AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY
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10 November 2020

TO: ALL AUTHORISED DEPOSIT-TAKING INSTITUTIONS

INTERIM CAPITAL TREATMENT OF NEW OR ADDITIONAL EQUITY INVESTMENTS IN BANKING AND INSURANCE SUBSIDIARIES

In October 2019, APRA released a discussion paper outlining planned revisions to Prudential Standard APS 111 Capital Adequacy: Measurement of Capital (APS 111).[1] The most significant proposal within this discussion paper was an adjustment to the capital treatment of authorised deposit-taking institutions' (ADIs') equity investments in their banking and insurance subsidiaries.

While APRA's planned finalisation and implementation of APS 111 is now likely in 2021 and 2022 respectively, it is important that any new or additional equity investments made before then are undertaken with the proposed policy in mind. In this context, APRA is today writing to ADIs to advise of an interim change to the capital treatment of new or additional equity investments in banking and insurance subsidiaries.

In this interim period, there will be no change to the capital treatment of any existing equity investments in these subsidiaries, with these exposures continued to be risk weighted at 300 per cent if listed or 400 per cent if unlisted. However, until the new APS 111 is finalised and implemented, APRA will require any new or additional equity investments in banking and insurance subsidiaries, where the amount of that new or additional investments takes the aggregate value of the investment above 10 per cent of an ADI's Common Equity Tier 1 (CET1) capital, to be fully funded by equity capital at the ADI parent company level. This treatment would apply to the proportion of the new or additional investment that is above 10 per cent of an ADI's CET1 capital.

This interim measure reflects the direction of the proposed APS 111, but does not impact on existing investments. It also does not restrict or prohibit ADIs from making new investments or increasing their existing investments in banking and insurance subsidiaries in the period ahead. However, it will ensure that any new or additional equity investments, particularly where the aggregate value of the investment is large relative to the ADI's CET1 capital, are backed by appropriate capital to reduce the risk to Australian depositors.

In this interim period, ADIs will be expected to notify APRA ahead of any new or additional equity investments in banking and insurance subsidiaries, which would result in the aggregate value of any investment exceeding 10 per cent of an ADI's CET1 capital.

If you have any questions, please contact your responsible supervisor.

Yours sincerely,

John Lonsdale
Deputy Chair

[1] https://www.apra.gov.au/revisions-to-prudential-standard-aps-111-capital-adequacy-measurement-of-capital