APRA seeks feedback on adjusting ADI capital framework

APRA has today released a discussion paper on potential approaches to adjust the capital framework for ADIs to make capital ratios more transparent, comparable and flexible.

These changes will not change the amount of capital that ADIs are required to hold funder the July 2017 capital benchmarks. Rather, APRA is considering whether to alter the way capital requirements are calculated and disclosed to allow for greater comparability and transparency of capital strength at the domestic and international level.

Currently, APRA's current capital framework is based on the agreed minimum standards set by the Basel Committee on Banking Supervision however, APRA takes a more conservative approach to the definition of capital and the calculation of risk-weighted assets in some areas. This means that Australian ADIs generally have lower reported capital levels than their international counterparts with comparable strength.

In response to the discussion paper, Chairman Wayne Byres stated that "the reliance of the Australian banking system on international markets for funding makes it important that investors understand and have confidence in their capital strength during ordinary times and in periods of market disruption'.

The discussion paper outlines two general approaches to help ADIs represent and communicate their capital strength:

1. ADIs continue to use existing definitions of capital and risk-weighted assets, but APRA would develop a methodology allowing them to improve the credibility and robustness of internationally comparable capital ratio disclosures, or
2. APRA would change the way ADIs calculate capital ratios to instead use more internationally harmonised definitions of capital and risk-weighted assets. To maintain the strength and risk-sensitivity of the capital framework, there would need to be corresponding increases in minimum ratio and/or capital buffer requirements.

APRA seeks feedback on whether to consider the approaches independently or in combination, or to maintain its current methodology. APRA also seeks feedback on whether the benefits of the approaches outweigh the regulatory burden and increased complexity.

The discussion paper also proposes to provide flexibility to the capital framework in times of stress, including increasing the size of the Capital Conservation Buffer relative to the size of the minimum Prudential Capital Requirement and potential changes to the point of automatic regulatory interventions.

APRA will respond to the submissions to the Discussion paper in early 2019 and expects to release draft revised prudential standards on credit and operational risks for consultation in 2019. APRA expects the final standards to be released by mid-2020, with commencement expected for 1 January 2021.

Read the discussion paper here