Feedback on the proposed updates to capital framework for ADIs

Introduction

While taking an opportunity to share feedback on APRA's update on capital framework, Wolters Kluwer team acknowledges the amount of planning from APRA that goes behind this industry engagement process.

At Wolters Kluwer Financial services (WKFS), we help the Australian financial services entities in the risk & regulatory reporting space by offering an integrated solution. Our history span over 100+ years and across the globe.

APRA rolled out minor updates to the credit risk & capital prudential standards considering the industry feedback on implementation of capital reforms starting calendar year 2023. We understand this shall further streamline the guidelines on regulator's initiative of setting up unquestionably strong capital. These include the changes to

- ARS 110.0
- APS 112/ARS 112.0
- APS 113/ARS 113.0
- ARS 115.0

In this write-up, Wolters Kluwer team shall share the general feedback as well as seek minor clarifications based on our working experience.

General Feedback & Queries

I. ARS 110.0 – Capital Adequacy

1. The revision to ARF 110.0 requires additional reporting line items in Section B – Item 5. The change would require banks to identify charges across various risk components outside of reported risk assets. This is expected to bring in more transparency & better visibility for the users of the information.
   We request APRA to publish the associated taxonomy artefacts of revised format timely (preferably along with finalised consultation) for banks' preparedness of June'24 reporting.

II. APS 112 – Standardised Approach to Credit Risk

1. APRA's continuous enhancement to reflect the accurate underlying risk for unrated corporate under APS 112 – Paragraph 25 will allow the use of more risk sensitive approach. As we understand that, either 100% risk-weight can be applied or will be based on 'investment grade' and 'non-investment grade' corporates.

   Question - Does APRA intend to add a separate reporting line item to reflect rating based on 'investment grade' or 'non-investment grade' and corresponding validation rules for APRA Connect?

2. WKFS team understands that the update to description of 'credit rating grade' dimension in ARS 112.0 aligns the reporting standard with the expected set of permitted reporting combinations. Banks already complying with the dataset need not change anything.

III. APS 113 – Internal Rating based Approach to credit Risk

1. The changes to IRB approach- Credit risk aligns overall with prior understanding. **No questions raised on this.**

- APRA's justification under paragraph 10 of attachment B, to have a 25% LGD for government businesses, provided that the prospect of government support is not already factored into PD to prevent double counting.
- The recognition of carbon credits and allowances as a collateral and allocation of 40% LGD for corporates and 45% for Sovereign or financial institutions is noted as revised under paragraph 11 of attachment B.
- The classification of public sector entities to be captured under the financial institution asset class if they carry out the functions of a financial institution and share similar risk characteristics removes ambiguity as clarified under paragraph 30 and 34 of attachment B.
- The clarification of the application of the 1.1 scaling factor for New Zealand subject to the RBNZ's supervisory slotting approach provided under paragraph 13 is noted.

2. WKFS acknowledges the updates to ARS 113.0 table as clarifications in nature and would not require any changes for the banks who have already incorporated these in their reporting.

IV. ARS 115.0 – Standardised Measurement approach to operational risk

1. Its well noted that minor changes to reporting form ARF 115.0 shall simplify the data interfacing for Operational Risk capital & bring consistency with ARF 110.0. We request the APRA Connect artefacts to be published ahead of reporting due date as well.

We look forward to APRA's further announcements in this regard in our endeavor to provide industry with requisite technology changes.

Warm regards,

Product Management team
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Australia