16 May 2022

Mr Gideon Holland
General Manager - Policy
Policy and Advice Division
Australian Prudential Regulation Authority

Via email: PolicyDevelopment@apra.gov.au

Dear Mr Holland

**Minor amendments to centralise the definition of significant financial institution**

COBA welcomes the opportunity to comment on APRA's proposed centralisation of the definition of significant financial institution (SFI).

COBA is the industry association for Australia's customer owned banks (mutual banks, credit unions and building societies). Our sector collectively has more than $150 billion in assets and more than 4.5 million customers. Our members range in size from under $100 million in assets to over $15 billion.

Under APRA's proposed standards, most COBA members would be subject to the non-significant financial institution (non-SFI) requirements. However, COBA expects by 2023 that some larger mutual ADIs, through organic growth or merger, will qualify as SFIs under APRA's prudential framework.

**Key points**

COBA makes the following key points:

- COBA welcomes APRA's approach to establish a platform for broader application of proportionality within the prudential framework.
- COBA wants to ensure that this platform does not create a 'cliff' where smaller SFIs are subject to disproportionate impacts when they hit the threshold.
- COBA seeks clarity about how this framework will operate given it is at APRA's discretion to opt-in non-SFI ADIs partially or entirely into the SFI framework.

**Welcoming proportionality platform**

COBA welcomes APRA's approach to establish a platform for broader application of proportionality within the prudential framework. The prudential framework has increasingly become larger and the requirements more complex and harder to navigate.

APRA Chair Wayne Byres confirms this in his recent remarks to FINSIA:

> "As financial system risks have evolved, the prudential framework has grown. In total, we now have around 150 prudential standards and practice guides, supported by a myriad of information papers, industry letters and FAQs."

We therefore welcome APRA's announcement that it "will be exploring options for embedding further proportionality in the prudential framework. APRA's goal is to minimise burden where possible, without compromising financial safety." A prudential framework that is proportional and minimises the burden

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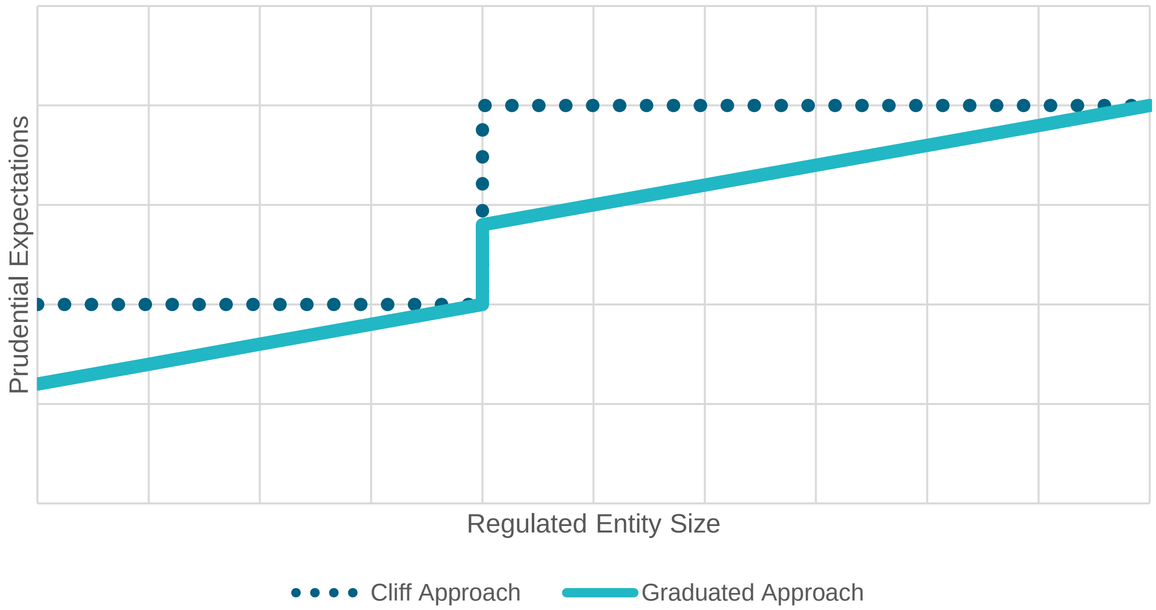
on industry to only necessary costs will promote greater competition and choice for the Australia community that is central to both APRA's and ADIs' purpose.

### Avoiding a proportionality cliff

While COBA welcomes APRA introducing a proportionality platform, APRA must ensure that this is not the only manner through which it minimises regulatory costs on regulated entities. Several COBA members will likely be SFI from 2023. This means that under the prudential framework they will be subject to greater requirements than if they were a non-SFI. While avoiding the 'one size fits all' problem, a rigid approach to the binary SFI requirements can lead to a 'two sizes fits all' issue.

**Diagram 1: Significant Cliff vs Graduated Cliff**




COBA wants to ensure that APRA continues to supervise in a proportionate manner in how entities meet the prudential standards irrespective of whether they are considered to be an SFI or non-SFI. Other entities that cross the SFI threshold could face a significant proportionality 'cliff' (Diagram 1). Existing APRA prudential standards currently use the concept of size, complexity and business model and this should continue. APRA should ensure that it retains flexibility so that smaller and simpler SFIs are not subject to overly onerous requirements designed for very large banks. Table 1 below shows the significant difference in the assets and staff numbers of the largest SFIs (major banks) and the smallest SFIs (largest mutual ADIs).

**Table 1: Average assets and staffing of different ADI groups of future SFIs**

| Description | Major Banks | Largest Mutual ADIs[1] | Mutual ADIs |
|---|---|---|---|
| Type | SFI | SFI | Non-SFI |
| Average Assets ($m) | 912,178 | 23,640 | 2,020 |
| Average Staff (no.) | 37,000 | 1,412 | 119 |

[1] Assuming that the two pending mutual ADI mergers are completed (Heritage Bank with People's Choice and Greater Bank with Newcastle Permanent).

### Clarifying how the proportionality framework decisions work

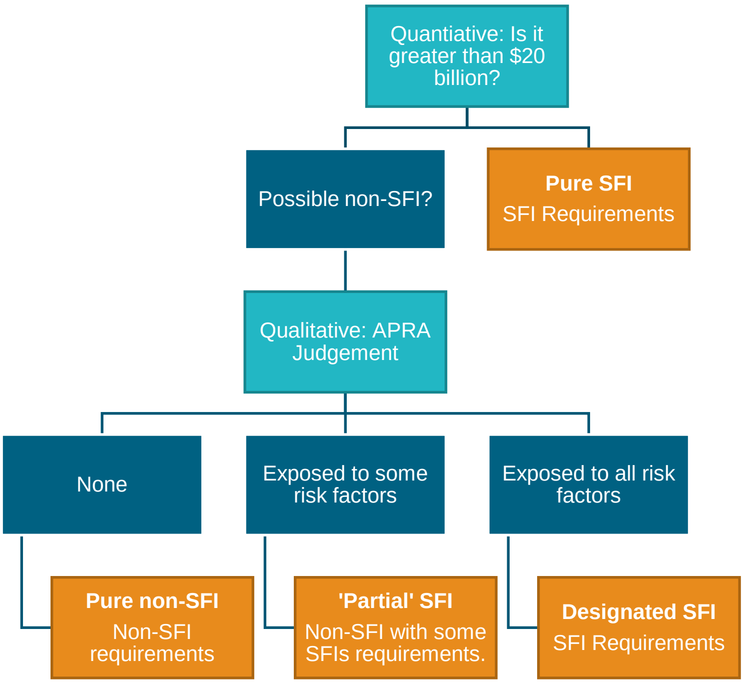
COBA seeks clarity about how APRA's judgments on applying SFI requirements will work. COBA's view is that APRA should err towards targeting requirements rather than designating non-SFIs as full SFIs.

Under Diagram 2, there are broadly four types of entities—those that are unambiguously non-SFIs or SFIs, and those that are quantitatively non-SFIs but have been designated as requiring to meet some SFI requirements or all SFI requirements. APRA's draft standard changes notes that the classification judgment is made as "determined as such by APRA, having regard to matters such as the complexity in its operations or its membership of a group". For the partial opt-in, APRA's letter notes that "APRA would also retain the flexibility, within individual prudential standards, to subject a non-SFI to the SFI requirements of that particular standard, where appropriate."

We seek clarity on how APRA will make the full SFI opt-in and partial SFI opt-in decisions. For example, group membership if taken rigidly may mean that some smaller ADIs that are currently subsidiaries of mutual organisations may be considered to be SFIs.

APRA may also need to consider whether entities are able to opt into the SFI framework partially, or only fully.

**Diagram 2: Decision Tree on ADI status**




If you wish to discuss this submission, please contact Mark Nguyen (mnguyen@coba.asn.au).

Yours sincerely

**MICHAEL LAWRENCE**
**Chief Executive Officer**