

Senate Economics References Committee

ANSWERS TO QUESTIONS ON NOTICE

Inquiry into Residential Electrification

Division/Agency: Australian Prudential Regulation Authority
Question No: APRAQoN1
Topic: Prudential Guidance for Green Retrofit Loans
Reference: Written
Senator: Andrew Bragg

Question:

1. Has APRA provided, developed or considered any prudential guidance regarding the provision of green retrofit housing loan extensions by banks, which are referred to in the submission from UTS to this inquiry (Submission 21)?
2. What existing prudential guidance would be particularly relevant to such financing?

Answer:

APRA has not issued, and is not presently considering, dedicated ‘Green Retrofit Housing Loan Prudential Guidance’ of the specific kind referenced in Submission 21.

However, in November 2021 APRA issued *Prudential Practice Guide CPG 229 Climate Change Financial Risk* (CPG 229) which does reinforce that:

- an important function of the Australian financial system is to provide finance to assist customers to adapt to climate change (para 34);
- Australian banks will choose to work with customers which face higher climate risks, to help improve the risk profile of those entities (also para 34); and
- Australian banks investing in better risk management will enable them to identify and benefit from opportunities that arise from the transition to a lower-emissions economy (para 12).

Also relevant is APRA’s credit risk capital framework, which sets out how banks are required to calculate credit risk capital requirements for all types of loans to customers. For green retrofits, this would mean:

- where Australian banks extend financing for green retrofits as part of a home loan secured by a residential mortgage, then this would typically attract the same (relatively low) capital requirement as the relevant home loan; and
- for banks under the ‘internal rating-based approach to credit risk’, which covers the majority of lending to Australian households, the framework already enables those banks to collect data and model potential credit risk benefits such as for green retrofits.

Looking forward, and as set out in APRA’s Supervision and Policy Priorities letter dated 31 January 2024, APRA is reviewing the effectiveness of CPG 229, with a focus on key issues such as embedding climate risk considerations clearly in risk management frameworks. APRA plans to engage with stakeholders as part of this review from the second half of 2024.

In progressing this work APRA will consider, among other factors, the relevant international guidance set by the Basel Committee on Banking Supervision *Principles for the effective management and supervision of climate-related financial risks* (June 2022). Paragraph 31 of that guidance confirms that 'banks should consider actively engaging clients and counterparties and collecting additional data in order to develop a better understanding of their transition strategies and risk profiles.'