

18 December 2025

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Via email: policydevelopment@apra.gov.au

Dear Mr Beckett

APRA consultation on a new pathway to internal ratings-based (IRB) accreditation for medium-sized ADIs

The Customer Owned Banking Association (COBA) welcomes the opportunity to provide feedback on APRA's consultation on *a new pathway to internal ratings-based (IRB) accreditation for medium-sized ADIs*.

Key points

Capital is structurally constrained for customer-owned banks and effective access to, and efficient use of, this critical resource is central to the sector's long-term sustainability.

The proposed IRB pathway changes are unlikely to materially improve access to capital for customer-owned banks.

A sustainable capital framework must balance safety with proportionality to support the competitive position of customer-owned banks while maintaining system resilience.

Capital is fundamental to the safety, stability and sustainability of Australia's banking system. It underpins depositor confidence, absorbs unexpected losses and enables banks to continue lending through economic cycles, including during periods of financial stress. For regulators and industry alike, strong capital positions are essential to maintaining financial system resilience and protecting the interests of customers.

For customer-owned banks, access to capital is a particularly critical issue due to the structure of the mutual business model. Unlike listed banks, customer-owned institutions do not have access to public equity markets and cannot readily raise ordinary share capital to respond to regulatory changes, economic shocks or growth opportunities. Instead, capital is built almost exclusively through retained earnings over time. This makes capital both scarce and strategically important, and means that regulatory capital settings have a direct and enduring impact on business viability.

As a result, even relatively small changes to capital requirements or differences in capital treatment between regulatory approaches can materially affect customer-owned banks' ability to lend, compete and meet member needs.

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Against this backdrop, it is essential that Australia’s capital framework delivers not only safety and resilience, but also proportionality and long-term sustainability for institutions with different ownership structures and risk profiles, particularly customer-owned banks. A framework that works effectively for customer-owned banks supports competition, diversity and stability across the financial system, while reinforcing the prudential objectives shared by industry, regulators and government.

The capital framework must support customer-owned banks

APRA’s proposal to make IRB accreditation more attainable for medium-sized ADIs is unlikely to meaningfully support customer-owned banks’ access to capital.

As outlined in COBA’s submission to the CFR Review into Small and Medium-sized Banks¹, customer-owned banks are generally unable to adopt the IRB approach for calculating capital requirements due to the significant operational, financial, and regulatory barriers associated with adopting this methodology. Our sector typically lacks the scale and volume of loan data required to meet the strict regulatory requirements set by APRA to utilise the IRB approach, including model validation, stress testing, and compliance reporting. As a result, customer-owned banks must rely on the simpler Standardised Approach, which assigns predetermined risk weights to assets and is more cost-effective but less capital efficient.

Access to sustainable sources of capital is critical for customer-owned banks and capital efficiency remains critical to COBA members’ long-term sustainability. APRA’s regulatory approach to banking capital, including the design and operation of capital requirements and modelling frameworks must appropriately recognise the structural characteristics of smaller ADIs, including customer-owned banks, to ensure a level playing field while maintaining the safety and stability of the financial system over the long term.

Thank you for the opportunity to provide comment on this consultation. We look forward to continuing our engagement with APRA on the design of the capital framework to ensure it meets the needs of customer-owned banks. If you wish to discuss any aspect of this submission, please contact

[Redacted]

Yours sincerely

[Redacted signature]

[Redacted contact information]

¹ <https://www.cfr.gov.au/publications/consultations/2024/review-into-small-and-medium-sized-banks/>