



31 October 2022

TO: ALL AUTHORISED DEPOSIT-TAKING INSTITUTIONS

ADI CAPITAL REFORMS: CONSEQUENTIAL AMENDMENTS

APRA released final prudential standards that underpin ADI capital reforms in November 2021, and final accompanying prudential practice guides in July 2022. As part of the July 2022 release, APRA consulted on two proposals for consequential amendments to ensure consistency of APRA's broader prudential framework with the capital reforms. These proposals related to the treatment of exposures to New Zealand and the net stable funding ratio (NSFR) requirement.¹

This letter outlines APRA's response to submissions on these consequential amendments, and summarises other minor consequential amendments, relating mainly to cross referencing in the ADI prudential framework.

Consequential amendments consultation

APRA received three submissions in response to its consultation on amendments to the treatment of exposures to New Zealand and the NSFR requirement.² Overall, APRA considers the proposed amendments remain appropriate and do not require further adjustment. Details on the specific comments raised by ADIs and APRA's response are included in the table in Annex A.

Other comments raised in consultation on disclosures will be considered as part of the finalisation of *Prudential Standard APS 330 Public Disclosure*. APRA will also consider the alignment between *Prudential Standard APS 210 Liquidity* (APS 210) and the capital prudential standards as part of the review of liquidity requirements in 2023.

Other minor consequential amendments

As foreshadowed in the July 2022 Response to Submissions, APRA is also releasing other minor consequential amendments arising from the capital reforms, relating mainly to cross referencing in the ADI prudential framework.³ There are also some minor amendments to provide clarification requested by industry. These clarifications include, for example, that the calculation of the leverage ratio for New Zealand subsidiaries should be consistent with the approach in other credit risk capital standards.

The 11 prudential standards and 2 prudential practice guides that have been amended are:

- Prudential Standard APS 110 Capital Adequacy
- Prudential Standard APS 111 Capital Adequacy: Measurement of Capital

¹ Refer to: [Revisions to the capital framework for authorised deposit-taking institutions | APRA](#).

² Non-confidential submissions have been published on APRA's website.

³ Refer to: [Revisions to the capital framework for authorised deposit-taking institutions | APRA](#).

- Prudential Standard APS 116 Capital Adequacy: Market Risk
- Prudential Standard APS 120 Securitisation
- Prudential Standard APS 121 Covered Bonds
- Prudential Standard APS 180 Capital Adequacy: Counterparty Credit Risk
- Prudential Standard APS 210 Liquidity
- Prudential Standard APS 220 Credit Risk Management
- Prudential Standard APS 221 Large Exposures
- Prudential Standard CPS 226 Margining and risk mitigation for non-centrally cleared derivatives
- Prudential Standard APS 310 Audit and Related Matters
- Prudential Practice Guide APG 112 Capital Adequacy: Standardised Approach to Credit Risk
- Prudential Practice Guide APG 223 Residential Mortgage Lending

As part of this release, APRA has also made changes to relevant reporting standards to reflect the consequential amendments. The six reporting standards that have been amended are:

- Reporting Standard ARS 110.0 Capital Adequacy
- Reporting Standard ARS 113.0 Capital Adequacy: Internal Ratings-based Approach to Credit Risk
- Reporting Standard ARS 120.1 Securitisation – Regulatory Capital
- Reporting Standard ARS 120.2 Securitisation – Supplementary Items
- Reporting Standard ARS 180.0 Counterparty Credit Risk
- Reporting Standard ARS 210.0 Liquidity

Annex B provides a high-level summary of the types of amendments to the prudential standards, prudential practice guides, and reporting standards.

Next steps

The changes included in this letter will take effect from 1 January 2023, in line with the effective date of the broader capital reforms. APRA will continue to engage with ADIs on the implementation of the ADI capital framework in the lead-up to this date, bilaterally and through relevant industry associations. Should you have any queries, please contact your responsible supervisor.

Yours sincerely,

Renée Roberts
Executive Director, Policy & Advice

Annexes

- Annex A – Key issues from consultation
- Annex B - Summary of other minor consequential amendments

ANNEX A. KEY ISSUES FROM CONSULTATION

Topic	Comments received	APRA response
Residential mortgage risk weights and the NSFR	Some ADIs requested that mortgages with an 80-90 per cent loan-to-valuation ratio be recognised for a 65% Required Stable Funding (RSF) factor if at a minimum 40% of the loan is insured by an acceptable lenders mortgage insurer. ADIs also asked for government backed loans (included in the First Home Loan Deposit Scheme or the Family Home Guarantee Scheme) to be assigned the 65% RSF factor.	APRA will maintain the proposed amendments in consultation. The preference remains for a simple approach more in line with the Basel framework ⁴ .
Treatment of New Zealand residential property loans for the NSFR	Some ADIs requested clarification in relation to the treatment of residential property loans in a New Zealand subsidiary for the NSFR calculation in APS 210. The revised <i>Prudential Standard APS 112 Capital Adequacy: Standardised Approach to Credit Risk</i> (APS 112) requires ADIs to use the Reserve Bank of New Zealand (RBNZ) requirements to determine risk-weighted assets for these exposures.	APRA notes that New Zealand residential property exposures are eligible under paragraph 35(a) of Attachment C if these exposures meet the relevant criteria. For the purpose of paragraph 35(b) of Attachment C, APRA expects ADIs to use the RBNZ requirements to determine the relevant risk weight in line with the approach for APS 112.
Deductions required in changes to APS 120 for New Zealand exposures	Some ADIs understood the requirement for ADIs to still make deductions from CET 1 that are required to be deducted by <i>Prudential Standard APS 120 Securitisation</i> (APS 120) (as part of the treatment of New Zealand exposures) to refer only to deductions in the body of APS 120 (e.g., securitisation start-up costs), and not to any of the deductions from the RWA calculations in Attachment C of APS 120.	APRA acknowledges there are some higher risk exposures that are required to be deducted under Attachment C of APS 120 which would be risk weighted under the Reserve Bank of New Zealand's (RBNZ) rules. However, APRA still considers these exposures should be deducted from CET 1 given their heightened risk.
Self-assessments in APS 120	Some ADIs asked whether self-assessments in APS 120 will no longer be required for New Zealand exposures, given APS 120 will not be used for RWA calculations of these exposures.	APRA's proposed change in APS 120 requires ADIs to calculate RWA using the RBNZ rules but does not scope out any qualitative requirements in APS 120, including self-assessments. ADIs should still undertake self-assessments for New Zealand exposures.

⁴ Refer to: [Basel III: Finalising post-crisis reforms \(bis.org\)](https://www.bis.org).

ANNEX B. SUMMARY OF OTHER MINOR CONSEQUENTIAL AMENDMENTS

Prudential Standard/Guidance	Type of amendments
<i>Prudential Standard APS 110 Capital Adequacy (APS 110)</i>	Clarification that New Zealand authority rules are to be used for the exposure measure in the leverage ratio
<i>Prudential Standard APS 111 Capital Adequacy: Measurement of Capital (APS 111)</i>	Reference changes, updating risk weights for underwriting positions in equities if listed in Attachment D (250 per cent from 300 per cent), clarifying unrealised gains or losses as relating to investment securities (which are part of accumulated other comprehensive income and other disclosed reserves), and typographical errors
<i>Prudential Standard APS 116 Capital Adequacy: Market Risk (APS 116)</i>	Reference changes, terminology change from 'residential mortgage' to 'property exposure', and removing the term 'asset mismatch' which is no longer used
<i>Prudential Standard APS 120 Securitisation (APS 120)</i>	Reference changes, terminology change for exposures 'in default' to exposures that are 'non-performing' to align with APS 220
<i>Prudential Standard APS 121 Covered Bonds (APS 121)</i>	Reference changes
<i>Prudential Standard APS 180 Capital Adequacy: Counterparty Credit Risk (APS 180)</i>	Reference changes
<i>Prudential Standard APS 210 Liquidity (APS 210)</i>	Reference changes
<i>Prudential Standard APS 220 Credit Risk Management (APS 220)</i>	Updating the description of prescribed provisions by replacing 'general provisions' with 'provisions held against performing exposures that represent unidentified losses'
<i>Prudential Standard APS 221 Large Exposures (APS 221)</i>	Reference changes, and terminology change from 'residential mortgages' to 'residential property'
<i>Prudential Standard CPS 226 Margining and risk mitigation for non-centrally cleared derivatives (CPS 226)</i>	Reference changes
<i>Prudential Standard APS 310 Audit and Related Matters (APS 310)</i>	Updates to the list of reporting forms subject to assurance
<i>Prudential Practice Guide APG 112 Capital Adequacy: Standardised Approach to Credit Risk (APG 112)</i>	Clarifications to guidance on standard loans where there is a timing mismatch, non-standard loans and residential property, and typographical errors
<i>Prudential Practice Guide APG 223 Residential Mortgage Lending (APG 223)</i>	Includes amending references to APS 112 such as removing certain references to reverse mortgages, SMSFs, and revaluations

Reporting Standard	Type of amendments
<i>Reporting Standard ARS 110.0 Capital Adequacy (ARS 110.0)</i>	Clarifications and typographical errors
<i>Reporting Standard ARS 113.0 Capital Adequacy: Internal Ratings-based Approach to Credit Risk (ARS 113.0)</i>	Clarifications and typographical errors
<i>Reporting Standard ARS 120.1 Securitisation – Regulatory Capital (ARS 120.1)</i>	Changes to reflect the treatment of exposures to New Zealand
<i>Reporting Standard ARS 120.2 Securitisation – Supplementary Items (ARS 120.2)</i>	Changes to reflect the treatment of exposures to New Zealand
<i>Reporting Standard ARS 180.0 Counterparty Credit Risk (ARS 180.0)</i>	Changes to reflect the treatment of exposures to New Zealand
<i>Reporting Standard ARS 210.0 Liquidity (ARS 210.0)</i>	Changes for consequential amendments to the NSFR requirements