



2 June 2021

TO: ALL AUTHORISED DEPOSIT-TAKING INSTITUTIONS

ADI CAPITAL REFORMS: ROADMAP TO 2023

In December 2020, APRA released a consultation package on revisions to the capital framework for authorised deposit-taking institutions (ADIs).¹ These are significant policy reforms, and the consultation and implementation phase is an important part of the process. This letter sets out a roadmap of next steps to 2023, when the new framework comes into effect.

Consultation process

The ADI capital reforms will embed the industry's 'unquestionably strong' capital position, and improve the flexibility of the framework to respond during periods of stress. APRA is committed to meeting the 1 January 2023 implementation date, to complete the reforms and provide certainty for the industry in capital planning.

The current round of consultation closed on 1 April 2021. Industry responses have been broadly supportive of the reforms, and have provided useful feedback on the impact of specific proposals. APRA is currently reviewing this feedback, including in particular analysis of the proposed capital requirements for higher risk residential mortgages. To ensure the reforms are in line with the objectives and meet the 'unquestionably strong' level of capital at a system level, APRA is continuing the consultation process this year.²

Next steps

To provide a clear roadmap for consultation and industry engagement, APRA has set out an indicative timeline in Attachment A. The timeline covers key policy releases, reporting requirements, industry workshops and the process for capital model approvals. Over the course of 2021, APRA intends to:

- Conduct a targeted data study, to assess potential changes to the calibration of the prudential standards;
- Initiate regular workshops with industry as the standards and guidance are finalised, to provide a forum for updates and FAQs; and
- Release final prudential standards, draft prudential practice guides (PPGs) and initial details of reporting requirements by the end of the year.

¹ See <https://www.apra.gov.au/news-and-publications/apra-seeks-to-enhance-flexibility-and-resilience-of-adi-capital-framework>. The reforms comprise revisions to *APS 110 Capital Adequacy*, *APS 112 Capital Adequacy: Standardised Approach to Credit Risk*, *APS 113 Capital Adequacy: Internal Ratings-based Approach to Credit Risk* and *APS 117 Capital Adequacy: Interest Rate Risk in the Banking Book*.

² The reforms will be calibrated to meet the unquestionably strong level of capital at a system level. The impact on specific ADIs will vary, depending on portfolio composition and risk profile.

Over the course of 2022, APRA intends to finalise the PPGs and reporting requirements. There are a number of related policy revisions that will also be progressed next year, including the fundamental review of the trading book and public disclosure requirements. APRA intends to conduct a parallel run of capital reporting on the new framework in late 2022.

How industry can prepare

APRA expects ADIs to be fully compliant with the revised capital framework from 1 January 2023, including the determination and reporting of capital adequacy. APRA will seek assurance from the relevant accountable person at each ADI on the accuracy of capital ratios. ADIs using the internal ratings-based (IRB) approach to credit risk will also need to seek APRA approval for relevant models, as part of the implementation of the reforms.

APRA notes the constructive engagement with industry during the consultation period to date, and looks forward to this continuing as the reforms are finalised. APRA will liaise with ADIs directly and via industry associations on the industry workshops. If you have questions on the roadmap or reforms more broadly, please contact your supervision team.

Yours sincerely,

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ATTACHMENT A. CONSULTATION AND IMPLEMENTATION TIMELINES

This attachment sets out key milestones and timelines to assist ADIs in the implementation of revisions to the ADI capital framework. The dates listed are indicative. The relevant standards are APS 110, 112, 113 and 117.

Policy	Timing
Targeted QIS	Released July, due August 2021
Release of final Prudential Standards	November 2021
Release of draft Prudential Practice Guides (PPG)	November 2021
APRA to notify ADIs on their eligibility for the simplified framework	November 2021
Release of final PPGs	Q2 2022
Consequential amendments to related standards	Q3 2022
Attestation from accountable person that the ADI will be compliant with the updated standards	December 2022
Capital standards effective	1 January 2023

Reporting	Timing
Initial details on reporting requirements provided to ADIs	August 2021 (Q4 2021 for ARS 117)
Release of interim reporting standards (draft)	Q1 2022
Release of interim reporting standards (final)	Q3 2022
Parallel run of September 2022 quarter end	Q4 2022
Parallel run of December 2022 quarter end	Q1 2023
Attestation from accountable person that the ADI will report accurate regulatory capital data	March 2023
Interim reporting requirements effective	Q1 2023
Release of final reporting standards	Q2 2024
Reporting requirements effective	Q2 2024

Note: APRA intends to discuss the implementation of revised reporting requirements in more detail during the upcoming industry workshops. Revised reporting requirements will be phased in, to allow the industry time to adjust systems and ensure reliable data is provided. The reporting suite covered under these reforms will leverage the new requirements developed for *ARS 220 Credit Risk Management*.

Industry engagement	Timing
Workshop on implementation <ul style="list-style-type: none"> This workshop will provide a forum for industry questions and feedback on this letter, and on potential items for future workshops. 	June 2021
Workshop on targeted QIS <ul style="list-style-type: none"> This workshop will provide further detail on APRA's revised policy proposals and assist ADIs in completing a further targeted QIS. The QIS will be optional for ADIs. 	July 2021
Workshop on reporting <ul style="list-style-type: none"> This workshop is intended to provide further detail on the proposed approach to the implementation of revised reporting requirements. 	August 2021
Ongoing workshops (every two months) <ul style="list-style-type: none"> APRA intends to regularly engage with industry on areas and topics relevant to implementation. 	October 2021 – December 2022

IRB model approvals – Residential mortgage LGD	Timing
Model submissions to APRA	December 2021
Benchmarking exercise	Template released: October 2021 Template due: December 2021
Model assessment and approval	H1 2022
Monitoring and validation	Q4 2022

Other model approvals	Timing
ADIs to discuss with APRA potential changes in the scope of IRB models (such as SME retail models)	August 2021
Accreditation process for IPRE portfolio and benchmarking exercise	Template released: May 2021 Template due: June 2021
ADIs to submit any other relevant IRB model approvals	Ongoing until Q3 2022
ADIs to submit IRRBB model change requests	March 2022 – June 2022
IRRBB model approvals	June 2022 – September 2022