



30 March 2012

To: All locally incorporated Authorised Deposit-taking Institutions

INTERIM ARRANGEMENTS FOR ADDITIONAL TIER 1 AND TIER 2 CAPITAL INSTRUMENTS

APRA has today released for consultation draft prudential standards to give effect to the implementation of the Basel III capital reforms in Australia¹. Included in this package is draft *Prudential Standard APS 111 Capital Adequacy: Measurement of Capital* (APS 111).

To provide further certainty for ADIs wishing to issue capital instruments before the final standards come into effect on 1 January 2013, this letter sets out interim arrangements for Additional Tier 1 and Tier 2 capital instruments issued from this date.

Subject to APRA's approval, an Additional Tier 1 and Tier 2 capital instrument issued from this date in compliance with the draft APS 111 may be fully recognised in the relevant category of capital until its first call date. If APRA determines that the instrument complies with the final APS 111, it will continue to be recognised in the relevant category of capital.

Where an instrument issued under the draft APS 111 is assessed as not complying with the final APS 111, it must be derecognised in the relevant category of capital from its first call date (or, where there is no call date within a reasonable period, another appropriate date as determined by APRA). These instruments will not be covered by the transitional arrangements set out in draft *Prudential Standard APS 160 Basel III Transitional Arrangements* (APS 160) and will not be included in the base amount defined in that standard. However, instruments issued in accordance with APRA's letter of 27 May 2011² will, subject to APRA's approval, be eligible for the transitional arrangements set out in draft APS 160.

Yours sincerely

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¹ www.apra.gov.au/adi/PrudentialFramework/Pages/Basel-III-Capital-Reforms-March-2012.aspx

² http://www.apra.gov.au/adi/Publications/Documents/Basel-III-interim-Tier-1-criteria_FINAL.pdf