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Basel III reforms spur confusion

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Banks are seeking further clarification from the prudential regulator on a key element of the Basel III banking reforms, claiming that they have not received sufficient guidance on what data they are required to track.

New global banking rules released by the Basel Committee in December unexpectedly brought forward the observation period on the net stable funding ratio by one year to the start of 2011.

This means banks are already required to report daily on their net stable funding ratio (NSFR). The NSFR is designed to promote more stable, longer-term funding of loans and business activities.

While banks already track this measure and disclose it to shareholders, their methodology differs. As a result, some banks are concerned the information they report on may differ from the Australian Prudential Regulation Authority's requirements under Basel III.

The Basel Committee's December release includes a summary table of the NSFR. It says the table does not capture all the nuances.

Phase-in arrangements for key ratios required under the new global rules were mostly unchanged in the latest release, compared with an earlier provisional time line unveiled in September.

The one exception was the commencement date for the NSFR observation period.

KEY POINTS

- The observation period for the Basel II reforms has been brought forward to the start of 2011.
- Banks already disclose the NSFR measure but their methodology differs.

The ratio will not become a minimum standard until the start of 2018, but the powerful committee has put in place an observation period in the interim to monitor ratios and address any unintended consequences.

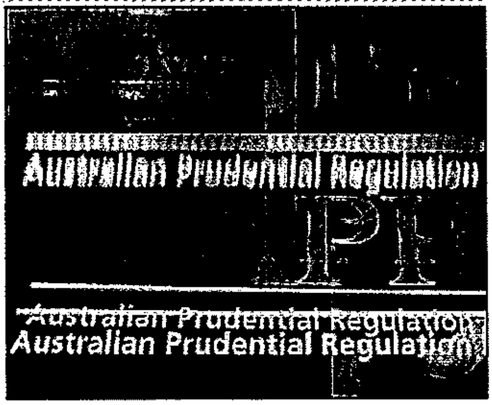
The 100 per cent minimum NSFR requirement appears within reach for Australian banks, given the current average for the sector is 85 per cent.

APRA has previously stated that "there are no unique circumstances to justify a departure from the NSFR global standard in Australia".

The NSFR aims to limit over-reliance on short-term wholesale funding during times of buoyant market liquidity and encourage better assessment of liquidity risk.

Banks are also awaiting the receipt of an additional quantitative impact study using data from year-end 2010 and mid-year 2011 reference periods to inform analysis of the liquidity coverage ratio and the NSFR.

Australian banks won a concession on liquidity rules under Basel III after the global regulator agreed to include Australia among the countries granted special treatment because they have low levels of government debt. Banks can make up for a shortfall in government debt securities by drawing from the central bank via a new facility for a flat fee.



APRA supports the global reform standards. Photo: PATRICK CUMMINS

Senior bankers said they had already engaged in discussions with APRA around the liquidity facility but said it was too early to gauge how the fee might be structured.

The requirement to hold more, and higher-quality, liquid assets and increase the level of stable funding is expected to hurt bank margins, but lengthy implementation periods and the new liquidity facility are expected to avert a material dent in their profitability.

APRA declined to comment.

Westoz to pay out

Westoz Investment Company will pay investors an interim dividend of 3¢ a share, fully franked, on February 15. The record date is February 1 and the shares trade without the right to the dividend on January 25. The dividend reinvestment plan has been suspended. Staff reporter

Leaders' growth return

Australian Leaders Fund's portfolio increased in value by about 12.5 per cent last month before fees and taxes, compared with growth in the All Ordinaries Accumulation index of 3.7 per cent for the same period. Final adjustments are being made to its net tangible assets and will be disclosed by January 14. Staff reporter

Strong dollar hits fund

Global Masters Fund posted net tangible asset backing of 93.2¢ a share after estimated tax on unrealised gains for the period ended December 31, compared with 94.5¢ a share at the end of November. A high unrealised exchange loss was incurred due to the strong Australian dollar. Staff reporter

WAM makes an impact

WAM Capital will pay a fully franked interim dividend of 5¢ a share on March 14, a rise of 25 per cent. The fund outperformed in the 12 months to December 31, delivering a 16.5 per cent increase, compared with a 3.3 per cent increase in the S&P/ASX All Ordinaries Accumulation index. Staff reporter