

19 December 2025

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

By email: [policydevelopment@apra.gov.au](mailto:policydevelopment@apra.gov.au)

Dear General Manager

### **Discussion Paper: A New Pathway to Internal Ratings-Based Accreditation**

This submission outlines Bendigo Bank's response to APRA's consultation paper on a new pathway to internal ratings-based (IRB) accreditation, published 23 October 2025. We support APRA's proposed changes to the IRB accreditation process to increase transparency and flexibility. To further support IRB accreditation becoming more attainable for medium-sized ADIs we recommend:

1. APRA express the incentivisation to attain IRB accreditation in terms of a reduction in overall capital requirements.
2. APRA discuss Pillar 2 adjustments at the Initial Engagement Stage.
3. APRA permit medium sized banks to replace 1.5% of AT1 with 1.5% of Tier 2 capital on IRB accreditation.
4. IRRBB capital requirement to be phased in rather than applied in full at initial accreditation.
5. The requirement for one cycle of validation and governance processes for final IRB models is amended to no less than 6 months.
6. APRA include further detail on the criteria for operational risk within APG 113.
7. APRA provide increased guidance on how it will apply proportionality and a risk-based approach to supervision for medium sized banks that achieve IRB accreditation.

Detail supporting these recommendations is set out below.

#### **1. Calibration of IRB Minimum Capital Requirements**

BEN's estimates indicate that the RWA reduction benefits under IRB may be offset by the requirement to hold additional Common Equity Tier 1 (CET1) capital and IRRBB capital. It is acknowledged that as this is dependent on final IRB modelled outcomes (and scope of accreditation) incorporating any adjustments or overlays required to RWAs as approved by APRA, this outcome will be subject to uncertainty until well into the pathway to IRB accreditation. This uncertainty presents the possibility that the total capital requirement under IRB may not result in an appropriate reduction in capital requirements to incentivise ADIs to invest in the required capabilities to attain IRB accreditation. A factor contributing to this outcome would be the

calibration of the additional capital requirement for IRB ADIs achieving ‘unquestionably strong’ benchmarks for capital set by APRA in 2017. The calibration considered incumbent IRB ADI RWAs, recognising their portfolio composition and scope of IRB accreditation, rather than Standardised ADIs which may have a materially different portfolio composition. These discussions should occur in Early Engagement Stage and extend into Development Stage to provide transparency as early as possible of the expected capital requirements under IRB.

We appreciate that IRB requirements are more risk sensitive and this will drive different outcomes compared to the Standardised Approach, however, APRA should express the incentivisation of advanced modelling and risk management in terms of a reduction in overall capital requirements instead of it being expressed as achieving lower IRB risk weights. Lower IRB risk weights on their own, given the higher CET1 requirements for IRB ADIs, may not provide an ADI with a clear enough incentive to invest in the required capabilities to attain IRB accreditation.

We note APRA’s advice during discussions relating to this consultation that the intention is that there should be a capital benefit from IRB accreditation, albeit that benefit should not be large.

**We recommend APRA express the incentivisation to attain IRB accreditation in terms of a reduction in overall capital requirements.**

## **2. PCR and Improved Risk Management Capability**

CPG 110 outlines circumstances considered by APRA for Pillar 2 adjustments, which includes adequacy and effectiveness of the risk management framework. Successful IRB accreditation indicates improved risk management, suggesting a lower PCR may be appropriate. APRA’s expectation of higher risk management standards for IRB ADIs aligns with the expectation of a lower PCR.

The PCR is also one way that APRA can more flexibly address any unintended consequences of the higher capital requirement on a Standardised Bank that attains IRB accreditation. We recommend this mechanism be used to address any calibration issues with a Standardised ADI’s portfolio that may arise per recommendation 1 (above). We appreciate that the PCR Pillar 2 adjustment may exist for reasons other than those that could be considered as part of an IRB accreditation program. A discussion at the Initial Engagement Stage is important to assist an ADI considering IRB accreditation in understanding the likely IRB capital outcome at the commencement of the process. APRA’s advice that it will better communicate its decisions on minimum capital requirements under Pillar 2 of the Basel framework will assist with this discussion.

**We recommend APRA discuss Pillar 2 adjustments at the Initial Engagement Stage.**

## **3. Additional Tier 1 (AT1) Instruments Phase-Out**

The changes to APS 110, effective 1 January 2027, will require an additional 0.25% CET1 requirement on IRB ADIs instead of full AT1 replacement with Tier 2 capital for Standardised ADIs. In APRA’s proposal for removing AT1 capital from the prudential framework, the additional CET1 requirement was linked to ‘large, internationally active banks’, with the difference in proposed treatment between banks linked to ensuring that large, internationally active banks continue to meet the minimum capital adequacy requirements set by the Basel Committee.

Given this rationale; and acknowledging the aim to make IRB accreditation more attainable for medium sized banks that only operate domestically; we recommend that APRA permit medium sized banks to replace 1.5% of AT1 with 1.5% of Tier 2 on successful IRB accreditation.

**We recommend APRA permit medium sized banks to replace 1.5% of AT1 with 1.5% of Tier 2 capital on IRB accreditation.**

#### **4. Phase-in of IRRBB capital requirement**

As per APRA's proposed approach to phase-in the additional IRB capital requirement, we recommend that the same approach applies to the IRRBB capital requirement. For the same reasoning as the phase-in of IRB capital requirements, the application of the full IRRBB capital requirement for a first phase could act counter to the earlier realisation of accreditation benefits from the proposed changes.

**We recommend the IRRBB capital requirement is phased in rather than applied in full at initial accreditation.**

#### **5. Use and Experience**

APRA expects 'at least one cycle of annual validation and governance processes have been applied to the final models proposed for regulatory capital purposes' at the time of approval. The requirement for a full 12 months of validation of approved models should be shortened to further support a quicker pathway to accreditation. It is recommended that this requirement be amended to require a validation to be conducted on a period of no less than 6 months. This would better support APRA's indicative timeframe set out in the consultation including allowing increased flexibility for any final model changes to be made following APRA's pre-application review stage.

**We recommend the cycle of validation and governance processes applied for final IRB models is amended to no less than 6 months.**

#### **6. Advanced risk and capital management expectations**

To further increase the transparency of IRB accreditation requirements we request further detail on expectations for operational risk. The proposed criteria set out in APG 113 are noted. However, specifically in relation to 'reasonable and risk-sensitive quantitative estimates of risk', it is not clear what the required threshold is. Following the removal of the Advanced Measurement Approach for operational risk, in the changes to the capital framework since 1 January 2023, an aspiring IRB ADI would benefit from clarity on expectations regarding quantitative estimates for this material risk.

**We recommend APRA include further detail on the criteria for operational risk within APG 113.**

#### **7. Supervisory approach**

We note APRA's comments that IRB banks are subject to more stringent regulatory requirements and intensive prudential supervision than ADIs that use the Standardised Approach. We recommend APRA provide increased guidance on how it will apply proportionality and a risk-based approach to supervision for medium sized banks that achieve IRB accreditation. This would avoid imposing excessive burdens on smaller institutions while maintaining adequate

oversight of larger, more complex ones. It would also provide greater clarity on the expected additional supervisory activity that will assist a Standardised ADI in its consideration of IRB accreditation.

**We recommend APRA provide increased guidance on how it will apply proportionality and a risk-based approach to supervision for medium sized banks that achieve IRB accreditation.**

### **Conclusion**

Bendigo Bank supports the overall direction of APRA's proposed changes. By addressing the points raised in this submission, APRA can create a more efficient, risk-focused, and transparent framework for IRB accreditation, benefiting both the regulator and the regulated institutions. We welcome the opportunity to discuss these matters further.

**Bendigo and Adelaide Bank Ltd**