



**ANNEXURE B
DIFFERENCES BETWEEN AFIC AND RBA PRUDENTIAL STANDARDS**

PRUDENTIAL STANDARDS	AFIC	RBA
<p>LIQUIDITY</p> <p>Prime liquid assets requirement</p> <p>Operational liquidity</p>	<p>PLA ratio 7%</p> <p>6% or more of total liabilities with 2% minimum on-balance sheet</p>	<p>Par ratio 6%</p> <p>no similar requirement</p>
<p>RISK MANAGEMENT</p> <p>Market risk</p> <p>Operations risk</p> <p>Large asset exposures</p>	<p>Adequate systems to measure, monitor and control market risk</p> <p>Minimum insurance requirements</p> <ul style="list-style-type: none"> • Report exposures > 5% of capital base • Consult with supervisor on exposures > 10% of capital base to show that excessive risks are not being undertaken. 	<p>Risk management systems are expected to be in place. No specific requirements are prescribed.</p> <p>No similar requirements</p> <ul style="list-style-type: none"> • Report all exposures > 10% of capital base • Exposures > 10% of capital base must show excessive risks not being undertaken. • Exposures >30% of capital base must be prior notified to RBA and may only be entered into in exceptional circumstances.
<p>CAPITAL ADEQUACY</p>	<p><u>Building Societies</u> Each building society and building society group will be required to maintain at all times a minimum ratio of capital to risk weighted assets of 8%. At least 50% of a building society's required capital must be core capital.</p> <p><u>Credit Unions</u> Each credit union and credit union group will be required to maintain at all times a minimum ratio of capital to risk-weighted assets of 8%. At least 75% of a credit union's required capital must be core capital</p>	<p>Minimum ratio of total capital to risk weighted assets, on both consolidated group and stand alone basis of 8% (of which at least half should be Tier 1).</p>
<p>Supplementary capital - General provisions for doubtful debts.</p>	<p>Only general provisions in excess of statutory provisioning requirement may be included in Tier 2 capital.</p> <p>Capped at 1.25% of Risk Weighted assets.</p>	<p>No statutory provisioning requirements, however the RBA excludes any specific provision and those general provisions that reflect a deterioration in value of groups of like assets being included in Tier 2 capital.</p> <p>Capped at 1.25% of Risk Weighted assets.</p>



PRUDENTIAL STANDARDS	AFIC	RBA
<p>Deposits with societies 50% weight category</p> <p>Housing loans 50% weight category</p> <p>Asset revaluation reserve</p>	<p>Deposits with or guaranteed by building societies and credit unions, weighted at 50%.</p> <p>Loans fully secured by registered mortgage against residential building and/or development when</p> <ul style="list-style-type: none"> • LVR not more than 80% • a first registered mortgage where loan is 100% mortgage insured • a second mortgage where LVR for both mortgages does not exceed 80% and first mortgage cannot be extended without it being subordinated to the second mortgage • second mortgage where LVR >80%, where first mortgage cannot be extended without it being subordinated to the second mortgage and the second mortgage is 100% mortgage insured <p>Revaluation reserves included in Tier 2 capital at a discount of 33%.</p>	<p>No similar requirement.</p> <p>Loans for housing or other purposes, fully secured by registered mortgage over residential property where the ratio of the value of loans to the value of the mortgaged residential property securing the loans is 80% or less</p> <ul style="list-style-type: none"> • mortgage insurance not taken into account • no concessional risk weight of 50% for LVR >80% and mortgage insured. • second mortgages where LVR for aggregate of first and second mortgages exceed 80% LVR do not qualify for 50% risk weight. <p>100% of property revaluations which has been subject to external audit review. Only 45% of the effects of any upward revaluation of other assets (not included in profit and loss statements) included in Tier 2 capital (ie. Discount 55%)</p>
<p>LOANS DISCLOSURE</p>	<p>Loans disclosure under the Prudential Standards will be similar to the RBA requirements when Attachment A and accounting standards are revised and in place by July 1997.</p>	<p>Asset Quality - Prudential Statement L1</p>
<p>ACCOUNTING AND DISCLOSURE</p> <p>Statutory provisions</p> <p>Depreciation</p>	<ul style="list-style-type: none"> • Provision required for loans in arrears >3 months • 1% provision of total unsecured balances for revolving credit. • Depreciation rates specified. 	<p>RBA encourages appropriate levels of provisioning in line with industry best practice.</p> <p>No similar requirement.</p>
<p>OTHER ACCOUNTING ISSUES</p> <p>Suspense accounts</p>	<ul style="list-style-type: none"> • Unreconciled debt balances accounted for as expenses. • Unreconciled credit balances accounted for as liabilities. 	<p>No similar requirement.</p> <p>No similar requirement.</p>



PRUDENTIAL STANDARDS	AFIC	RBA
Inventory	No expenditure treated as an asset where no realisable value.	No similar requirement.
Goodwill	On merger of societies, no goodwill where deficit recorded.	No similar requirement.
OTHER ISSUES		
Ownership and controls	10% entitlement	15% entitlement
Managed funds products	Securitisation standard currently outstanding but will largely follow the similar issues in P.S.C2.	Funds management and securitisation specified in Prudential Statement C2.
Service contracts	Arms length service arrangements	No similar requirement.
ELSS	Contractual arrangements with societies to provide liquidity support	No similar requirement.
Capital raising and demutualisation	Proper regard to interests of members and shareholders.	No similar requirement.
Guarantees	Policies with respect to providing guarantees.	Covered by capital adequacy and large exposure guidelines.
Subsidiaries	Subsidiaries must comply with any directions made by SSAs.	Covered by non bank association guidelines.
Primary objects	<p>Building societies must maintain at least 50% of total assets in financial accommodation.</p> <p>Credit unions must maintain at least 60% of total assets in financial accommodation. Maintain not more than 10% financial accommodation for commercial purposes.</p>	No similar requirement.
Membership	Credit union membership is limited to a common bond.	No similar requirement.