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Via email: PolicyDevelopment@apra.gov.au

LCR Framework and Financial Resilience – Additional Roundtable Feedback

Dear Ms Kiely,

The Australian Financial Markets Association (**AFMA**) appreciates the ongoing opportunity to provide feedback and analysis to the Australian Prudential Regulation Authority (**APRA**) on the impact of potential changes to the liquidity requirements of Foreign ADI Branches (**FABs**).

This feedback in this letter is limited to the potential impact on FABs. While AFMA's 140 plus membership includes both local and foreign ADIs, in addition to government treasury corporations, industry service providers and others, the scope of this letter aligns to the topics discussed at the first AFMA-APRA Foreign Branch Liquidity Roundtable, held on 11 May.

This letter and its attachments were compiled by AFMA's FAB Prudential Liquidity Taskforce to assist discussions at the second AFMA-APRA Foreign Branch Liquidity Roundtable, to be held on 2 July. The Taskforce contains a subset of AFMA's FAB members, of varying sizes and from a global spread of Home Office jurisdictions.

The content of this letter builds on our previous responses to APRA and focuses on the potential impact of an increase in the 'FAB LCR'. Other potential aspects of APRA's updated liquidity regime have not been considered in detail, such as the likely amplifying effect of Pillar 2 add-ons, as we anticipate these to be discussed in more detail at upcoming roundtables.

The analysis conducted by the Taskforce and contained in this letter is based on the information currently available on potential changes to the liquidity framework, complemented with our own research. As further details on the potential reforms become available, we will further develop our analysis, which may lead to further insights.

A need to progress with caution

Based on the information provided by APRA and our own analysis, AFMA remains of the view that there is not sufficient cause for a material change in the liquidity requirements for FABs.

As currently presented, AFMA has significant concerns about the potential impact of the proposed changes on FABs. These concerns are held and have been discussed at the highest levels within AFMA and its members.

The impact of the potential changes should not be underestimated. As discussed in the initial AFMA-APRA Foreign Branch Liquidity Roundtable and expanded upon in this letter, increased liquidity requirements in Australia cannot simply be ‘offset’ by relocating holdings within a group.

As noted in APRA’s 29 June 2026 consultation, *Getting the balance right on financial resilience*:

“Where proposals result in a reduction in capital, ADIs would have greater capacity to deploy released capital in a manner that supports broader economic outcomes, while maintaining appropriate credit risk management.”¹

Similarly, proposals that increase prudential requirements, be they capital or liquidity, will reduce banks’ ability to ‘support broader economic outcomes’. If liquidity requirements for FABs are material increased, it will weaken Australia’s regional competitiveness and most likely result in a reduction in the capacity of some FABs to support local clients and the Australian economy. There is a real risk that a material increase in FAB liquidity requirements will cause some foreign banks to review their allocations to and operations in the Australian markets.

Furthermore, any tightening of APRA’s prudential requirements builds on an already conservative and robust framework. National variances, such as interest withholding tax and APRA requiring deductions for contingent funding obligations, already reduce the attractiveness of Australia as a location for global capital. As previously stated, interest withholding tax alone is estimated to add 22bps to the funding costs of some FABs, which compounds the fact that FABs rely solely on wholesale funding, where rates are not as favourable, equally or evenly accessible nor loyal when compared to retail funding. As such, any marginal benefit from increased prudential requirements should be considered against the marginal impact on competition (domestic and global) and the broader economy.

This is particularly important given the contribution of FABs. The 48 FABs operating in Australia, represent 40% of all ADIs and 53% of all banks.² They provide lending, services and competitive tension in the local market. Given the importance of these banks, AFMA cautions APRA against increasing its regulatory requirements such to reduce FABs’ ability to support the local economy. Doing so would be at odds with the ‘Whole-of-Government Regulatory Reform Agenda’³ and untimely given the growing economic uncertainties. Increasing the costs for FABs in meeting liquidity requirements is also at odds with the position of APRA’s Chair that “For smaller banks, we are proposing changes that should marginally reduce liquidity costs for entities with stable funding profiles”⁴.

¹ APRA (2026) [Getting the balance right on financial resilience: Consultation paper - Workstream 1: Credit risk capital](#), 29 June

² As at end-March 2026, Quarterly ADI performance statistics, June 2026

³ Budget 2026-27 fact sheet: [Whole-of-Government Regulatory Reform Agenda](#)

⁴ Lonsdale, J (2026) [A call to arms amid rising geopolitical risk](#), speech, 17 June

Key takeaways

- A material increase in liquidity requirements would make Australia relatively less competitive and likely lead to a reduction in the capacity of some FABs to support Australian customers and the Australian economy.
- There is no standard global approach to LCR requirements for foreign bank branches.
- Jurisdictions with 100% LCR requirements for foreign bank branches only apply the 100% requirement to a subset of entities, with lower requirements applied to others.
- FABs maintain significant buffers above the regulatory minimum.⁵ This is driven by a range of factors including balance sheet volatility and management risk tolerances.
- FABs are expected to maintain material buffers above regulatory minimums, should those minimums be increased.
- Meeting liquidity requirements is more costly for FABs than local banks.
- Greater liquidity requirements would result in increased direct and indirect costs, including market risk related costs for foreign bank branches.
- Removing recognition of a committed funding facility (**CFF**) would further increase the cost of compliance. For some FABs, removal of CFF recognition could double the increase in required funding.
- If the minimum FAB LCR is increased from 40% to 100%, and not considering any amplifying effects of the potential removal of the CFF or any Pillar 2 add-ons:
 - Conservatively, FABs would need to purchase a combined notional of \$31bn of HQLA to meet the proposed increase in LCR minimums.
 - The cost is estimated to be between \$8.3m/\$bn (5 year ACGB's) and \$10.1m/\$bn (RBA Cash).
 - FABs (sampled by AFMA) forecast incremental HQLA requirements between \$400m and \$5bn per ADI.
 - The total cost of meeting the proposed LCR requirements for all FABs is estimated to be \$255m-\$311m.
 - Would add approximately \$20m PV01 of market risk to FABs and require additional Head Office capital support.
- Due to differences in investment mandates, some FABs will may need to meet any increased requirements through cash holdings at the RBA.
- FABs' holdings of government bonds attract higher capital charges than those of local ADIs.
- The cost of managing the increased market risk would be allocated to the Australian branch and considered as part of global allocation discussions.
- An increase in (locally generated) market risk may create additional constraints to the deployment of capital in Australia.

⁵ Data on FAB LCR levels are not available from APRA. However, member liaisons suggest many FABs operate with buffers near or above 60%. This compares to major banks, with an average buffer of 27.4% (December 2025)

Additional detail and analysis are provided in the attached appendices:

- Appendix A: Cost estimates of increased FAB LCR;
- Appendix B: Market risk implications of an increased FAB LCR; and
- Appendix C: Comparison of Foreign bank Branch Liquidity Regimes

We look forward to discussing these important reforms in more detail at the roundtable on 2 July.

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

Regards,

A handwritten signature in black ink, appearing to read 'B. Harper', with a long, sweeping horizontal line extending to the right.

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: Cost estimates of FAB LCR increase

Key takeaways

- Conservatively, FABs would need to purchase a combined notional of \$31bn of HQLA to meet the proposed increase in LCR minimums.
- The cost of HQLA for a 60% increase in LCR is estimated to be between \$8.3m/\$bn (5 year ACGB's) and \$10.1m/\$bn (RBA Cash).
- The total cost of meeting the proposed LCR requirements for all FABs is estimated to be \$255m-\$311m.
- For an LCR increase of 60%, FABs that were sampled returned forecast incremental HQLA requirements between \$400m and \$5bn per ADI.

In order to increase their LCR, FABs would need to increase their holdings of HQLA. Each FAB has a different range of funding options available and will also need to determine the composition of incremental HQLA that they will hold.

This decision is multi-faceted and will depend on a range of factors, inter alia, the mandate and skillset of the local treasury desk, availability of hedging options, associated limits (e.g. market risk, credit risk etc.), availability of target assets, treatment of the assets in internal liquidity models and the HQLA designation of the assets in the home country (i.e. Head Office).

The AFMA FAB Liquidity Task Force has reached out to its members and determined the likely range of funding options and associated cost for a sample of these. The impact of interest withholding tax has been included where funding is forecast to be raised from offshore sources.

The return on HQLA has been calculated using both the RBA ESA rate (i.e. RBA Cash Target -10bps) and the current yield on 5 year ACGB's. This range is likely to include the achievable HQLA yield that the majority of FABs could achieve, based on the constraints listed above.

For an LCR increase of 60%, FABs that were sampled returned forecast incremental HQLA requirements between \$400m and \$5bn per ADI.

The results of the analysis shows that the cost of HQLA for a 60% increase in LCR is estimated to be between \$8.3m/\$bn (5 year ACGB's) and \$10.1m/\$bn (RBA Cash). This would result in the smallest FAB's being impacted by A\$889k-A\$3.4m whilst the larger FABs would be impacted by a cost of \$38m-\$47m.

From an industry perspective, the total cost of meeting the proposed LCR requirements for all FABs would be \$255m-\$311m (assuming an overall incremental requirement of \$31bn).

							Scenario 1			Scenario 2		
		Size of incremental requirement	Base Cost of Funding	Blended Spread	All-In	Total Cost (inc. WHT)	Yield (RBA Cash)	Spread	\$ Cost	Yield (5 Year ACGB's)	Spread	\$ Cost
Sample Banks	Bank 1	1,500,000,000	BBSW3M	0.40%	4.87%	5.05%	4.25%	-0.80%	(11,961,563)	4.43%	-0.62%	(9,261,563)
	Bank 2	3,000,000,000	BBSW3M	0.72%	5.19%	5.25%	4.25%	-1.00%	(29,994,375)	4.43%	-0.82%	(24,594,375)
	Bank 3	400,000,000	BBSW3M	0.13%	4.60%	4.65%	4.25%	-0.40%	(1,609,750)	4.43%	-0.22%	(889,750)
	Bank 4	400,000,000	BBSW3M	0.25-0.78%	4.99%	5.11%	4.25%	-0.86%	(3,438,500)	4.43%	-0.68%	(2,718,500)
	Bank 5	5,000,000,000	BBSW3M	0.45-0.65%	5.02%	5.20%	4.25%	-0.95%	(47,653,125)	4.43%	-0.77%	(38,653,125)
	Bank 6	4,000,000,000	BBSW3M	0.90%	5.02%	5.14%	4.25%	-0.89%	(35,615,000)	4.43%	-0.71%	(28,415,000)
Total FAB Estimate		\$31,000,000,000	BBSW3M	0.65%	5.12%	5.26%	4.25%	-1.01%	(311,755,375)	4.43%	-0.83%	(255,955,375)

Funding sources include term issuance (e.g. MTN's, FRN's, NCD's, TCD's), Head Office borrowing, corporate and wholesale deposits and money market borrowing.

Note: The above analysis does not include any amplifying effects of the potential removal of the CFF or any Pillar 2 add-ons.

Appendix B: Market risk implications of an increased FAB LCR

Key takeaways

- Increasing the FAB LCR minimum requirements will result in an increase in market risk related costs for foreign bank branches.
- An increase in (locally generated) market risk may create additional constraints to the deployment of capital in Australia.
- Due to differences in investment mandates, some FABs will may need to meet any increased requirements through cash holdings at the RBA.

An increase in FAB LCR would have flow on effects for FABs' market risk exposures, through the associated increased funding requirements invested in HQLA securities. This increase in market risk would have both direct and indirect cost and funding implications for FABs. These costs would disadvantage FABs compared to local banks.

If the minimum FAB LCR is increased from 40% to 100%, FABs will need to purchase a combined notional of AUD~\$31b of HQLA which equates to ~5% of issuance (derived using the total ACGB's on issue and assuming the RBA does not sell the \$200–230m it holds). This could result in a rush to purchase HQLA as there would be a first mover's advantage. In reality, the amount available to purchase would be smaller as some firms will hold to maturity.

This would add approximately \$20m PV01 of market risk to FABs (which would equate to \$2b in losses in a 100 bp cyclical move), which would need to be supported by sufficient trading and risk resources. Not all branches currently have the required bond trading expertise within their ALM functions, implying additional capability requirements. This is particularly relevant given the increased focus on HQLA valuation risk following the SVB collapse, as well as the broader rise in interest rates since the onset of the war in Iran.

Subject to headcount approval, these activities would also require additional Head Office capital support. IRRBB exposures (Δ EVE) are typically constrained as a proportion of Tier 1 capital, which would place downward pressure on ROE. If Head Office is unwilling to allocate the necessary resources and capital, FABs would likely revert to increasing their holdings in ESA cash.

FABs may also be restricted to purchasing ACGBs, as investing in semis would place additional pressure on Head Office NSFR and LCR. This constraint would further disadvantage FABs from an earnings perspective as most foreign jurisdictions do not recognise Semis as HQLA1. Some consider them HQLA2 (provided they are demonstrably traded in deep and active markets) and others as non-HQLA (risk assets). The last example would further increase a firm's market risk exposure as additional HQLA compliant securities will need to be purchased by Head Office to maintain LCR neutrality.

For the NSFR, semis at the Head Office level will attract a higher RSF requirement of 15% for HQLA2 or 50% if non-HQLA. This compares to local firms receiving 5% as HQLA1. This also adversely impacts FAB from a regulatory Tier 1 capital perspective, as credit RWA associated with semis are non-zero. Consequently, this places additional pressure on the Group's ROE, despite remaining fully compliant with liquidity requirements (LCR and NSFR) at the Group level.

Appendix C: Comparison of Foreign Bank Branch Liquidity Regimes

Key takeaways

- There is no standard global approach to LCR requirements for foreign bank branches.
- Jurisdictions with 100% LCR requirements for foreign bank branches only apply the 100% requirement to a subset of entities, with lower requirements applied to others.

The Basel Committee on Banking Supervision (**BCBS**) does not require a universal standalone 100% branch LCR. Rather *“a bank should actively monitor and control liquidity risk exposures and funding needs at the level of individual legal entities, foreign branches and subsidiaries”*⁶.

As can occur with areas of national discretion, there are varying approaches to LCR requirements for foreign bank branches. As expanded below in Table 1, while some jurisdictions apply a 100% LCR requirement for some foreign bank branches, AFMA is not aware of a comparable jurisdiction in which this requirement is applied universally.

Compared with the BCBS and peer regimes, a move by APRA to a 100% branch LCR requirement, plus no Head Office CFF recognition, would push Australia materially further toward a local pre-positioning model. This would reduce the benefits of the Australian bank branch regime and reduce the attractiveness of Australia as a location for capital.

Additionally, APRA also appears to be the only major regulator requiring regulated banks to hold an LCR provision for the buyback of debt securities, which is already more punitive than the approach taken in other major regulatory jurisdictions (PRA⁷, ECB⁸, HKMA⁹, MAS¹⁰, OSFI¹¹). Together with the proposed changes, this would further position Australia’s regulatory regime as an outlier among comparable jurisdictions, and make Australia less attractive for international capital allocation.

⁶ BCBS (2019) [LCR – Liquidity Coverage Ratio: LCR210](#), paragraph 10.3

⁷ Prudential Regulation Authority (2026) [Liquidity Coverage Ratio \(CRR\)](#), Article 23

⁸ ECB (2015) [COMMISSION DELEGATED REGULATION \(EU\) 2015/61](#), Official Journal of the European Union, 17 January

⁹ Hong Kong Monetary Authority (2025) *Regulatory Framework for Supervision of Liquidity Risk*, Supervisory Policy Manual

¹⁰ Monetary Authority of Singapore (2024) [MINIMUM LIQUID ASSETS \(“MLA”\) AND LIQUIDITY COVERAGE RATIO \(“LCR”\)](#), MAS Notice 649, 16 May

¹¹ Office of the Superintendent of Financial Institutions (2026) [Liquidity Adequacy Requirements \(LAR\) \(2026\) Chapter 2 – Liquidity Coverage Ratio](#), 1 May

Table 1: Comparison of Foreign Bank Branch LCR Requirements

Jurisdiction	Description	100% Foreign Bank Branch LCR		Alternative approach
		Present	Universally Applied	
APRA (current)	Applies conservative rules compared to peers, for example, requiring deductions for contingent funding obligations. ¹²	No	n/a	(MLH)
United Kingdom – PRA ¹³	The PRA does not currently use a standalone foreign bank branch (/third-country firm) minimum LCR requirement. Rather, it relies on a ‘whole-firm liquidity’ approach, utilising information and cooperation with home supervisors. We note that the PRA is currently consulting on ‘ modernising the liquidity policy framework ’.	No	n/a	‘Whole-firm’
United States – Federal Reserve ¹⁴	For large foreign banking organisations with combined U.S. assets of \$100bn or more, holdings must be “sufficient to meet the projected net stressed cash-flow need of the U.S. branches and agencies over the first 14 days of a stress test with a 30-day planning horizon”.	No	n/a	14 day stress test

¹² For example, [OSFI](#) still aligns to the BCBS and applies national discretion by explicitly stating that it does not apply outflows for non-contractual obligations. The [PRA](#) and [ECB](#) have also chosen not to include contingent funding outflows/buybacks in their respective standards.

¹³ Bank of England (2025) [PS6/25 – International firms: Updates to SS5/21 and branch reporting](#), Policy Statement, 20 May

¹⁴ United States Federal Reserve (n.d.) [SECTION 252.157—Liquidity Stress Testing and Buffer Requirements for Foreign Banking Organizations with Combined U.S. Assets of \\$100 Billion or More](#)

Canada - OSFI¹⁵	Foreign bank branches licensed to operate in Canada are <u>not subject to the Liquidity Adequacy Requirements (LAR) Guideline requirements</u> , which includes the LCR. Rather, they are expected to conform to group risk management policies and risk appetites as established by the legal entity abroad and supervised by the home supervisor in accordance with the principles for liquidity risk management established by the BCBS.	No	n/a	Expected to conform to group risk management policies
Japan- FSA¹⁶	Japan's FSA applies a 100% LCR to internationally active banks. No quantitative minimum liquidity requirements are applied to domestic banks or to foreign bank branches.	No	n/a	Report a simplified measure with no quantitative minimum liquidity requirements applied
Hong Kong – HKMA¹⁷	100% LCR applied to category 1 institutions only. For 'Category 2/2A' institutions, a 25% Liquidity Maintenance Ratio (LMR) applied. Being a percentage, of the amount of a category 2 institution's "liquefiable assets" to the amount of the institution's "qualifying liabilities (after deductions)" over a calendar month.	Yes	No, only 'Category 1' institutions	25% Liquidity Maintenance Ratio
Singapore – MAS¹⁸	Distinguishes between D-SIBs, for which greater requirements apply. For non-D-SIBs, a reporting entity(/bank) must meet a Singapore Dollar LCR of at least 100% and an all currencies LCR of 50% or may choose to apply a Minimum Liquid Assets (MLA) approach. In short, the MLA requires a reporting entity to hold no less than 16% of the value of its Qualifying Liabilities denominated in any currency.	Yes	No, only D-SIBs	16% Minimum Liquid Assets

¹⁵ Office of the Superintendent of Financial Institutions (2026) [Liquidity Adequacy Requirements \(LAR\) \(2026\) Chapter 1 – Overview](#), 29 January and Office of the Superintendent of Financial Institutions (2020) [Liquidity Principles – Guidelines](#), 31 January

¹⁶ IMF (2024) [Japan Financial Sector Assessment Program: Technical Note – Banking Supervision and Regulation](#), Selected Issues, 16 April

¹⁷ Hong Kong Monetary Authority (2025) [Liquidity](#), 11 February

¹⁸ Monetary Authority of Singapore (2024) [MINIMUM LIQUID ASSETS \(“MLA”\) AND LIQUIDITY COVERAGE RATIO \(“LCR”\)](#), MAS Notice 649, 16 May

European Union – EBA¹⁹	Distinguishes between ‘Class 1’ and ‘Class 2’ third-country branches. “... a more proportionate reporting for Class 2 TCBs – of their sufficient unencumbered liquid assets covering liquidity outflows over a minimum 30-day period. Hence, providing a more lenient calculation – due to the elimination of inflow caps that are applied in the standard LCR for Class 1 TCBs.”	Yes	No	No. Though different calculations apply.
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¹⁹ European Banking Authority (2023) [*Final Report: Final draft Implementing Technical Standards on the supervisory reporting of Third Country Branches under the minimum harmonisation regime of Directive 2013/36/EU*](#)