9 May 2025

Erica Santosaputri
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Australian Prudential Regulatory Authority
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Via email: Erica.Santosaputri@apra.gov.au
CC: policy@apra.gov.au

Dear Ms Santosaputri,

International Alignment of Required Stable Funding Factors

The Australian Financial Markets Association (**AFMA**) is the peak industry body for Australia's financial markets industry – including the capital, credit, derivatives, foreign exchange, and other specialist markets. AFMA represents more than 130 industry participants from Australian and international banks, leading brokers, securities companies, government treasury corporations to asset managers, energy firms, carbon market participants, and industry service providers.

AFMA promotes efficiency, integrity, and professionalism in Australia's financial markets.

It is in this context that we write to you seeking your consideration of aligning two Required Stable Funding (**RSF**) factors to increase efficiencies in financial markets and reduce a competitive disadvantage faced by Australian banks.

Background

The Net Stable Funding Ratio (**NSFR**) went live in January 2017 requiring Banks to fund balance sheet assets with stable sources of funding. The methodology for this is specified in Attachment C of APS 210. There are several aspects of the calibration of these requirements which put banks subject to the requirements of APS 210 at a competitive disadvantage relative to international counterparties subject to different regulatory requirements.

These differences increase compliance costs associated with APRA's requirements, which impede participants ability to compete in providing support to customers, bond issuers and the Australian financial system. Given recent development offshore jurisdictions, we believe now is an appropriate time for these differences to be examined with a view to achieving international harmonisation in two areas:

- RSF factors on Short-term Reverse Repo Transactions; and
- RSF factors on Derivative Liabilities.

We understand that APRA intends to review APS 210 in 2025 and 2026, and are supportive of that review. However, we believe the potential changes detailed below can be made quickly and easily, and should not be delayed by the formal review of APS 210.

Further detail on AFMA's position is contained in the attached appendix.

AFMA would welcome the opportunity to discuss this letter and would be pleased to provide further information or clarity as required. Please contact Brendon Harper at brendonh@afma.com.au or 0411 281 562.

Regards,

Brendon Harper
Head of Banks and Prudential

Appendix A

Differences between the APRA calibrations of the NSFR and those of international jurisdictions disadvantage Australian banks and create an unnecessary barrier to Australian banks' effective and efficient operation.

1) Required Stable Funding (RSF) factors on Short-term Reverse Repo Transactions

Under the current APS 210 rules, ADIs are required to apply an RSF factor to secured financing transactions (e.g. Reverse Repo and securities borrowing transactions) which are determined by the quality of the collateral securing the transaction[1]. For those transactions conducted with a Financial Institution (**FI**) the RSF factors are;

- 10% for a transaction secured by HQLA1 with < 6 months remaining until maturity; and
- 15% for a transaction secured by non-HQLA1 with < 6 months remaining until maturity.

These factors do not align with those applied by international peers. We believe APRA should align its RSF factors to:

- Provide consistency with peer jurisdictions;
- Align with LCR treatment for HQLA1;
- Remove disincentive to providing liquidity to the repo market; and
- Remove asymmetric treatment.

I. Consistency with peer jurisdictions

In contrast to Australia, banks subject to the NSFR requirements of the United Kingdom (**UK**), United States of America (**US**), European Union (**EU**) and Japan (**JP**) have a reduced RSF requirement (Table 1).

Table 1: RSF Factors for Reverse Repos with FI < 6mth

	AU	BIS	UK	US	EU	JP
HQLA1	10%	10%	0%	0%	0%	0%
Non-HQLA1	15%	15%	5%	5%	5%	5%

Under the design of the EU rules, these RSF factors were due to revert to those set out in the Basel standards (consistent with the calibration of the APS 210 rules) in July 2025. However, in a "Call for Evidence"[2] submitted to the European Commission in February 2025, the intent is now to retain the current RSF factors.

Amongst the reasons highlighted supporting this change were the losses of competitiveness for EU banks, as the US and UK had already decided to maintain lower RSF factors than under the Basel standards for these instruments on a permanent basis. Further concerns were also raised around the functioning of sovereign debt and repo markets if the RSF were to revert to the standard Basel ratios.

With the EU intending to retain the current RSF treatments, AFMA believes that the consistency amongst jurisdictions in which Australia banks compete with globally provides a compelling case for APRA to harmonise RSF factors to these jurisdictions.

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[1] APS 210, Attachment C, paragraph 31 for HQLA1 and paragraph 33 for HQLA2A

[2] Net Stable Funding Ratio – prudential treatment of short-term securities financing transactions (amending regulation)

Furthermore, under the status quo, Australian banks are at a competitive disadvantage when providing repo liquidity, not only when they transact in offshore markets, but also in their domestic market. All else being equal, the increased RSF requirements for ADIs means that a customer looking to obtain repo financing for a government or semi-government portfolio may receive better terms (greater capacity or a lower cost) from, for example, a British or US bank (with a 0% RSF factor) rather than an Australian bank (with a 10% RSF factor).

II. Alignment with LCR treatment of HQLA1

In the broader liquidity management context, such a move would also align the treatment of HQLA1 reverse repo to that of cash and balances held at Central Banks. These asset classes are recognised as HQLA1 under both the Liquidity Coverage Ratio (**LCR**) and NSFR and both attract a 0% RSF factor. As with central bank reserves, reverse repo allows banks to hold HQLA without the price or spread risks that accompany an outright bond holding. Adopting a 0% RSF for HQLA1 reverse repo holdings would allow the LCR treatment (where cash and HQLA1 reverse repo are treated as equivalent cash-like assets) be extended to the NSFR, while retaining a 5% RSF factor for outright holdings of HQLA1.

III. Removal of disincentives to provide liquidity to the repo market

The Reserve Bank of Australia (**RBA**) recently consulted on a move to an 'Ample' reserves approach to Monetary Policy Implementation from the 'Excess' reserves approach that commenced at the start of the Covid-19 outbreak. The move to Ample reserves will reduce the volume of reserves in the system as the RBA's holdings of assets (firstly TFF loans then quantitative easing bond holdings) mature. The current RSF treatment incentivises ADIs to hold HQLA in the form of central bank reserves rather than reverse repo. ADIs are therefore incentivised to either maximise their cash placements at the RBA (to minimise RSF consumption) or require a higher return on reverse repo investments (increasing HQLA1 funding costs and putting upward pressure on bond yields that would otherwise not exist).

IV. Removal of asymmetric treatment

Reducing the RSF of these positions would also reduce the asymmetry that currently exists due to the requirement to hold stable funding against the exposures whilst a repurchase agreement, of the same term and with the same underlying collateral, received a 0% Available Stable funding factor. Due to this asymmetry, a completely match funded position will generate an NSFR exposure under the current APS 210 rules, increasing the costs of financial intermediation for end users.

2) Required Stable Funding (RSF) factors on Derivative Liabilities

The NSFR rules also require stable funding be held against all derivative liability positions (those with a negative replacement cost amounts) before deducting variation margin posted.

The RSF factor initially prescribed under the BIS rules was 20% and was adopted into APS 210. In October 2017, it was announced that, subject to national discretion, this rate should be lowered to a floor of 5%. This was subsequently adopted by all comparable international jurisdictions leaving Australia as an outlier (Table 2).

Table 2: RSF Factor of Gross Derivative Liabilities

	AU	BIS	UK	US	EU	JP
Gross Derivative Liabilities	20%	5 - 20%	5%	5%	5%	5%

In 2019, the BCBS conducted a Regulatory Consistency Assessment Programme (**RCAP**) to assess the APRA implementation of the NSFR against the Basel standards. In the RCAP, the BCBS noted this as an area where APRA's rules are stricter that the Basel standards.

Recommendation

The above two areas of NSFR regulation are relatively straightforward. However, the APRA factors place Australian regulated banks at a significant disadvantage when competing in markets for short-term secured funding, while depressing the NSFR's of Australian banks compared to a bank in a comparable offshore jurisdiction with the same business mix. AFMA believes that Australia should align its rules with other comparable jurisdictions, setting the RSF factor for short-term reverse repos on HQLA1 to 0% and for non-HQLA1 to 5%, while setting the RSF factor for gross derivative payables to 5%.

These changes could be implemented with minimal effort by APRA and industry. Given this, and the reasons explained above, AFMA recommends that APRA implement these changes expediently, without delay from the broader review of APS 210.