

House Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Review of the Australian Prudential Regulation Authority Annual Report 2023

Division/Agency: Australian Prudential Regulation Authority

Question No: 1

Topic: Capital and Liquidity Requirements for ADIs

Reference: Written

Senator/Member: Mr Garth Hamilton MP

Question:

As part of the Committee's [inquiry into APRA's annual reports](#), Mr Garth Hamilton MP (Deputy Chair) requests a written response to the following question about APRA's [proposed changes to liquidity and capital requirements for authorised deposit-taking institutions](#).

Mr Hamilton would like an update on the proposed changes with as much detail as APRA is able to offer. Beyond explaining APRA's regulatory approach or the consultation phases, Mr Hamilton wishes to understand *why* APRA is seeking these changes. He requests a detailed explanation, justification and supporting modelling/data for the proposals.

My understanding is that Mr Hamilton seeks the specific data and reasoning that underpin the headline reasons for the proposed changes as available from APRA's website and in media releases.

Answer:

APRA commenced our consultation in November 2023¹ following bank crisis events in the US and Europe earlier in that year. APRA's consultation was directed to strengthening ADI liquidity positions in three ways: ensuring that ADIs on the Minimum Liquidity Holdings (MLH) regime value liquid assets at their market value, ensuring ADIs have robust processes for accessing exceptional liquidity assistance, and strengthening the composition of liquid assets.

A diversified liquid asset portfolio is an important risk mitigant for ADIs, which provides confidence that sufficient funds will always be available to repay depositors, even during periods of financial market stress. However, international and domestic evidence shows bank debt securities can be less liquid in such stress scenarios. For this reason, APRA's closest international peer regulators disallow or otherwise limit reliance on bank debt securities for smaller banks. Australia is currently an outlier in this regard.

APRA has a rigorous public consultation process for all potential policy changes. Feedback received through consultation helps APRA discharge our statutory mandate, which requires APRA promote financial safety and financial stability, while balancing considerations of efficiency and competition. In this case, APRA undertook formal consultation from November 2023 through February 2024. We also enhanced our usual process with additional workshops and discussions with industry stakeholders.

APRA's consultation response paper will be released in July, which will incorporate industry feedback and provide further detail including next steps as part of APRA's scheduled broader review of liquidity risk.

¹ <https://www.apra.gov.au/targeted-changes-to-adi-liquidity-and-capital-standards>.