



Draft Licensing Guidelines

Locally-incorporated Authorised Deposit-taking Institutions

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About this guide

The Australian Prudential Regulation Authority's (APRA) Licensing Guidelines (Guidelines) for locally incorporated Authorised Deposit-taking Institutions (ADIs) aim to assist applicants to demonstrate how they meet APRA's ADI Licensing Criteria (Criteria) and, more generally, to outline prudent practices for new entrant ADIs undertaking banking business.¹ The Guidelines should be read in conjunction with the Criteria.

While the Guidelines frequently discuss legal requirements from legislation, regulations or APRA's prudential standards, the Guidelines do not form part of the law, create enforceable requirements or contain legal advice. The Guidelines are provided for information and guidance purposes only.

Applicants are encouraged to obtain professional advice about the application of any legislation or legislative instrument to their particular circumstances. Users should exercise their own skill and care when relying on any material contained in this guidance.

The Criteria sets out the minimum requirements for an applicant seeking a licence to become a locally-incorporated ADI. However, APRA recognises that not all banking business models are the same. APRA therefore encourages applicants to leverage the guidance in the Guidelines to the extent that is relevant to their individual licensing applications, so that applicants can meet the minimum requirements consistent with their strategy, business mix, risk profile, size and complexity. Not all guidance provided by the Guidelines would be appropriate for all individual applicants.

This document is structured to provide guidance mapped to each licensing criteria. Paragraphs from the Criteria, which are legislative criteria, have been set out in blue boxes like this. The accompanying guidance follows below, outside the blue boxes.

¹ The licensing criteria and licensing guidance referred to in this document are for locally incorporated ADIs. Entities seeking a licence to operate a foreign ADI branch in Australia are subject to a different set of licensing criteria available on APRA's website.

Glossary

ADI	Authorised deposit-taking institution within the meaning given in section 5 of the Banking Act.
ADI licence	Authorisation under section 9 of the Banking Act to conduct banking business, with or without conditions.
APRA	Australian Prudential Regulation Authority
Banking Act	<i>Banking Act 1959</i>
Banking business	Banking business is defined in section 5 of the Banking Act.
FAR Act	<i>Financial Accountability Regime Act 2023</i>
FSSA	<i>Financial Sector (Shareholdings) Act 1998</i>
Licence	In this guide refers to the authorisation of an ADI.
Licensed	In this guide refers to an entity that is authorised as an ADI.
Licensing	Licensing refers to the process by which APRA grants a licence to an institution.
Prudential framework	Prudential framework refers to the legislation, including prudential standards and associated guidance material, which applies to the prudential regulation of ADIs.
Prudential requirements	Includes requirements imposed by the Banking Act, prudential standards made under the Banking Act, reporting standards made under the <i>Financial Sector (Collection of Data) Act 2001</i> , conditions on an ADI, and any other requirements imposed by APRA in writing.

Introduction

- 1) The Criteria comprises both broad and targeted outcomes, set out in a legislative instrument. Applicants seeking an ADI licence must evidence these outcomes by meeting the Criteria. The legislative instrument containing the Criteria can be accessed on the Federal Register of Legislation.²
- 2) The Guidelines are structured consistently with the Criteria, with each chapter focusing on one of the licensing outcomes.
 - a) **Chapter 1: Ability to be supervised** – Applicants must demonstrate that they are structured and operate in a manner that APRA can effectively supervise.
 - b) **Chapter 2: Financial and non-financial resources** – Applicants must have sufficient financial and non-financial resources to prudently conduct banking business.
 - c) **Chapter 3: Skills and experience** – Applicants must demonstrate that they have suitable skills and experience to prudently conduct banking business.
 - d) **Chapter 4: Risk management framework** – Applicants must have a risk management framework to prudently conduct banking business.
 - e) **Chapter 5: Responding to stress events** – Applicants must have credible plans for effectively responding to a stress event that threatens their viability.
- 3) Applicants must demonstrate that they meet the Criteria before authorisation. Following authorisation, APRA expects all regulated entities to be compliant with the prudential framework. An overview of the prudential framework is provided below, with the full prudential framework available on APRA's website.

Prudential framework



* Financial Resilience for ADIs and insurers; Business Operations for RSE licensees

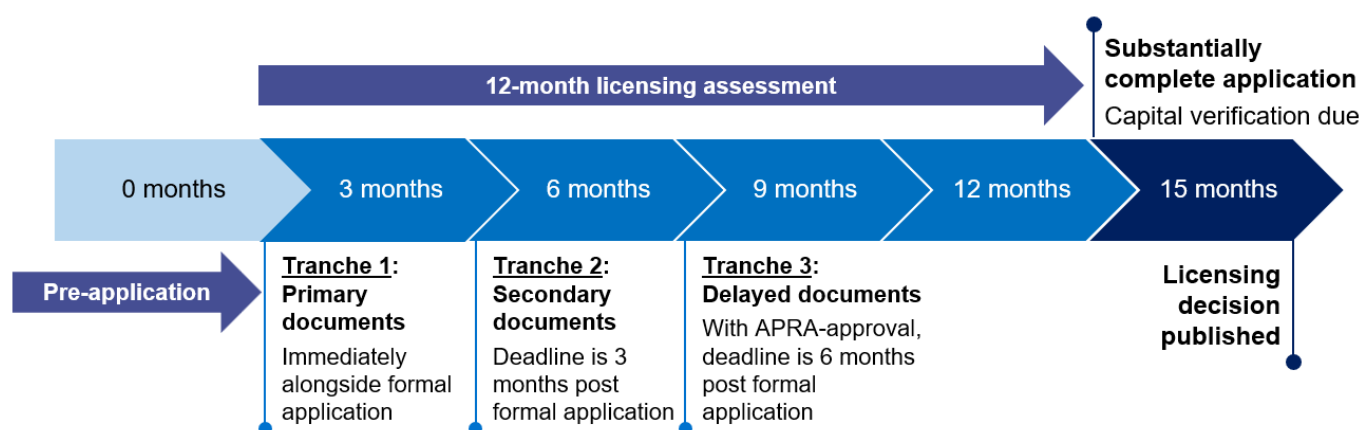
^ Access reporting standards and guidance from [apra.gov.au](https://www.apra.gov.au)

² Refer to: <https://www.legislation.gov.au/>.

Required documentation

- 4) Applicants are required to submit documentation to APRA as part of their application to demonstrate that they meet the Criteria. APRA expects all documentation to be submitted within the first three months of submitting an application, unless the applicant has received APRA approval to delay submission.
- 5) Documents should be submitted to APRA in tranches:
 - a) **Tranche 1: Primary documents** – Tranche 1 includes the primary documents that are submitted immediately alongside an application. These include the most important documents that support a licensing application. Submitting these documents alongside an application best ensures applicants can meet the 12-month licensing assessment timeline.
 - b) **Tranche 2: Secondary documents** – To reduce the initial submission burden, APRA allows applicants to submit a set of secondary, supporting documents within the first three months of the licensing assessment process. Tranche 2 documents should be submitted in batches rather than individually. For example, when submitting information regarding specific risk classes (i.e. credit risk), all of the documents for the risk class should be submitted together to allow for simultaneous review.
 - c) **Tranche 3: Delayed documents** – In circumstances where lodging specific documents is not feasible in the first three months of the licensing assessment process, with APRA's approval, applicants may submit a limited number of additional documents within the first six months of the licensing assessment process.
- 6) The timing of the three tranches of required documentation is summarised in the below figure.

Figure 1. Document submission tranches



- 7) These Guidelines include the required documentation for each licensing criteria at the end of each chapter. A full list of required documentation for an ADI licence application is also available on APRA's website.

Chapter 1 – Ability to be supervised

- 8) ADIs must be able to be effectively supervised to ensure they remain financially resilient. This supports the broader safety and stability of the Australian financial system, protects depositors, and ensures that the Australian community has confidence that ADIs will meet their financial commitments under all reasonable circumstances.
- 9) APRA expects applicants to engage with APRA in an open and transparent manner that facilitates effective supervision. Applicants must disclose their ownership and control arrangements, including any relationships with other individuals or institutions.

2. A body corporate which applies for authority to carry on banking business in Australia as a locally-incorporated ADI must demonstrate that it:

(a) is structured and operates in a manner that APRA can effectively supervise. At a minimum, this would include:

2(a)(i) dealing with APRA in an open, constructive and cooperative way;

- 10) Applicants are expected to demonstrate that they can deal with APRA in an open, constructive and cooperative way to show they can be supervised. This requires close and consistent communication between the applicant and APRA. Inability or unwillingness to engage in an open, constructive and cooperative way demonstrates that an applicant is unable to be effectively supervised. This restricts APRA from performing its statutory role and demonstrates inability to meet the Criteria.
- 11) Inability to deal with APRA in an open, constructive and cooperative way also suggests the applicant does not comply with accountable person and accountable entity obligations under the FAR Act. One of those obligations is for the applicant to take reasonable steps to deal with APRA in an open, constructive and cooperative way.

2(a)(ii) providing complete and accurate information to APRA within specified timeframes;

- 12) APRA expects that a formal licensing application includes a complete and accurate set of required documentation. Incomplete or inaccurate submissions that require multiple follow up requests from APRA suggests that an applicant is not capable of being supervised. Additionally, it increases the likelihood that the applicant will not be able to meet the Criteria during the 12-month licensing assessment timeline, meaning the application may be refused.
- 13) Applicants are expected to respond to APRA's requests in a timely manner, including where APRA requests further information or documentation to supplement an application. This demonstrates the applicant's willingness and ability to be supervised effectively.
- 14) Persistently providing unclear and/or ambiguous submissions or responses to APRA's requests is further evidence an applicant cannot be effectively supervised.

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- 15) Where an applicant uncovers an error in a submission, the applicant is expected to notify APRA of this error and remedy the submission as soon as possible. Failure to notify APRA and remedy the error in a timely manner would also suggest the applicant does not comply with accountable person and accountable entity obligations under the FAR Act. One of those obligations is for the applicant to take reasonable steps to conduct its business with honesty and integrity, and with due skill, care and diligence.

2(a)(iii) reasonable assurance that the granting of the authority would not result in a breach of the Financial Sector (Shareholdings) Act 1998 by any person;

- 16) APRA expects an applicant to demonstrate that its owners and other persons with controlling interest will not be in breach of the FSSA. Applicants should provide evidence of clear ownership structures and (as necessary) facilitate all relevant persons to seek the prior approval under the FSSA.

2(a)(iv) a corporate group structure that does not hinder APRA's ability to exercise its powers and functions; and

- 17) Applicants are expected to demonstrate that their corporate group structure does not hinder APRA's ability to exercise its powers and functions by providing APRA with clear group organisational structure charts. These charts should detail intra-group organisational arrangements, Board and Board committee memberships, senior executives and reporting lines.
- 18) Overly complex or opaque corporate group structures that hinder APRA's ability to perform its role as a prudential regulator will not meet this Criteria. This includes corporate group structures that impede APRA from exercising its powers, limit APRA's visibility of key business activities, create unfair competitive advantages, or, if required, prevent APRA from resolving the entity.
- 19) Corporate structures that are overly complex or opaque may require the parent entity of the applicant to become or establish an authorised Non-Operating Holding Company (NOHC) within the meaning of the Banking Act to enable APRA to adequately supervise the applicant.

Document checklist: Ability to be supervised

#	Document	Tranche
1	Certificate of incorporation	First
2	Address of registered office and operational offices	First
3	Certified copy of the document by which the company is constituted	First
4	Group Structure Chart including: <ul style="list-style-type: none"> • Full name of entity or individual shareholder (including, if an entity, its legal status) • Country of incorporation (for entities) or origin (for individuals) • Percentage of shares or voting rights held in applicant and its parent • Nature of relationship between applicant and associate (i.e. investor/founder etc. and the influence they will have on the applicant) • Details of any previous bankruptcy and criminal proceedings that the shareholders/associates have been subject to • Source of shareholder funds and provide evidence of any probity/AML/sanctions checks conducted on the shareholder (NB credit reports should not be provided to APRA) • Where applicant is owned by large number of minority shareholders or members, list of the 20 largest shareholders or members • Where applicant is a part of a group, list all subsidiaries and related companies of the applicant and parent (including dormant) indicating: <ul style="list-style-type: none"> – where subsidiaries/related companies are regulated, the name of the regulator and nature of business regulated; and – where there are interlinkages and outsourcing arrangements between the applicant and subsidiaries/related companies 	First
5	Latest accounts for any substantial shareholder that is a body corporate, partnership or trust	First
6	FSSA application (if applicable)	First
7	Annual statutory accounts for applicant and relevant related firms i.e. holding company (if applicable)	First
8	Overview of how the applicant will meet its obligations under the FAR Act	Second
9	An overview of the key functions identified and a description of key responsibilities for each accountable person under the FAR Act	Second

Chapter 2 – Sufficient resources

- 20) Banking business is resource intensive. Applicants must be able to demonstrate they have sufficient financial and non-financial resources to undertake banking business, both at the point of licensing and into the future as their businesses grow.
- 21) The two most significant categories of financial resources that APRA considers during the licensing process and following authorisation are:
- Capital** – capital is a financial resource used to fund growth, or in a regulatory context, the measure of an ADI's financial cushion available to the ADI to absorb any unexpected losses it experiences in running its business.³ Applicants are required to maintain a minimum level of capital at the time of licensing, and have credible plans to maintain their prudential capital requirement post-authorisation.
 - Liquidity** – the liquid assets available to an ADI to meet its liquidity needs and customer demand. Applicants will need to demonstrate that they have robust liquidity risk management frameworks. Following authorisation, ADIs are required to hold a minimum level of liquid assets according to APRA's prudential standards.
- 22) One of the most critical non-financial resources for an ADI is its technology resources. Technology provides critical business and operational services to a banking business. Before taking deposits, ADIs must demonstrate that they can sufficiently maintain IT systems to effectively safeguard, recover and manage critical business operations. APRA would expect Operational Risk Management and Information Security processes and practices to be in place to facilitate an adequate technology resilience posture.

2. A body corporate which applies for authority to carry on banking business in Australia as a locally-incorporated ADI must demonstrate that it:

(b) has sufficient financial and non-financial resources to prudently conduct banking business. At a minimum, this would include:

2(b)(i) a Common Equity Tier 1 Capital amount equal to the greater of:

(A) \$15 million; or

(B) the body corporate's forecast operational expenditure for the following nine months;

- 23) APRA expects applicants to be open and cooperative when discussing their capital. This includes providing APRA clear and accurate documentation on their capital and their forecast operational expenditure. Applicants should not mislead or be ambiguous about the type or level of capital.
- 24) Applicants should ensure that their capital instruments meet APRA's requirements for inclusion as regulatory capital. APRA expects applicants to submit a self-assessment against APRA's prudential requirements for

³ Further information on regulatory capital and APRA's capital requirements is provided in this APRA explains article: <https://www.apra.gov.au/apra-explains-capital>.

measuring capital, as well as copies of their constitution and any shareholder agreements or other documents associated with the issuance of the applicant's capital instruments.

- 25) Prudent practice is for applicants to adopt simple share structures consisting of only one class of share that is fully subordinated to all other capital and debt, has full voting rights, and has equal rights across all shares with respect to dividends and rights in liquidation.
- 26) APRA expects applicants not to include features that may be ineffective (or less effective) in absorbing losses in their capital instruments or include complex share structures where the same prudential objective can be achieved with a simpler structure. Complex features and structures may complicate the prudential assessment and may also undermine loss-absorbing properties of capital instruments.
- 27) APRA expects applicants to provide written verification from their appointed external auditor that it meets the minimum regulatory capital level required prior to licensing. This verification is expected as soon as practicable following APRA informing an applicant that its application is substantially complete.

2(b)(ii) credible plans for at least the next 24 months following authorisation that demonstrate how the body corporate will maintain Common Equity Tier 1 Capital equal to the greater of:

(A) \$10 million;

(B) the body corporate's forecast operational expenditure for the following six months, recalculated quarterly; or

(C) the percentage, as determined by APRA, of Risk-Weighted Assets calculated in accordance with Prudential Standard APS 110 Capital Adequacy;

including under stress scenarios;

- 28) The minimum capital requirement post-authorisation will be set by APRA considering the applicant's strategy, business mix, risk profile, size and complexity. However, it is critical through the licensing process that applicants can demonstrate they have credible plans to manage their capital positions post-authorisation.
- 29) The process of transitioning to the capital requirements set by APRA will differ between types of entities, with the two most likely approaches being:
 - a) **Startup new entrants** – new entrant ADIs that have transitioned from smaller, startup companies and do not have a mature loan portfolio will unlikely have enough risk-weighted assets to be subject to the capital requirement set out in APRA's prudential framework. Instead, APRA will set their capital requirement individually by reference to either a monetary value or a forecast of the ADI's operational expenditure.
 - b) **Established new entrants** – more established new entrant ADIs (for example, a non-bank with a mature loan portfolio) may have enough risk-weighted assets to calculate their capital positions under APRA's prudential framework following the licensing process.
- 30) To ensure applicants maintain adequate levels of capital following authorisation, APRA requires applicants to develop credible plans for at least the next 24 months following authorisation. These plans must demonstrate how the applicant will maintain Common Equity Tier 1 Capital at a level equal to or greater than the highest of:

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- a) \$10 million;
 - b) the applicant's forecasted operational expenditure for the following six months, recalculated quarterly; or
 - c) the applicant's prudential capital requirement, as determined by APRA.
- 31) While applicants must have at least \$15 million in Common Equity Tier 1 Capital at the time of licensing, APRA expects applicants to develop credible plans to maintain at least \$10 million in the following 24 months post-licensing, where this amount is greater than the applicant's forecasted operational expenditure or applicable prudential capital requirement under APRA's prudential framework. This approach ensures that newly licensed ADIs have sufficient flexibility to expend capital during the critical post-licensing period without breaching minimum capital adequacy requirements. Larger, more established new entrant ADIs are unlikely to be subject to the minimum monetary value capital requirement, as APRA would expect such entities to hold higher levels of capital.
- 32) APRA expects applicants to hold sufficient levels of capital to support their growth following authorisation. For example, if an applicant plans to grow quickly post-authorisation, APRA will expect the applicant to have sufficient capital to support this growth. This means the applicant may be required to maintain capital beyond the minimum requirements.
- 33) Growing a bank too quickly risks expending capital more quickly than forecasted, leading to a breach of prudential capital requirements. APRA expects applicants to grow prudently post-licensing to ensure they maintain required minimum levels of capital.
- 34) Applicants should develop and submit an Internal Capital Adequacy Assessment Process (ICAAP) as part of their licensing application to demonstrate adequate capital management planning and oversight. The ICAAP is a Board approved internal document that details an ADI's strategy in holding adequate levels of regulatory capital to undertake banking business consistent with its business plan. APRA expects credible plans for maintaining adequate levels of capital are detailed within the applicant's ICAAP. This includes its strategy in navigating potential stress events that may occur during this period and how these stress events impact the body corporate's forecast operational expenditure.
- 35) Applicants should tailor stress scenarios and sensitivity analyses, so they are suitable to their risk profile and business plans. For example, applicants that expect to offer residential mortgages may develop stress scenarios and undertake sensitivity analysis relating to changes in the unemployment rate, house prices, gross domestic product growth rate, and changes to monetary policy.

2(b)(iii) liquid assets that meet minimum requirements under Prudential Standard APS 210 Liquidity;

- 36) APRA will likely determine a new entrant ADI as a Minimum Liquidity Holdings (MLH) ADI. APRA therefore expects applicants to demonstrate compliance with the MLH requirements set out in APRA's prudential framework. This includes both quantitative and qualitative requirements.
- a) **Quantitative requirements** – MLH ADIs are required to maintain a percentage of their liabilities in specified eligible liquid assets. While the requirement for MLH ADIs under the prudential framework is 9 per cent, APRA typically sets a higher requirement for new entrant ADIs given the different risk profile compared to established incumbents. APRA will engage applicants throughout the licensing process to determine their tailored MLH requirement following authorisation.

- b) **Qualitative requirements** – in addition to maintaining appropriate levels of liquid assets, applicants are also required to demonstrate to APRA that they have robust liquidity risk management frameworks. Applicants are expected to develop and provide to APRA their Board-approved liquidity risk management framework, which, at a minimum, contains:
- i) **Liquidity risk appetite statement** – defines the level of liquidity risk that the ADI is willing to assume;
 - ii) **Liquidity management strategy and policy** – sets out the applicant’s strategy to managing its liquidity risk, consistent with its liquidity risk appetite statement;
 - iii) **Operating standards** – policies, procedures and controls for identifying, measuring, monitoring and controlling its liquidity risk in accordance with its liquidity risk appetite statement;
 - iv) **Funding strategy** – an overview of the applicant’s funding strategy post-authorisation over the next three years, with a specific focus on the first 18 months. Typically includes both qualitative and quantitative items, key outcomes and the strategies that will be used to achieve the outcomes; and
 - v) **Contingent funding plan** – sets out the applicant’s strategies for addressing liquidity shortfalls in emergency situations.

2(b)(iv) credible plans that demonstrate how it will maintain, in the three years following authorisation, liquid assets that meet minimum requirements under Prudential Standard APS 210 Liquidity, including under stress scenarios;

- 37) Applicants are expected to develop plans on how they intend to manage their liquidity risk over at least the first three years of conducting banking business post-authorisation. These plans should be consistent with their liquidity risk management frameworks and comply with APRA’s prudential framework.
- 38) Liquidity risks for new entrant ADIs are expected to fluctuate over time as the business grows and matures. While APRA requires credible plans to maintain minimum requirements over a three-year period, APRA expects applicants to have particular focus on the first 18 months post-authorisation. This is an important phase of growing an ADI, where the ADI begins building its deposit book. APRA requires applicants to have robust management of their deposit book to ensure depositors are protected if the ADI experiences stress.

2(b)(v) generating revenue through at least one financial product available to the general public;

- 39) One of the biggest challenges facing new entrant ADIs is generating revenue to sustain their business. To ensure applicants are prepared, APRA expects applicants to be operationally ready to offer revenue-generating financial products before receiving an ADI licence.
- 40) The financial product could be, for example, a personal loan product. The financial product would not ordinarily be a deposit product given deposits are typically not revenue-generating and as the applicant cannot take deposits until they are authorised.

2(b)(vi) operationally ready to accept deposits;

41) Taking deposits is central to conducting banking business. An applicant must demonstrate that it is operationally ready to accept deposits before receiving an ADI licence and have IT systems in place to support end-to-end transactions. This includes, for example, having access to the Australian payments system, either directly or through a third-party service.

2(b)(vii) IT systems that are fit for purpose and have been tested and independently validated; and

42) Applicants should develop and maintain clear IT policy frameworks guided by high level information security principles. IT policy frameworks are expected to include:

- a) information on access, design and detection controls, escalation and incident notification both internally and to APRA;
- b) core business systems that have been independently validated to be functionally sound and resilient, maintain accurate records and operate effectively;
- c) a strategy on how IT systems will be developed and scaled to meet technology and business requirements;
- d) IT controls that are implemented, tested and maintained, and that cover the entire lifecycle of information assets;
- e) an IT strategy that is aligned to the business strategy;
- f) evidence of a clear delineation of roles concerning the oversight, operation and control testing of information security; and
- g) outsourcing subject to a contractual master services agreement.

Document checklist: Sufficient resources

#	Document	Tranche
10	Self-assessment against the requirements in <i>Prudential Standard APS 110 Capital Adequacy</i> and <i>Prudential Standard APS 111 Capital Adequacy: Measurement of Capital</i> . This should include: <ul style="list-style-type: none"> • Categorising each tranche of capital to a category of Regulatory Capital (Common Equity Tier 1 or Tier 2). • A determination of whether the applicant meets the minimum capital requirements. • A determination of whether the applicant complies with restrictions on capital reductions and distributions. 	First
11	Copies of all relevant issuance documentation for capital instruments	First
12	ICAAP	First
13	ICAAP Summary Statement	First
14	Liquidity risk appetite statement	First
15	Liquidity management strategy and policy including: <ul style="list-style-type: none"> • Composition and maturity of assets and liabilities • Diversity and stability of funding sources • Approach to managing liquidity in different currencies, across borders and across business lines and legal entities • Approach to intraday liquidity management 	First
16	Operating standards for identifying, measuring, monitoring and controlling liquidity risk in accordance with liquidity risk appetite statement	First
17	Funding strategy	First
18	Contingency funding plan	First
19	Liquidity stress testing	First
20	IT strategy	First
21	IT organisation chart	First
22	Overview systems diagram, showing main applications	First
23	Overview of network diagram	First
24	Overview description of IT, including: <ul style="list-style-type: none"> • Principal applications, whether package or bespoke, numbers of users and transaction volumes, how supported and by whom • For new core systems being implemented, high level implementation plans, migration plans, test plans, and timetables • Principal data centres and other IT staff locations, and what each is used for • Principal service providers, and services provided by each, whether external or intra-group, identifying any link to the applicant firm, and including supplier location, rationale for the outsourcing, and supplier due diligence and selection process • Details of oversight responsibilities and arrangements, systems and controls for each outsourced function material to the firm's management and operations • Principal locations served • Principal user groups (e.g. staff, professional customers, retail customers) 	First

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	<ul style="list-style-type: none">• Resilience, business continuity and disaster recovery arrangements including key controls to recover information assets in response to a range of scenarios (e.g. service provider outage, local outage and application outage)• Key controls to detect, prevent and respond to security incidents in order to maintain confidentiality, integrity and availability of information assets (hardware, software and data)• Independent validation of design and operating effectiveness• high-level risk and control assessments, risk profiles, plausible worst case scenarios and alignment to risk appetite and tolerance	
25	Testing strategy to ensure systems are fit for purpose (e.g. systems maintain fair and true records for financial obligations, systems calculate interest accurately etc.)	Second
26	Penetration test results identifying scope and results of the penetration test(s), including actions taken to eliminate shortcomings and planned frequency	Second
27	Independent validation that systems are 'fit for purpose'	Second
28	Password standards and policy	Second
29	Information security roles and responsibilities	Second
30	Information security policy	Second
31	List of information security procedures	Second
32	External auditor's certificates verifying the level of capital and capital ratios	When requested by APRA

Chapter 3 – Skills and experience

43) An effective Board is critical for good governance and is ultimately responsible for the sound and prudent management of an ADI. APRA expects applicants to comply with APRA's governance prudential requirements before lodging an ADI licensing application. Applicants will need to demonstrate an appropriately composed and experienced Board and executive team with the skills and experience required to establish, operate and oversee the ADI's business operations, risk management, risk culture, and strategic direction.

2. A body corporate which applies for authority to carry on banking business in Australia as a locally-incorporated ADI must demonstrate that it:

(c) has suitable skills and experience to prudently conduct banking business. At a minimum, this would include:

2(c)(i) responsible persons that are fit and proper, with accountabilities clearly defined;

- 44) Applicants must satisfy APRA that they have policies in place to ensure that responsible persons who hold key positions within the proposed ADI are fit and proper.
- 45) APRA expects applicants to provide their Board-approved fit and proper policy and the pre-appointment fit and proper assessments of responsible persons conducted in accordance with that policy.
- 46) Fit and proper assessments should clearly articulate how the applicant has determined that the responsible person possess the skill, character, care, diligence, honesty, integrity, judgement, qualifications, experience, time and capacity to properly perform the duties of the role. The applicant must undertake a rigorous process to verify information. Self-declarations are not sufficient.
- 47) Fit and proper assessments should include consideration of actual or potential conflicts of interest, including intra-group conflicts and related party situations, and align with the applicants' conflict management policy. Conflicts of interest are expected to be identified, assessed, managed and, where appropriate, disclosed.
- 48) Where the responsible person has made a disclosure or negative information has been sourced from probity checks, this should be addressed in the assessment with details on how the applicant gained comfort that the disclosure does not impact on the responsible persons' fitness and propriety in relation to their proposed role.
- 49) Applicants are expected to comply with the FAR Act. This includes for applicants categorised as enhanced entities under the FAR Act, clarifying roles within the entity and the breadth of accountability for those roles in APRA's template for Accountability Statements. Applicants categorised as core entities under the FAR Act are encouraged to use the APRA template for Accountability Statements as a guide.⁴

2(c)(ii) a Board of at least five directors, with the majority being independent and ordinarily resident in Australia;

⁴ Refer to: <https://www.apra.gov.au/financial-accountability-regime-accountability-statement-guidance-and-template>.

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- 50) APRA expects applicants to develop Board composition and independence settings to ensure the Board can provide impartial judgement and effective oversight.
- 51) APRA expects that before the licensing application is lodged, the applicant can evidence that the Board of directors is in place, satisfy the independence criteria, and are ordinarily resident in Australia with visas, where necessary.
- 52) APRA expects the applicant to provide an organisational chart for the locally owned body corporate detailing the Board, Board committee membership and senior executives, including reporting lines.

2(c)(iii) a Board with the necessary skills and experience, collectively, to prudently oversee banking business operations;

- 53) APRA expects applicants to develop a Board charter that outlines the Board's role, responsibilities, authority, composition, governance arrangements, and how it oversees management and risk. APRA expects applicants to provide their Board charter.
- 54) Applicants are expected to demonstrate that the proposed Board collectively has the required skills and experience to competently oversee and direct the business. APRA expects the applicant to submit a Board skills matrix where the Board's skills, experience and behavioural requirements are clearly defined with a strategy to address any gaps.
- 55) APRA expects applicants to implement governance arrangements that are fit for purpose and operate effectively in practice, including a governance framework that clearly allocates roles and decision rights, supports robust information flows to the Board and its committees, and promotes effective performance.

2(c)(iv) Accountable Persons under the Financial Accountability Regime Act 2023 that have the necessary skills and experience to discharge their accountabilities and deliver the business plan; and

- 56) Applicants must take reasonable steps to ensure that each of its Accountable Persons meets their accountability obligations under the FAR Act.
- 57) Applicants should ensure that Accountable Persons responsible for the operation and risk management of their business possess an appropriate level of skill and experience to discharge their accountabilities as set out in their Accountability Statement. APRA expects applicants to provide a resume for all Accountable Persons.
- 58) Accountable persons must comply with obligations under the FAR Act, including to act with due skill, care and diligence.

Document checklist: Skills and experience

#	Document	Tranche
33	Please review the Company Constitution against the requirements of <i>Prudential Standard CPS 510 Governance</i> and the guidance in <i>Prudential Practice Guide CPG 511 Remuneration</i> . In particular: <ul style="list-style-type: none"> Does the composition of the Board and its voting rights/ procedures meet APRA requirements? Does the remuneration structure accord with APRA's guidance? 	First
34	Organisational chart (including any roles yet to be filled)	First
35	Board and committee structure including names of members	First
36	Applicant's assessment of the board including: <ul style="list-style-type: none"> Assessment of skills and experience required collectively by the board for business model proposed Assessment of the collective skills required by the independent directors to enable them to provide effective challenge Gaps identified in the proposed board against the collective skills and experience assessment The plans to resolve the gaps identified The recruitment process, including such areas as compliance with anti-discrimination best practice 	First
37	Remuneration policy	First
38	Overview of the intended structure, resources, responsibilities and reporting lines for: <ul style="list-style-type: none"> Liquidity and treasury Risk and Compliance Internal Audit 	First
39	Fit and Proper Policy	First
40	For each individual who (is currently appointed and) will hold a Responsible Person position upon licensing: <ul style="list-style-type: none"> Position title Full name Date of birth (for id purposes only) Role description and main responsibilities Copy of the assessment completed under fit and proper including evidence of probity, and competency and capability in relation to the position held.	First (and as appointed)
41	Board Charter	Second
42	Board Renewal Policy	Second
43	Board performance assessment procedure	Second
44	Remuneration Committee charter/terms of reference	Second
45	Audit Committee charter/terms of reference	Second
46	Risk Committee charter/terms of reference	Second
47	Board delegation of authority	Second
48	Conflicts of interest management policy	Second
49	Training and competence regime	Second

Chapter 4 – Risk management framework

- 59) The risk management framework is central to conducting prudent banking business and to ensure business objectives are met in a well governed environment. It enables an ADI to identify, analyse and manage the current and emerging material risks within its business. Effective risk management supports risk-based decision-making and oversight at each level within the business and provides the Board with a comprehensive business-wide view of material risks. The risk management framework must be forward looking and fit for purpose beyond the point of licensing.
- 60) Effective operational risk management is important to ensure applicants can withstand and recover from operational disruptions and minimise adverse impact to customers. Applicants will need to demonstrate a comprehensive end-to-end view of critical operations, identifying processes and resources needed to deliver critical operations through a disruption.

2. A body corporate which applies for authority to carry on banking business in Australia as a locally-incorporated ADI must demonstrate that it:

(d) has a risk management framework to prudently conduct banking business. At a minimum, this would include:

2(d)(i) having a risk management framework that is proportionate for the strategy, business mix, risk profile, size and complexity of the body corporate's business model;

- 61) APRA expects the risk management framework to:
- a) be consistent with the applicant's business plan;
 - b) contain a risk appetite statement and risk management strategy that identify material and emerging risks, and explain how they are to be managed within the applicant's risk appetite;
 - c) evidence a sound risk culture (or development of a sound risk culture) that supports consistent operation within risk appetite;
 - d) contain policies and procedures with clearly defined and documented roles, responsibilities and formal reporting structures for the management of all material risks;
 - e) contain a designated risk management function;
 - f) contain an ICAAP that ensures adequate capital is held against the applicant's material risks;
 - g) contain management information systems that are adequate, both under normal circumstances and in periods of stress, and can measure, assess and report on all material risks across the institution; and
 - h) contain a review process that ensures the risk management framework is effective in identifying, measuring, evaluating, monitoring, reporting, and controlling or mitigating material and emerging risks.

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62) APRA expects applicants to demonstrate they have dedicated risk ownership, functionally independent review and challenge, and independent assurance functions.

63) APRA expects the Board to make and provide to APRA its annual Risk Management Declaration.

2(d)(ii) having controls in place for key operational risks, including risks related to critical operations and the use of material service providers; and

64) In managing its operational risk, APRA expects applicants to:

- a) identify critical operations using a sound, clear and documented methodology;
- b) determine the tolerance level, time, data loss and service level for each critical operation using a sound, clear and documented methodology;
- c) identify all material service providers (MSPs) and record them in an MSP register that can be submitted to APRA;
- d) have an active process to notify APRA about material events, tolerance breaches and MSP changes;
- e) have Board governance and oversight with clear roles and responsibilities;
- f) establish risk profiling and reporting, using them to support oversight;
- g) establish accountability for conducting critical operations, identifying and monitoring MSPs;
- h) ensure that MSP contracts comply with APRA's prudential requirements;
- i) focus Business Continuity Management (BCM) on critical operations; and
- j) align BCM scenarios with BCM improvement and focus scenarios on severe yet plausible events for critical operations and MSPs.

Document checklist: Risk management framework

#	Document	Tranche
50	<p>Business plan including:</p> <ul style="list-style-type: none"> • Explanation of the applicant's overall strategic goal, why the applicant has been established and has decided to carry on the business for which it is seeking a licence • Description of the proposed business, including: <ul style="list-style-type: none"> – Geographical scope of operations and future expansion plans – Target markets and customer segmentation – Clients – including types, sources, client base – Products and services including any borrowing, lending or off-balance sheet activities – Delivery channels – branches, internet, postal, agencies, subsidiaries – Pricing – Promotion and marketing – initial and future – Funding profile and diversification – Details of any planned trading book activity • High level summary of financial resources including details of the source of funds that will be injected into the applicant to support its proposed activities. • 5-year financial projections including: <ul style="list-style-type: none"> – Detailed balance sheet, cash flow and earnings (including assumptions) – Key financial and prudential ratios (e.g. capital ratios, liquidity ratios, etc.) – Detailed explanation of the initial and long-term viability of the business model – Stress scenarios to show what will be the effect of key assumptions underpinning the business model and its viability not turning out as planned (up-side and down-side scenario) 	First
51	Implementation plan through to point when applicant is fully operational	First
52	Risk appetite statement	First
53	Risk management strategy	First
54	List of policies and procedures supporting the management of material risks throughout the institution that the applicant has in place and can be ready to provide on request.	First
55	Overview of the management information system in place for measuring, assessing and reporting on all material risks across the institution	First
56	List of reports proposed to be provided to the board	First
57	<p>Credit risk management policies and procedures addressing:</p> <ul style="list-style-type: none"> • Monitoring of credit quality • Identification and appropriate measurement of impaired facilities • Estimation of inherent credit risk in its business • Recognition of collateral • Write-down or write-off of uncollectible facilities • Validation of credit assessment and provisioning and reserve process • Adequacy of provisions and reserves covering existing and estimated future credit losses and the timely establishment of such provisions and reserves 	First

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	<ul style="list-style-type: none">• Production of data and other information required for adequately assessing the credit risk exposure of impairment, accounting for asset impairment and reporting to APRA• Delegations for approval of credit facilities	
58	Lending policy, including: <ul style="list-style-type: none">• Underwriting standards• Risk tolerances and limits	First
59	Large exposures and risk concentrations policy	First
60	Operational Risk Framework	First
61	Service Provider Management policy	First
62	Business Continuity Management Policy	First
63	Register of Critical Operations and tolerance levels	First
64	Business continuity plan	First
65	Risk profile including control testing program	First
66	Self-assessments against relevant APRA prudential standards ⁵	First
67	Code of Conduct	Second
68	Whistleblower Policy	Second
69	Details of review process to ensure that the risk management framework is effective.	Second
70	Consequence management policy	Second
71	Related entities policy	Second
72	Market risk management policy including <ul style="list-style-type: none">• Asset and liability management• Investment strategy/management	Second
73	Material Service Provider Register	Second
74	Business Continuity Plan review and testing program	Second
75	Product governance policy	Second
76	Fraud management policy	Second
77	Incident Management policy	Second
78	Compliance Framework (can be amalgamated in Risk Management Framework)	Second
79	Confirmation of Board approval of the AML & CTF Program	Second
80	Internal audit scope and plan (12 months post licensing)	Second
81	Appointed auditor terms of engagement and if applicable other instructions or correspondence, including management letters	Second
82	Appointed auditor independence declaration	Second
83	Fit and proper assessment of appointed auditor	Second
84	External audit plan (12 months post licensing)	Second
85	Confirmation of ability to complete required regulatory returns	Second

⁵ Depending on individual business models, this would typically include: Prudential Standard APS 310 Audit and Related Matters; Prudential Standard CPS 510 Governance; Prudential Standard CPS 511 Remuneration; Prudential Standard CPS 520 Fit and Proper; Prudential Standard CPS 220 Risk Management; Prudential Standard APS 220 Credit Risk Management; Prudential Standard APS 221 Large Exposures; Prudential Standard CPS 230 Operational Risk Management; Prudential Standard CPS 234 Information Security; Prudential Standard APS 210 Liquidity; and Prudential Standard CPS 190 Recovery and Exit Planning.

Chapter 5 – Responding to stress

- 65) Applicants are expected to develop and maintain credible and effective recovery and exit plans (REP) that set out how they would respond to a stress that threatens their viability. Applicants are not expected to assume public sector support in their recovery and exit planning.
- 66) APRA expects REPs to be integrated into an applicant's risk management framework, capital management and liquidity management frameworks, and their business plans.

2. A body corporate which applies for authority to carry on banking business in Australia as a locally-incorporated ADI must demonstrate that it:

(e) has credible plans for effectively responding to a stress event that threatens its viability. At a minimum, this would include:

2(e)(i) recovery options that would be relevant and plausible during stress;

- 67) APRA expects applicants to include in their REPs the operational details for executing recovery options that would be relevant and plausible during stress. These recovery options are designed to support the entity's ability to restore financial resilience in the event of a threat to the entity's viability, and which may avoid the need to exit from banking business.
- 68) Recovery options should be appropriate to the strategy, business mix, risk profile, size and complexity of the applicant. For example, smaller start-up applicants may consider options such as capital injections (depending on ownership structures), changes to business and investment strategies, cost savings, or risk reductions.

2(e)(ii) at least one credible option for an orderly and solvent exit from banking business; and

- 69) Applicants should also include in their REPs at least one credible option for an orderly and solvent exit from banking business, in situations where recovery options are not effective.
- 70) These options should be appropriate to the strategy, business mix, risk profile, size and complexity of the applicant. For new entrant ADIs at the early stage of their development, APRA considers that a return of deposits option is likely to be the most feasible exit option. However, this may change as the ADI grows in size.
- 71) An applicant should be capable of executing an exit from banking business without relying on activating the Financial Claims Scheme (FCS) by the Australian Government or the use of APRA's resolution powers, and without an impact on financial system stability.

2(e)(iii) being operationally ready for the activation of the Financial Claims Scheme.

- 72) APRA expects applicants to develop an FCS operation plan. This plan sets out the process, resources, data/systems, communications and arrangements with critical service providers to meet both ongoing testing requirements and to facilitate a payout or transfer in the event the applicant is declared for FCS purposes.

Document checklist: Responding to stress

#	Document	Tranche
86	Recovery Plan	First
87	FCS Communications policy	Second
88	FCS Attestation	Second
89	FCS payment file test	Second