Regulation Impact Statement

Basel III disclosure requirements: leverage ratio; liquidity coverage ratio; the identification of potential global systemically important banks; and other minor amendments

(OBPR IDs: 2014/17233; 2014/17263)

Introduction

1. This Regulation Impact Statement (RIS) has been prepared by the Australian Prudential Regulation Authority (APRA). Its purpose is to assist APRA in making a decision on the implementation of international proposals aimed at strengthening the global and Australian banking systems. These proposals require certain authorised deposit-taking institutions (ADIs) to publicly disclose specified information about aspects of their business, specifically, the degree to which their business is leveraged, their liquidity management, and their position vis-à-vis a range of factors under the framework used to respond to the risks posed by global systemically important banks (G-SIBs). Also included are some minor additions to, and rectification of, existing capital and disclosure requirements.

2. APRA has prepared a standard-form RIS as the Office of Best Practice Regulation (OBPR) considers that the proposals are likely to have a measurable but contained impact on ADIs. The issues addressed in this RIS were considered as part of APRA's decision making process relating to these measures. This RIS follows an 'early assessment' RIS and 'first pass final assessment' RIS submitted to the OBPR and takes account of the OBPR's feedback on those documents. The RIS has been prepared in accordance with the *Australian Government Guide to Regulation*, March 2014, and relevant guidance notes.

Background

The Basel framework

3. APRA's prudential framework for ADIs is based on the framework agreed by the Basel Committee on Banking Supervision (Basel Committee). The Basel Committee is a

forum for regular cooperation between its 28 members, including Australia, with the aim of enhancing financial stability by improving supervisory knowhow and the quality of banking supervision worldwide. Its framework consists of supervisory standards and guidelines and recommends sound practices for internationally active banks that members have undertaken to implement. The Basel Committee regularly reports to the Group of 20 (G20) Leaders, which includes Australia's Prime Minister, and to the Financial Stability Board (FSB). The FSB was established by the G20 to develop and implement strong regulatory, supervisory and other policies in the interests of international financial stability. Since the global financial crisis, the G20 has regularly and consistently reviewed and endorsed the Basel Committee's reforms to the international framework known as 'Basel III'[1].

4. In 2012, the Basel Committee began a formal monitoring programme of *'how far a member jurisdiction's domestic regulations comply with the international minimum standards established by the Committee'*[2]. Australia's implementation of the Basel Committee's capital framework was assessed in 2013/4 and given an overall grade of 'compliant'[3]. The FSB also has a framework to monitor implementation of agreed G20 and FSB financial reforms[4], under which members' implementation is reported annually to the G20 and published on the FSB's website[5].

5. The Basel Committee's capital framework, initially implemented by APRA in 2008, consists of three Pillars[6]:

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1 The major Basel III reforms to the capital framework are set out in *Basel III: A global regulatory framework for more resilient banks and banking systems*, December 2010, revised June 2011; the Basel III liquidity measures are set out in *Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools*, December 2010 revised January 2013: and *Basel III: the net stable funding ratio*, October 2014: The Liquidity Coverage Ratio is discussed later in this RIS.

2 Basel Committee, *Basel III Regulatory Consistency Assessment Programme (RCAP)* (revised)¸October 2013: page 1

3 Basel Committee, *Assessment of Basel III regulations – Australia*, March 2014: (RCAP report)

4 *Coordination framework for monitoring the implementation of agreed G20/FSB financial reforms*, October 2011

5 FSB's website

6 These three Pillars were introduced in 2006 under reforms to the Basel Accord that was introduced in 1988 and is known as 'Basel II': *International Convergence of Capital Measurement and Capital Standards*, June 2006: See footnote 1 for the Basel III capital reforms.

- Pillar 1 sets out minimum capital requirements and includes an option for ADIs with APRA's approval to use the outputs from their internal models to calculate components of regulatory capital. The five largest ADIs have such approval and are referred to as 'Advanced ADIs';
- Pillar 2 sets out a process for supervisory review; and
- Pillar 3 facilitates market discipline by providing a set of common disclosure requirements to allow market participants to assess banks' capital adequacy, remuneration and other indicators of financial health.

6. The proposals under discussion in this RIS mainly relate to new Pillar 3 requirements initiated by the Basel Committee, from mandates given by the G20 following the global financial crisis.

Existing disclosure requirements

7. Existing Pillar 3 requirements are set out in *Prudential Standard APS 330 Public Disclosure* (APS 330) under which ADIs must disclose information about their capital adequacy, risks and remuneration practices, and specifically:
   - the composition of their regulatory capital using a common template;
   - a reconciliation between regulatory capital and published financial statements;
   - details of the main features of regulatory capital and the full terms and conditions of capital instruments using a common template;
   - quarterly quantitative disclosures about capital adequacy, credit risk and securitisation exposures using a common template;
   - for Advanced ADIs, qualitative and quantitative disclosures about credit, operational, market, interest rate risks and other matters using common templates; and
   - annual quantitative and qualitative information about the remuneration of senior managers and material risk takers using common templates.

8. These requirements range from 19 tables of quantitative and qualitative information that the five Advanced ADIs must publish to seven tables (with additional information) for smaller ADIs. Although some disclosures are made each quarter, most are published concurrently with the lodgement of an ADI's financial statements under the *Corporations Act 2001*, which means semi-annually for listed ADIs and annually only for unlisted ones. Typically, larger ADIs publish their Pillar 3 disclosures in a separate document on their website. For the four major ADIs, these publications ranged in length between 66 and 104 pages for their 2014 year-ends.

The proposed disclosure requirements

9. The global financial crisis highlighted a number of deficiencies in the existing Basel framework and deficiencies in the information available to market participants about key aspects of banks' financial health. The measures addressed in this RIS are primarily Pillar 3 disclosure requirements about the following reforms developed by the Basel Committee, and endorsed by the G20, in response to the crisis:

   - a leverage ratio measuring capital-to-exposures that indicates the extent to which an ADI funds its assets with debt rather than equity. Excessive leverage was a feature of the financial crisis, including by banks that maintained apparently strong risk-based capital ratios. The leverage ratio is a measure of financial strength intended to supplement the risk-based ratios and is calculated by dividing Tier 1 Capital (calculated under the existing Basel framework[7]) by specified on- and off-balance sheet exposures. The ratio itself would be disclosed each quarter, with the following to be published concurrently with the lodgement of financial statements:

     - a table that discloses the ratio and itemises the 21 types of exposures that make up the denominator of the leverage ratio. Whereas the elements of Tier 1 capital — the numerator — are currently disclosed in Table 1 in APS 330, there is no comparable Pillar 3 requirement relating to exposure component of the ratio (the denominator);

[7] Tier 1 Capital is calculated primarily under *Prudential Standard APS 111 Capital Adequacy: Measurement of Capital*

- a summary comparison of accounting assets against the leverage ratio exposure measure (eight items in all) and an explanation of material differences; and
- a qualitative explanation about key drivers of any material change in the leverage ratio between reporting periods.

The data to be disclosed have been provided to the Basel Committee, through APRA, since 2010 under a 'Quantitative Impact Study' (QIS) process used to develop the requirements. Although the ratio itself is not intended to be implemented as a minimum requirement until 2018 (i.e. limiting the amount of a bank's leverage), the disclosure requirement is intended help the Basel Committee's calibration of the minimum ratio by indicating the market's response to the degree of leverage by banks across jurisdictions using a consistent measure of leverage;

- a liquidity coverage ratio (LCR), which requires institutions to hold sufficient high-quality liquid assets to survive a significant stress scenario lasting at least 30 days. The financial crisis was characterised by a severe lack of liquidity in funding markets across the globe, including Australia, after banks in some jurisdictions mismanaged their liquidity, highlighting the need for a common international liquidity risk management standard. The LCR was developed in response and came into effect as a minimum requirement for larger, more complex 'LCR ADIs' from 1 January 2015, while reporting requirements commenced on 30 June 2014 under *Reporting Standard ARS 210 Liquidity* (ARS 210). The measure under consideration would require the disclosure of an additional table of 25 items that is currently being reported to APRA; under ARS 210 (and which the five largest ADIs have been submitting through the QIS process); and
- in response to the failure and impairment of a number of large, globally active and interconnected financial institutions during the crisis, which necessitated significant public sector interventions to restore financial stability, the G-SIB framework was developed. Under this framework, additional capital surcharges are applied to those banks classified as G-SIBs, determined by reference to an

assessment methodology based upon 12 indicators that reflect a bank's size, interconnectedness, substitutability, complexity and cross-jurisdictional activity. The framework also indicates that banks with a leverage ratio exposure measure of more than EUR 200 billion should disclose publicly the data on their individual indicators from 1 January 2015. Although not classified as G-SIBs, the four major ADIs in Australia meet this threshold and have been providing data, via APRA, to the Basel Committee for use in its G-SIB identification process since 2011. It is this data that would be included in the four ADIs' Pillar 3 reports under the G-SIB disclosure proposal.

10. The Basel Committee's RCAP review identified some 14 items of non-compliance that APRA undertook to rectify. The following amendments to *Prudential Standard APS 110 Capital Adequacy* (APS 110) and APS 330 are intended to rectify six of these items[8]:

- adding quantitative disclosure requirements about counterparty credit risk to the existing Table 11 in APS 330;

- adding qualitative disclosure requirements about market risk to the existing Table 14 in APS 330;

- adding a requirement to APS 330 to ensure that capital disclosures published on an ADI's website must also be included or referenced in the corresponding financial report; and

- clarifying that an ADI that is subject to a countercyclical capital buffer must disclose the location of private sector exposures and base its capital requirement on the latest relevant jurisdictional buffers available;

- adding the 'less than' symbol that was inadvertently omitted from Table 1 in APS 110, which sets out the ranges within which certain distribution restrictions apply under the capital conservation buffer; and

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8 RCAP report, pages 47-48

- adding a new sentence in APS 110 clarifying when an ADI is restricted from making distributions relating to the capital conservation buffer.

The affected parties

ADIs

11. For the leverage ratio, one option is to apply the requirement to all ADIs, because excessive leveraging is possible by any ADI. However, the ratio is not yet a minimum requirement and smaller ADIs have not been collating the relevant data. Further, one purpose of such a ratio is to address model risk, which only relates to those ADIs with approval to use internal model outputs in capital calculations. APRA therefore proposes that the disclosure proposals should at this stage apply only to the five Advanced ADIs.

12. The LCR disclosures are relevant only for those ADIs classified as LCR ADIs for liquidity management purposes. However, there are foreign ADIs (overseas bank branches) that are LCR ADIs. APRA does not currently apply existing disclosure requirements to these institutions, which are subject to comparable measures in their parents' jurisdictions. APRA does not propose departing from this position and would therefore apply the LCR disclosure requirements to the 15 locally-incorporated LCR ADIs only (including the five Advanced ADIs).

13. Because the G-SIB disclosure requirements apply only to ADIs above a certain size, they presently would apply only to the four major banks.

14. With two exceptions, the amendments to rectify omissions identified during the RCAP process listed in paragraph 10 are clarifications of the existing capital framework applying to all ADIs and would involve amendments to APS 110. The two exceptions are the additions to the market risk and counterparty credit risk tables, which would apply only to the five Advanced ADIs.

Market participants

15. The information to be disclosed will be of most direct benefit to sophisticated stakeholders, particularly international debt and equity investors (given Australia's reliance on offshore funding and capital markets), credit ratings agencies, banking analysts, other banks and financial journalists. Although retail depositors and other

unsophisticated investors are less likely to make direct use of the information, they will benefit from the scrutiny of the information by others. All market participants, including ADIs, could therefore be affected, either directly or indirectly, by the adequacy of publicly available information about the affected ADIs' financial health.

Problem

Pillar 3, market discipline and information asymmetry

16. Pillar 3 seeks to promote sound banking practice through the mechanism of public disclosure. The power of a market (such as a financial market) to influence the behaviour of participants is known as market discipline. In the case of banking, this discipline is exercised through the decisions of market participants on the creditworthiness of a bank; in particular, whether and at what price to provide capital and funding.

17. A bank that is able to demonstrate it is sound and well-managed will likely attract higher credit ratings and attain better terms and conditions in obtaining funding or raising capital. Alternatively, the market is likely to require a higher return from funds invested in, or placed with, a bank that is perceived as having more risk (or where the level of risk is less clear)[9]. Such discipline — or the threat of such discipline — can provide a strong incentive for institutions to strengthen their financial position and improve risk management systems and practices, and operate to curtail moral hazard[10]. Market discipline is therefore separate from, but complementary to, the discipline exercised formally by prudential regulators under Pillars 1 and 2 of the Basel framework.

18. Markets exercise discipline by acting on information, which comes in a variety of forms from a variety of sources. These sources include an institution's statutory financial returns, investor presentations, questions answered at annual general meetings, court transcripts, newspaper articles, rating agency opinions and market rumour. A situation where one participant has more or better information than another

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[9] Basel Committee, *Enhancing bank transparency*, September 1998

[10] Mikhail Frolov, *Why do we need mandated rules of public disclosure for banks?* Journal of Banking Regulation, Vol 8, 2 177-191

is known as information asymmetry. Pillar 3 of the Basel framework is designed to reduce information asymmetry by requiring banks to publicly disclose specified information in a comparable way. Comparable disclosures provide a mechanism for markets to compare and contrast banks on a consistent basis, and to reward those that are perceived to be better managed relative to those that are less so. Thus although some market participants may be able to obtain information directly from financial institutions, this information is not necessarily comparable, because of differences in underlying assumptions, methods of calculation, presentation and explanations.

Information asymmetry, leverage, liquidity and the global financial crisis

19. Market discipline can, however, lead to perverse outcomes in an environment of incomplete, outdated or inaccurate information. This was evidenced during the global financial crisis, when deficiencies in existing disclosures about the health of banking institutions — leverage and liquidity in particular — played a role in exacerbating market uncertainty and prolonging the instability in global financial markets. Markets internationally had difficulty identifying those banks that were highly leveraged and those that were not, and the ensuing negative market sentiment escalated to include otherwise sound banks. Similar contagion effects occurred in relation to market perceptions of banks' liquidity management[11]. Ultimately, negative sentiment in the banking sector of individual jurisdictions rapidly transmitted to the rest of the financial system and the real economy, spreading across the globe. Providers of capital and funding simply stopped providing access. Although they were not at the epicentre of the crisis, Australian ADIs were not immune from these severe funding and liquidity constraints, and Australian Government intervention in the form of guarantees was required to assuage global market concerns.

20. Deficiencies in banks' public disclosure did not cause the crisis, which had its origins in lax underwriting standards in the United States sub-prime mortgage sector and poor risk management of exposures to complex structured securities collateralised by sub-prime mortgages. However, the crisis did demonstrate the impact that uninformed markets can have on financial stability. It is particularly important to promote stability

[11] For more information about the role of liquidity in the global crisis, see Regulation Impact Statement *Implementing Basel III liquidity reforms in Australia* (OBPR ID: 2012/14531): pages 5-8

within the banking sector, as a strong, resilient and stable banking system is a foundation of sustainable economic growth. Indeed, significant and protracted difficulties within the banking sector can have severe repercussions for the entire financial system and, in turn, the real economy. Market disruptions are likely to be greater if the flow of information to the market is sporadic or deficient. If disclosure is frequent and ongoing, the severity of market disturbances may be reduced because market participants are better informed and have greater confidence that market rates and prices reflect the underlying health of financial institutions.

21. Of direct relevance to the measures proposed in this RIS, the crisis also demonstrated that banks across the globe were not disclosing adequate information about their leverage and liquidity management, highlighting a deficiency in their voluntary disclosures and in the existing Pillar 3 framework.

Nature, degree and magnitude of information asymmetry, and the need for international comparability and Basel compliance

22. The crisis increased demand by market participants for more and better information about banking activities and in particular, about leverage and liquidity. The Enhanced Disclosure Task Force (EDTF), established by the FSB in 2012, includes senior executives from leading asset management firms, investors and analysts, global banks, credit rating agencies and external auditors across many jurisdictions (including Australia). Its goal is to improve the quality, comparability and transparency of banks' risk disclosures. In October 2012, the task force published seven principles to enhance risk disclosures and made 32 recommendations, including measures relating to the leverage ratio and the LCR. The report explained why:

> *'It has been five years since the beginning of the financial crisis and the public's trust in financial institutions has yet to be fully restored. Investors today are more sensitive to the complexity and opacity of banks' business models and credit spreads for financials remain persistently higher than for similarly-rated corporates. Moreover, in some markets, banks still need significant liquidity support from the public sector. Many banks are now trading at market values below their book values, which is in marked contrast to the past. Investors and other public stakeholders are demanding better access to risk information from*

banks; information that is more transparent, timely and comparable across jurisdictions.'[12]

23. Writing on behalf of investors and credit analysts in a 2012 series of comments on disclosure gaps in the banking sector, ratings agency Standard & Poor's made similar observations. In its view, *'public disclosure ought to be relevant, sufficiently detailed, understandable, reliable, globally consistent, and readily available on a regular basis*[13]. Measured against these criteria, however, and despite the *'increasing importance of funding and liquidity constraints in assessing the creditworthiness of financial institutions'*, Standards & Poor's found:

- *'published information that is deficient, meaningless, and sometimes rather trivial'* with generic statements about process unsupported by tangible evidence;

- liquidity data collated for submission under the Basel Committee's liquidity monitoring regime — and therefore readily available — was not made public;

- little effort to increase disclosure frequency to reflect the speed with which liquidity position can change;

- significant variation in quantitative information between individual institutions and countries that was 'sometimes misleading' by, for example, lacking crucial definitions to facilitate comparison; and

- releasing funding and liquidity information at investor and analyst presentations (as some banks had started doing) was not good practice, being sporadic, inconsistently presented and difficult to find.

24. The EDTF has been conducting annual surveys of banks' voluntary implementation of its recommendations. Under these surveys, major banks from different regions across the globe self-assess their published disclosures against EDTF recommendations. This is supplemented by a separate assessment by user members of the EDTF (the User Group). In the most recent survey of 2013 disclosures, banks reported having disclosed 73 per cent of the information recommended by the EDTF while the User Group found

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[12] EDTF, *Enhancing the Risk Disclosures of Banks*, 29 October 2012: page 1

[13] *Ibid*

that 79 per cent of 18 recommendations had been implemented in full (50 per cent) or partially implemented (29 per cent) by the 41 surveyed banks[14]. The report noted significant progress on recommendations that investors had identified as being the most critical, such as linkages between market risk and the balance sheet[15]. However, *'banks reported less progress implementing recommendations that have the potential to conflict with forthcoming regulatory requirements or templates'*[16]. Further, banks in the Asia-Pacific region fully implemented only 51 per cent of recommendations, the lowest of any region. The User Group specifically singled out Australian banks as having *'opportunities…to accelerate adoption [of the EDTF's recommendations] in 2014'*[17].

25. The findings of the EDTF survey are supported by a review of the most recent information published voluntarily by the five largest ADIs about their financial health. Consistent and reliable metrics about bank leverage and liquidity are still not available seven years after the onset of the crisis. Some ADIs have publicly reported an overview of their LCR information; however, this information is neither comprehensive and comparable nor available in a consistent and accessible medium.

26. One reason may be the perception among banks that international debt and equity investors view *'with some scepticism'* banks' current attempts to disclose voluntarily their capital ratios calculated on an 'internationally harmonised' Basel basis (i.e. by adjusting for APRA's differences from the Basel framework to meet domestic needs)[18]. Several submissions to the Financial System Inquiry addressed this issue; one ADI submitted:

> *'The credibility of these disclosures will be further enhanced through agreed standardised templates, making these disclosures mandatory rather than optional, and explicit regulator endorsement or support of the disclosures[19].'*

27. The submission noted that, although information about the differences between the

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[14] EDTF, *2014 Progress Report*, 5 September 2014:

[15] *Id*, page 7

[16] *Id*, page 8

[17] *Id*, page 2

[18] Commonwealth Bank, *Wellbeing, resilience and prosperity for Australia: Financial System Inquiry*, Final Submission, August 2014: page 48

[19] ANZ, *Response to the interim report of the Financial System Inquiry*, 26 August 2014: page 22

calculation of capital under APRA's rules and under 'internationally harmonised' rules is publicly available, a recent Bloomberg analysis of 'The World's Strongest Banks' did not factor in these differences, '*resulting in the incorrect conclusion that Australian banks are not strong*'. In other words, it was argued that market participants such as Bloomberg may not take account of information that does not have regulatory imprimatur. The use of *'mandatory, standard templates'* under the leverage ratio disclosure requirements was also supported by Standard & Poor's in its response to the Basel Committee's consultation on those requirements[20].

28. The final report of the Financial System Inquiry also addressed the matter:

> *'To make informed decisions and price debt appropriately, investors assess differences in banks' financial strength, including capital. Although it is generally possible to identify significant differences in jurisdictions' approaches to calculating capital ratios, estimating and comparing the effect of those differences is challenging. The banks have made substantial efforts to raise investors' awareness of aspects of Australia's requirements that are stronger than the minimums. However, investors are hesitant to trust banks' self-reported adjusted capital ratios.*
>
> *'Quantifying the cost of this lack of comparability is difficult. Australia's major banks have some of the highest credit ratings in the world, which may suggest that costs are limited. Likewise Australian bank equity valuations are among the highest in the world. However, banks contend that the lack of transparency affects market pricing. They also suggest that market access may be compromised in times of market stress, when investors are particularly risk sensitive.'*[21]

The Inquiry recommended that APRA develop a common reporting template that, where feasible, identifies the effect of areas where Australia's capital framework for ADIs is different to the minimum required under the Basel framework[22].

29. Although not relating to the measures discussed in this RIS, the Australian Bankers' Association (ABA) has supported the use of standardised disclosure templates. In its submission to the Basel Committee's consultation on proposed revisions to its existing disclosure framework designed to improve consistency and comparability, the ABA stated that '*The use of fixed templates is a welcome step towards improving*

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[20] Letter from Standard & Poor's Ratings Services to the Basel Committee, 20 September 2013:

[21] *Financial System Inquiry Final Report*¸ November 2014: (FSI report), November 2014, page 77

[22] Recommendation 4, *id,* page 76,

comparability[23].'

The G-SIB framework

30. The Basel Committee's G-SIB framework includes an indicator-based assessment methodology and a tiered system of capital surcharges to apply to G-SIBs. The new framework of capital surcharges comes into effect from the beginning of 2016 for those banks identified as G-SIBs at the end of 2014, i.e. G-SIBs have roughly 12 months' advance notice that their capital requirements will be altered as a result of the assessment process. The indicators used to assess a bank's systemic importance rely on data that are not routinely available, and, therefore, sophisticated investors and other interested parties have little opportunity to anticipate how and when a bank's surcharge might be altered as a result of the assessment process. The Basel Committee therefore proposed that banks in the assessment sample should publish the indicators reported to it. These disclosures, along with disclosures of aggregate data provided by the Basel Committee each year, allow interested parties to anticipate changes to a bank's G-SIB surcharge and make more informed judgements about the risk profile and capital needs of the largest banks. The disclosure also allows interested parties to better understand the sensitivity of the capital surcharge to possible business actions a bank may wish to take.

G20 commitments

31. The proposals in this RIS also implement Australia's G20 commitments. Following the global crisis, G20 Leaders advocated the reform that became the leverage ratio, agreeing in 2008 that:

> *'risk-based capital requirements should be supplemented by a simple, transparent, non-risk based measure which is internationally comparable, properly takes into account off-balance sheet exposures, and can help contain the build-up of leverage in the banking system.'*[24]

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[23] Australian Bankers' Association, *Basel Committee on Banking Supervision - Consultative Document: Review of the Pillar 3 disclosure requirements*, October 2010

[24] *Declaration on strengthening the financial system*, London summit, 2 April 2009: (the London declaration). The FSI Report also recommended that APRA 'introduce a leverage ratio that acts as a backstop to ADIs' risk-weighted capital positions', Recommendation 7, page 84.

32. The crisis also led to their support for an international liquidity framework:

> *'the BCBS and national authorities should develop and agree by 2010 a global framework for promoting stronger liquidity buffers at financial institutions, including cross-border institutions.'*[25]

33. A continuing concern has also been the problem of dealing with 'too-big-to-fail' institutions, which led to development of the G-SIB framework. G20 Leaders, during Australia's 2014 presidency of the G20, made '*helping prevent and manage the failure of globally important financial institutions'* a priority[26].

34. Accompanying these commitments is a consistent agreement by G20 Leaders to support disclosure requirements, starting in 2008:

> *'Strengthening Transparency and Accountability: We will strengthen financial market transparency, including by…ensuring complete and accurate disclosure by firms of their financial conditions.'*[27]

35. This commitment was accompanied by the following action plan:

> *'Regulators should work to ensure that a financial institution's financial statements include a complete, accurate, and timely picture of the firm's activities (including off-balance sheet activities) and are reported on a consistent and regular basis.'*[28]

36. Further, G20 Leaders specifically endorsed the measures and reform timetable set down by the Basel Committee:

> *'We reiterate our commitment to implement Basel III according to internationally agreed timelines and welcome the progress that has been made since Los Cabos. It is imperative that the Basel III standards are consistently applied. We therefore welcome the work of the Basel Committee on Banking Supervision (BCBS) to assess the consistency of jurisdictions' rules with Basel III and their updated progress report on Basel III implementation…We expect the BCBS to finalize its proposals on the remaining components agreed to in the Basel III framework – the internationally harmonized leverage ratio and the net stable funding ratio – in line with agreed timelines and procedures.'*[29]

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[25] *Declaration on strengthening the financial system*, London summit, 2 April 2009: (the London declaration)

[26] *G20 2014: Overview of Australia's Presidency*, December 2013

[27] The Washington declaration, paragraph 9

[28] The Washington Action Plan, page 1

[29] *Id*¸ paragraph 67

The consequences of retaining the status quo

37. Non-adoption of the proposals may have the following consequences:

- capital and funding markets will be less informed about the largest Australian ADIs than for cognate overseas banks. This may adversely impact the terms of access for these large Australian ADIs, and in extreme circumstances to cessation of access. The EDTF and Standard & Poor's have each noted the importance of transparent, timely and comparable information about bank risks, which includes leverage and liquidity management. The absence of such information may adversely affect the views of analysts, credit ratings agencies, journalists, sophisticated investors and other banks. These participants expect such information to be available from 2015, when each Basel Committee member is to implement the new measures. Given the role these two indicators played in prolonging that crisis, it is possible that these market participants will be suspicious of institutions and jurisdictions that do not disclose this information in a standardised and regulator-endorsed format. This may adversely impact capital costs and/or reduce access to capital markets for internationally active Australian ADIs. More broadly, there may also be adverse effects on these ADIs' currently sound reputations;

- the international reputation of Australia's banking system may be adversely affected through not adhering to G20 and Basel Committee commitments, the costs of which are unquantifiable although potentially quite large. Reduced international reputation may adversely affect market sentiment about the Australian banking sector and indirectly affect, for instance, the cost of raising capital or funding overseas;

- the reputation of Australia may be adversely affected through other reviews of its implementation of international commitments. Australia's implementation of the Basel framework will continue to be assessed periodically through the Basel Committee's RCAP program, which now covers implementation of the Basel measures about leverage, liquidity and systemically important banks. The results

of these reviews are published on the Basel Committee's website and by the FSB[30]. Every five years, the International Monetary Fund (IMF) assesses Australia under the joint IMF/World Bank Financial Sector Assessment Program (FSAP)[31] to determine its compliance with international standards, including disclosure and transparency measures. These assessments are also published; and

- failure to disclose G-SIB indicators could detract from the framework's transparency and could have similar adverse consequences to those discussed in relation to the non-disclosure of leverage and LCR information. Uncertainty as to how the major Australian ADIs are being assessed, and the potential for additional capital requirements to be imposed, may be seen negatively by both market participants and the banks themselves.

Why is government action needed?

38. Government action is necessary to ensure that the existing prudential framework for ADIs, that was initially implemented through delegated legislation, remains aligned with the international framework on which it is based.

39. The objectives of these measures are to:

    - extend existing Pillar 3 disclosures to include additional measures of an ADI's financial health, and address information asymmetry and facilitate international comparability about particular indicators of banks' financial soundness to enhance market discipline for the benefit of the Australian banking system and broader economy;

    - promote the transparency of the international framework for identifying and supervising G-SIBs; and

    - meet Australia's G20 commitments.

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30 Financial Stability Board, *Implementation Monitoring*

31 International Monetary Fund, *The Financial Sector Assessment Program (FSAP)*

Options

Option 1: status quo

40. Under this option, the existing APS 110 and APS 330 would remain unchanged.

Option 2: voluntary disclosure

41. Under this option, banks would be encouraged to voluntarily make the disclosures, by reference to the Basel requirements, industry practice, or, with APRA's assistance, a new prudential practice guide (PPG).

Option 3: mandatory disclosures

42. Under this option, amendments to APS 330 would establish legally enforceable disclosure requirements that apply to specified ADIs. The methodology for determining the leverage ratio would be included in APS 110, which establishes the capital framework.

What is the likely net benefit of each option?

Net benefit of Option 1 – status quo

43. Under Option 1, ADIs would be required to comply with existing disclosure requirements (as outlined earlier), with no requirement to disclose their leverage ratio, LCR or the G-SIB indicators. Further, the minor deviations from the Basel framework identified during the RCAP would not be redressed. Option 1 is the assumed base case scenario.

Costs

44. APRA does not expect that maintaining its existing ADI disclosure framework would have any immediate effect on the compliance costs incurred by an ADI to make disclosures in accordance with the current APS 330.

45. A decision to pursue Option 1 would mean ADIs would lose the benefits associated with being able to claim compliance with the Basel framework and G20 commitments. Compliance with the Basel framework is an internationally understood benchmark that

allows market participants to understand and place reliance on the nature and standard of regulation to which a bank is subject. Once a jurisdiction does not formally meet this benchmark, the nature of regulation and oversight that banks are subject to becomes an unknown quantity by international standards. Against a backdrop in which these requirements are being introduced in many other jurisdictions, the costs associated with non-compliance are likely to include:

- potential limitations on access to capital markets, as market participants prefer to deal with banks whose regulatory systems are understood and trusted;
- a potentially higher cost of capital. Even when Australian ADIs can access capital markets, it is possible that market participants might demand higher premiums to lend to such banks (ADIs in Australia currently source a material portion of their funds in international capital markets[32]), a point made by ADIs to the Financial System Inquiry[33];
- potential that, in future financial crises, ADIs in Australia are more vulnerable to shocks in funding markets and confidence due to their non-compliance with the Basel framework. As noted by the Financial System Inquiry, a lack of transparency may compromise market access *'in times of market stress, when investors are particularly risk sensitive'*[34]; and
- potential impairment of Australia's reputation as a member of the Basel Committee, FSB and G20.

46. Maintaining the status quo does not actively address the identified information asymmetry in relation to bank leverage and liquidity, so this option does not promote the effective functioning of market discipline, i.e. act to restrain banks' potentially risky behaviour and moral hazard. The costs associated with this option are largely unquantifiable, but will be more prominent in the event of a financial crisis.

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[32] Owen Bailey, Luke Van Uffelen and Kerry Wood, *International Activities of Australian Banks*, Reserve Bank of Australian Bulletin, December 2013

[33] *Op cit*, page 77

[34] *Ibid*

Net benefit

47. APRA believes the net benefit resulting from a decision to maintain the status quo is negative, reflecting these material, though not readily quantifiable, potential costs.

Net benefit of Option 2 – voluntary disclosure

48. Under Option 2, individual ADIs would make decisions in relation to whether to disclose, in addition to the frequency, timing, mode of publication and content of their potential disclosures.

Costs

49. Depending on how much, and in what form, ADIs choose to disclose, the compliance costs associated with this option will range between zero (as in Option 1) and the compliance costs of full disclosure (associated with Option 3).

50. However, voluntary adoption may not be sufficient to assuage markets' inherent scepticism about banks' self-reported information[35], which may lead to restrictions on capital and funding market access or higher funding costs. As with Option 1, these costs are not readily quantifiable.

51. Depending on the nature of voluntary disclosures, this option would be unlikely to meet Australia's international commitments under the G20 or ensure consistency with the Basel framework. Therefore a decision to pursue Option 2 would potentially result in the costs of non-compliance outlined under Option 1 above.

Benefits

52. The benefits of Option 2 also depend on banks' decisions in relation to the recommended disclosures. If ADIs adopt the recommended practices, this option has the potential to equip market participants with the information required to strengthen market discipline and thus reduce the incentive for ADIs to take excessive risks. However, the full benefits of disclosure by individual banks are not realised where similar disclosures are not made by other banks. APRA contends that banks have

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[35] *Ibid*

demonstrated a reluctance to disclose information — and, importantly, to do so consistently — on a voluntary basis. Given the level of flexibility associated with a voluntary disclosure framework, APRA believes that even if ADIs chose to make disclosures, a high degree of variability in their practices would likely eventuate, compromising the comparability of the information disclosed. Further, available evidence suggests market participants may be reluctant to rely on self-reported information that lacks regulatory imprimatur. As a result, APRA believes that it is unlikely (and, in any case, not assured) that this option will address the information asymmetry problem outlined above as effectively as Option 3, meaning the desired benefits may not be fully realised as market discipline would be weaker, and moral hazard problems could potentially occur.

Net benefit

53. The net benefit of Option 2 cannot be precisely assessed. While this Option may yield a positive net benefit if ADIs choose to follow the disclosure guidelines strictly and incur the relevant compliance costs, this outcome is not assured. Furthermore, for the full benefits to be realised, it requires collective action by all relevant ADIs and acceptance by market participants, which cannot be assured. Instead, ADIs may choose not to make the recommended disclosures, resulting in no additional compliance costs and no benefits associated with improved disclosure and international compliance. Or they could incur compliance costs but still face market scepticism, which may not manifest until a future stress event. The net benefit of this Option will fall somewhere between that of Option 1 and that of Option 3.

Net benefit of Option 3 – mandatory disclosure

54. Under Option 3, APRA would stipulate the frequency, timing, content and medium of the required disclosures to be made by specified ADIs to facilitate the availability of timely, accurate, sufficient, comparable and consistent information.

Costs

55. As a result of these requirements, APRA anticipates that these ADIs will face minor additional costs given the incremental nature of the changes from the status quo. To comply with the proposed requirements, APRA expects:

- the five Advanced ADIs, which already submit to APRA data in relation to the leverage ratio, will incur some additional assurance and publication costs in order to comply with the leverage ratio public disclosure requirement;

- the 15 locally-incorporated LCR ADIs (including the five Advanced ADIs), which currently submit LCR information to APRA under ARS 210 (five of which also submit data under the Basel Committee's QIS process), will incur some additional assurance and publication costs in order to comply with the LCR public disclosure requirement;

- the four largest Advanced ADIs that meet the threshold for disclosing against the G-SIB indicators will incur some additional assurance and publication costs of disclosing aggregate data against the G-SIB indicators, which they have reported to APRA since 2011; and

- the five Advanced ADIs will face minor costs in order to complete and publish additions to two existing tables that were previously omitted from APS 330.

56. APRA also expects that an ADI may incur additional education, procedural and purchasing costs in order to comply with the proposed disclosure requirements, depending on its structures and processes. In response to its request for compliance cost data, APRA received credible cost estimates from two of the ADIs most directly affected by the proposals in this RIS. Extrapolating from these, APRA estimates that the proposed changes will result in compliance costs for the affected population of $1.245 million in the first year and $1.001 million each year thereafter. The full process and results of this survey are detailed under 'Compliance costs' below. APRA notes that these costs are significantly higher than the cost APRA would incur in publishing this data on a centralised basis.

Benefits

57. Option 3 is the only option that ensures Australia's consistency with the relevant G20 agreements and the associated Basel framework. A decision to pursue Option 3 means that ADIs should not face any costs or risks associated with non-compliance outlined in Option 1 above. Instead, ADIs should benefit from their existing level of participation in the global banking sector and capital markets, without the risk of any additional risk

premium. Australia's reputation for being compliant with international best practice should also be preserved.

58. Option 3 should equip market participants with additional key risk metrics on which to base decisions about a bank's creditworthiness and general soundness. Improvements in the information available to market participants should strengthen market discipline and curtail moral hazard behaviour by banks. There is insufficient information available to quantify the significance of these benefits.

59. Mandating G-SIB disclosures for the four largest ADIs also has the benefit of contributing to the transparency and credibility of the international G-SIB framework and allows market participants to understand how they rank relative to their international peers.

Net benefit

60. APRA is of the view that a decision to pursue Option 3 would yield a positive net benefit. Option 3 imposes additional compliance costs on some ADIs; however, a subset of affected ADIs has assessed the marginal costs of meeting the proposed requirements as minimal. APRA notes that these costs are particularly minor when considered relative to the costs of meeting the existing disclosure requirements and is of the view that these costs are outweighed by the potentially significant (if unquantifiable) benefits associated with strengthening market discipline, maintaining Australia's compliance with the G20 and consistency with the Basel framework, and contributing to the efficacy of the G-SIB framework.

Compliance costs

61. A summary of the key compliance costs associated with Option 3 can be found in the following reports:

    Attachment A – Regulatory Burden Measurement tool; and

    Attachment B – Regulatory Burden and Cost Offset Estimate Table.

    APRA has compiled these reports based on data provided by the ADIs significantly affected by the proposals addressed in this RIS. Detailed reports have not been prepared for Option 1 (the status quo), as this option would not impose any additional regulatory

costs under the government's Regulatory Burden Measurement Framework, or Option 2 (voluntary disclosure), as the compliance costs of this option depend on the extent of ADIs' uptake of the voluntary disclosure regime. APRA notes that, in any case, the additional compliance costs associated with Option 2 will not exceed the costs of Option 3.

62. In its September 2014 discussion paper, *Basel III disclosure requirements: leverage ratio; liquidity coverage ratio; the identification of potential global systemically important banks; and other minor amendments* (the discussion paper)[36], APRA included a request for cost benefit information in relation to these proposals from affected parties. APRA did not receive any response to this request. APRA then individually requested assessments of the compliance costs resulting from each of these proposals from a representative subset of ADIs affected by the requirements proposed in this package.

63. The surveyed ADIs indicated that they will face compliance costs in six categories:

- enforcement costs, associated with cooperating with internal and external audits, inspections and regulatory enforcement activities;
- education costs, associated with training staff and keeping up to date with regulatory requirements;
- procedural costs, including non-administrative costs imposed by regulations;
- publication and documentation costs, associated with producing documents for public release;
- purchasing costs, in relation to goods and services obtained to comply with new regulation; and
- other costs.

64. APRA has used the credible cost estimates provided by surveyed ADIs to estimate the

[36] *Basel III disclosure requirements: leverage ratio; liquidity coverage ratio; the identification of potential global systemically important banks; and other minor amendments*

compliance costs associated with Option 3. APRA used this dataset to estimate the 'average compliance cost per ADI' for each of the four requirements in this package. APRA has assumed this average is representative of the average cost across the ADI industry and thus multiplied the average cost per ADI for each of the requirements by the number of ADIs required to meet that requirement to calculate the total compliance cost for each requirement. APRA notes that this methodology may have produced an overestimation of the actual costs in relation to some of the disclosures, as the average may be based on ADIs with larger and more complex operations than the rest of the affected ADIs.

65. For the LCR disclosure requirement, 11 LCR ADIs (including the ADIs in the dataset) are required to make disclosures semi-annually, while the remaining four LCR ADIs are required to disclose annually. APRA has assumed that those ADIs required to make annual disclosures will face the same education, purchasing and other costs as those ADIs disclosing semi-annually, but will face only two-thirds of the enforcement, procedural, publication and documentation costs of the semi-annually disclosing LCR ADIs. As noted above, APRA considers that this methodology is likely to have produced an overestimation of the actual costs.

66. APRA has summed the total compliance cost for each of the four requirements to give the total compliance cost for the suite of measures addressed in this RIS. For the purposes of this analysis, the number of ADIs required to make each disclosure was assumed to remain constant in subsequent years.

Consultation

67. The Basel Committee invited public submissions on its proposals relating to each of these disclosure measures. Consultation in relation to the leverage ratio, LCR and G-SIB disclosure requirements was open for periods of 12 weeks, 12 weeks and seven weeks, respectively. A number of investors, analysts, ratings agencies, other banks and industry associations (including Australian industry associations and/or their parent associations) provided submissions, copies of which are published on the Basel Committee's website.

68. APRA foreshadowed its intended implementation of two of these measures before

commencing formal consultation:

- in its September 2011 discussion paper seeking feedback on the Basel III capital reforms, *Implementing Basel III capital reforms in Australia*[37], APRA indicated that it proposed to apply the leverage ratio framework, including full disclosure from 2015; and

- in APRA's November 2011 discussion paper, *Implementing Basel III liquidity reforms in Australia*[38], APRA outlined its intention to introduce prudential disclosure requirements about an ADI's liquidity risk management framework and liquidity position.

69. APRA's formal consultation on the specific proposals commenced in September 2014 with the release of its discussion paper and draft amendments to APS 110 and APS 330. The aim of this consultation was to obtain feedback on all aspects of the proposed changes from any interested stakeholders. The discussion paper also sought comment on some specific questions, such as whether ADIs would prefer centralised or individual publication of the G-SIB indicators, and, as outlined previously, requested cost-benefit analysis information. As is usual practice for proposed amendments to prudential requirements, APRA issued a media release[39] and also sent an email to subscribers to its email alert service and to ADI representatives. Written submissions were invited by 31 October 2014.

70. APRA received three written submissions, all from industry bodies, and one request for clarification. APRA also met with representatives from the ADIs most affected by the proposed measures to gain a better understanding of their internal processes for, and costs of, implementing the proposals.

71. No in-principle objections were made to the proposals overall; objections were made to the following two aspects:

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[37] Chapter 5

[38] Chapter 8

[39] *APRA releases discussion paper on disclosure reforms*, 18 September 2014

- quarterly disclosure of the leverage ratio, which, it was suggested, may lead to misinterpretation because the full suite of financial statements are published only every six months. APRA does not intend amending its proposal. Half of the ratio (the numerator) can already be determined under existing disclosures and disclosing the denominator will enhance existing quarterly disclosures. Further, ADIs may provide additional information to address any concerns about misinterpretation; and

- Advanced ADIs having to explain the key drivers of material changes in the leverage ratio between reporting periods, when a similar requirement does not apply to existing capital ratios. APRA does not intend amending this proposal because it is important when facilitating market discipline that information about material changes is available as soon as possible.

72. One submission also requested additional guidance on meeting the G-SIB indicator disclosure requirements. The G-SIB indicators are determined by the Basel Committee each year and are supported by guidance issued by the Committee. APRA does not intend replicating such guidance but invites individual ADIs with specific queries to raise them directly with APRA.

73. APRA will also provide clarification to affected ADIs (which have no cost/benefit impact) about:

- the publication timeframe for the first set of leverage ratio and G-SIB disclosures;

- whether the LCR disclosure requirements apply to foreign ADIs; and

- the level of granularity required in an ADI's disclosure of the geographic breakdown of its private sector credit exposures in relation to any applicable countercyclical capital buffer (one of the omissions identified through the RCAP).

74. In the course of assessing submissions, APRA reconsidered its proposal relating to the timing of disclosures against the G-SIB indicators. Initially, it was proposed that affected ADIs would be required to publicly disclose this information within four months of the relevant reporting date, meaning either the end of January for ADIs using

a September balance date, or the end of April if December results are used. But the information to be disclosed is based on the data submitted to the Basel Committee under its QIS process, which is not submitted until close to the following July. Following further consultation with the affected ADIs, APRA instead proposes to require publication of the G-SIB indicators before the end of July, allowing an additional period of three or five months (depending on the ADI's balance date) in which to publish the disclosures. APRA anticipates that this approach will result in a small reduction in regulatory burden and compliance costs than would otherwise have been the case. The affected ADIs supported the revised proposal but did not provide sufficient data about the impact of the change on their previous cost estimates.

Conclusion and recommended option

75. Table 1 below provides a summary of the costs and benefits of each option against the key criteria discussed in this RIS.

Table 1: Summary of the net benefits of each option

	Option 1: Status quo	**Option 2: Voluntary disclosure**	**Option 3: Mandatory disclosure**
Compliance costs	No change	May range from no change to moderate net cost	Moderate net cost
Address information asymmetry in order to promote market discipline	Does not meet this criteria	May or may not meet this criteria	Meets this criteria
Compliance with G20 agreements and Basel framework	Does not meet this criteria	May or may not meet this criteria	Meets this criteria

	Option 1: Status quo	**Option 2: Voluntary disclosure**	**Option 3: Mandatory disclosure**
Rectify minor deviations from the Basel framework	Does not meet this criteria	May or may not meet this criteria	Meets this criteria
Overall	**Negative to no net benefit**	**Likely no-low net benefit**	**Positive net benefit**

76. Option 3 is the preferred option as APRA considers that this option will yield the greatest net benefit. This is because mandating disclosures in relation to the leverage ratio, LCR and the identification of potential G-SIBs is more likely to facilitate the provision of credible, timely, accurate, sufficient and comparable information about ADIs' leverage and liquidity risk to market participants and thus the effective functioning of market discipline. It should also assist ADIs' continued access to capital markets. Further, this is the only option that ensures Australia's compliance with G20 agreements and the internationally-agreed Basel framework and support for the efficacy of the G-SIB framework.

77. Option 3 will impose an additional regulatory burden on industry; however, this burden is expected to be relatively minimal and largely incurred during implementation. Across all affected entities, the total costs in the first year are estimated at $1.245 million, with recurring costs of $1.001 million per year. APRA has endeavoured to minimise this burden by, for example, imposing each of the requirements on the smallest reasonable subset of ADIs and relaxing the G-SIB disclosure deadline. APRA considers that the benefits of Option 3 exceed the costs, especially given the benefits are likely be enduring while the costs may reduce over time due to improvements in operating efficiencies.

78. Option 2 (voluntary disclosure) and Option 1 (the status quo) are both expected to yield a lower net benefit for all affected stakeholders than Option 3 due to the potential costs of non-compliance with the Basel framework.

Implementation and review

79. APRA will give effect to the proposed disclosure requirements and other minor amendments through changes to the relevant prudential standards, APS 110 and APS 330.

80. APRA initially intended implementing the new measures from 1 January 2015, in accordance with the Basel Committee's timetable, endorsed by G20 Leaders. In November 2014, APRA wrote to affected ADIs to advise that, because a number of matters remained to be addressed, APRA would defer implementation of the proposed measures until 1 April 2015 at the earliest.

81. As delegated legislation, prudential standards impose enforceable obligations on affected ADIs. APRA monitors ongoing compliance with its prudential framework as part of its supervisory activities. APRA has a range of remedial powers available for non-compliance with a prudential standard, including issuing a direction requiring compliance, breach of which is a criminal offence. Other actions include imposing a condition on an ADI's authority to carry on banking business or increasing regulatory capital requirements.

82. Under APRA's policy development process, reviews of new measures are usually scheduled for between two and three years from implementation. Such a review would consider whether the requirements continue to reflect good practice, remain consistent with international standards, and remain relevant and effective vehicles for facilitating market discipline. APRA will also take action within a shorter timeframe where there is a demonstrable need to amend a prudential requirement. As legislative instruments, the two standards will also be subject to sunsetting requirements.

83. The Basel Committee is currently undertaking a broad review of its Pillar 3 framework. The first phase is looking at existing Basel II Pillar 3 disclosures, while the second will look to streamline all of Pillar 3, which should include a review of these latest measures. As a member of the Basel Committee, APRA will be involved in this review process and once this work is finalised APRA intends to consult on the appropriate implementation of the framework in Australia.

Regulatory Offset

84. A regulatory offset has been identified and agreed with the OBPR from within the Treasury portfolio (refer to Attachment B). This offset relates to the alignment of the legal frameworks for personal and corporate insolvency practitioners.

Attachment A – Regulatory Burden Measurement report

Compliance cost report

Cost per entity equals total cost per segment divided by total number of entities within the segment.

Proposal name				Basel III disclosure requirements: leverage ratio; liquidity coverage ratio; the identification of potential global systemically important banks; and other minor amendments
Reference number				2014/17233; 2014/17263
Problem and objective				
Problem				Refer RIS
Objective				Refer RIS
Explanatory information				
Refer RIS				
Segments affected				
Business				
Option 1				
Option name				Status quo
Business affected				0
Average Annual Regulatory Costs (from Business as usual)				
Change in costs ($millions)	Business	Community Organisations	Individuals	Total change in Cost
Total by sector	$0.000M	$0.000M	$0.000M	$0.000M
Option 2				
Option name				Voluntary disclosure
Business affected				15
Average Annual Regulatory Costs (from Business as usual)				
Change in costs ($millions)	Business	Community Organisations	Individuals	Total change in Cost
Total by sector	variable	$0.000M	$0.000M	variable
Option 3				
Option name				Mandatory disclosure
Business affected				15
Average Annual Regulatory Costs (from Business as usual)				
Change in costs ($millions)	Business	Community Organisations	Individuals	Total change in Cost
Total by sector	$1.026M	$0.000M	$0.000M	$1.026M

Attachment B - Regulatory Burden and Cost Offset Estimate Table

Average annual regulatory costs (from business as usual)				
Change in costs ($million)	Business	Community Organisations	Individuals	Total change in cost
Total, by sector	$1.0	-	-	$1.0
Cost offset ($ million)	Business	Community organisations	Individuals	Total, by source
Within portfolio	–$1.0	-	-	–$1.0
Are all new costs offset? ☑ **Yes, costs are offset** □ **No, costs are not offset** □ **Deregulatory—no offsets required**				
Total (Change in costs – Cost offset) ($million) = $0				

Note: A regulatory offset has been identified from within the Treasury portfolio, relating to the alignment of the legal frameworks for personal and corporate insolvency practitioners.