

8 November 2024

General Manager
Policy
Policy and Advice Division
Australian Prudential Regulation Authority
GPO Box 9836
Sydney NSW 2001



By email: PolicyDevelopment@apra.gov.au

Dear [REDACTED],

Discussion paper - A more effective capital framework for a crisis

The Australian Financial Markets Association (**AFMA**) welcomes the opportunity to comment on the Australian Prudential Regulation Authority's (**APRA**) discussion paper, *A more effective capital framework for a crisis (discussion paper)*. AFMA also welcomes APRA's ongoing engagement with industry on this important issue.

AFMA remains supportive of measures to enhance banks and system resilience. We note that the current proposal builds on Australia's already 'unquestionably strong framework for bank capital' and that Australia has implemented the Basel III post-crisis regulatory reforms ahead of major international jurisdictions.

While a well-regulated, well capitalised and globally conservative banking system provides clear benefits, such a framework also comes at a cost to both affected entities and the broader economy. The proposal in the discussion paper, to further enhance the prudential framework, is not immune to providing both potential benefits and costs. The impacts of the proposal could include changes to risk, pricing, liquidity, volatility and market depth, in addition to changes to the composition and diversity of market participants, all of which potentially impact the functioning of debt instruments both in 'normal times' and in times of stress. These impacts, particularly the response by global participants to a simpler but less diverse capital regime that does not align with international approaches, is unclear.

Given these uncertainties, AFMA encourages APRA to continue engaging with industry through the policy development process. In developing its policy thinking, AFMA recommends APRA seek to balance the likely benefits and costs, with a particular focus on two overarching themes:

1) Maintaining functional financial markets

Efficient, functioning financial markets underpin our financial system. Two essential elements of efficient, functioning financial markets are transparency and certainty.

Ongoing transparency regarding the details and timing of the likely changes will be an important component of maintaining confidence and functional financial markets. This transparency and engagement must extend beyond regulated entities to all relevant industry participants. APRA's ongoing engagement on the discussion paper is a positive step in this regard.

Certainty regarding the implementation timeline, including APRA's expectations regarding current issuances, will also be an important component to maintain functional financial markets. At this stage, the timeframes outlined in the discussion paper appear reasonable. However, AFMA encourages APRA to engage further with relevant market participants as policy thinking and market understanding further develops. This is particularly important given APRA's proposal does not align with international approaches and the likely reaction of global participants remains unclear.

2) Allowing markets to develop

Moving away from AT1 instruments in the capital profiles of Australian banks is unprecedented. AFMA encourages APRA to remain openminded and supportive of future market developments in response to the proposed changes, which potentially includes optimising capital hierarchies within Tier 2 stacks.

AFMA looks forward to continued engagement with APRA on these important policy considerations. If you have questions in relation to this letter, or if AFMA can in any other manner assist, please contact me on [REDACTED] or at [REDACTED]

Yours sincerely

[REDACTED]

[REDACTED]

Head of Banks and Prudential

About AFMA

AFMA is the leading financial markets industry association promoting efficiency, integrity and professionalism in Australia's financial markets, including the capital, credit, derivatives, foreign exchange, energy, carbon, and other specialist markets.

We have more than 130 members, from Australian and international banks, leading brokers, securities companies and state government treasury corporations to fund managers, energy traders and industry service providers. Our role is to provide a forum for industry leadership and to advance the interests of all these market participants.