



20 August 2021

[REDACTED]
[REDACTED]
Banking Division
Australian Prudential Regulation Authority

Via Email: [REDACTED]

Dear [REDACTED]

APRA consultation on zero and negative interest rates

The Australian Banking Association (**ABA**) welcomes the opportunity to provide comments on the Australian Prudential Regulation Authority (**APRA**) draft expectations regarding ADIs' preparedness for zero and negative interest rates.

The Reserve Bank of Australia (**RBA**) has indicated that a zero or negative cash rate is unlikely in Australia, but remains a possibility. Given the uncertainties arising from the COVID-19 pandemic and the related economic impacts, the ABA understands the importance of ensuring systemic stability and preparedness of members for a range of risks, including a zero or negative cash rate.

On the points raised in the letter to ADIs, the ABA makes some key observations below.

Tactical solutions

APRA sets out in its letter an expectation that ADIs should develop, at a minimum, tactical solutions to implement zero and negative market interest rates and cash rate by 30 April 2022. APRA characterises tactical solutions as typically shorter-term fixes, involving workarounds on the periphery of existing systems, along with overrides in downstream systems.

The ABA considers the timing of the development of these solutions by 30 April 2022 may be insufficient given the impact that these solutions would have to ADI core banking systems, processes and potential amendments to product terms and conditions. This is also considering the extent of the broader regulatory change agenda that ADIs will need to implement over the next 12 months.

The ABA considers it would be useful for ADIs to have the ability to engage and work with their front-line APRA supervisors with a view to developing tactical solutions in a flexible manner from a timing and product perspective that does not affect the rollout of other key priorities.

Furthermore, given the breadth of different sized ADIs and their product offerings – it is likely that some ADIs will need to approach APRA with a request to exclude certain products captured by APRA's expectations, where the cost of developing a tactical solution far outweighs any potential risk, consumer detriment, or benefit to systemic stability.

Products in scope

The ABA notes that the APRA proposal states that all products and activities are in scope for this expectation, except for lending products that do not reference the cash rate or a market rate including business lending, residential mortgages, personal loans and credit cards.

The ABA believes that APRA should consider a similar approach for deposit products offered to retail customers. As it stands APRA's proposed scope could be read to include basic deposit products (defined in s761A of the *Corporations Act 2001*).



Australian Banking Association

This definition of basic deposit products excludes the ability of an ADI to charge fees or an interest charge on these types of accounts, therefore ADIs should not be required to develop tactical solutions for these products.

The ABA would welcome a further opportunity to comment on APRA's zero and negative interest rate expectations prior to finalisation later in 2021.

Thank you for the opportunity to provide feedback. If you have any queries, please contact me at

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Yours sincerely,

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Prashant Ramkumar
Associate Policy Director