

7 March 2024

Mr Gideon Holland
General Manager, Policy
Policy and Advice Division
Australian Prudential Regulation Authority

Via email: adipolicy@apra.gov.au

Dear Mr Holland

APS 117 – Interest Rate Risk in the Banking Book – Consultation

The Customer Owned Banking Association (COBA) welcomes the opportunity to respond to APRA's consultation on changes to Prudential Standard APS 117 – Interest Rate Risk in the Banking Book (APS 117).

COBA is the industry association for Australia's customer owned banks (mutual banks, credit unions and building societies). Collectively, our sector has over \$170 billion in assets and is the fifth largest holder of household deposits. Customer owned banks (i.e. mutual ADIs) account for around two thirds of the total number of domestic Authorised Deposit-taking Institutions (ADIs) and deliver competition and market leading levels of customer satisfaction in the retail banking market.

Our sector provides competition and diversity in a major bank and investor-owned bank dominated market. COBA members are predominantly retail consumer banks but have a wide range of business models and service many different demographics including those originating from employee groups (e.g. essential workers) or specific regional areas. The customer owned banking sector has a long history of putting our customers first.

COBA recognises the importance of a strong, stable and competitive banking system in Australia and agrees that prudent management of interest rate risks by all ADIs is important to achieve this outcome.

Key points

COBA supports the addition of paragraphs 14, 15 and 16 in draft APS 117, which explicitly identify interest rate risk in the banking book (IRRBB) as a material risk to be managed by all ADIs.

COBA supports the development of a new Prudential Practice Guide APG 117 Interest Rate Risk in the Banking Book (APG 117) which provides more guidance for ADIs in complying with APS 117.

COBA welcomes the inclusion of proportionality in the standard and guidance, however further guidance on how the standard will be applied to small, less complex ADIs would be beneficial.

COBA welcomes the inclusion of proportionality in the standard where APRA states that ADIs must manage their IRRBB “commensurate with the nature, scale and complexity of its operations” with the same proportionality requirement used in outlining the requirements for Significant Financial Institutions (SFIs) that do not have IRRBB model approval. In the next few years, there will be a number of mutual ADIs above the SFI threshold, so it is critical that any requirements are applied proportionally for all entities, irrespective of whether they are an SFI or a non-SFI. In line with this, COBA supports APRA’s approach to establishing a simpler set of prudential requirements for non-SFIs.

Given the relatively simple business model of COBA members, which focus on offering retail deposit and lending products, a proportionate supervisory approach to management of IRRBB is essential. Although the prudential guidance does provide high-level expectations of IRRBB management for non-SFIs (Chapter 1), further detail on how APRA will specifically apply proportionality to the standard would be beneficial, particularly for small, less complex ADIs with limited compliance resources. This is particularly important given the risks that ADIs face in being subject to a costly capital charge if IRRBB requirements are not met.

COBA supports the development of the prudential guidance and its format which links guidance to specific sections of the prudential standard that make it significantly easier for users to understand APRA’s guidance. This change is a welcome development from APRA’s modernising the prudential architecture project.

Thank you for taking the time to consider our submission. We look forward to continuing our engagement with APRA on this issue. If you wish to discuss any aspect of this submission, please contact Alexander Woloszyn, Policy Manager (awoloszyn@coba.asn.au).

Yours sincerely



MICHAEL LAWRENCE
Chief Executive Officer