

# Risk Management Report

## continued

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### Basel II

Macquarie Bank is accredited under the Foundation Internal Ratings Based Approach (FIRB) for credit risk, the Advanced Measurement Approach (AMA) for operational risk, the internal model approach for market risk<sup>1</sup> and the internal model approach for interest rate risk in the banking book.

These advanced approaches place a higher reliance on a bank's internal capital measures and therefore require a more sophisticated level of risk management and risk measurement practices.

<sup>1</sup> Standard approach applied for specific risk on debt securities.

### Regulatory developments

The Basel Committee on Banking Supervision released the final text of the Basel III framework in December 2010. Basel III sets out revised capital rules, a new liquidity framework, a minimum leverage ratio and two new capital 'buffers' that oblige banks to hold additional capital on top of the minimum capital ratios.

There are also significant regulatory changes in other markets in which we operate. In the US the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) will result in significant changes to the banking and financial markets in the US. Macquarie does not have a banking presence in the US as operations are conducted through non-banking subsidiaries. The Dodd-Frank banking provisions therefore do not apply to Macquarie. However, Macquarie will be required to comply with Dodd-Frank regulations relating to the reporting and central clearing of swaps.

RMG is responsible for coordinating Macquarie's evaluation and response to both current and forthcoming developments and provides updates to the Board on a monthly basis.