



21 December 2010

To All Locally Incorporated General Insurers and Authorised Non-Operating Holding Companies under the *Insurance Act 1973*

BASEL III REFORM PACKAGE RELEASED

As you will know from our *Discussion Paper on the Review of Capital Standards for General and Life Insurers* issued in May 2010, it is APRA's intention to seek broad consistency between the definition and measurement of the capital base for insurers and authorised deposit-taking institutions (ADIs). As advised in our letters of 9 April 2010 and 22 September 2010, the capital adequacy reforms developed by the Basel Committee on Banking Supervision (BCBS) will assist in achieving that broad consistency.

On 16 September 2010, the BCBS published its final package of reforms, *Basel III: A global regulatory framework for more resilient banks and banking systems*. The full details of the reforms are on the Bank for International Settlements' website at: <http://www.bis.org/publ/bcbs189.htm>.

APRA is developing draft prudential standards, prudential practice guides and reporting requirements to give effect to these reforms for ADIs in Australia. APRA anticipates that it will begin consultation with ADIs on the reforms in the first half of 2011 and continue into 2012.

For insurers, the most pertinent aspect of the range of BCBS reforms relates to measures to enhance the quality of capital. APRA will consider these reforms in the context of its review of the general insurance and life insurance capital standards. Any translation of relevant aspects of the BCBS ADI reforms into quality of capital requirements for insurers will be the subject of close consideration and extensive industry consultation.

APRA will continue to provide additional information on further developments as part of its consultation on the capital review. In the meantime, as outlined in my letter of 9 April 2010, capital instruments which are issued since that date that are clearly inconsistent with the proposals by the Basel Committee are unlikely to be eligible for any grandfathering or transitional arrangements.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Charles Littrell'.

Charles Littrell
Executive General Manager
Policy, Research and Statistics