



19 August 2021

Therese McCarthy Hockey
Executive Director
Banking Division
Australian Prudential Regulation Authority
GPO Box 9836
Sydney NSW 2001

By email: NegativeRates@apra.gov.au

Dear Ms Hockey

ADI Preparedness for the Possibility of Zero and Negative Interest Rates

The Australian Financial Markets Association (AFMA) welcomes the opportunity to make comment on APRA's consultation on ADI preparedness for the possibility of zero and negative interest rates. In this regard we note APRA's expectation that:

- ADIs take reasonable steps to prepare for scenarios in which the cash rate and/or market interest rates may fall to zero or become negative, and
- ADIs, at a minimum, develop tactical solutions to implement zero and negative market interest rates and cash rate by 30 April 2022.

AFMA had canvassed views from our ADI members, however indications are that ADIs will respond directly to APRA on this given the expectation that an ADI's response to consultation be copied to its responsible supervisor. This notwithstanding, we have received some ADI member questions where APRA's guidance would be helpful.

Specifically, we seek to ascertain whether APRA would consider the following to be an acceptable short-term tactical solution:

- *Management of the interest accrual outside of the ADI's primary loan or deposit modules, with appropriate validation and audit of the calculations and payments either due to be paid or received. This would entail designing and testing the methodology as a means of ensuring its efficacy for both applicable loan and deposit products, and to achieve this prior to 30 April 2022.*

For more information or if you have questions in relation to this letter please contact me at mregan@afma.com.au

Yours sincerely

A handwritten signature in black ink, appearing to be 'Murray Regan', written in a cursive style.

Murray Regan

Director Markets and Rates