To,

The General Manager
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The changes being considered for APG 223 appear to be reflective of market interest rate expectations, and will probably be well-received by the broader market. In saying this, it is crucial that the proposal does not appear as a stimulatory policy response to recent economic slowdown. Let's not forget about APRA's core mandate:

"APRA was established by the Australian Government on 1 July 1998 following the recommendations of the Wallis Inquiry into the Australian financial system. Prudential regulation is concerned with maintaining the safety and soundness of financial institutions, such that the community can have confidence that they will meet their financial commitments under all reasonable circumstances"... pasted from website.

I think the following amendments in the existing proposal would make the changes appear more aligned to APRA's core role:

1. On top of the 2.5% interest rate buffer over and above a standard variable rate (rate applicable after adjusting honeymoon discounts), ADIs are expected to hold an extra 0.5% buffer should there overseas funding mix be over and above 30% of their total funding mix.

Rationale of including this prudential regulation: Encourage ADIs to mobilise funding from domestic market; Address the risk of adverse funding cost movements from the external sector.

2. Continue using the guidance that "a prudent ADI would use a buffer ‘comfortably above’ the proposed 2.5 percent".
Rationale of maintaining this aspect of prudential regulation: Removing this aspect sounds more prescriptive than prudent; Regulatory bodies use the language whereby prescriptive aspects are usually maintained as baseline expectations (2.5% buffer is a baseline here), and the baselines are then supplemented with a sound practice language. Perhaps instead of proposing "a prudent ADI would use a buffer ‘comfortably above’ the proposed 2.5 percent", use "a prudent ADI would use a buffer ‘above’ the proposed 2.5 percent, depending on its risk appetite, historical average variable rates, funding and customer mix".

The proposed changes and the language used in the current form, signals a sense of desperation to open the credit taps. APRA and RBA have rightfully pulled the levers off a heating financial system in the recent past. There will always be some pain in the process when a country's household debt is at record levels, and regulatory interventions taper these off. Let's not pour cold waters on that journey by facilitating another debt binge, just because the pain is hurting a bit too much. Else, this will just be like kicking the cans down the road, with more pain to deal with in the future.

I wish success to APRA in implementing this better lending practice guidance.

Kind Regards,

Awais Memon