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30 April 2021

General Manager,

Regulatory Affairs and Licensing
Policy and Advice Division
Australian Prudential Regulation Authority

By email: Licensing@apra.gov.au.

Dear Sir/Madam [SEC=OFFICIAL],

Discussion Paper: APRA's approach to new entrant authorised deposit-taking institutions.

Please find attached the B39 Australia Pty Ltd (B39) submission on APRA's revised approach to authorising new entrants to the banking industry. B39 welcomes the opportunity to provide feedback to APRA. B39 is working on a restricted ADI application and has limited its comments to this area. It looks forward to working on participating in this initiative.

Yours faithfully

[redacted]

Director

Revised approach	APRA's Rational	*B39 Response*
APRA's overall approach to new entrants		
APRA adjusts the way it applies its prudential and supervisory framework to new ADIs.	The typical application of the prudential and supervisory framework is not well-suited to the common characteristics of new entrants in some areas. New ADIs will transition to APRA's regular approach once they exhibit common characteristics of an established ADI.	B39 welcomes the APRA revised approach which focusses on sustainability especially for Restricted ADI (RADI) entrants.
APRA's expectations relating to the structure of capital instruments, ownership and legal structure	APRA's experience is that undue complexity and opacity in these matters can lead to significant delays in assessing an application, and may constitute grounds for a refusal	B39 agrees with the revised approach. B39 considers the phased approach to appointment of Board members and senior executives during the RADI phase will assist RADI identifying and appointing the most suitable candidates for both the board and management. B39 agrees that there should not be undue reliance on related parties or that these entities may have a call on the RADI capital. B39 generally agrees with the approach to have transparency in the legal structure, however where there are a credible commercial and risk management reasons

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		for establishing operating subsidiaries this should be permitted.
Detail on eligibility criteria for the Restricted ADI pathway has been removed; eligibility will be determined by APRA on a case-by-case basis.	Experience has shown the eligibility criteria were not needed and this better allows for innovative and idiosyncratic business strategies.	Limiting the restricted ADI pathway to new entrants provides proposed new entrants, such as B39, the opportunity to progress its development of the business and capital raising in a phased manner.
Product Launch		
Restricted ADIs must achieve a limited launch of both an income-generating asset product and a deposit product before being granted an ADI licence. Direct applicants must achieve a limited launch of an income-generating asset product before being granted an ADI licence	Product launch is key to reaching sustainability. An ADI licence is granted to allow applicants to commence banking business. Applicants must demonstrate their operational readiness to do so – a limited launch is the best way of doing this	B39 agrees that it is essential that a RADI be able to launch at least one incoming generating asset product and one deposit product within the first two years.
New ADIs will be expected to achieve a full public launch of income-generating asset products and deposit products shortly after authorisation, and with only a short gap in between	Launching both asset and liability products is key to reaching sustainability. Lop-sided balance sheets can create significant risks.	B39 agrees that launching both asset and liability products reduces risks and is key to reaching sustainability

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Capital Requirements		
For new ADIs APRA will use a 'highest of' three methods in setting ongoing Prudential Capital Requirements (PCR) for new entrants. These are: a $10m minimum; a calculation based on 6 months' operating expenses; and the normal capital requirement calculation as for established ADIs. Capital Conservation Buffer and Countercyclical Capital Buffer will be set in a manner consistent with the method used for setting PCR	Better reflects the idiosyncratic and often fast-changing risk profile of new ADIs, when compared with established ADIs	B39 agrees that an RADI needs to ensure that it has adequate capital during the RADI phase given the cash burn rate while building its income generating products. This approach also provides clarity for investors around the expected rounds of capital raising required to support the business in lead up to the grant of the ADI licence.
For both Restricted ADIs and ADIs, APRA will specify an Initial Capital Amount applicable on the day of authorisation.	This provides certainty to those planning an application and reduces reliance on raising additional capital immediately after the grant of licence in order to continue to meet ongoing PCR.	The revised initial capital of $3 million plus $1 million resolution reserve and 3 months operating cashflow requirements for a new entrant RADI is not unreasonable.
Exit Planning		
More detailed guidance is provided on APRA's expectations regarding exit planning, in particular:	For Restricted ADIs and new ADIs in their early stages, a return of deposits is the strategy most likely to result in a successful activation	B39 agrees with this approach.

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• For Restricted ADIs, the need to focus primarily on a credible return of deposits strategy. • For new ADIs, the need to include a credible return of deposits strategy as one option. •	and execution of the exit plan (if required).	
In advance of granting an ADI licence, APRA will convey to the entity its expectations regarding suitable trigger points for activation of its exit plan.	A range of stakeholders – including the board, executives, shareholders and APRA – benefit from clarity and a common understanding of trigger points.	B39 agrees that a clearly articulated exit plan with identified trigger points assists the business in understanding how sustainable its business plan is and how well it is tracking to the plan.
For new ADIs, APRA may specify some ongoing deposit restrictions.	Improves likelihood of a successful execution of an exit plan, especially a return of deposits strategy.	The limit of $2 million in deposits during the RADI phase is realistic as are some specific deposit restrictions. For new ADIs.
Clarified APRA's general expectation that for Restricted ADIs' deposit customers will be limited to staff, friends and family only.	Improves likelihood of a successful execution of a return of deposits strategy when depositors are known personally to the Restricted ADI.	The restriction of RADI deposit customers to staff, friends and family may limit the ability of the RADI to test its loan products in target markets where the loan customers are drawn from the deposit base. For

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		example, there may not be sufficient numbers in a younger age bracket to test the viability or attractiveness of a loan product, if the cohort of family and friends for deposit products are drawn predominately from an older cohort.
For Restricted ADIs, testing related to the Financial Claims Scheme is to take place after limited launch of deposits, rather than before.	Assurance checks on live data is likely to be more informative than assurance checks on test data.	B39 agrees that testing on live data is more informative.