



| APRA

# Guidelines

## ADI Authorisation Guidelines

April 2008



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## **Objective of the Guidelines and Outline of the Authorisation Process**

These Guidelines set out the Australian Prudential Regulation Authority's (APRA's) authorisation process for authorised deposit-taking institutions. The guidelines apply to prospective applicants seeking an authority to carry on banking business in Australia under the *Banking Act 1959* (the Act). They outline the minimum criteria to be addressed by applicants and the necessary information and documents to be submitted with an application.

APRA's authorisation process, as with its approach to supervision, is consultative and each applicant is assigned a responsible supervisor who is the main contact for the entity on all APRA-related matters.

Where an applicant does not have an existing operation in Australia, it is expected to build its resources and establish its core operations during the authorisation process, so that it is ready to commence business when it is granted authorisation.

The application process involves the following steps:

- preliminary consultation between APRA and the prospective applicant to discuss the applicant's plans to carry on banking business in Australia. This discussion will assist in identifying any matters which might adversely impact on the proposal and in agreeing the format and content required in an application;
- submission of a draft application and relevant information, as detailed in the authorisation guidelines; and
- APRA's review of the application. This will include meetings with senior officers and other responsible persons, as well as on-site prudential reviews.

Generally, the overall licensing process could take from three to 12 months. Some common factors that can delay the authorisation process include:

- an initial submission that contains incomplete or inadequate documentation;
- an entity being unable or unwilling to comply with APRA's requirements (for example, being unable to raise the required level of capital); and
- delays in responding to APRA's requirements and requests.

APRA encourages all prospective applicants to contact it as early as possible during their planning process to discuss their intent (or likely intent) to apply for an authorisation.

# Guidelines on Authorisation of ADIs

## Overview

1. These Guidelines are for prospective applicants seeking an authority to carry on banking business in Australia. They set down the minimum criteria to be addressed by applicants and necessary information and documents to be submitted with an application.
2. 'Banking business' consists of both taking deposits (other than as part-payment for identified goods or services) and making advances of money, as well as other financial activities prescribed by regulations under the Act. Banking business must not be undertaken in Australia without authorisation from APRA. Institutions granted an authority to carry on banking business in Australia are referred to as 'authorised deposit-taking institutions' or 'ADIs'. Applicants need not offer a full range of banking services on authorisation. They may choose to provide specialised services provided they can demonstrate expertise in their selected area of operation.
3. The Act only allows corporations to carry on banking business in Australia. APRA cannot, therefore, consider applications from partnerships or unincorporated entities. Prospective applicants may refer to the Australian Securities and Investments Commission (ASIC) website ([www.asic.gov.au](http://www.asic.gov.au)) for information with regard to the requirements and procedures for registration of a body corporate in Australia.
4. A body corporate seeking an authority to carry on banking business in Australia should apply in writing to APRA in accordance with section 9 of the Act. An application should be signed by two Directors of the applicant.
5. APRA may refuse an application for authority to carry on banking business in Australia where an applicant is a subsidiary of a non-operating holding company (NOHC) that does not hold a NOHC authority under the Act. Where relevant, an applicant should submit to APRA a written application by its NOHC for a NOHC authority under Section 11AA of the Act concurrently with its application for authority to carry on banking business.
6. Foreign banks may apply to establish locally incorporated subsidiaries or branches to carry on banking business in Australia (foreign banks authorised by APRA to carry on banking business in Australia through branches are referred to as 'foreign ADIs' under the Act). There are no restrictions on the number or size of operations of foreign banks in the Australian market. A foreign bank may simultaneously hold an authority to operate as a foreign ADI and be the parent of a locally incorporated subsidiary authorised as an ADI.
7. Except as explicitly stated in APRA's Prudential Standards and Division 1B of Part II of the Act, foreign bank-owned subsidiary ADIs are subject to the same legislative and prudential requirements as locally owned ADIs. Although the prime responsibility for oversight of the Australian operations of a foreign ADI rests with local management and its head office as well as with the foreign ADI's home supervisor(s), the foreign ADI is nonetheless required to submit its local operations to APRA's prudential supervision.

## Use of restricted words and expressions

8. The granting of an authority to carry on banking business gives the successful applicant the right to use the expression 'authorised deposit-taking institution' or 'ADI' in relation to its business. The authority does not automatically entitle the ADI to call itself a 'bank'. Applicants should note section 66 of the Act which restricts the use of certain words or expressions without explicit APRA consent (refer to section 66 Guidelines available on the APRA website: [www.apra.gov.au](http://www.apra.gov.au)).

9. An applicant wishing to use any of the restricted words or expressions on authorisation should apply concurrently to APRA for a section 66 consent.

### Trading names

10. An ADI that wishes to use a trading name, other than its registered company name, may seek to use a restricted expression in that trading name. APRA will not ordinarily object to this where the ADI would otherwise be permitted to use that expression (e.g. where an ADI that is a bank wishes to use the term 'bank' in its trading name). If the restricted expression to be used in the trading name is not one that the ADI would ordinarily be permitted to use (e.g. where the ADI is a bank and wishes to use the term 'credit union' in the trading name), APRA will need to consider on a case-by-case basis whether such use could be misleading.
11. In all cases, APRA would expect the ADI using the trading name to clearly disclose on general marketing information (such as Internet sites), as well as account agreements and other contractual documentation provided to customers, that the trading entity is a trading name, division or other operating arrangement of the licensed ADI, as appropriate. APRA would expect such disclosure irrespective of whether the trading name includes a restricted expression to ensure all customers know they are dealing with the licensed ADI.
13. Unless otherwise indicated, the authorisation criteria set out below are applicable to all applicants, including mutually owned applicants as well as foreign bank applicants intending to establish branches or locally incorporated subsidiaries. These criteria represent the *minimum* requirements that an applicant will need to meet for authorisation under the Act and should not be taken as an exhaustive list. Depending on the circumstances, APRA may refuse an application on other prudential grounds not covered in these Guidelines.
14. APRA expects all applicants to be able to comply with its prudential requirements, as set out in various prudential standards, from the commencement of their banking operations. Prospective applicants should familiarise themselves with these prudential standards. It should be noted that more stringent or otherwise modified prudential requirements may be set on a case-by-case basis, for example, for newly authorised ADIs in their formative years or those specialising in particular business lines.

### Capital

### Authorisation criteria for ADIs

12. APRA will only authorise suitable applicants with the capacity and commitment to conduct banking business with integrity, prudence and competence on a continuing basis.
15. APRA will assess the adequacy of start-up capital for an applicant on a case-by-case basis based on the scale, nature and complexity of the operations as proposed in the business plan. Applicants proposing to operate as banks must have a minimum of \$50 million in Tier 1 capital. Otherwise, no set amount of capital is required for an authority to carry on banking business. Foreign ADIs are not required to maintain endowed capital in Australia.
16. Applicants must satisfy APRA that they are able to comply with APRA's capital adequacy requirements from the commencement of their banking operations. All locally incorporated ADIs are required to maintain, at all times, a prudential capital ratio (PCR) as set by APRA in accordance with *Prudential Standard APS 110 Capital Adequacy*. An ADI's PCR is 8 per cent of total risk-weighted assets, of which at least half must be made up of Tier 1 capital (i.e. a minimum Tier 1 capital ratio of 4 per cent). An ADI will, at all times, be

required to maintain a risk-based capital ratio in excess of its PCR. Newly established ADIs may be subject to a higher minimum capital ratio in their formative years, depending on the risk profile of the proposed operations. Mutually owned ADIs are permitted to have start-up capital made up entirely or mostly of Tier 2 capital. The timeframe for these institutions to build up Tier 1 capital will be agreed with APRA on a case-by-case basis. Foreign bank applicants are expected to meet comparable capital adequacy standards, which must be consistent in all substantial respects with the Basel II Capital Framework, as required by their home country supervisors.

## Ownership

17. Ownership of ADIs is governed by the *Financial Sector (Shareholdings) Act 1998* (the FSSA) which limits shareholdings of an individual shareholder or group of associated shareholders in an ADI to 15 per cent of the ADI's voting shares. A higher percentage limit may be approved by the Treasurer on national interest grounds.
18. Applicants must satisfy the requirements specified in the FSSA in respect of ownership interests in ADIs or, where relevant, have exemptions granted under the FSSA. NOHCs with a 100 per cent shareholding in the proposed ADI and foreign bank parents must also have a wide spread of ownership unless exempted from the provisions of the FSSA.
19. All substantial shareholders of an applicant are required to demonstrate to APRA that they are 'fit and proper' in the sense of being well-established and financially sound entities of standing and substance. In the case of foreign bank applicants, this requirement applies both to the foreign bank itself and to the substantial shareholders of the foreign bank. APRA requires all substantial shareholders to be able to demonstrate that their involvement in the ADI represents a long-term commitment and that they have the capacity to contribute additional capital, if required.

## Governance

20. Applicants must satisfy the requirements set out in *Prudential Standard APS 510 Governance* with regard to the composition and functioning of the Board. Applicants must also satisfy APRA that they have policies in place to ensure that persons who hold the key positions within the proposed ADI are fit and proper, in accordance with *Prudential Standard APS 520 Fit and Proper*.
21. APRA may consult other regulators (domestic and overseas) regarding the suitability of personnel for the proposed ADI. Where necessary, applicants will be expected to provide APRA with authorisation to seek details in this regard.

## Risk management and internal control systems

22. Applicants must satisfy APRA that their proposed (or existing) risk management and internal control systems are adequate and appropriate for monitoring and limiting risk exposures in relation to domestic and, where relevant, offshore operations from the commencement of the ADI's banking operations. This includes, in particular, the development, implementation and maintenance of adequate and appropriate policies and procedures for monitoring and managing:
  - a) credit risk, including policy on lending to shareholders, directors and associates; exposures to individual clients and groups of related clients; policy on large exposures; policy on monitoring asset quality (e.g. loan grading system, recognition of impaired facilities and provisioning policy) (refer to *Prudential Standards APS 112 Capital Adequacy: Standardised Approach to Credit Risk*, *APS 220 Credit Quality*, *APS 221 Large Exposures* and *APS 222 Associations with Related Entities*);

- b) market risk arising from banking business and trading activities (refer to *Prudential Standard APS 116 Capital Adequacy: Market Risk*);
  - c) liquidity risk (refer to *Prudential Standard APS 210 Liquidity*); and
  - d) operational risk (refer to *Prudential Standard APS 114 Capital Adequacy: Standardised Approach to Operational Risk*; for outsourcing and business continuity management in particular, refer to *Prudential Standards APS 231 Outsourcing* and *APS 232 Business Continuity Management*).
23. Foreign bank applicants must demonstrate that the arrangements for reporting to the parent foreign bank or head office are adequate.
24. In assessing whether the policies and procedures proposed for managing and controlling risk are adequate and appropriate for the applicant's operations, APRA will take account of the size, nature and complexity of the operations, the volume of transactions undertaken, the proposed organisational structure, and the geographical distribution of the business as set out in the business plan.

## Compliance

25. Applicants must satisfy APRA that their compliance processes and systems are adequate and appropriate for ensuring compliance with:
- a) APRA's prudential standards; and
  - b) other Australian regulatory and legal requirements.
26. In assessing whether the compliance processes and systems are adequate and appropriate for the applicant's operations, APRA will have regard to the size, nature and complexity of those operations.

## Information and accounting systems

27. All ADIs are required to submit data to APRA in terms of the reporting standards under the *Financial Sector (Collection of Data) Act 1998*. Required reporting forms for ADIs depend on the type of ADI and are available on APRA's website.
28. Applicants must satisfy APRA that their information and accounting systems are adequate for maintaining up-to-date records of all transactions and commitments undertaken by an ADI, so as to keep management continuously and accurately informed of the ADI's condition and the risks to which it is exposed. Specifically, applicants are required to demonstrate to APRA that their systems will be capable of producing all required statutory and prudential information in an accurate and timely manner from the commencement of their banking operations.
29. In assessing the overall adequacy of the information and accounting systems, APRA will have regard to the integrity and security of the systems and arrangements for business continuity management (refer to *Prudential Standard APS 232 Business Continuity Management*). Outsourcing of material data processing must satisfy APRA's outsourcing requirements set out in *Prudential Standard APS 231 Outsourcing*.

## External and internal audit arrangements

30. Applicants must demonstrate to APRA that arrangements have been established with external auditors in accordance with the requirements set out in *Prudential Standard APS 310 Audit & Related Arrangements for Prudential Reporting*. This includes, in particular, arrangements for an external auditor to report to APRA on:
- a) the observance of APRA's prudential standards and requirements;

- b) compliance with statutory requirements, as well as any conditions on the ADI authority (including disclosure requirements for foreign ADIs in respect of deposit-taking activities pursuant to section 11E of the Act);
  - c) the reliability of information supplied to APRA for prudential supervision purposes;
  - d) whether the external auditor has become aware of any matters which, in the auditor's opinion, may have the potential to prejudice materially the interests of depositors of the ADI; and
  - e) any other matters agreed between the ADI, the external auditor and APRA under the tripartite arrangements.
31. Applicants are required to satisfy APRA on the adequacy of internal audit arrangements and requirements set out in *Prudential Standard APS 510 Governance*.

### Supervision by home supervisor

- 32. Foreign bank applicants must have received consent from their home supervisor for the establishment of a banking operation in Australia. Only applicants that are authorised banks in their home country will be granted authorities to operate foreign ADIs.
- 33. Foreign bank applicants must satisfy APRA that they are subject to adequate prudential supervision in their home country. In considering the standard of supervision exercised by the home supervisor, APRA will have regard to the Core Principles of Banking Supervision promulgated by the Basel Committee on Banking Supervision. This includes whether the home supervisor supervises the foreign bank applicant on a consolidated basis in accordance with the principles contained in the Basel Concordat, and is prepared to co-operate (in terms of the Concordat) with APRA in the supervision of the ADI in Australia.

## Foreign ADIs

### Restrictions on deposit-taking activities

- 34. APRA grants authorities to carry on banking business in Australia to foreign ADIs subject to a condition specifically restricting the acceptance of retail deposits by their Australian branches. Foreign ADIs are not required to maintain endowed capital in Australia and are not subject to any capital-based large exposure limits. Moreover, depositors with foreign ADIs do not have the same protections under the Act as depositors with locally incorporated ADIs.
- 35. APRA's policy, as set out in the terms of authorisation for each foreign ADI, is that foreign ADIs are not permitted to accept *initial* deposits (and other funds) from individuals and non-corporate institutions of less than \$250,000. They can, however, accept deposits and other funds *in any amount* from incorporated entities, non-residents and their employees. No other specific restrictions are placed on the sources of funding or on the use of funds by foreign ADIs. They may offer cheque accounts to customers, subject to the above requirements governing the nature and size of deposits they can accept. Where credit card accounts are offered, there should be policies and procedures in place to ensure that any credit balances are promptly identified and repaid.

### Disclosure to depositors of non-application of depositor protection provisions

- 36. Foreign ADIs are not subject to the 'depositor protection' provisions of the Act, which are contained in Division 2 of Part II. To ensure depositors with foreign ADIs understand this limitation when they deal with foreign ADIs, section 11E of the Act requires a foreign ADI to disclose to prospective depositors the requirements in Division 2 of Part II that do not apply to it and to obtain APRA's prior approval for the manner in which it makes such disclosure.

37. While compliance with section 11E of the Act is not strictly a criterion for authorisation, it will generally be administratively convenient for foreign ADI applicants to apply for approval of the manner of disclosure at the time of making the application for authorisation.
38. An application for approval of the manner of disclosure will need to satisfy the APRA delegate that:
- a) a written disclosure statement will be provided to each prospective depositor prior to the opening of an initial account, the transfer of an account from an existing entity, or the lodgement of an initial deposit;
  - b) the statement will be clearly written in plain language, concise and prominently displayed;
  - c) the statement will describe, in summary form, the key elements of Division 2 of Part II of the Act that do not apply to foreign ADIs, namely:
    - (i) APRA's power to take control or appoint an administrator to take control of an ADI in the interests of depositors in the event of insolvency or suspension of payments;
    - (ii) the requirement for an ADI to immediately inform APRA if it considers it is likely to become unable to meet its obligations or is about to suspend payment;
    - (iii) the requirement for an ADI to hold assets in Australia exceeding its deposit liabilities in Australia; and
    - (iv) depositor priority over the assets of an ADI in Australia in the event of insolvency or suspension of payments.
39. To assist in substantiating compliance with section 11E of the Act, the foreign ADI should consider putting in place systems and procedures to ensure depositors opening an initial account or making an initial lodgement of funds are provided with the written disclosure statement.
40. In this regard, a foreign ADI may wish to consider obtaining an acknowledgement, signed by each prospective depositor (including all parties interested in a joint account) that the foreign ADI provided the prospective depositors with the written disclosure statement prior to opening the initial account or accepting the initial deposit of funds.
41. External auditors of foreign ADIs will be asked to report to APRA on compliance with the disclosure requirements as part of the audit arrangements in relation to the observance of prudential standards (refer to *Prudential Standard APS 310 Audit and Related Arrangements for Prudential Reporting* with respect to the required timing and frequency of such reporting).

## Dual operation of foreign banks

42. Where a foreign bank simultaneously holds an authority to operate as a foreign ADI and is the parent of a locally incorporated subsidiary authorised as an ADI, each operation is required to conduct its business in Australia in a way which recognises, and makes clear to others, its separate legal status and authorisation.
43. The foreign ADI's branch and the subsidiary ADI will need to have:
- a) separate books of accounts;
  - b) separate statistical (including prudential) reporting to APRA;
  - c) separate internal control systems for monitoring and managing risks (including systems for controlling credit risk, liquidity risk, market risk and operational risk);
  - d) as part of the control systems, separate systems of delegations (although these could comprise the same people in some cases);
  - e) separate chief executive officers responsible for the proper management and prudent operation of the foreign ADI and the subsidiary ADI, respectively; and

- f) processes to ensure customers understand which entity they are dealing with and the implications for their interests when staff are undertaking dual roles for both the branch and the locally operated subsidiary.
  - 44. Banking transactions between the foreign ADI and the subsidiary ADI should be at arm's length (on commercial terms and conditions).
  - 45. The foreign ADI and the subsidiary ADI are permitted to share the same premises. In addition, joint functional support services such as personnel and financial control between the two authorised entities are permitted, as are joint treasury operations. Refer to *Prudential Standard APS 231 Outsourcing* for requirements relating to outsourcing to a related body corporate.
- Application procedures**

### Preliminary consultation

- 46. Prospective applicants for an authority to carry on banking business in Australia are encouraged to contact APRA at an early stage to discuss their plans prior to submitting a formal application. This assists APRA in identifying any matters which might adversely affect the application and to advise on the format and content required of an application. APRA will review and comment on well developed drafts of an application through various stages of its development. Submission of drafts in electronic format is encouraged.
- 47. Applicants must contact the Reserve Bank of Australia (RBA) separately regarding requirements for establishing an Exchange Settlement Account (ESA). Applicants establishing ESAs are responsible for keeping the RBA apprised of the status of their application. APRA may also communicate directly with the RBA regarding the application.

- 48. APRA is funded by levies payable by authorised institutions and charges fees for certain functions, including applications for ADI authorisation. Further information on levies and fees is available on APRA's web site. The application fee must be paid at the commencement of the application process.

### Information required to be submitted on application

- 49. A list of information and supporting documents required to be submitted by an applicant for an authority to carry on banking business in Australia, either to operate as a locally incorporated ADI or a foreign ADI, is set out in Attachments A and B.
- 50. APRA may seek such additional information from an applicant as is necessary to assess the application.

### Submission of application

- 51. Two copies of the final application, each to be signed by two Directors of the applicant, including all the required information and supporting documents as set out in the Attachments to these Guidelines (as appropriate), should be submitted to APRA. If there are any material changes to the information provided before a decision on the application has been made, the applicant should notify APRA in writing as soon as possible.

### Processing and notification

- 52. All applications will be processed within a reasonable time, having regard to the particular circumstances of each application, including the completeness of information and documents submitted to APRA by the applicant.

53. Approval of the application may be contingent on other relevant approvals being granted. For example, this may include approvals under the *Financial Sector (Shareholdings) Act 1998*, the *Foreign Investment and Takeovers Act 1975*, and for an Australian Financial Services Licence under the *Corporations Act 2001*.
54. An authority may be granted to take effect on delivery or from some nominated date. APRA may impose conditions upon an authority at the time it is granted and may impose, vary or revoke conditions on an authority thereafter.
55. Applicants will be notified of APRA's decision on the application in writing. Authorisations are published on APRA's website and in the *Government Gazette*.

# Attachment A

## Supporting information required for an application to conduct banking business

### Locally incorporated ADI

#### 1. Ownership, board and management

- a) Name of the applicant and proposed ADI and the date and place of incorporation.
- b) The address of the registered office and operational offices.
- c) A brief history of the applicant and an outline of existing operations.
- d) Names of substantial shareholders (direct and ultimate) and their respective shareholdings and details of any related entities in Australia.
- e) Board and committee structure, including names of directors, their principal business associations, curriculum vitae, and statements regarding their fitness and propriety (refer to *Prudential Standards APS 510 Governance* and *APS 520 Fit and Proper*).
- f) An outline of the proposed organisational framework, including the names, responsibilities and curriculum vitae of senior management, and statements regarding their fitness and propriety.
- g) A written undertaking by substantial shareholders (including foreign bank parents) to provide additional capital, if required, and that their investment in the ADI represents a long-term commitment.
- h) Proposed initial capital (authorised, paid-up, classes of shares, etc) and capital ratios (refer to *Prudential Standards APS 110 Capital Adequacy* and *APS 111 Capital Adequacy: Measurement of Capital*).

#### 2. Three-year business plan

The business plan submitted should incorporate the goals of the first three years of operations of the ADI and the ADI group including all controlled entities. The plan should include:

##### Structure of business

- a) an outline of the proposed activities and scale of operations, including details of any specialised services proposed and relevant expertise, as well as any material outsourcing arrangements;
- b) details of borrowing and lending activities to be undertaken;
- c) details of proposed off-balance sheet activities;
- d) location of head office and an outline of the branch network envisaged and the timeframe over which the network will be established;
- e) other intended means of product distribution;
- f) an estimate of total staff complement envisaged;
- g) the proposed date for commencement of operations; and

##### Financial projections

- a) Projections (including sensitivity analysis covering expected, up-side and down-side scenarios) of the following:
  - i) detailed balance sheet, cashflow and earnings (including assumptions) for the proposed ADI;
  - ii) key financial and prudential ratios (e.g. capital ratios, liquidity ratios, etc) for the proposed ADI; and
  - iii) key financial and prudential ratios for the proposed ADI and its subsidiaries on a consolidated basis.

### **3. Systems and controls**

- a) Details of the risk management systems and procedures to be used to control and monitor risks in relation to both domestic and offshore operations of the ADI and its subsidiaries, including:
  - (i) credit policies, including policy on loans to shareholders, directors and associated interests, on exposures to individual clients and groups of related clients, and covering both banking and financial market (trading) activities;
  - (ii) policy on monitoring asset quality, loan grading, recognition of impaired facilities and provisioning for impaired facilities and the establishment of a General Reserve for Credit Losses;
  - (iii) liquidity management, including funding and maturity mismatch policies;
  - (iv) procedures for controlling market risk, in both financial market (trading) activities (including derivatives) and banking book;
  - (v) control of operational risk; and
  - (vi) arrangements for reporting to a local or foreign bank parent (where applicable).
- b) Details of information and accounting systems (including any outsourcing of data processing and other back office functions).
- c) Business continuity (including disaster recovery) plan.
- e) Internal audit arrangements.
- f) Evidence that, from the commencement of operations, information and other systems will be capable of producing all required statutory and prudential returns in an accurate and timely manner.

### **4. Subsidiaries**

- a) Details of existing or proposed subsidiaries and associates, the nature and scale of their business, and their proposed business relationship with the proposed ADI.
- b) Any plans to transfer assets from subsidiaries and associates to the proposed ADI.

### **5. Other**

- a) Certificate of incorporation of the corporate vehicle to hold the ADI authority (refer to section 10 of the Act).
- b) Certified copies of Memorandum and Articles of Association (refer to section 10 of the Act).
- c) External auditor's certificates verifying the level of capital and capital ratios of the applicant.

### **6. Foreign bank applicants**

- a) The foreign bank parent of an applicant should provide:
  - i) a brief history and an outline of its operations, substantial shareholders (direct and ultimate) and directors (including principal business associations);
  - ii) balance sheet, profit and loss and off-balance sheet data for the last three years (plus any available current year data), including information on impaired loans and capital ratios;
  - iii) an outline of the reporting lines proposed from the subsidiary ADI to its foreign bank parent;
  - iv) an undertaking to co-operate in the supervision of the proposed subsidiary ADI, including the provision of information required by APRA to supervise the proposed subsidiary ADI;

- v) an undertaking to keep APRA informed of any significant developments adversely affecting its financial soundness and/or reputation globally, and to provide promptly to APRA copies of its published financial accounts and any significant media releases (with translations where appropriate); and
  - vi) an outline of the supervisory arrangements to which it is subject to in its home country.
- b) A statement from the foreign bank parent's home supervisor that:
- i) the foreign bank is of good financial standing and has the supervisor's consent to apply for an authority to operate as a locally incorporated ADI in Australia;
  - ii) it supervises the parent bank and its subsidiaries on a consolidated basis in accordance with the principles contained in the Basel Concordat; and
  - iii) it is willing to co-operate in the supervision of the proposed subsidiary in terms of the Concordat.

## **7. Prudential supervision by APRA**

- a) A written undertaking by the applicant to:
  - i) adhere to APRA's prudential requirements at all times;
  - ii) consult APRA and be guided by it on prudential matters, including in respect of new business initiatives; and
  - iii) provide APRA with any information that it may require for the prudential supervision of the proposed ADI (and its consolidated group).
- b) For a foreign bank-owned applicant, an acknowledgement by the applicant that APRA may discuss the applicant's conduct and status with its parent and its parent's supervisor(s).
- c) Evidence that arrangements have been established for the prospective ADI's external auditors to report to APRA.

# Attachment B

## Supporting information required for an application to conduct banking business

### Foreign ADI

#### 1. Ownership and management

- a) Name of the foreign bank applicant.
- b) A brief history of the foreign bank and an outline of its operations, names of substantial shareholders (direct and ultimate) and their respective shareholdings, directors (including principal business associations) and senior management.
- c) Information necessary to demonstrate the applicant's financial standing. This should include balance sheet, profit and loss and off-balance sheet data for the foreign bank itself, and where applicable for its holding company, for the last three years (plus any available current year data) and information on impaired loans and capital ratios.
- d) An outline of the proposed branch framework, including names of the senior management of the Australian branch, their responsibilities and curriculum vitae.
- e) An outline of the proposed reporting lines from the local branch to head office.

#### 2. Three-year business plan

The business plan submitted should incorporate the goals or milestones of the proposed branch's first three years of operations and include:

##### Structure of business

- a) an outline of the proposed activities (covering the parent's other operations in Australia) and scale of operations, including details of any specialised services proposed and relevant expertise;

- b) any plans to establish (or maintain) a locally incorporated subsidiary ADI in Australia and the strategy under which these entities would operate, including details of any proposals to transfer assets or to share support services;
- c) details of borrowing and lending activities to be undertaken;
- d) details of proposed off-balance sheet activities;
- e) location of principal Australian office and an outline of Australian representation envisaged and the timeframe over which representation will be established;
- f) an estimate of total staff complement envisaged;
- g) the proposed date for commencement of operations; and

##### Financial projections

- h) projections (including sensitivity analysis covering expected up-side and down-side scenarios) of the following:
  - i) detailed balance sheet, cashflow and earnings (including assumptions); and
  - ii) key financial and prudential ratios (as relevant).

#### 3. Systems and controls

- a) Details of the risk management systems and procedures to be adopted to control and monitor risks, including:
  - i) credit policies, including policy on loans to shareholders, directors and associated interests, on exposures to individual clients and groups of related clients, and covering both banking and financial market (trading) activities;
  - ii) policy on monitoring asset quality, loan grading and provisioning for impaired facilities;
  - iii) liquidity management, including funding and maturity mismatch policies;

- iv) procedures for controlling market risk, in both financial market (trading) activities (including derivatives) and banking book;
  - v) control of operational risk; and
  - vi) arrangements for reporting to head office.
  - b) Details of information and accounting systems (including any outsourcing of data processing and other back office functions).
  - c) Internal audit arrangements.
  - d) Business continuity (including disaster recovery) plan.
  - e) Evidence that, from the commencement of operations, information and other systems will be capable of producing all required statutory and prudential returns in an accurate and timely manner.
- 4. Associates**
- a) Details of existing or proposed subsidiaries and associates of the proposed branch in Australia; the nature and scale of their business; and their proposed business relationship with the branch.
  - b) Plans to transfer business from any subsidiaries and associates in Australia into the proposed branch.
  - c) An undertaking by the applicant to keep APRA apprised of developments in its subsidiaries in Australia.
- 5. Other**
- a) A copy of the certificate of incorporation of the foreign bank applicant (refer to section 10 of the Act) and its authorisation to conduct banking business in its home country.
  - b) Certified copies of Memorandum and Articles of Association (refer to section 10 of the Act).
  - c) An outline of the supervisory arrangements to which the foreign bank is subject to in its home country.
  - d) A statement from the applicant's home supervisor:
    - i) consenting to the application to establish a branch in Australia;
    - ii) confirming that the applicant is of good financial standing;
    - iii) confirming that the applicant is supervised on a consolidated basis in accordance with the principles contained in the Basel Concordat; and
    - iv) agreeing to co-operate in the supervision of the proposed branch, in terms of the Basel Concordat.
  - e) An undertaking by the applicant to keep APRA informed of any significant developments adversely affecting its financial soundness and/or reputation globally, and to provide promptly to APRA copies of its published financial accounts and any significant media releases (with translations where appropriate).

## **6. Prudential supervision by APRA**

- a) A written undertaking by the applicant that the proposed branch will:
  - i) adhere to APRA's prudential requirements at all times;
  - ii) consult APRA and be guided by it on prudential matters, including in respect of new business initiatives; and
  - iii) provide APRA with any information which it may require for the prudential supervision of the branch.
- b) An acknowledgement by the applicant that APRA may discuss the conduct of the branch with its head office and its home supervisor(s).
- c) An acknowledgement by the applicant that the proposed branch will conform with the disclosure requirements pursuant to section 11E of the Act.
- d) Evidence that arrangements have been established for the prospective branch's external auditors to report to APRA as required.



| APRA

Telephone  
1300 55 88 49

Email  
[info@apra.gov.au](mailto:info@apra.gov.au)

Website  
[www.apra.gov.au](http://www.apra.gov.au)

Mail  
GPO Box 9836  
in all capital cities  
(except Hobart and Darwin)