



27 October 2021

TO: ALL AUTHORISED DEPOSIT-TAKING INSTITUTIONS

REVIEW OF ADI MARKET RISK STANDARDS

On 24 September 2021, APRA released an interim update on the timing of key policy priorities.¹ To assist ADIs in planning ahead, this letter provides further detail on APRA’s approach to reviewing the prudential standards for market risk next year and implications for the broader capital framework.

Review timelines

APRA’s review of the prudential standards for market risk will include:

- *Prudential Standard APS 117 Capital Adequacy: Interest Rate Risk in the Banking Book (APS 117);*
- *Prudential Standard APS 116 Capital Adequacy: Market Risk (APS 116);* and
- *Prudential Standard APS 180 Capital Adequacy: Counterparty Credit Risk (APS 180).*

The table below provides a summary of the timing for the policy development and implementation for each of these standards over the period ahead. These revised dates provide additional time for implementation, in response to industry feedback.

Prudential standard	Consultation	Finalisation	Revised implementation
APS 117	2019	2022	2024
APS 116	2022	2023	2025
APS 180	2022	2023	2025

APS 117: Interest rate risk in the banking book

In June 2021, APRA wrote to ADIs with a roadmap for the implementation of the Basel 3B capital reforms.² In that letter, APRA signalled its intention to release the revised APS 117 this year, with implementation from 2023. APRA has extended this timeframe in light of feedback from industry: the effective date for APS 117 will be 1 January 2024, and additional time will also be provided for the associated reporting requirements and model submissions. Annex A provides a more detailed timeline for APS 117.

¹ [APRA policy priorities: Interim update | APRA](#)

² [ADI capital reforms: Roadmap to 2023 | APRA](#)

APS 116 and APS 180: Fundamental review of the trading book

The Basel Committee on Banking Supervision's (BCBS's) fundamental review of the trading book (FRTB) will be implemented by APRA through a revised APS 116. The BCBS has also released a revised version of the Credit Valuation Adjustment (CVA) risk framework, which will be implemented by APRA through a revised *Prudential Standard APS 180 Capital Adequacy: Counterparty Credit Risk* (APS 180).

In APRA's view, implementing FRTB and CVA through changes to APS 116 and APS 180 should be conducted in parallel, so that any interactions can be carefully considered. To this end, and to allow adequate time for consultation, APRA is moving the intended effective date for APS 116 and APS 180 to 1 January 2025.

Next steps

Given the revised timelines, APRA will be providing flexibility regarding requirements for the calculation of the capital floor under the new *Prudential Standard APS 110 Capital Adequacy*. The calculation of the floor will be based on existing requirements for APS 116, APS 117 and APS 180 until the revised standards are effective in 2024-2025.

While there will be capital impacts when these standards are implemented, APRA has already factored in estimates of this at an industry level in calibrating the capital framework to meet the 'unquestionably strong' benchmarks.

Early next year, APRA will confirm the timelines for its review of these market risk standards in the annual Information Paper on *APRA's Policy Priorities*. Should an ADI have questions, it should contact its supervision team.

Yours sincerely,

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Policy and Advice

ANNEX A: APS 117 Implementation timeline

The tables below present a more detailed timeline for the review of APS 117 and reporting.

Implementation	Revised timeline
Policy Implementation date	1 January 2024
Reporting commencement date	March 2024

Policy Development	Revised timeline
Release of final standard	Q2 2022
Release of draft PPG	Q2 2022
Finalise PPG	Q4 2022
Attestation from the accountable person that the ADI is compliant with the updated standards	December 2023

Industry Workshops	Revised timeline
Workshops on standards and guidance, and reporting	Q1 – Q2 2022

Reporting Requirements	Revised timeline
Release of reporting specifications	Q2 2022
Release of draft reporting standard	Q3 2022
Release of final reporting standard	Q2 2023
Parallel run of September 2023 quarter end	Q4 2023
Parallel run of December 2023 quarter end	Q1 2024
Accountable person attestation that the ADI will report accurate regulatory capital calculations in line with the updated standards	March 2024
Reporting requirements effective	Q1 2024

Model approval	Revised timeline
Submit IRRBB model change requests	March 2023 – June 2023
IRRBB model approval	June 2023 – September 2023