Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

29 May – 31 May 2012

Question: BET 76

Topic: Basel III Standards

Hansard Page: Tuesday 29 May 2012, page 128

Senator CORMANN asked:

Senator CORMANN: I am sure that banks have ways of responding. But all of these responses come at a price ultimately in the economy in terms of the costs that consumers face and so on. This is my final question in relation to this before I hand over to others. The International Monetary Fund, as I understand it, is undertaking a review of the potential unintended consequences of the Basel III standards. Rather than be ahead of the curve and move, as you said, move more quickly in implementing those Basel III changes, would it not be sensible to await the findings of a report into potential unintended consequences before pressing ahead?

Dr Laker: Senator, I have to say that I am completely unaware that the IMF are doing a study on unintended consequences.

Senator CORMANN: Maybe you can take that on notice. That is certainly the advice I have.

Answer:

Senator Cormann may have been referring to the International Monetary Fund (IMF) Working Paper 11/187, *Possible unintended consequences Basel III and Solvency II*. This Working Paper describes research in progress and has no official status; its disclaimer includes the statement: 'This working paper should not be reported as representing the views of the IMF'.

This paper focuses entirely upon the implementation of Solvency II, an insurance capital reform in Europe, and the potential for disconnect between Solvency II and Basel III. This is not an issue for Australia, which is not adopting Solvency II but a separate set of APRA reforms to life and general insurance capital, known as LAGIC. LAGIC and Basel III will be implemented in a fully consistent manner in Australia.

As a separate matter, the Financial Stability Board (FSB) has been working with the IMF, World Bank and standard-setting bodies, as well as a wide range of national authorities both within and outside the FSB's membership, on a study of the effect of agreed regulatory reforms on emerging market and developing economies, including the extent to which they may have had unintended consequences. The FSB will report on the findings to the June G-20 Summit. These findings are unlikely to have any direct implications for Australia.

The Basel Committee on Banking Supervision released the 'rules text' for the Basel III capital reforms, except those elements dealing with counterparty credit risk, in December 2010. The rules text dealing with counterparty credit risk was finalised in June 2012. The Basel III reforms have been fully endorsed by the Leaders of the G-20. APRA does not anticipate that the Basel Committee will be making any changes to the Basel III rules text other than minor technical clarifications.

APRA's accelerated timetable for implementation of certain aspects of the Basel III capital reforms endorses the capital strength of the Australian banking system and sends a positive signal to investors. Authorised deposit-taking institutions (ADIs) in Australia already meet the 1 January 2013 target for Common Equity Tier 1 capital ratio of 4.5 per cent and need take no action. The largest banks already have a Common Equity Tier 1 capital ratio of around 7 per cent, and the ratio for smaller ADIs is higher again.