

27 February 2026

██████████
General Manager, Policy
Policy and Advice Division
Australian Prudential Regulation Authority

Via email: PolicyDevelopment@apra.gov.au

Dear ██████████

A more proportionate banking prudential framework

Thank you for the opportunity to provide a submission to the Australian Prudential Regulation Authority (**APRA**) consultation on a more proportionate banking prudential framework.

The Australian Institute of Company Directors' (**AICD**) mission is to be the independent and trusted voice of governance, building the capability of a community of leaders for the benefit of society. The AICD's membership of more than 53,000 reflects the diversity of Australia's director community, comprised of directors and leaders of not-for-profits, large and small and medium enterprises and the government sector.

The AICD has in the past year had a significant policy focus on opportunities for economic reform and better regulation, reflecting the concerns of our members across all industries and sectors that the weight and complexity of regulation is a material drag on productivity and investment. This focus was reflected in engagement with the Productivity Commission's 'five pillars' inquiries, the Treasurer's Economic Reform Roundtable and separately commissioning economic research on federal regulatory accumulation (discussed further below).¹ A more proportionate and risk-based approach to regulation is an important component of addressing this significant challenge.

This submission has been informed by engagement with financial services industry bodies, representatives of authorised deposit-taking institutions (**ADIs**) and directors who sit on the AICD APRA Regulated Entities Forum.

1. Executive Summary

The AICD welcomes APRA's proposals to provide greater proportionality in the ADI prudential framework through implementing certain recommendations from the Council of Financial Regulations (**CFR**) final report on its Review into Small and Medium-sized Banks. We strongly agree that prudential regulation can be made more proportionate while preserving broader policy objectives of stability and risk management in the financial system

The AICD has long called for a more proportionate approach to regulation of Australian financial services entities where there is a greater consideration of the size and risk profile of entities in regulatory design and implementation. We make the following key points on the consultation:

1. We support the proposals to formalise a three-tier structure to the prudential framework to better reflect the diversity of size and complexity in the ADI population, including:

¹ AICD submission to Economic Reform Roundtable, August 2025, available [here](#); AICD submissions to Productivity Commission pillars inquiries available [here](#) (June 2025) and [here](#) (September 2025).

- a) the establishment of the most significant financial institutions (**MSFI**) category and the \$300 billion threshold; and
 - b) the adjustment of the significant financial institution (**SFI**) threshold from \$20 billion to \$30 billion.
2. We recommend that APRA establish a formal documented process or mechanism for reviewing and adjusting the tiering thresholds across all industries. We believe that the thresholds should be adjusted at least every 2-3 years to account for inflation, asset growth and changes in industry structure.
 3. We support APRA formalising the provision of more time to non-SFIs to comply with new or revised prudential requirements. Separately, we also support a minimum 12-month period for ADIs to transition to a higher tier, either SFI or MSFI, with APRA having a facilitative approach to providing more time to an ADI in particular circumstances.
 4. We strongly support APRA updating the policy development protocol to ensure that it more explicitly differentiates prudential requirements across the three tiers in future prudential policy making. Embedding a clear focus on proportionality in policy making is an important component of better regulation and helps prevent the accumulation of further complex requirements.
 5. We recommend APRA take timely steps to adjust the tiering, SFI thresholds and approach to proportionality that applies to insurance and superannuation entities. Smaller insurance and superannuation entities are also disproportionately impacted by the weight of regulation and there is a strong policy basis for adjusting these settings consistent with the changes for ADIs.

2. Regulatory burden

The CFR final report is an important overview of the role of small and medium-sized ADIs as a source of price and non-price competition, including branches in rural areas. While we agree that the competitive challenges that smaller entities face are predominantly market driven and associated with scale, we consider that the weight of new and existing regulation disproportionately impacts the cost bases of these entities relative to larger entities.

In 2025 the AICD engaged economics advisory firm Mandala Partners (**Mandala**) to assess the current scale and impact of regulation in Australia on businesses, and the economy. The [research](#), published in November 2025, finds strong evidence that Australia's federal regulatory system has become more complex and burdensome, and points to practical steps for reform. The research's headline finding was that Australian organisations now spend around \$160 billion a year (or 5.8 per cent of GDP) to comply with federal regulation, up 40 per cent as a share of GDP in the last decade. The drivers of this change include significant growth in regulation, including delegated instruments such as prudential standards, greater compliance related employment and higher legal spend by organisations trying to understand and comply with new obligations.

During the evidence gathering phase of the Mandala research, we received consistent feedback from directors of APRA regulated entities about the considerable expansion of regulation that entities and their boards have grappled with over the past decade. This has included significant primary legislation such as the Financial Accountability Regime and Design and Distribution obligations. Separately, APRA has introduced new prudential requirements in operational risk management, information security, remuneration, resolution planning and made material changes to capital and liquidity obligations.

Directors of smaller APRA entities were particularly vocal about the impact of this regulatory accumulation on organisational productivity and the ability to focus on strategy and growth. As the CFR highlights, meeting regulatory obligations contributes to an ADI's fixed costs and large ADIs can spread this cost across a higher number of customers resulting in lower unit costs as compared to smaller ADIs. Further, smaller ADIs also generally have relatively simple business models (i.e. retail deposits and mortgage lending) and imposing on them prudential requirements intended to address risks at large and complex entities is a blunt and counterproductive policy approach.

A proportionate approach to prudential policy making appropriately reflects the dynamic that smaller APRA entities do not pose the same systemic risks as larger entities and that the costs of regulation fall disproportionately on

these entities. Without a greater focus on proportionality there is a risk that there will be continuing consolidation and exit of smaller entities, and no new entrants, that will ultimately erode competition in banking product markets.

Tier 4 and insurance and superannuation industries

We note that the consultation paper states APRA is working with Treasury on policy development around a potential fourth tier consistent with CFR Action Item 1. We support future consultation on the potential of a fourth tier and see the possibility of light touch regulation of very small ADIs as a mechanism to promote new entry and greater competition by existing entities.

We also strongly support APRA's timely consideration of adjusting the tiering, SFI thresholds and approach to proportionality that applies to insurance and superannuation entities. Smaller insurance and superannuation entities are also disproportionately impacted by the weight of regulation and there is a strong policy basis for adjusting these settings consistent with changes for ADIs.

3. Enhanced tiering

The AICD welcomes proposals to formalise a three-tier structure to the prudential framework to better reflect the diversity of size and complexity in the ADI population.

We support the establishment of the MSFI category and the \$300 billion threshold. The five entities within the MSFI category are distinct in both size and complexity. As noted in the consultation paper, the \$300 billion threshold provides significant headroom for existing SFIs before they approach the threshold.

We support the adjustment of the SFI threshold from \$20 billion to \$30 billion. The change appropriately reflects inflation and the growth in banking assets since 2022.

We do not expect that the adjustment of the SFI threshold to \$30 billion will materially benefit the small number of ADIs that will drop out of the SFI population. These entities are unlikely to adjust existing governance and risk processes and policies to account for the change in categorisation. Further, as APRA notes, these entities may still retain SFI status due to the complexity of their business operations. However, the increase in the threshold will benefit the population of non-SFIs that were approaching the existing threshold and faced the costs and complexity of implementing the additional regulatory obligations.

Mechanism for setting thresholds

The AICD has raised policy concerns with the setting of thresholds across a number of federal regulatory frameworks, for example corporate reporting.² Thresholds are often 'set and forget' where there is no formal or automatic mechanism for review and changes (when they occur) are ad hoc or infrequent. As a consequence, entities subject to the thresholds experience a form of bracket or scope creep where an increasing number fall within the heightened obligations. This subjects entities with a limited risk profile, complexity or resourcing to the more intensive requirements even though the heightened regime was never intended to apply to them.

We recommend that APRA establish a formal documented process or mechanism for reviewing and adjusting the tiering thresholds across all industries. We believe that the thresholds should be adjusted at least every 2-3 years to account for inflation, asset growth and changes in industry structure.

As a component of a formalised process there should be greater detail on the methodology for determining the thresholds. The consultation paper indicates that for both MSFI and SFI thresholds that percentage of banking system assets is being used by APRA as a rough indicator for tiering. The industry would value greater transparency on how APRA intends to set thresholds in the future to avoid the perception that they are set in an arbitrary or highly subjective manner.

² AICD submission to the Productivity Commission Pillars Inquiries, June 2025, page 11, available [here](#).

4. Providing more time

We strongly support APRA formalising the provision of more time to non-SFIs to comply with new or revised prudential requirements. Separately, we also support an at least a minimum 12-month period for ADIs to transition to a higher tier, either SFI or MSFI. We recommend that there is sufficient flexibility for APRA to provide additional time to an entity that has unique challenges or structural issues that means 12 months is not achievable to meet the new and expanded prudential obligations.

We note that APRA has in recent years provided non-SFIs with a longer period to meet new or amended prudential requirements, for example under *CPS 511 Remuneration*. We support this approach being codified into APRA's prudential policy making process. In our submission to the Governance review we advocated for at least an additional 12 months for non-SFIs to meet many of the revised requirements.³ Non-SFIs do not have the same internal resources or capacity to engage external assistance (e.g. legal advice) as an SFI to meet new prudential requirements in a relatively short time frame. Additional time allows those entities to prioritise and sequence resources and learn from SFI entity implementation. It may also enable those entities to implement the requirements in a more cost effective and targeted manner.

It is also appropriate to provide at least 12 months for an entity to move between tiers. In particular, becoming an SFI results in a number of new obligations that bring with them a commensurate increase in compliance costs. The entity often must hire additional compliance staff, embed new processes and invest in changes to systems. As noted in the consultation paper there are also circumstances, such as a merger or acquisition, where an entity becomes an SFI. In those circumstances we strongly support APRA having sufficient flexibility to provide more than 12 months to meet new obligations to account for the organisational complexity of merging systems, governance structures, risk processes and staff.

5. Embedding proportionality into APRA's policy development protocol

We strongly support APRA updating the policy development protocol to ensure that it more explicitly differentiates prudential requirements across the three tiers in future prudential policy making. In our view, embedding a clear focus on proportionality in policy making is an important component of improved regulation making. It will also help in preventing the accumulation of further complex and counterproductive regulation as was highlighted by the AICD Mandala research.

Where possible, we encourage APRA to consider opportunities to amend existing prudential standards and requirements to build in proportionality. The existing prudential framework, in totality, is significant and highly complex and a focus solely on future policy will miss how existing requirements disproportionately impact smaller entities. As APRA noted in the governance review, there are alone approximately 150 board level obligations and noted some of these may be outdated or appropriate for delegation.⁴

A surgical approach to amending and modernising current standards could be an opportunity to not only provide greater proportionality but address outdated and counterproductive governance requirements. This will in time result in productivity benefits to both the entities and free up boards to focus on investment, innovation and strategy.

As noted above, we recommend APRA to move to adjust the tiering thresholds and formalise the proportionality approach for the insurance and superannuation industries.

³ AICD submission to the APRA Governance Review, June 2025, available [here](#).

⁴ APRA Governance Review – Discussion Paper, March 2025.

6. Next Steps

We hope our submission will be of assistance. If you would like to discuss any aspects of our submission further, please contact [REDACTED]

Yours sincerely,

[REDACTED]

[REDACTED]
GM Education & Policy Leadership