



20 July 2022

TO: ALL APRA-REGULATED ENTITIES

MINOR AMENDMENTS TO CENTRALISE THE DEFINITION OF A SIGNIFICANT FINANCIAL INSTITUTION

This letter sets out APRA's response to feedback received on proposed changes to the definition of a significant financial institution (SFI). Draft proposals were released for consultation in April 2022.¹

Centralising the definition of an SFI provides a platform for the broader application of proportionality within the prudential framework. APRA plans to use the centralised definition of an SFI, where appropriate, to differentiate prudential requirements between large and small entities.

Consultation feedback

Submissions to the consultation supported APRA's objectives to align and centralise the definition of an SFI within prudential standards.² APRA is therefore finalising the proposed amendments without revision. Feedback primarily focused on areas of clarification, which are summarised below.

SFI definition

Several submissions requested further guidance on the SFI criteria. Under the centralised SFI definition provided at Attachment A, an entity would be an SFI if its balance sheet exceeds the industry asset thresholds or if APRA determines it as such, having regard to matters such as complexity in operations and group membership. Complexity could be reflected in a number of aspects, such as the way an entity is structured, the products it offers or the markets it operates in.

Respondents also sought further information on the industry asset thresholds, including how these would be maintained over time. APRA has based the SFI quantitative criteria on total assets, which provides a simple and transparent measure of size. Most non-SFIs have significant scope for growth while remaining below the threshold. However, prudent entities should engage with supervisors early, ahead of potentially crossing the asset thresholds, to ensure a smooth transition to the SFI requirements. APRA intends to review the appropriateness of the threshold levels periodically.

Some non-SFIs also questioned whether they could 'opt-in' to the SFI regime. There may be some instances where a non-SFI would prefer to be held to the higher SFI requirements; for

¹ [Consultation on minor amendments to centralise the definition of a significant financial institution | APRA](#)

² APRA received five submissions to the consultation. Non-confidential submissions have been published on APRA's website.

example, non-SFIs with strong growth aspirations may find it more convenient to commence on SFI requirements. These entities should engage with supervisors on a case-by-case basis.

Alignment with supervision

APRA's risk-based approach to supervision means that large or complex entities are also held to a higher baseline level of supervisory intensity. The Supervision Risk and Intensity (SRI) model is APRA's tool for directing its supervisory resources and focus to larger or more complex entities.

Respondents highlighted some differences in the way APRA classifies entities for SFI and SRI purposes. APRA's objective is that the SFI and SRI regimes are mutually reinforcing. Entities that are held to higher prudential requirements should also be subject to higher baseline supervision. APRA is exploring opportunities to better align SFI and SRI determination criteria over the longer-term, to reduce potential inefficiencies.

Longer-term direction

More broadly, submissions supported APRA's longer-term objective to incorporate greater proportionality within the prudential framework. APRA has recently used the SFI definitions in simplifying requirements for smaller and less complex entities in prudential standards for remuneration and ADI capital adequacy, and in draft prudential standards for financial contingency and resolution planning. APRA will continue to explore the scope for enhancing proportionality in the prudential framework.

Next steps

The finalised amendments to prudential standards have been published alongside this letter. A list of SFIs for all industries will be published on the APRA website later this year.

Yours sincerely,

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ATTACHMENT A: CENTRALISED SFI 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.