

## **Terms of Engagement: Implementation of new Basel Capital Framework for banks with operations in both Australia and New Zealand**

### **1. Objectives**

Australian Prudential Regulation Authority (APRA) and Reserve Bank of New Zealand (RBNZ) recognise that the new Basel Capital Framework (“Basel II”) offers a means to strengthen risk management by banks and to ensure that regulatory capital held by banks is appropriate in light of their risk profiles.

Having regard to the guidance to national supervisors set forth under Basel II and associated documentation issued by the Basel Committee on Banking Supervision, APRA and RBNZ intend to implement Basel II in Australia and New Zealand in a manner that:

- recognises a home supervisor’s rights to set minimum levels of capital on a consolidated basis for banking groups with operations in several jurisdictions;
- recognises a host supervisor’s rights to set minimum levels of capital for banks incorporated in the host supervisor’s jurisdiction; and
- optimises the use of supervisory resources and reduces compliance costs to the extent possible, subject to adequate supervisory review of capital adequacy at the consolidated and the subsidiary levels.

Subject to these objectives, APRA and RBNZ will aim to ensure that the approaches to regulatory capital adequacy requirements in each jurisdiction are harmonised and mutually consistent to the extent possible.

### **2. Operating guidelines**

#### *Supervisory review*

In meeting their respective responsibilities, APRA and RBNZ will undertake supervisory reviews of banks operating in both jurisdictions in a way that makes use of each supervisor’s comparative advantage and knowledge base.

The home supervisor will lead the process of review of capital adequacy of the banking group.

Minimum regulatory capital requirements on a legal entity basis will be set by the relevant home or host supervisor (ie the local supervisor where the legal entity is incorporated), taking into account the results of supervisory review.

To enhance the efficiency of supervision by APRA and RBNZ and to seek to optimise the use of overall supervisory resources, APRA and RBNZ will share any assessments and other information needed for the purposes of supervisory review. APRA and RBNZ will take opportunities to recognise the supervisory tools exercised, reviews performed and information gathered by the other supervisor, and to design and execute reviews jointly.

APRA and RBNZ will work together to resolve any issues in confidence, respecting each institution's legal responsibilities and regulatory culture.

*Supervisory capacity*

In the interests of efficiently developing the supervisory capacity of both institutions, APRA and RBNZ will promote regular secondment opportunities for their respective staff with the other supervisor.

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Chairman, APRA

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