



15 September 2016

**To: All authorised deposit-taking institutions (ADIs)**

### **PROPOSED MINOR AMENDMENTS TO APS 112**

APRA has released today a consultation package on proposed revisions to the counterparty credit risk framework for ADIs. As part of this consultation, APRA has proposed a number of minor amendments to *Prudential Standard APS 112 Capital Adequacy: Standardised Approach to Credit Risk* (APS 112) that impact areas beyond counterparty credit risk and relate to the ADI prudential framework more broadly.

These minor amendments:

- rectify minor deviations from the Basel Committee on Banking Supervision's (Basel Committee's) framework identified during the 2014 Regulatory Consistency Assessment Programme (RCAP) assessment of Australia;
- ensure consistency with other areas of APRA's prudential framework; and
- redress other minor errors and omissions.

The specific amendments are outlined in the Attachment to this letter and are highlighted in the draft revised APS 112 and, where relevant, *Prudential Standard APS 180 Capital Adequacy: Counterparty Credit Risk* (APS 180), released today for consultation.

These proposed minor amendments apply to all ADIs. Following the public consultation and APRA's consideration of submissions received, APRA intends to release a final APS 112 in 2017 to take immediate effect.

APRA also notes that it is currently undertaking a review of its ADI framework for securitisation and this will necessitate further changes to APS 112. These changes will be made following the finalisation of *Prudential Standard APS 120 Securitisation*.

Written submissions on any of the proposed minor amendments to APS 112 should be sent to [ADIpolicy@apra.gov.au](mailto:ADIpolicy@apra.gov.au) by 11 November 2016 and addressed to:

Ms Heidi Richards  
General Manager, Policy Development  
Policy and Advice Division  
Australian Prudential Regulation Authority

Yours sincerely

A handwritten signature in black ink, appearing to read 'Pat Brennan', with a long, sweeping horizontal stroke at the end.

Pat Brennan  
Executive General Manager  
Policy and Advice Division

#### **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.

Submissions may be the subject of a request for access made under the *Freedom of Information Act 1982* (FOIA). APRA will determine such requests, if any, in accordance with the provisions of the FOIA. Information in the submission about any APRA-regulated entity that is not in the public domain and that is identified as confidential will be protected by section 56 of the *Australian Prudential Regulation Authority Act 1998* and will therefore be exempt from production under the FOIA.

## RCAP amendments

APRA is consulting on minor amendments to remedy areas where its requirements unintentionally deviate from the internationally agreed framework. These ‘non-material’ deviations were identified during the Basel Committee’s RCAP assessment of APRA’s adoption of the Basel framework in March 2014.<sup>1</sup> The relevant amendments address:

- the omission from APS 112 of the sovereign floor, whereby no claim on an unrated bank may receive a risk weight lower than that applied to claims on its sovereign of incorporation; and
- the omission from APS 112 of a statement that counterparty risk weightings for OTC derivative transactions will not be subject to any specific ceiling. The relevant section of APS 112 has been relocated to draft APS 180.

## Other minor amendments

APRA is also proposing minor amendments to ensure alignment with other aspects of its framework and rectify minor errors and omissions. The proposed minor amendments are:

- changing all references to ‘multilateral regional development banks’ and ‘regional development banks’ to ‘multilateral development banks’ to ensure consistency with other parts of APRA’s framework;
- including a paragraph in the ‘Interpretation’ section of APS 112 stating that, where the standard provides for APRA to exercise a power or discretion, this power or discretion is to be exercised in writing. All subsequent references to APRA exercising a specific power or discretion in writing have been deleted;
- adding the European Stability Mechanism and European Financial Stability Facility to the list of institutions eligible for a zero risk weight under Attachment A to APS 112, consistent with the Basel Committee’s March 2014 announcement;<sup>2</sup>
- exempting short-term self-liquidating letters of credit from the sovereign floor in Attachment A of APS 112;<sup>3</sup>
- rectifying a minor error in the recognised long-term ratings and equivalent credit rating grades specified in Attachment F of APS 112; and
- clarifying the role of the board in monitoring and reporting exposures to central counterparties in response to issues raised in submissions to APRA’s consultation on *Improving APRA’s board engagement in October 2014*.<sup>4</sup> The relevant section of APS 112 has been relocated to draft APS 180 and is highlighted in blue.

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<sup>1</sup> [Regulatory Consistency Assessment Programme \(RCAP\) Assessment of Basel III regulations - Australia, Basel Committee, March 2014.](#)

<sup>2</sup> Refer to [http://www.bis.org/publ/bcbs\\_n17.htm](http://www.bis.org/publ/bcbs_n17.htm).

<sup>3</sup> [Treatment of trade finance under the Basel capital framework, Basel Committee, October 2011.](#)

<sup>4</sup> Refer to <http://www.apra.gov.au/CrossIndustry/Pages/October-2014-improving-APRAs-board-engagement.aspx>.