



9 December 2020

**TO: ALL AUTHORISED DEPOSIT-TAKING INSTITUTIONS**

**CONSULTATION ON REVISIONS TO THE NEW PRUDENTIAL STANDARD APS 220 CREDIT RISK MANAGEMENT**

In December 2019, APRA finalised the new *Prudential Standard APS 220 Credit Risk Management* (APS 220).<sup>1</sup> The new APS 220 was due to be implemented from 1 January 2021. However, with the onset of COVID-19, APRA delayed implementation by 12 months.<sup>2</sup>

In September 2020, the Government announced a series of proposed reforms to consumer credit laws.<sup>3</sup> Two key elements of the Government's proposed reforms are that:

- authorised deposit-taking institutions (ADIs) would no longer be subject to the Responsible Lending Obligations, which had been administered by the Australian Securities and Investments Commission (ASIC); and
- non-ADI lenders would be subject to new lending requirements, administered by ASIC, based in large part on certain requirements in APRA's new APS 220.

Consistent with the Government's announcement, APRA will continue to regulate ADIs in accordance with existing prudential standards. APRA is not planning material revisions to its credit-related prudential standards or guidance. However, some amendments will be necessary in the event that the Government's proposed credit reforms are passed as legislation.

APRA is commencing a consultation on the new APS 220. This consultation will ensure appropriate alignment with the non-ADI lenders' regime, which has been closely based on certain requirements in the new APS 220. APRA's proposed changes will be contingent on the Government's reforms passing as legislation. In this event, APRA considers it appropriate to make two potential changes:

- **Drafting amendment:** APRA is proposing an amendment to the new APS 220 that would require ADIs to assess an individual borrower's repayment capacity without substantial hardship. This is similar to the Government's proposed requirements of non-ADI lenders. APRA will give effect to this amendment through an addition to paragraph 41 of the new APS 220 (Attachment A). In APRA's view, this amendment is consistent with APRA's existing requirements, and will not impose additional burden on ADIs.

<sup>1</sup> APRA, Response to submissions: APS 220 Credit Risk Management (Response paper, December 2019) <https://www.apra.gov.au/proposed-revisions-to-credit-risk-management-framework-for-authorised-deposit-taking-institutions>

<sup>2</sup> APRA, APRA announces new commencement dates for prudential and reporting standards (Media release, April 2020) <https://www.apra.gov.au/news-and-publications/apra-announces-new-commencement-dates-for-prudential-and-reporting-standards>

<sup>3</sup> Treasury, Consumer Credit Reforms (Consultation, November 2020) <https://treasury.gov.au/consultation/c2020-124502>

- **Timing of implementation:** APRA is proposing to more closely align the implementation date of the new APS 220 with the Government's proposed consumer credit reforms, if this is earlier than 1 January 2022. In APRA's view, an earlier implementation date is unlikely to create material additional regulatory burden for ADIs. Industry has been aware of the details of the new APS 220 since late 2019 and APRA expects most ADIs would already be complying with the new APS 220 requirements. APRA will not implement the new APS 220 any earlier than 1 April 2021.

As noted above, APRA's proposed changes to the new APS 220 will be contingent on the passing of legislation for the Government's proposed consumer credit reforms. If the Government's proposed reforms are not passed as legislation, the changes are unnecessary and APRA will not progress the proposed revisions.

The proposed changes to the new APS 220 will not change APRA's approach to supervising ADI lending practices, or enforcing this prudential standard. APRA's objective in implementing the new APS 220 is to set prudential requirements of ADIs for sound lending practices, which support the financial soundness of ADIs and the stability of the Australian financial system.

APRA is currently consulting on a draft *Reporting Standard ARS 220.0 Credit Risk Management* (ARS 220.0).<sup>4</sup> The proposed changes outlined above will not affect APRA's proposed timelines for ARS 220.0. The proposed first reporting period for ARS 220.0 will remain for the quarter ending 31 March 2022.

APRA anticipates that it will finalise *Prudential Practice Guide APG 220 Credit Risk Management* (APG 220) in the first quarter of 2021. APRA may also consult on amendments to *APG 223 Residential Mortgage Lending* (APG 223) around this time, depending on the outcome of the Government's proposed credit reforms. On the basis of the current proposals, APRA does not expect that revisions to APG 223 would be material.

APRA invites feedback on the revisions to the new APS 220, which will be subject to a public consultation. Written submissions on the proposals should be sent to [ADIpolicy@apra.gov.au](mailto:ADIpolicy@apra.gov.au) by 29 January 2021 and addressed to:

General Manager, Policy Development  
Policy and Advice Division  
Australian Prudential Regulation Authority

Yours sincerely,

John Lonsdale  
Deputy Chair

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<sup>4</sup> APRA, Proposed reporting standard ARS 220.0 Credit Exposures and Provisions (Letter to ADIs, October 2020) <https://www.apra.gov.au/proposed-revisions-to-credit-risk-management-framework-for-authorised-deposit-taking-institutions>

## **ATTACHMENT A: EXTRACTS FROM APS 220**

### **APS 220 Credit Risk Management, existing paragraph 41:**

An ADI must assess credit risk primarily on the strength of a borrower's repayment capacity. The ADI must not place undue reliance on collateral provided by the borrower as a substitute for a comprehensive credit assessment.

### **APS 220 Credit Risk Management, proposed paragraph 41:**

An ADI must assess credit risk primarily on the strength of a borrower's repayment capacity. The ADI must not place undue reliance on collateral provided by the borrower as a substitute for a comprehensive credit assessment. For exposures to individuals, an ADI must assess the individual's capacity to repay credit without substantial hardship.

### **Important disclosure notice – publication of submissions**

All information in submissions will be made available to the public on the APRA website unless a respondent expressly requests that all or part of the submission is to remain in confidence.

Automatically generated confidentiality statements in emails do not suffice for this purpose.

Respondents who would like part of their submission to remain in confidence should provide this information marked as confidential in a separate attachment.

Submissions may be the subject of a request for access made under the Freedom of Information Act 1982 (FOIA).

APRA will determine such requests, if any, in accordance with the provisions of the FOIA. Information in the submission about any APRA-regulated entity that is not in the public domain and that is identified as confidential will be protected by section 56 of the Australian Prudential Regulation Authority Act 1998 and will therefore be exempt from production under the FOIA.