2 March 2026

Mr. Ian Beckett
General Manager, Policy
Policy and Advice Division
Australian Prudential Regulation Authority
400 George Street
Sydney NSW 2000

Email: PolicyDevelopment@apra.gov.au

Dear Mr. Beckett,

Re: COBA response to "A more proportionate banking prudential framework" Discussion Paper

The Customer Owned Banking Association (COBA) welcomes the opportunity to provide feedback to the Australian Prudential Regulation Authority (APRA) on "A more proportionate banking prudential framework" Discussion Paper ("the Discussion Paper"), released on 5 December 2025.

COBA is the industry association for Australia's customer-owned banks, including mutual banks and credit unions. Our members range in size from less than $200 million in assets to around $25 billion in assets, and as a result, some COBA members are directly affected by the proposed changes to prudential tiering.

COBA believes that regulation should be risk-based. On this basis, we welcomed last year's CFR *Review into Small and Medium-sized Banking Final Report* ("CFR Review") as an important first step in a broader reform journey. The CFR Review included a commitment from APRA to make the banking prudential framework more proportionate.

KEY POINTS

COBA agrees with reviewing the current prudential tiering thresholds. Following consultation with our members, we make the following recommendations.

Recommendation 1: APRA should establish the MSFI category and set the MSFI threshold at $300 bn in assets or 5 per cent of overall banking assets (approx. $275bn).

Recommendation 2: APRA should raise the SFI threshold from its current $20bn in assets, with consideration of a higher threshold linked to a percentage of overall assets.

Recommendation 3: APRA provide greater clarity as to the basis for the adoption of any threshold, and how this reflects risk and complexity.

Recommendation 4: MSFI and SFI thresholds, particularly when a specific set number, should be regularly reviewed.

Recommendation 5: APRA should provide the necessary time for transitioning to SFI status of at least 12 months and continue its pragmatic approach.

Recommendation 6: Existing regulations and reporting requirements currently applying to banks should be reviewed over time to incorporate this tiered approach.

General Views on Prudential Tiering

COBA welcomes commitments made in the CFR Review for improving prudential regulation through a more deliberate risk-based approach, and through greater consideration of how future policy changes will impact small and medium-sized banks.

COBA has advocated that the current regulatory framework disproportionately burdens customer-owned banks. As a result, regulation plays an important role in creating (or hindering) a competitive banking landscape. By striking the right balance, effective regulation can establish guardrails that address risks while also promoting competition and innovation within banking.

Responses to Consultation Questions

Proposal 1 - Enhancing tiering

- ***Introduce a new tier i.e. MSFI - for the largest ADIs with assets greater than $300 billion***
- ***Raise the asset threshold of the existing SFI tier ($20 billion to $30 billion) to keep it fit-for-purpose***

Consultation question:

Are the proposed asset thresholds for MSFI and SFI appropriate? If not, where should they be and why?

Recommendation 1: APRA should establish the MSFI category and set the MSFI threshold at $300 bn in assets or 5 per cent of overall banking assets (approx. $275bn).

Recommendation 2: APRA should raise the SFI threshold from its current $20bn in assets, with consideration of a higher threshold linked to a percentage of overall assets.

Recommendation 3: APRA provide greater clarity as to the basis for the adoption of any threshold, and how this reflects risk and complexity.

Recommendation 4: MSFI and SFI thresholds, particularly when a specific set number, should be regularly reviewed.

The general view expressed by the COBA member banks to this consultation is that the current and proposed SFI thresholds appear arbitrary as they rely on a single asset-based metric that does not necessarily reflect the underlying risk profile, complexity, or business model of individual institutions.

While a numeric threshold can provide clarity and transparency for regulated entities, it can also feel somewhat artificial, particularly in the absence of a clear rationale for its selection or a clear articulation of its role within a broader risk-based framework.

As outlined in our submission to the CFR Review, COBA considers an approach that treats D-SIBs differently in respect to their prudential oversight as an appropriate example of proportionality. On that basis, COBA supports the proposal to create an MSFI threshold and considers a threshold around $300 billion in assets is appropriate.

During the CFR Review consultations, COBA raised its concerns over the current SFI threshold of $20 billion in assets. COBA expressed the view that this threshold did not reflect proportionality, as banks that were approximately 0.4% of system assets were being treated similarly to major banks that had assets exceeding 10% of overall system assets. As such, a bank 50 times the size of another is subject to the same prudential requirements, despite the materially different risk profiles and systemic footprints involved.

This gap has been partially resolved through establishing the new MSFI category, though clarity will be needed as to what applies to MSFIs and what applies to SFIs. This will be crucial to ensure the effective implementation of proportionality.

Some of our members would welcome APRA’s proposal to lift the SFI threshold. However, some COBA members noted that a change from $20 billion to $30 billion would have little benefit for them.

If the SFI threshold were to change as proposed, three COBA members, People First Bank, NGM Group and Great Southern Bank, would go from being SFIs to being below the proposed SFI threshold. We further note that other COBA members, such as Bank Australia, are very near the current SFI threshold.

These organisations have done or are doing the work required to meet the SFI requirements and, as such, would receive limited benefit from reversing their SFI status, particularly if they were to become SFIs again in the future. There is also a recognition that SFI status will likely be a “one way street” where “once an SFI, always an SFI,” despite APRA having discretion to remove SFI status for ADIs that fall below any new threshold.

Conversely, there are some COBA members well below the $20bn threshold that would benefit from more “head room” before reaching the SFI threshold. However, given the current pace of assets growth and mergers between larger customer-owned banks, the benefit of a $30 billion SFI threshold could be short lived. Some members indicated that a low SFI threshold could potentially also act as a disincentive for certain mergers.

On this basis, we would reiterate the position outlined in our submission to the CFR Review, that there remains merit in lifting the current SFI threshold. The medium bank threshold used in the CFR of 1% of total banking assets (which would be approximately $55 billion in assets today) is worth consideration. An asset threshold of this magnitude would provide significant relief and potentially better reflect the complexity and risk profile of banks with assets under this threshold, compared to their larger peers.

Customer-owned banks have a domestic focus and simple business model warranting a measured, risk-based approach to prudential supervision. A higher SFI threshold would better align regulatory intensity with the actual risk profile of these entities and ensure that APRA’s supervisory resources remain appropriately focused on institutions with greater systemic relevance.

A regular review of the thresholds is appropriate, particularly if it is a set number as opposed to a percentage of overall banking assets. We also note that the proposed changes do not materially benefit ADIs with assets well below $20bn, which would also benefit from appropriate regulatory relief.

<u>Proposal 2 - Providing more time</u>

- ***More time for non-SFIs to comply with new or revised requirements***
- ***A transitional period of at least 12 months as ADIs move to a higher tier***

Consultation question:

Are there any other ways APRA can support effective policy implementation or transition across tiers?

Recommendation 5: APRA should provide the necessary time for transitioning to SFI status of at least 12 months and continue its pragmatic approach.

We support non-SFIs having the necessary time to comply with new requirements when they reach the SFI threshold. Based on member bank feedback, a transitional period of at least 12 months would be appropriate, with a transition period of closer to 18 months required to introduce all new requirements.

Member bank feedback has also indicated that APRA has taken a pragmatic approach to the transitional period for the move to SFI status, which has been welcomed.

The transitional period allows institutions to plan for, resource and embed more stringent requirements such as governance, risk management, reporting, and systems uplift without disrupting core operations or customer services. It would also reduce the risk of rushed or inefficient implementation, support regulatory compliance quality, and recognise the practical constraints faced by smaller and less complex ADIs as they scale.

__Proposal 3__

Embedding into APRA's policy development protocol

- ***APRA will explore opportunities to more explicitly differentiate prudential requirements by tiers.***

Recommendation 6: Existing regulations and reporting requirements currently applying to banks should be reviewed over time to incorporate this tiered approach.

Reviewing prudential standards in line with the tiering framework is essential to ensuring that regulatory expectations remain proportionate, risk-aligned, and practical to implement. As the regulated population evolves and the gap between SFI and MSFI obligations becomes more meaningful, regular review helps ensure that requirements are calibrated to institutions’ size, complexity, and systemic footprint rather than applied uniformly in ways that may over-burden less complex entities.

Stakeholders consistently emphasise that clarity and a risk-based approach are key: standards should achieve their prudential intent without introducing unnecessary complexity or compliance cost that diverts resources away from core activities, customer experience, or investment in capability uplift. A well-designed tiering framework, supported by standards that are genuinely scaled, helps maintain system resilience while avoiding regulatory settings that are inappropriate for institutions that pose lower systemic risk.

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We thank APRA for the opportunity to share our views and would be happy to discuss these matters further.

Please do not hesitate to contact Dr Brad Pragnell, Head of Strategy on bpragnell@coba.asn.au if you have any questions about our submission.

Yours sincerely

MICHAEL LAWRENCE
Chief Executive Officer