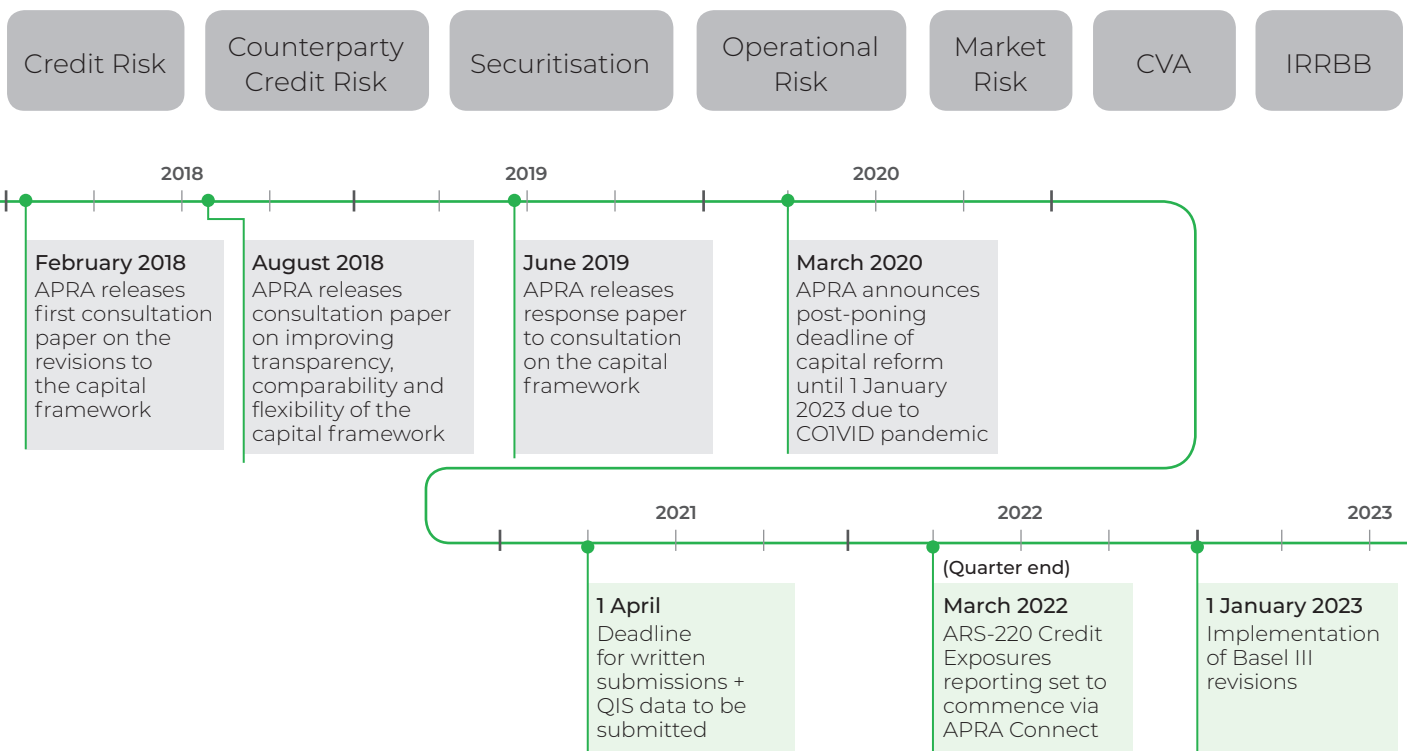


Basel IV – Being prepared is half the battle.

Background

The Australian Prudential Regulatory Authority (APRA) is making a significant revision to the capital framework, which will take effect on 1 January 2023. APRA's key objectives of the Basel reforms are to align the Australian framework to the finalised BCBS standards, and to improve flexibility, risk sensitivity, transparency and (international) comparability along with enhancing competition in the Australian Banking industry.

APRA's Basel III reform for Pillar 1 impacts all risk categories in the capital framework:



Capital and Credit Risk

On December 8 of 2020, APRA released its draft Prudential Standards for Capital Adequacy and Credit Risk:

- ▶ APS 110: Capital Adequacy
- ▶ APS 112: Standardised Approach to Credit Risk
- ▶ APS 113: Internal Ratings-based Approach to Credit Risk

After earlier consultations in 2018 and 2019, the regulator is conducting one more Quantitative Impact Study (QIS) on the proposed changes and the results, together with any additional feedback, is due by 1 April 2021.

Capital and Credit - Summary of Changes

APRA is aligning the presentation of capital ratios to the international definitions which will improve comparability and supervisory flexibility. The total minimum CET1 requirements will increase from 7% to 8% of RWA for standardised ADIs; from 7% to 9.5% for IRB ADIs; and from 8% to 10.5% of RWA for D-SIB ADIs (only applies to four majors).

A capital floor is introduced for IRB approved banks. IRB RWA requirements cannot fall below 72.5% of RWA calculated under standardised approaches. The floor is calculated at the aggregate RWA level and applies from 1 January 2023.

Capital and Credit - Summary of Changes (cont'd)

A more detailed breakdown of exposure asset classes and revisions to RWA for those classes to improve the risk sensitivity of risk weights under both standardised and advanced approaches. More granular risk weight allocations across all portfolio's and in particular mortgages for example owner occupied versus investment, commercial properties (cashflow versus non-cashflow dependent), corporate (including SME corporate and SME retail), leasing and defaulted exposures.

Impact on capital	APRA does not anticipate additional capital will need to be raised, because ADIs already meet 'unquestionably strong' benchmarks. By aligning RWA calculations more closely to BCBS standards, capital ratios of Australian banks will increase and be more comparable versus international peers.	Impact on operations & policies	Increased serviceability assessment; enforcability and valuation requirements along with new data points in the risk weight allocations will result in updated lending policies and procedures. Additional data points will be required to be captured during the credit application process, impacting operations and front line teams.
Impact on return on capital	The Basel reform will impact return on capital at business unit, portfolio, product and customer level. To optimise returns on capital, ADIs will need to review product and pricing strategies across all exposure classes.	Impact on data & systems	Legacy and tactical capital and credit risk engines have proven costly to run and hard to maintain. Basel IV provides the opportunity for ADIs to future-proof their Credit Risk analytics and reporting architectures.

How we can help

The Basel reform can act as a catalyst for a strategic review of your capital, credit risk and data governance, processes, technology and people capabilities. When implemented correctly, your Basel IV project will deliver efficient, cost-effective and sustainable compliance with APRA prudential and reporting standards; together with improved portfolio and customer analytics, optimised capital allocation for improved business performance and stakeholder value. RegCentric can assist you in turning your regulatory challenges into strategic opportunities.

With our team of APRA and technology experts, RegCentric offers cost-effective, flexible and scalable services and solutions to address your unique needs. We can supplement your existing teams and capabilities or we can take the lead on part of your end-to-end Basel IV program.

Our Services

Training	Consulting	Implementation	Technology
<ul style="list-style-type: none">• Basel IV for executives• Basel IV for risk and finance• Classroom and e-learning	<ul style="list-style-type: none">• Impact assessment• Strategic roadmap options• Subject Matter Expertise• Business case and project scoping	<ul style="list-style-type: none">• Architecture and Design• Requirements and Build• Implementation and testing	<ul style="list-style-type: none">• Technology agnostic• Microservices architectures• Vendor solution expertise