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Laura Kiely
Manager, Banking Policy
Policy and Frameworks
Australian Prudential Regulation Authority
GPO Box 9836
Sydney NSW 2001

Via email: PolicyDevelopment@apra.gov.au

LCR Framework and Financial Resilience – Getting the Balance Right: Industry Webinars

Dear Ms Kiely,

The Australian Financial Markets Association (**AFMA**) appreciates the opportunity to provide feedback on the Australian Prudential Regulation Authority's (**APRA**) industry webinars held on 30 March and 1 April 2026. We also welcome APRA's constructive engagement and willingness to discuss these proposals.

We are particularly appreciative of APRA's engagement at this earlier stage of policy development. We note, though, as a result, the information provided to date has been relatively high level. As such it has not been possible to conduct detailed analysis of some proposed components or to extrapolate the likely full range of implications.

This letter provides a snapshot of industry's current thinking. The limitations on detail are particularly acute for AFMA's domestic ADI members and foreign subsidiary members. Noting more detailed discussions have been held regarding potential changes and implications for Foreign ADI Branches (**FAB**) members, for example at the 11 May 2026 AFMA-APRA Foreign Branch Liquidity Roundtable, this letter is able to provide additional detail from the FAB perspective.

We will continue to develop our position, as we engage further with APRA and better understand APRA's position, and the potential implications. AFMA not commenting on a particular component of the proposals, at this stage, should not be taken to suggest that challenges or unintended consequences will not be discovered when further details of the proposals are released.

<u>Current industry thinking</u>

AFMA is supportive of the continual improvement of our prudential system and learning from offshore experiences. We are also supportive of APRA's review of the liquidity framework. It has been over a decade since a substantial rewrite of the prudential standard, APS 210 Liquidity (**APS 210**), with offshore events, most notably the challenges highlighted by Credit Suisse and Silicon Valley Bank, adding weight to the timeliness of the review.

In contrast to some offshore jurisdictions, Australia's banking and financial systems have proven resilient through recent crises. This is in part due to the robustness of the current framework and the prudent management of banks, both domestic and foreign, operating in Australia.

Australian Financial Markets Association
ABN 69 793 968 987
Level 18, 45 Clarence Street Sydney NSW 2000 Tel: +612 9776 7905
Email: info@afma.com.au Web: www.afma.com,au

We note that Local Banks, Foreign Bank Subsidiaries and Foreign ADI Branches, hold liquidity reserves well above the regulatory minimums; this is a result of both management and Board expectations, which are reinforced by APRA's prudential requirements, for example paragraph 4, Attachment A, APS 210.

Furthermore, APRA's May 2026 System Risk Outlook concludes:

> ***The Australian financial system, including APRA-regulated banks, insurers and superannuation funds, remains resilient in an increasingly volatile and interconnected world.*** *Strong capital, liquidity and prudential safeguards mean our financial system is well-positioned to absorb shocks and continue providing critical services to households and businesses, even if economic conditions deteriorate.*

Given these facts, AFMA has not yet seen a sufficiently clear prudential case for material changes to baseline liquidity requirements for bank operations in Australia. For example, the reasons for potentially increasing the 'FAB LCR' from 40% are not clear to industry.

Notwithstanding the above, AFMA concurs that it is prudent to maintain liquidity requirements that reflect global best practice, for example considering the inclusion of a Pillar 2 liquidity regime. Any increase in liquidity requirements should not be considered to be without cost to regulated entities or to the broader economy. AFMA cautions APRA that any material increase in requirements may impact the availability of funding and competition in the local market. Any increase in regulatory burden would also be at odds with the 'Whole-of-Government Regulatory Reform Agenda' which aims to 'unlock productivity and economic dynamism', including by reducing compliance burdens.[1]

While speaking about the impact of increased liquidity holdings generally, the UK's Prudential Regulation Authority noted, in its 17 March 2026 consultation paper, Modernising the liquidity policy framework (para 1.10), that:

> *Asking firms to self-insure by holding more liquid assets could put pressure on firms' balance sheets and disrupt lending to the economy. This would not seem proportionate given that existing quantitative prudential standards provide a strong foundation for UK firms' prudent liquidity risk management. The PRA considers that it would be more proportionate to supplement the existing Pillar 2 liquidity regime, including through clearer expectations for operational readiness and, as appropriate, the use of central bank facilities.*

The same arguments and conclusions could be applied to Australia's liquidity regime and the potential impacts on lending to the economy.

To put the proposals into context and to further develop our thinking, it would be helpful for industry if APRA could articulate any specific concerns it holds with the liquidity management of AFMA member banks operating in Australia or broader concerns regarding the management of liquidity in the system.

Additional observations are provided in Appendix A and B.

We look forward to further engagement and roundtables with APRA to assist in the development of these policy proposals.

If it would like to discuss this letter, please feel free to contact me at brendonh@afma.com.au or 0411 281 562.

[1] Budget 2026-27 fact sheet: Whole-of-Government Regulatory Reform Agenda

Regards,

Brendon Harper
Head of Banks and Prudential

About AFMA and its members

The Australian Financial Markets Association 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 140 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 enabling the markets to continue to support the Australian economy, high skilled job markets and the energy transition.

Appendix A: Competition and Australia as a location for foreign capital

With 49 FABs operation in Australia, they represent over 40% of all ADIs and over 53% of all banks (Quarterly ADI performance statistics, December 2025).

Foreign banks provide a range of products and services that otherwise would not be available to local consumers. Foreign banks also provide competitive tension to domestic banks and access to price competitive scale.

While Australia is an attractive destination for foreign capital, it must compete with other countries, including many in the region. Australia already has a number of barriers to the local deployment of capital, for example interest withholding tax which is estimated to add 22bps to the funding costs of some FABs. Initial member feedback is that, for some foreign bank branches at least, a material increase in liquidity requirements could jeopardise capital allocations and their ability to support Australian customers.

Furthermore, unlike local ADIs, that mainly rely on retail funding (for example deposits), FABs rely solely on wholesale funding, where rates are not as favourable nor loyal when compared to retail funding. As such, to increase the LCR minimum for FABs beyond 40%, particularly when considering the large buffers applied by FABs, will not put them on a level playing field with the local ADIs. Rather, it may decrease the capacity of FABs to compete with local ADIs.

Preliminary analysis provided by an AFMA member suggests the cost of holding additional HQLA could result in increased costs of funding of between 15 and 60 bps, depending on the assumed tenure. We also note indirect costs, such as increased market risk expenses from holding larger positions. All things remaining equal, this would likely result in a reduction in the competitiveness of FABs and potentially a reduction in capital allocations to the Australian market.

AFMA notes the difficulties faced by challenger banks over recent years, that resulted in the majority exiting the market, and the proposed removal of the Restricted ADI licensing regime. Given this and the broader economic backdrop, AFMA strongly encourages APRA to carefully consider the potential impact of any changes to the liquidity requirements of FABs, both with respect to the competitive dynamics of the local market and, implications for consumers and the broader economy.

AFMA and its members will continue to assess the potential implications of any changes to the FAB liquidity framework, which we will provide ahead of our next roundtable.

Appendix B: Observations on APRA's key questions for feedback

1. Do you agree with the problem statements outlined in this webinar?

Foreign ADI Branch LCR Requirements and Committed Funding Facilities (**CFF**)

As stated above, the passage of time and offshore events support the review of APRA's liquidity requirements. However, this alone does not suggest the 40% 'FAB LCR' requirement or CFF are no longer fit for purpose.

The liquidity management of FABs has been in a stable state generally with no known major disruptions to the local market or their clients. With this in mind, industry wishes to understand which, if any, particular risks have prompted APRA to reconsider the risk profile of the FABs and lead to potentially increasing the LCR limit from the current 40%.

Other components

AFMA supports the evolution of Australia's regime, for example to include an Internal Liquidity Adequacy Assessment Process (**ILAAP**) and to better capture relevant risks. Any introduction of an ILAAP should balance the regulatory burden of developing an ILAAP, which can be significant, with the associated improvement in entity and system safety and stability. Furthermore, ILAAP requirements should be proportionally applied, including in a manner that most efficiently aligns with respective home office approaches.

We are also supportive of the evolution to broaden the universe of HQLA-eligible securities to better align with market developments and global practice. We encourage APRA to consider the eligibility of securities issued by Public Sector Entities (**PSEs**), Supranationals, Sovereigns, and Agencies (**SSAs**), and other repo eligible bonds, such as RMBS,[2] in addition to covered bonds. Aligning with AFMA's 2022 submission to the Post-implementation review of the Basel III liquidity ratios in Australia, we are also supportive of the inclusion of certain ASX200 equities as HQLA2B assets, given these are widely traded in deep and liquid markets.

2. Are there other liquidity issues that APRA should prioritise?

It would be helpful if APRA could share their guidance or internal policy on what factors (for example any bright line test) APRA considers when determining between an LCR vs MLH ADI.

Banks with more sophisticated liquidity management capabilities, for example LCR ADIs, including FABs which draw upon global frameworks, arguably represent lower levels of risk, compared to their size. It is important that liquidity requirements align with the risks posed by entities and groups of entities within our system. It is important that misalignment does not develop between the risks posed by and regulatory obligations applied to ADIs.

As an example, the application/availability of the LCR and MLH regimes does not seem to be consistent across all ADIs, with some MLH ADIs holding larger balance sheets and/or complex businesses (such as higher liquidity risk profile) than some of the FABs that are currently categorised as LCR ADIs.

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[2] Such an approach is consistent with the *Joint APRA-RBA statement on use of the RBA's overnight standing facility*, which states that banks "are expected and encouraged to use the overnight standing facility", and that "the use of the overnight standing facility by banks to be consistent with routine liquidity management activities".

Additionally, it would assist industry if APRA increased the consistency in its approach with FABs regarding when it asks for branch specific controls versus group controls, noting the branch is legally the same entity as the parent/head office.

3. Which potential solutions would be most material for your entity and why?

FAB LCR

Any increase in the FAB LCR minimum could be potentially material for local branches, and significantly increase funding costs. By way of example, for a branch with a current balance sheet of $1 billion, a 10% increase in LCR would result in an increase in funding costs of ~$500,000. This would be a significant cost increase for the branch that could materially impact its P&L and potentially longer-term sustainability for its local operation.

We also note the significant internal buffers applied by FABs. While no official LCR levels for FABs are published, member feedback indicates that the majority of AFMA member FABs already hold LCR levels in excess of 100%.[3] These buffers are driven by a combination of management and APRA expectations, coupled with balance sheets that, compared to local ADIs, can be relatively volatile, for example due to a FAB supporting a large local infrastructure deal. It is reasonable to expect, if the FAB LCR minimum was increased, large buffers would be maintained. This could result in LCR levels for some FABs in the range of 150-200%, exceeding that of other ADIs types, including those with arguably greater risk profiles.

The impact of any increase in LCR for FABs would be exacerbated by the differences in approach between APRA and home office jurisdictions, for example the inclusion of contingent liabilities in APRA's calculations. This impact would be further exacerbated if CFF recognition was removed or reduced. AFMA will provide further detail on these differences as we progress our analysis.

As noted above, for some entities, this may result in some foreign banks reconsidering capital allocations to Australia, versus other countries in the region. This would imply a reduction in local lending and competition. Given the current uncertain economic outlook and broader government agenda, AFMA recommends APRA progress with caution.

AFMA will provide further detail on the potential impacts of an increased 'FAB LCR', as part of our ongoing engagement on this topic.

ILAAP

The production of ILAAPs can be burdensome for regulated entities. For all ADIs, local and foreign, ILAAP requirements should be proportionate to an entity's operations and the risk profiles.

Specifically for FABs, ILAAP requirements should allow for leveraging and alignment to global processes and procedures for the assessment and management of liquidity requirement. We note that the group requirements of some FABs generate extensive ILAAP documentation, across an entire banking group. Alongside the existence of 'ILAAP capabilities', this documentation may already provide APRA with the required comfort that liquidity is being assessed and managed appropriately. Furthermore, any additional 'FAB ILAAP' documentation would provide an incomplete perspective, as

[3] AFMA is aware of some non-AFMA member FABs holding LCR levels much closer to the LCR minimum. It would be inappropriate for this to be a driver for increasing the minimum LCR level for all FABs. Rather, it would be more appropriate to pursue direct supervisory engagement with entities that persistently have insufficiently LCR levels.

the branch operates within the framework of the broader group. As such, relying on group documentation or a lighter touch 'Australian appendix' may be an adequate and proportional approach.

More generally, a clearer understanding of APRA's thinking regarding ILAAPs would assist industry form a view on the materiality of the burden associated with this policy suggestion. It would also assist industry to understand if there are specific concerns, for example around intraday and/or concentrations for which the ILAAP would assist, compared to the existing APS 210 and CPS 220 frameworks.

LCR buffers and Pillar 2 add ons

Pillar 2 add ons can be an effective manner of dealing with risks, otherwise not captured by the Pillar 1 metrics. APRA's 30 March webinar suggests Pillar 2 add ons could (largely) be held within current buffers. Initial feedback from members indicates the likely response by industry would be to increase aggregate liquidity holdings, adding to the cost of regulatory compliance.

Additionally, excessive Pillar 2 add ons may inhibit the effectively of the liquidity buffers. Ensuring 'buffer usability' remains a challenge for the global (regulatory) community regarding capital buffers.[4] While liquidity buffers operate differently than capital buffers, APRA communication to the regulated and investment communities will be an important part of ensuring buffers operate as intended during times of stress.

For FABs, Pillar 2 add ons may result in disproportionally increased costs due to 'captured liquidity', as liquidity requirements outside the LCR may not be recognised in regional or global liquidity frameworks. AFMA will continue to explore implications potential changes to Pillar 2 add ons through its ongoing engagement with APRA.

4. Are there other potential solutions APRA should consider to address these problem statements?

As noted above, any changes should be considered in the context of the already strong prudential regime and prudent management of ADIs and give thought to the broader implications and government agenda.

For FABs, we recommend APRA retain the current LCR limit (that is 40%) and focus on supervisory engagement for any outlier entities. Additionally, this would allow a proportionate application, having regard to the different risk profile, business nature and asset size. As noted above, regulatory burden could be minimised if APRA allows FABs to apply proportional policies, for example proportionate ILAAPs, that leverage established processes and systems, at the group/head office level. Such an approach would also provide for consistent risk management within legal entities.

Foreign ADI Liquid Assets Requirement

AFMA also encourages APRA to consider the appropriateness of allowing FABs to adopt approaches, materially aligned to APRA's requirements but tailored to more closely align to regional or head office approaches. This could include revisiting the Foreign ADI Liquid Assets Requirement (**FALAR**), to allow FABs to more efficiently leverage head office capabilities. AFMA notes that some regulators in the

[4] For example, as highlighted by Sam Woods of the UK Prudential Regulation Authority in his 2022 'Bufferati' speech.

region currently apply FALAR like approaches to foreign bank branches operating in their jurisdictions. Examples include:

- The [HKMA's Liquidity Maintenance Ratio] (**LMR**) approach, which requires the holding of 25% of an entity's "liquefiable assets" to the amount of an institutions "qualifying liabilities (after deductions)" over a calendar month; and
- The [MAS' Minimum Liquid Assets] (**MLA**) approach, which requires the holding of no less than "16% of the value of its Qualifying Liabilities".

Both the LMR and MLA approaches are materially similar to APRA's MLH approach and the previously considered FALAR. While the FALAR (or similar approach) may not be suitable for all FABs, the option to adopt such an approach (subject to APRA approval) would reduce compliance burdens, particularly for smaller FABs, and allow greater efficiencies from leveraging and aligning to regional and/or head office approaches.

The adoption of these approaches in well regarded, BCBS compliant regional jurisdictions demonstrates they can be applied while maintaining entity and system stability. We anticipate that such an approach could safely be adopted in Australia, maintaining entity and system resilience while reducing regulatory burden. We would anticipate that any move to a FALAR (or similar) approach would presumably require APRA approval.

5. Is the proposed process and approximate timeline reasonable?

The proposed timeline looks to be reasonable.

AFMA recommends a phased approach to implementation to minimise the impact to industry and markets, and to allow for early realisation of the proposed benefits. As an example, AFMA recommends the expedited implementation of the expanded HQLA definition. This is an uncontroversial element of the proposals, with broad industry support, that would provide cost relief to industry, which ultimately would benefit customers and the broader economy.

6. Do you agree on balance between resilience and industry cost burden?

Given the current lack of detail on the (potential) proposals, it is difficult for industry to form a definitive view on the balance between resilience and the cost to industry, and the broader economy.

Based on the information available to date, and as stated above, materially increasing liquidity requirements risks unduly adding to the costs of regulatory compliance and threatens to reduce local lending and competition.

Increasing the FAB LCR minimum from the current 40% could significantly increase the operating costs of FABs, in a manner that does not appear to be commensurate with (any increased) risks. As such, we again recommend keeping the current 'FAB LCR' minimum of 40% and for APRA to focus on other liquidity measures that could proportionally address the evolving liquidity risk profile of each FAB.

Furthermore, increased liquidity requirements are, of themselves, no guarantee for financial stability and higher LCR requirements alone need not guard against future failures. For example, Credit Suisse reported elevated LCR levels prior to its failure:

> *"Prior to the significantly increased outflows, on March 14, 2023, the quarter to date daily average LCR was approximately 153%, and improved from the three-month average daily LCR of 144% at the end of 2022."*[5]

APRA should take comfort from the already robust Australian prudential framework, that in a number of areas exceeds BCBS requirements. Australian banks already adhere to 'unquestionably strong' capital requirements and enhanced operational risk resilience, through the adoption of CPS 230. Additional prudential requirements must be considered as additional layers of protection on top of the current requirements. Any marginal increase in system and/or entity stability should outweigh the increased costs to regulated entities and to the broader economy.

7. Do you have feedback on what additional proportionality would be appropriate?

As highlighted above, any changes should be implemented in a manner that is proportionate across regulated entities and entity types. Any policy changes should also take into account:

- the already robust systems and processes in place, domestically and internationally;
- the products and services offered;
- entities' size and risk profile;
- the potential costs to entities and the broader economy; and
- the potential impacts on capital allocations from any material increase in the burden of liquidity risk management.

[5] Credit Suisse (2023) *Ad hoc announcement pursuant to Art. 53 LR*, Media Release, Zurich, 24 April