 1, Tier 1 and Total Capital ratios. The Basel Committee determined

that the leverage ratio and its components (Tier 1 Capital and Total Exposures) should also be disclosed quarterly since the metric is an important supplementary measure to the risk-based capital requirements. APRA proposed to follow this approach.

Comments received

One submission objected to the requirement to disclose the amount of Tier 1 Capital and Total Exposures on a quarterly basis, when ADIs publish information about Tier 1 Capital and on- and off-balance sheet details semi-annually or annually. It was submitted that publishing this information without the whole suite of disclosures could lead to misinterpretation.

APRA's response

ADIs already disclose each quarter the value of their risk-weighted assets and their Tier 1 Capital ratio, from which the amount of Tier 1 Capital can be readily calculated. APRA does not agree that explicitly publishing the components of the leverage ratio could lead to misinterpretation.

Nor does APRA consider that disclosing the amount of on- and off-balance sheet exposures would, in the absence of the full suite of financial reports, lead to misinterpretation. However, if an ADI is concerned about misinterpretation, it may choose to provide additional clarification in its disclosures.

2.2 Qualitative discussion requirement

APRA proposed to require an IRB ADI to explain the key drivers of material changes in its leverage ratio from the end of the previous reporting period to the end of the current period, and whether these changes stem from changes in the numerator (Tier 1 Capital) or the denominator (Total Exposures).

Comments received

One submission noted that no similar explanation is required for movements in the risk-based capital ratios and queried the need to provide explanation

for what is intended to be a supplement to these ratios.

APRA's response

APRA notes that qualitative explanations apply under the capital disclosure regime to specific components of the capital ratios, such as the requirement to explain changes in securitisation exposures between reporting periods under the existing APS 330.

APRA appreciates that the requirement to explain the key drivers of material changes to its leverage ratio applies more broadly - to any component of the ratio - but notes that it is only for material movements. These are likely to be infrequent but may be indicative of significant changes in an ADI's business operations that warrant additional explanation.

2.3 Timing of first disclosures

In its September 2014 discussion paper, APRA proposed that the leverage ratio disclosure requirement would be applicable from the date of the lodgement of an IRB ADI's first financial report under the *Corporations Act 2001* (Corporations Act) on or after the effective date of the new disclosure requirements.

Comments received

One submission requested confirmation of the timing of the first disclosures by reference to the differing financial year ends of IRB ADIs.

APRA's response

APRA has separately provided clarification in relation to the timing of the first set of leverage ratio disclosures to each IRB ADI.

2.4 Definition of Tier 1 Capital

In the discussion paper and the draft of APS 110, APRA proposed that the 'capital measure' component of the leverage ratio would be an ADI's Tier 1 Capital, calculated in accordance with *Prudential Standard APS 111 Capital Adequacy: Measurement of Capital* (APS 111).

Comments received

One submission requested that APRA facilitate cross-jurisdictional comparability by defining Tier 1 Capital based on an 'internationally standardised' definition. It was further proposed that, if APRA decided to use the definition in APS 111, consideration be given to endorsing an additional template based on an internationally harmonised definition, similar to that under consideration for the risk-based capital ratios.

APRA's response

APRA is working with industry participants to develop a common reporting template in relation to the risk-based Common Equity Tier 1 (CET1) Capital ratio that is adjusted for differences in APRA's implementation of the Basel framework relative to international minimum requirements. Such a template, yet to be finalised, would be additional to existing requirements for disclosure of the CET1 ratio. APRA accepts that adopting a comparable template for the leverage ratio disclosure requirements would align with the risk-based capital ratios. However, given that the CET1 Capital template has yet to be finalised and the leverage ratio definition may change as part of the calibration review process, APRA considers it appropriate to revisit this proposal at a later date. In the meantime, an ADI may choose to publish its own leverage ratio addendum to the required Pillar 3 disclosures.

2.5 Basel Committee – Frequently Asked Questions (FAQs)

In addition to the matters addressed in this chapter, APRA has made four minor amendments to Attachment D of APS 110 to reflect updated guidance on the calculation of the leverage ratio

released by the Basel Committee in October 2014⁶. These amendments clarify the proposals set out in the draft version of APS 110 released for consultation in September 2014 and relate to:

- footnote 12, relating to the calculation of the net-to-gross ratio in the presence of cash variation margin;
- paragraph 18(a), relating to netting of securities financing transactions;
- paragraph 22(a)(ii)(C), relating to cross-product netting agreements; and
- footnote 26, relating to negative fair value amounts.

⁶ *Frequently asked questions on the Basel III leverage ratio framework*, Basel Committee, October 2014:
<http://www.bis.org/publ/bcbs293.htm>

Chapter 3 – Liquidity coverage ratio (LCR) disclosures

In its September 2014 discussion paper, APRA proposed that an ADI classified as an ‘LCR ADI’ under *Prudential Standard APS 210 Liquidity* (APS 210) should publish, with the same frequency as, and concurrent with, the lodgement of its financial reports under the Corporations Act, data using a common template reporting the various components of its LCR. The paper also proposed that an LCR ADI provide sufficient qualitative discussion to facilitate users’ understanding of this data.

3.1 Scope of application

Branches of overseas banks (foreign ADIs) may also be classified as LCR ADIs; in November 2014, APRA announced amended liquidity requirements for these ADIs.

Comments received

Two stakeholders sought confirmation that the LCR disclosure requirements do not apply to foreign ADIs that are classified as LCR ADIs.

APRA’s response

APRA’s existing capital disclosure requirements do not apply to foreign ADIs, which are subject to comparable disclosure requirements in their home jurisdiction. APRA does not intend to depart from that approach by requiring LCR disclosures. For the avoidance of doubt, APS 330 has been amended to explicitly exclude foreign ADIs from those LCR ADIs that are required to make these disclosures.

3.2 Confidentiality of liquidity reporting data

In the discussion paper, APRA also provided an update on a separate, but related, issue regarding the confidentiality of liquidity data submitted to APRA under *Reporting Standard ARS 210.0 Liquidity* (ARS 210.0). APRA confirmed that data submitted under ARS 210.0 will remain confidential until, or unless, APRA indicates otherwise. Any change in this approach will be subject to public consultation.

Comments received

One submission expressed the view that liquidity reporting data should remain confidential, as per the current arrangements.

APRA’s response

APRA reaffirms its decision, as outlined in the discussion paper.

Chapter 4 – Disclosures for the identification of potential G-SIBs

Under the Basel Committee's assessment methodology for G-SIBs, a sample of international banks report a set of indicators to national supervisory authorities annually. These indicators are then aggregated and used to calculate the systemic importance of banks in the sample. Banks above a cut-off score are identified as G-SIBs and are subject to a higher loss absorbency requirement and G-SIB Pillar 3 disclosures.

A subset of banks in the sample that report the indicators to the Basel Committee are not themselves G-SIBs, but are of sufficient size⁷ that the Basel Committee considers it appropriate for these entities to make the G-SIB Pillar 3 disclosures. This disclosure is designed to allow market participants and interested parties to assess how and when an ADI might be subject to a higher loss absorbency requirement.

There are no Australian G-SIBs, but there are four banks potentially required to make G-SIB Pillar 3 disclosures. APRA refers to these ADIs as 'G-SIB disclosing ADIs'.

The consultation proposed that these entities make the G-SIB Pillar 3 disclosures. The Basel Committee's Quantitative Impact Study (QIS), which collects more detailed and granular information on the components of the G-SIB score, will continue to run in parallel with the requirement to make certain G-SIB indicators public.

4.1 Timing

In the discussion paper, APRA proposed that the disclosures for the identification of potential G-SIBs be based on an ADI's financial year-end, with the exception that an ADI with a 30 June financial year may be permitted to base disclosures on 31 December data. This is because, as part of the QIS,

⁷ That is, banks with exposures for leverage ratio purposes of more than EUR 200 billion.

the Basel Committee requires final submission of G-SIB indicator data by 31 July that relates to the financial year end closest to December within the preceding period 1 July - 30 June, which effectively provides only a month for the data to be compiled and submitted in the case of an ADI that balances on 30 June.

APRA also proposed that the G-SIB indicator disclosures be published within four months from the date on which the indicator values are based, but, in any case, not later than the following 31 July.

Comments received

One submission sought confirmation of the date on which to base the G-SIB indicators disclosure and when they should be published. This submission also asked for a transition period of at least 12 months to allow ADIs time to develop, test and implement the systems and processes required for public disclosure.

APRA's response

APRA confirms that, other than an ADI with a June balance date, an ADI should base its G-SIB indicator disclosures on its financial year-end. To align with the Basel Committee's deadline for calculating G-SIB scores as part of the QIS, an ADI with a June balance date may base its disclosures on its semi-annual 31 December data. APRA further confirms that the first disclosures will not be required until 31 July 2016, based on the relevant balance date occurring after 1 July 2015.

APRA has reviewed its proposal to require disclosure within four months of the ADI's reporting date for G-SIBs. If the four-month deadline were adhered to, an ADI with a September balance date would be required to make the public disclosure by 31 January. However, to be consistent with the data used to determine a bank's G-SIB status, these disclosures must be made by reference to the reporting instructions issued by the Basel Committee relating to each annual QIS. These reporting

instructions are usually not finalised until January, leaving little time for such ADIs to compile their disclosures. APRA is of the view that retaining the four month deadline imposes an unreasonable burden on affected ADIs, and has therefore amended APS 330 to provide that G-SIB indicator disclosures must be made by 31 July following the relevant reporting date. Extending this period will also allow ADIs to align their G-SIB disclosures with other Pillar 3 disclosure requirements, reducing the need to produce a separate G-SIB disclosure document.

Further, G-SIB-disclosing ADIs have over 12 months in which to implement appropriate systems and processes before the first set of disclosures are required in July 2016.

4.2 Guidance

Comments received

One submission proposed that APRA issue guidance to ensure consistency across ADIs, particularly in relation to some less familiar items, such as cross jurisdictional claims/liabilities (cross jurisdictional activity) and payments (substitutability).

APRA's response

The G-SIB indicator disclosure requirements are derived from data that the relevant ADIs have been submitting through the QIS to the Basel Committee since 2011. For each collection, new and comprehensive instructions have been issued by the Basel Committee, which in some cases also refer to existing guidance issued by other bodies, such as the Bank for International Settlements.

Given the small number of affected ADIs, the most efficient and effective approach (for both ADIs and APRA) is for an ADI seeking clarification to directly contact its responsible supervisor. To facilitate

consistency, APRA may disseminate its response to such requests more widely, such as through issuing FAQs.

4.3 Alternative to individual publication

APRA sought submissions on its proposal to centralise publication of the G-SIB indicators by collecting information through APRA's 'Direct-to-APRA' (D2A) reporting system. APRA particularly sought feedback on whether such an approach would reduce the cost to ADIs of producing the required disclosures.

Comments received

Submissions were divided on this issue. One submission supported the proposal as providing ready access to comparable information, and for it to be available for longer than the minimum 12 months proposed. This submission also suggested centralising publication of the leverage ratio.

Another submission saw no significant difference in cost between publishing directly or submitting data through D2A as the same assurance and governance requirements would apply. This submission also noted that individual ADIs may wish to provide additional commentary around their disclosures, which would not be possible in a centralised publication.

APRA's response

APRA's proposed alternative was intended to reduce compliance costs. As any savings appear to be minimal, APRA does not intend proceeding with this proposal.

Chapter 5 – Minor amendments and other issues

In its September 2014 proposals, APRA included a number of minor amendments to rectify slight deviations from the Basel framework identified during the RCAP assessment of Australia.

5.1 Geographical breakdown of exposures

APRA proposed to amend APS 330 to require an ADI subject to the countercyclical capital buffer to disclose the geographic breakdown of its private sector credit exposures in the calculation of the buffer requirement.

Comments received

One submission sought clarification on the level of granularity required in an ADI's disclosure of the geographic breakdown of its private sector credit exposures.

APRA's response

The reference to geographic location is intended to reflect the cross-jurisdictional application of the countercyclical capital buffer. Accordingly, an ADI should disclose the geographic breakdown of its private sector credit exposures on the basis of national jurisdiction. APS 330 has been amended to make this explicit.

5.2 Reporting dates

Comments received

One submission requested that APRA amend APS 330 to provide ADIs a permanent extension to the reporting deadline for all semi-annual Pillar 3 disclosures.

APRA's response

This proposal goes beyond the ambit of the current consultation process but will be considered as part of APRA's work reviewing potential regulatory cost saving measures.



Telephone
1300 55 88 49

Email
info@apra.gov.au

Website
www.apra.gov.au

Mail
GPO Box 9836
in all capital cities
(except Hobart and Darwin)