



Australian Banking
Association



A proportionate banking prudential framework
Submission to APRA

27 February 2026

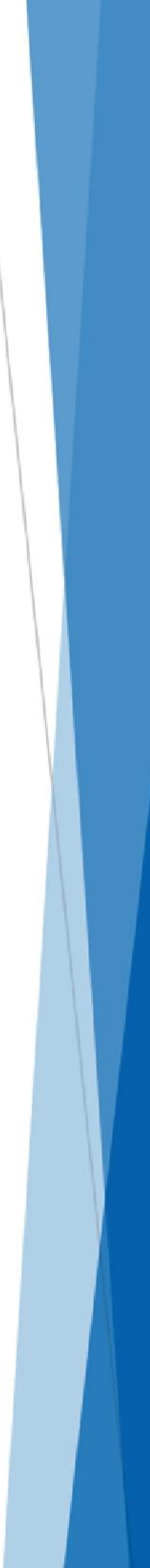




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Key Recommendations

- The ABA welcomes APRA's proposal to formalise a three-tiered prudential framework for banks and supports APRA's approach to achieving this via creation of a new tier for the largest banks as 'most significant financial institutions' (MSFIs).
- APRA should commit to keeping the thresholds for MSFIs, SFIs and non-SFIs under review in order to ensure they remain up-to-date.
- While we welcome APRA's transparency on the 'quantitative limb' of the framework, similar transparency on APRA's approach to the 'qualitative limb' would be appropriate and would particularly assist ADIs affected by changing thresholds.
- The ABA seeks APRA's commitment to transparency and accountability in the practical implementation of proportionality in its regulatory activity under the three-tiered framework.
 - When APRA has a prudential standard 'open' for amendment for any reason, it should consider and invite submissions on what opportunities there are across that standard to make its requirements more proportionate.
 - When it makes changes to standards, APRA should articulate how it is making those changes in a proportionate way and explain any lack of differentiation between the tiers.

Policy Lead: [REDACTED]

About the ABA

The Australian Banking Association advocates for a strong, competitive and innovative banking industry that delivers excellent and equitable outcomes for customers. We promote and encourage policies that improve banking services for all Australians, through advocacy, research, policy expertise and thought leadership.

ABA submission to APRA

The ABA welcomes APRA's consultation on formalising a three-tiered prudential framework for banks and broadly supports APRA's proposed approach. Distinguishing ADIs between MSFIs, SFIs and non-SFIs will allow APRA to make concrete its commitment to proportionate regulation and will provide a mechanism for improved accountability in relation to that commitment.

The Council of Financial Regulators (CFR) review of small and mid-tier banks identified proportionality as an important mechanism for supporting competition without compromising resilience. In our submission to that review, the ABA called for the formalisation of a three-tiered framework to allow a more graduated approach to banking regulation. We were pleased to see our recommendation endorsed in that review, and we welcome this early step towards a framework where prudential requirements are more proportionate to the size, complexity and systemic importance of ADIs.

Quantitative thresholds and headroom for growth

The ABA acknowledges APRA's proposed thresholds of \$300 billion in total assets for MSFIs, and \$30 billion in total assets for SFIs. This proposal is broadly consistent in outcome with the thresholds proposed in the ABA's submission to the CFR review. We welcome the proposed raising of the SFI threshold from \$20 billion to \$30 billion, as a reflection that the higher prudential requirements attached to SFI status are less likely to be necessary or beneficial at the lower end of the current SFI band.

The ABA supports APRA's approach of providing meaningful headroom for mid-tier banks to grow before they cross the MSFI threshold. This approach avoids distorting growth incentives and reduces the risk of banks facing sharp increases in regulatory burden at relatively modest scales.

We note that there is proportionally much less headroom before the biggest non-SFIs reach the SFI threshold, making transitions for larger non-SFIs to SFI status more likely to occur in the nearer term. APRA's commitment to providing a substantial transitional period when ADIs move to a higher tier will be particularly important for this cohort. Whether 12 months is sufficient will depend on the circumstances of the ADI and therefore APRA's preparedness to consider longer transitional periods is welcome.

Future increases in the thresholds

The ABA encourages APRA to articulate what processes it will undertake in future to consider and make potential adjustments to the SFI and MSFI thresholds.

Because there is less headroom below the SFI threshold, this may be a particular issue for non-SFIs whose asset sizes can change quickly. Diagram 4 in APRA's consultation paper illustrates that two ADIs crossed the existing SFI threshold within just two and a half years, with a third close to the threshold at June 2025. A more systematic approach to keeping thresholds under regular review, particularly at the lower end of the framework, will ensure they remain fit for purpose as the system evolves. It would be useful for APRA to outline whether it intends to index or otherwise periodically recalibrate the thresholds, and if so on what basis.

Interaction with the qualitative assessment

While APRA's consultation paper understandably and usefully focuses on the quantitative limb of the SFI test, clarity on APRA's application of the qualitative limb (where APRA determines an ADI to be an SFI on the basis of factors such as its complexity and risk profile) is important for giving ADIs certainty about their regulatory status.

That certainty is essential if the three-tiered framework is to have a meaningfully proportionate impact on regulated entities with assets close to the thresholds. An ADI below a threshold should be able to be confident that it will not be determined to be in the tier above the threshold unless it is very clear that it has the qualitative factors APRA will apply. Recognising this need for confidence and certainty, for

example, the RBNZ's recently settled proportionality framework uses total assets as the *sole* indicator for grouping domestic deposit takers, saying that a "simple and transparent indicator helps deposit takers to easily foresee prudential requirements and plan for their future growth".¹ While the ABA does not oppose APRA's retention of some discretion to determine an entity as an SFI, we consider that more transparency on how the qualitative and quantitative limbs of the test will operate together would assist regulated entities achieve greater certainty. A clear articulation of the qualitative factors that APRA considers relevant to systemic importance would support predictability and planning for banks as they grow, restructure or consider mergers.

We note that this question will be particularly salient for those ADIs that are SFIs under the current framework but will be below the new \$30 billion threshold (perhaps only for a short time). It is appropriate for APRA to discuss the specific treatment of those ADIs with affected ADIs directly and in confidence. However, we would also welcome some transparency about APRA's general approach to applying the qualitative limb to support those discussions and any future determinations.

Similarly, further clarification would be welcome on APRA's proposed treatment of foreign branches. The consultation paper suggests (at footnote 8) that neither limb of the test applies to foreign ADIs. But in CPS 001 foreign ADIs are excluded only from the quantitative limb, and APRA retains discretion to determine a foreign ADI to be an SFI. If APRA proposes to retain this discretion in the three-tiered framework it should make this clear, and some detail on APRA's intended approach to the application of the qualitative limb to foreign ADIs would be appropriate.

Where APRA proposes to classify an ADI as an SFI or otherwise on a qualitative basis, consideration should be given to a formalised pre-decision engagement process, including transparency around the factors relied upon and an opportunity for the ADI to provide relevant information prior to finalisation.

Embedding proportionality in practice

The ultimate success of a three-tiered framework will depend less on where the thresholds are set than on how APRA uses the framework in practice. Setting thresholds is a necessary first step, but proportionality will only be realised if it is systematically reflected in APRA's regulatory approach, policy development, data collection, supervisory approach and implementation of new standards.

Without this follow-through, there is a risk that the framework has limited practical effect for banks. Embedding proportionality does not require APRA to sacrifice the consistency of core requirements and expectations for banks. Risk management, for example, should reach a consistently high standard at every scale, while specific requirements can vary according to differences in size, business model and complexity. A particular test will be whether there is an observable reduction in the regulatory burden of those specific requirements for ADIs in the middle tier in circumstances where the full requirements applied to MSFIs are not necessary, given APRA will now have the means easily to differentiate the requirements that apply to them.

The ABA does not expect APRA to undertake a line-by-line review of the Prudential Handbook to introduce proportionality immediately in each of its prudential standards. But opportunities to introduce proportionality will arise as APRA works regularly through its policy priorities. As these opportunities arise – for example, whenever APRA is consulting on updates to any prudential standard – it would be appropriate for APRA to consider not just how to implement its proposed changes to the standard in a proportionate way, but whether there are other changes that can be made to the standard while it is 'open' in order to improve proportionality more broadly. At those times, APRA could also consider

¹ Reserve Bank of New Zealand, *Proportionality Framework: for developing standards under the Deposit Takers Act*, March 2024, <https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/regulation-and-supervision/dta-and-dcs/the-proportionality-framework-under-the-dta.pdf>



demonstrating how proportionality might play out in practice by providing illustrative worked examples in its prudential practice guides.

What proportionality looks like will depend on specific standards. The ABA supports APRA's general proposal to provide more time for non-SFIs to comply with new or revised requirements and considers that there may be cases where it is also appropriate to provide more time to SFIs than to MSFIs. But genuine proportionality requires consideration of the *substance* of the regulatory burden, not just the timing of its imposition on regulated entities.

The ABA believes that greater clarity on proportionality in the prudential framework should also enable more consistency and transparency in the supervisory framework, allowing industry and community to understand better the rationale behind APRA's decisions. Therefore we strongly welcome the alignment of regulatory policy with supervisory practices. We look forward to engaging with APRA on how the regulatory burden can be appropriately tailored among all three tiers as it works through its program of prudential updates.

Transparency and accountability

The ABA encourages APRA to consider how it will monitor and demonstrate that proportionality is being delivered over time. This could involve regular reporting on APRA's implementation of proportionality under the three-tiered framework, for example in the annual report or corporate plan.

The ABA also considers that APRA could demonstrate effectiveness throughout the regulatory change process when making revisions to prudential standards or data requests. For example, when APRA is consulting on and then finalises a regulatory change, it should publish a statement outlining how the regulatory burden differs between each of the three tiers, and where it does not differ between any two tiers, provide an explanation for this outcome.

This kind of 'if not, why not' approach to transparent regulation would help ensure that the three-tiered framework operates as intended, providing confidence that APRA is applying proportionality consistently and predictably, in line with APRA's stated objectives and the expectations of government.