

12 August 2025

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Federal Member for Rankin
Treasurer
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House of Representatives
Parliament House
Canberra ACT 2600

Senator the Hon Katy Gallagher
Minister for Finance
PO Box 6100
Senate
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John Lonsdale, Chair

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Dear Treasurer and Minister

Thank you for the opportunity to participate in last week's investor roundtable. The roundtable generated a range of ideas for supporting Australia's productivity and was a constructive engagement for APRA.

This letter sets out the actions we will take in response to issues raised during the roundtable, building on my letter of 31 July 2025. Collectively, these actions will enable us to promote the safety and stability of the financial system in a balanced and efficient way. We have outlined specific actions that we will take within clear timeframes – none of these require additional funding or resources. We have also made some suggestions for legislative change where we administer programs on behalf of Government.

Comments from participants at the roundtable reinforced the importance of a strong and stable financial system for long-run productivity. Confidence in the Australian financial sector remains critical to attracting the capital that households and businesses need to grow and invest, as well as guarding against a build-up of systemic vulnerabilities in the Australian system.

During the discussion, participants generally agreed that Australia's prudential regulatory settings are broadly fit for purpose. They also highlighted certain areas where they thought regulatory frameworks could be improved to support productivity. In your closing remarks you summarised nine actions, directing two at APRA. Our response is set out below.

- **Proportionality.** Later this year, we will consult on a proposal to introduce a third tier into our proportionality framework for banks. We have also started to engage with Treasury on the design of a possible fourth tier, which would further reduce prudential requirements of very small banks.¹ You have asked industry for feedback on this. We will continue to work with Treasury on necessary safeguards for a fourth tier, including improvements to the Financial Claims Scheme and considering refinements to liquidity support arrangements.
- **Data reporting.** At the roundtable, I asked for feedback on areas where industry considers there to be unnecessary burden from reporting, such as from duplication or inconsistencies. We are currently following up with participants who raised this as an issue. Over coming months, we will engage with a broader population of entities to identify possible additional options for reducing burden. The Assistant Treasurer also noted that the Regulatory Initiatives Grid could be expanded to include data collections. We will engage with Treasury on this.

Treasurer, you mentioned several actions at the roundtable that will require collaboration across multiple stakeholders, including:

¹ This would apply to very small banks. A \$2 billion asset threshold would capture a significant population of banks with simple business models and risk profiles (55 out of 134 APRA licensed banks).

- **Statement of expectations.** You suggested that you would consider a stronger focus on productivity in regulators' statements of expectations. In 2023, you updated APRA's statement of expectations, setting a clearer focus for APRA on proportionality, minimising regulatory burden and supporting sustainable economic growth. We have taken these expectations seriously. As set out in my previous letter, we have made several changes to our framework in recent years to reduce burden and improve proportionality; over the next 12 months, we will implement additional actions to further support productivity and innovation.
- **Review of small and medium-sized banks.** We are progressing the actions we have committed to as a matter of priority. We are already consulting on proposed changes to our licensing framework, which would reduce the time taken to process new bank applications by around half. To provide industry with sufficient opportunity to consider our proposed changes, we will engage with our peers through the Regulatory Initiatives Grid to ensure appropriate staging. Our planned timings for each measure are set out below.

Figure 1: APRA's actions from the Council of Financial Regulator's review into small and medium banks

Action	Timing
Simplifying APRA's licensing framework (action 6)	September quarter 2025 – public consultation already underway. Submissions are due by 31 October 2025.
Providing greater clarity on APRA's supervisory expectations for bank capital adjustments (action 3)	September quarter 2025 – phased implementation to commence
Introducing further proportionality (three tiers) (action 1)	December quarter 2025 – planned public consultation
Promoting access to internal capital modelling (action 2)	December quarter 2025 – planned public consultation
Considering the treatment of covered bonds as High-Quality Liquid Assets and whether total encumbrance limits should be introduced (action 8)	June half 2026 – planned public consultation
Reviewing regulatory reporting requirements (action 5)	September quarter 2025 – further engagement with industry
The Government should consider its openness to APRA taking a lighter-touch approach to the regulation of very small banks (recommendation 9)	APRA is working with Treasury

- **Performance Test.** In my letter of 31 July, I noted our plans to look more closely at certain legislation that APRA administers on behalf of Government. During our discussion at the roundtable, I raised the Performance Test as an example. Our view is that we need to remain open to different ways of achieving value for members to ensure we best balance the costs and benefits. While the Performance Test has had a significant positive impact from fee savings to members, some stakeholders raised potential concerns about the possible impact of the test on productivity.² You indicated that you would be considering this further – we are engaging with Treasury on possible options to enhance the Performance Test.

My recent letter also noted our work that we are doing to address overlap between reporting obligations that apply to entities under APRA's fitness and propriety standards and statutory requirements under the Financial Accountability Regime (FAR). My letter further indicated that there could be additional options for reducing the administrative burden of the FAR, whilst preserving the integrity of the substantive accountability provisions. We are engaging with Treasury and the Australian Securities and Investments Commission on this.

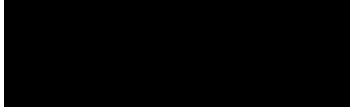
Finally, at the roundtable I mentioned an opportunity for a less time-consuming and resource-intensive approach to enforcement. Our powers to seek penalties for wrongdoing are an important tool in our toolkit. However, there are cases where the time and resource burden on the party being investigated is disproportionate, such as where court action is the only option. For offences of an administrative nature and where regulatory findings are agreed to, it would be more efficient for APRA to issue a sanction, as is the case for APRA's overseas peers. Over coming

² The number of members in underperforming funds has fallen from around 1 million in 2021 to around 20,000 this year. The fee savings to members have been material – estimated at upwards of \$100 million. [The super performance test is performing - Grattan Institute](#)

months, we will examine this further and provide Treasury with suggested options for streamlining enforcement actions, such as extending existing infringement notice provisions.

We look forward to continuing to work with Government in support of improving productivity. I am, of course, happy to elaborate and discuss further.

Yours sincerely

A black rectangular box redacting the signature of John Lonsdale.

John Lonsdale