



04 April 2022

TO: ALL APRA-REGULATED ENTITIES

CONSULTATION ON MINOR AMENDMENTS TO CENTRALISE THE DEFINITION OF A SIGNIFICANT FINANCIAL INSTITUTION

APRA has today commenced consultation on minor amendments to align and centralise the definition of a significant financial institution (SFI) within the prudential framework.

APRA's focus on proportionality

In recent years, APRA has incorporated greater proportionality within the prudential framework by subjecting smaller and less complex entities to simpler requirements. This has been a feature of the recently finalised prudential standards for remuneration and ADI capital, and the proposed draft prudential standards for financial contingency and resolution planning.

Under these prudential standards, entities determined to be SFIs have been subject to higher requirements, compared to those entities that are not SFIs. SFIs are entities with assets above a certain size or entities determined as such by APRA, taking into account matters such as complexity and group membership.

Setting prudential requirements that are not overly complex, relative to what is needed to ensure the financial safety of smaller entities, is an important priority for APRA. By minimising complexity for smaller entities, APRA can reduce potential adverse impacts for costs, financial resilience and competition.

Further embedding measures

APRA is consulting on minor changes to certain prudential standards, which would simplify and streamline the existing approach to determining an APRA-regulated entity as an SFI. The proposed approach would:

- ensure **consistency** in application, with the definition of an SFI aligned across prudential standards;
- create **efficiencies**, as entities would only need to be determined as an SFI once; and
- establish a **platform** for broader application of proportionality within the prudential framework over the longer-term.

Under the proposed approach, all prudential standards would use the same definition of an SFI. Centralising the definition of an SFI would not result in any changes to the quantitative criteria (asset thresholds) that have been used to determine SFIs in existing prudential standards, but it would lead to some small changes to the qualitative criteria, as outlined below.

Aligned definition

Significant financial institution means an APRA-regulated entity that is either:

- a) not a foreign ADI, a Category C insurer or an EFLIC, and has total assets in excess of:
 - (i) AUD \$20 billion in the case of an ADI;
 - (ii) AUD \$10 billion in the case of a general insurer or life company;
 - (iii) AUD \$3 billion in the case of a private health insurer; or
 - (iv) AUD \$30 billion in the case of a single RSE operated by an RSE licensee, or if the RSE licensee operates more than one RSE where the combined total assets of all RSEs exceeds this amount; or
- b) determined as such by APRA, having regard to matters such as the complexity in its operations or its membership of a group.

This aligned definition would be located in the central definitions prudential standards for banking and insurance, as listed below and set out in Attachment A. For superannuation, SFIs would be defined in each prudential standard that uses the concept. 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.

Industry	Prudential Standard
ADI	<i>APS 001 Definitions</i>
General insurance	<i>GPS 001 Definitions</i>
Life insurance	<i>LPS 001 Definitions</i>
Private health insurance	<i>HPS 001 Definitions</i>
Superannuation	Relevant prudential standards

Prudential standards which differentiate requirements for SFIs and non-SFIs would then be edited to reference this common definition. Amendments would be made to: *Prudential Standards CPS 511 Remuneration*, *APS 110 Capital Adequacy*, *APS 112 Capital Adequacy: Standardised Approach to Credit Risk* and *APS 115 Capital Adequacy: Standardised Measurement Approach to Operational Risk* (see Attachment A).¹

APRA does not expect the proposed changes to qualitative criteria to materially alter the intended application of the SFI regime. The main impact relates to foreign-owned ADIs. Under APS 110, APRA had classified all foreign-owned ADIs as SFIs for capital adequacy purposes. The proposed revisions under the aligned definition would mean that only large or complex foreign-owned ADIs would be SFIs, including for capital adequacy purposes. APRA supervisors are engaging with ADIs directly impacted by these revisions.

Following finalisation of the proposed amendments, APRA plans to make public the list of SFIs for all industries. Consistent with APRA's focus on transparency, it is important that

¹ *Prudential Standards CPS 190 Financial Contingency Planning* and *CPS 900 Resolution Planning* also differentiate requirements for SFIs and non-SFIs. APRA will ensure appropriate alignment with the central SFI definition when finalising these standards. Draft *Prudential Practice Guide APG 110 Capital Adequacy* will also be aligned with the proposed edits to APS 110.

stakeholders are aware of the differences in prudential requirements across APRA-regulated entities.

Longer-term focus

Modernising the prudential architecture is a key strategic priority for APRA over the coming years.² APRA's objective is to make the prudential standards and guidance more accessible for industry, more adaptable to cater to new risks and new entrants, and better aligned to the needs of the users. Proportionality is one initiative that supports these objectives.

Later this year, APRA 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. APRA will engage closely and consult with industry as this initiative progresses.

Next steps

APRA invites feedback on the draft amendments and the proposal to publish a list of SFIs on the APRA website. This will be subject to a one-month public consultation. Written submissions on the proposals should be sent to policydevelopment@apra.gov.au by 2 May 2022 and addressed to the General Manager, Policy Development, Policy and Advice Division, APRA.

APRA will finalise its response and incorporate the amendments into the relevant prudential standards as soon as practicable after the consultation period.

Yours sincerely,

Renée Roberts
Executive Director, Policy and Advice Division

² For further information on this strategic priority, refer to [Information Paper - APRA's Policy Priorities February 2022](#).

ATTACHMENT A: PROPOSED AMENDMENTS

Centralised SFI and non-SFI definitions

This section sets out the SFI and non-SFI definitions for each industry. Specific amendments to the definitions standards for banking and insurance have been released alongside this consultation letter.

Banking: *Prudential Standard APS 001 Definitions*

Significant financial institution (SFI) means an ADI or authorised NOHC that is either:

- (a) not a foreign ADI and has total assets in excess of AUD \$20 billion; or
- (b) determined as such by APRA, having regard to matters such as complexity in its operations or its membership of a group.

Non-significant financial institution (non-SFI) means an ADI or authorised NOHC that is not a significant financial institution.

General insurance: *Prudential Standard GPS 001 Definitions*

Significant financial institution (SFI) means an insurer, authorised NOHC or a parent entity of a Level 2 insurance group that is either:

- (a) not a Category C insurer and has total assets in excess of AUD \$10 billion; or
- (b) determined as such by APRA, having regard to matters such as complexity in its operations or its membership of a group.

Non-significant financial institution (non-SFI) means an insurer, authorised NOHC or a parent entity of a Level 2 insurance group that is not a significant financial institution.

Life insurance: *Prudential Standard LPS 001 Definitions*

Significant financial institution (SFI) means a life company or registered NOHC that is either:

- (a) not an Eligible Foreign Life Insurance Company and has total assets in excess of AUD \$10 billion; or
- (b) determined as such by APRA, having regard to matters such as complexity in its operations or its membership of a group.

Non-significant financial institution (non-SFI) means a life company or registered NOHC that is not a significant financial institution.

Private health insurance: *Prudential Standard HPS 001 Definitions*

Significant financial institution (SFI) means a private health insurer that either:

- (a) has total assets in excess of AUD \$3 billion; or
- (b) determined as such by APRA, having regard to matters such as complexity in its operations or its membership of a group.

Non-significant financial institution (non-SFI) means a private health insurer that is not a significant financial institution.

Superannuation: for inclusion in prudential standards that use the SFI concept

Significant financial institution (SFI) means an RSE licensee that either:

- (a) has total assets in excess of AUD \$30 billion in the case of a single RSE operated by an RSE licensee, or if the RSE licensee operates more than one RSE where the combined total assets of all RSEs exceeds this amount; or
- (b) is determined as such by APRA, having regard to matters such as complexity in its operations or its membership of a group.

Non-significant financial institution (non-SFI) means an RSE licensee that is not a significant financial institution.

Consequential amendments to relevant prudential standards

Proposed amendments to prudential standards that currently use the SFI concept have been released alongside this consultation letter. These amendments largely focus on referencing the centralised SFI and non-SFI definitions set out above.

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.