



**AUSTRALIAN BANKERS'
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Mr Pat Brennan
General Manager, Policy Development
Policy, Statistics and International
Australian Prudential Regulation Authority
Level 26
400 George Street
SYDNEY NSW 2000
Email: APS330@apra.gov.au

Dear Pat,

APRA Discussion Paper: Basel III disclosure requirements: leverage ratio; liquidity coverage ratio; the identification of potential global systemically important banks; and other minor amendments

The Australian Bankers' Association (**ABA**), on behalf of its members, appreciates the opportunity to comment on the Australian Prudential Regulation Authority's (**APRA**) discussion paper which outlines the proposed implementation of the internationally-agreed disclosure framework designed to give effect to the Basel III reforms in relation to the leverage ratio, the liquidity coverage ratio (**LCR**), and the identification of potential global systemically important banks (**G-SIBs**).

Leverage ratio disclosures

Basel III leverage ratio

The ABA request that APRA implement, for disclosure purposes, a definition of net Tier 1 capital for the leverage ratio calculation that is based on the Bank for International Settlements (**BIS**) definition of capital.

The primary role of the leverage ratio is as a backstop to internal risk-based capital requirements. In order to play this backstop role properly, the definition of capital as specified by APRA must be consistent with that used in the risk-based capital measure. However, during the disclosure period when no regulatory minimum applies, it is important that comparisons of the leverage ratio between jurisdictions be the primary focus of users. The ABA therefore requests that APRA implement for disclosure purposes a definition of Net Tier 1 capital for the leverage ratio calculation that is based on the BIS definition of capital, with APRA able to adjust the disclosed leverage ratios for its own use in calibration.

Additionally, given that the leverage ratio to be implemented by APRA uses an internationally standardised definition for exposures (denominator), APRA should also use an internationally standardised definition of Tier 1 Capital (numerator). APRA has acknowledged that its own definition of capital (CET1/Tier 1) is more conservative than the Basel Committee, and as such the leverage ratio of Australian Banks will not be comparable to international peers. If the current APRA definition of capital remains as is, then consideration should be given to publish an APRA endorsed addendum to the leverage ratio, in the same manner that an addendum is being considered for the capital ratios.

Minimum ratio

The ABA is of the view that APRA should not adopt a minimum requirement that is higher than the 3% minimum currently required under the Basel framework; as the leverage ratio should only act to supplement the current risk-based capital requirements, but not be the binding constraint for capital requirements.

The ABA note that the above will be consistent with APRA's comment on its preference for the current risk-based capital requirements over the simpler measure, such as the leverage ratio, which should remain only as a 'backstop' measure to supplement the risk-based requirements. The risk-based capital requirements that appropriately reflect the different risk profiles of various credit exposures should remain the most relevant and binding risk quantification and capital metric. A leverage ratio requirement that becomes the binding constraint for an Authorised Deposit-taking Institutions (**ADI**) may encourage riskier asset origination over low-risk assets. Also, the current draft of the leverage ratio proposals discourage liquidity strengthening as ADIs are penalised for increasing their holdings of high-quality liquid assets (such as for Basel III APS 210 liquidity requirements).

Additionally, if the APRA APS 111 definition of Tier 1 capital is used as the capital measure for the leverage ratio calculation, Australian banks will effectively be required to maintain a higher leverage ratio requirement given the conservatism in the definition of Tier 1 capital under APS 111 relative to other jurisdictions. The ABA's estimate of the impact of this conservatism is approximately 60-100bps to the leverage ratio measure.

Disclosure (qualitative requirements)

Paragraph 6 of APS 330 Attachment E indicates that "*An IRB ADI must explain the key drivers of material changes in its leverage ratio from the end of the previous reporting period to the end of the current reporting period (whether these changes stem from changes in the numerator and/or from changes in the denominator)*". This specification to explain period-on-period movements is not required for movements in the CET1 capital ratio, so, given the leverage ratio is intended as a supplementary metric to the risk-based ratio, this requirement should be removed.

Implementation

Under the APRA proposals, leverage ratio data is required to be disclosed in accordance with APS330 - summary table quarterly, and all other information half-yearly. The ABA does not support the quarterly disclosure of the leverage ratio and proposes that this be half-yearly instead.

Australian banks disclose half-yearly Financial Reports, where balance sheet and capital disclosures are made. Australian banks do not make substantive quarterly disclosures. Capital ratios are disclosed quarterly under Pillar 3 requirements. However, Tier 1 capital and balance sheet and off-balance sheet details (exposures) are only disclosed half yearly (not quarterly).

By enacting the leverage ratio summary table disclosure on a quarterly basis, ADIs will now need to disclose Tier 1 capital, and exposures on a quarterly basis. Australian banks do not disclose balance sheet details at each quarter-end. Disclosure of these few items may lead to misinterpretation, without the whole suite of disclosures. The ABA submits that summary table disclosures only be made on a half-yearly basis, thereby facilitating reconciliation and governance issues with other reporting made each half-year.

As the leverage ratio disclosure requirements are applicable from the date of the lodgement of the ADI's first financial report under the Corporations Act 2001, on or after 1 January 2015, could APRA please confirm the following first applicable dates:

1. ANZ based on 31 March 2015
2. CBA based on 30 June 2015
3. MBL based on 31 March 2015
4. NAB based on 31 March 2015
5. WBC based on 31 March 2015

Disclosures for the identification of potential G-SIBs template

The ABA support disclosure through the Pillar 3 report/website as this provides the ADIs with an opportunity to include qualitative details to explain significant movements over time, whereas APRA facilitated disclosure would not provide ADI's with the opportunity to provide explanatory information.

Implementation

The implementation date of the new requirements is unclear, as is the timing for the preparation and release for disclosure. We would appreciate clarification from APRA on this.

The four potential G-SIBs in Australia report this information to the Basel Committee and APRA on an annual basis. It is understood that ANZ, NAB and WBC report this information for the year ended 30 September; whilst CBA information is based on the year ended 31 December. The ABA interpretation is that the first G-SIB disclosures are based on the September 2015 (being ANZ, WBC & NAB financial year end) balance date, and disclosed no later than 30 January 2016 with the link to the disclosures included in the September 2016 annual financial statements (or accompanying documents).

As the G-SIB disclosure requirements are applicable from the date of the lodgement of the ADI's first annual financial report, could APRA confirm the following are the first applicable dates:

1. ANZ based on 30 September 2015, and to be disclosed by latest 31 January 2016
2. CBA based on 31 December 2015, and to be disclosed by latest 30 April 2016
3. NAB based on 30 September 2015, and to be disclosed by latest 31 January 2016
4. WBC based on 30 September 2015, and to be disclosed by latest 31 January 2016

Minimum 12 month implementation period

Whilst the Australian potential G-SIBs are currently reporting the G-SIB indicators to APRA as part of the Basel Committee's Quantitative Impact Study (QIS) process, the migration from QIS submission to public disclosures of the G-SIB indicators will require enhanced assurance and review processes to be put in place to meet internal governance requirements surrounding public disclosures of the information. Notwithstanding the additional compliance costs involved, the Australian potential G-SIBs will also require reasonable time to develop and implement and test internal governance processes. As such, the ABA requests APRA provide a minimum of a 12-month implementation period from the first applicable date these requirements come into effect for the respective banks in order for the appropriate systems, processes and controls to be developed.

We note that the Basel G-SIB QIS process is conducted annually. As the G-SIB indicators will not materially change within a year, we ask that APRA ensure that the external disclosure of these indicators be aligned to the reporting date used for the Basel exercise.

Additional guidance on measurement of G-SIB indicators

The ABA requests APRA consider guidance on the measurement requirements of the G-SIB indicators to ensure consistency across all banks. Whilst there is familiarity with the majority of the G-SIB indicators (e.g. leverage ratio exposure measure, level 3 assets, OTC derivatives notional value etc.), there are other indicators such as cross-jurisdictional claims/liabilities (cross jurisdictional activity) or payments (substitutability) that are a little more subjective, and current guidance in the BIS discussion paper on G-SIB indicators and reporting instructions as provided by Basel in the QIS exercises is still unclear on the requirements and measurement of these indicators.

Individual vs centralised publication of G-SIB indicators

Individual publication of G-SIB indicators is the clear preference of ABA members.

The ABA members are of the view that there is minimal cost difference between the two alternatives suggested by APRA as the same assurance and governance process will need to be in place given the public nature of the disclosures.

Individual ADI disclosure will also enable ADI's to provide explanatory information to accompany the proposed G-SIB disclosures. Presenting the G-SIB indicators in the template as proposed in Appendix H of draft APS 330 without provision of context and purpose of those disclosures will render the disclosures meaningless to the ordinary reader.

Proposed amendment to APS 330

The ABA also requests APRA consider a further revision to the APS 330 standard while it is currently in draft and open for comment. The current drafting of APS 330 states that Pillar 3 must be released on the same day as the lodgement of financial statements (refer para 33 of APS 330). The current drafting of APS 330 states that Pillar 3 must be released on the same day as the lodgement of financial statements (refer para 33 of APS 330). For a full-year most ADI's release Annual Reports (financial statements) a week or more after the ASX announcements, so Pillar 3 is released on this day also. ABA members are able to achieve this deadline. However, for half-years the ASX release date and lodgement of financial statements date is the same. This means that from March 2015 onwards, for half-year Pillar 3 disclosures, ADI's will need to publish them 7-9 days earlier than full-year disclosures.

The tight timeframe for the half-year disclosure is already a significant challenge for ADI's. In 2014 a number of ABA's members asked for, and received, from APRA an extension to the reporting deadline. Now with leverage and LCR disclosures added for the first time the earlier publication date for the half-year disclosure will further compound the significant challenge for a number of ABA members.

This timing issue was flagged in the (IIF) submission to Basel on Pillar 3. The ABA is hopeful BCBS will consider a permanent change to rectify this timing issue. In the meantime a solution would be to amend para 33 of APS 330 to "The disclosures must be made with the same frequency as, and within [7] calendar days of, the lodgement of the ADI's financial reports under the Corporations Act..."

Thank you for taking our comments into consideration and we would be pleased to discuss them further at your convenience.

Yours sincerely,



Aidan O'Shaughnessy