

9 September 2026

Laura Kiely
Manager, Banking Policy
Policy and Frameworks
Australian Prudential Regulation Authority



Via email: PolicyDevelopment@apra.gov.au

LCR Framework and Financial Resilience – FAB Liquidity Framework Suggestions

Dear Ms Kiely,

The Australian Financial Markets Association (**AFMA**) appreciates the ongoing constructive dialogue and opportunity to provide feedback and analysis to the Australian Prudential Regulation Authority (**APRA**) on options for a balanced approach to the liquidity requirements of Foreign ADI Branches (**FABs**).¹

AFMA and its members remain committed to finding a workable liquidity framework for FABs that *gets the balance right*, in that it promotes financial safety and stability, while not imposing undue costs on industry and allows FABs to continue to support the Australian economy and Australian clients.²

While we support a review of the liquidity framework and acknowledge that the Committed Liquidity Facility is no longer available to domestic ADIs, APRA's reasonings for wanting to increase the LCR minimum for FABs remains unclear. The approach proposed by APRA is without precedent among peer regulators. Without a clear articulation of APRA's specific concerns with the operation of a 40% FAB LCR minimum, it is not possible for industry to develop an alternative framework or modifications to the current framework that respond to APRA's concerns or policy reasoning.

Furthermore, we remain of the view that these reforms, as currently proposed, could have a material impact on the viability of the FAB regime in Australia and could diminish the ability of some FABs to support the local economy. Material increases in FAB's liquidity requirements would likely cause some FABs to review their allocations to and activities in Australia.

We note that APRA's updated liquidity framework is expected to be cost neutral for larger local ADIs, while "Small banks with more stable funding sources are expected to benefit from moderate cost

¹ As with previous discussions on the FAB liquidity framework proposals, the feedback in this letter is limited to the potential impact on FABs, builds on previous feedback provided to APRA and is reflective of the details available to industry at the time. While AFMA's 140 plus membership includes both local and foreign ADIs, in addition to government treasury corporations, industry service providers and others, the scope of this letter aligns to the topics discussed at the first and second AFMA-APRA Foreign Branch Liquidity Roundtable, held on 11 May and 2 July respectively.

AFMA acknowledges that the draft changes would have varying impacts on FABs, depending on, for example, the composition of their balance sheets, the size and composition of their current liquidity holdings, internal mandates and Home Office regulations.

² Aligning to [APRA's 2026-27 Corporate Plan](#) and strategic objective of 'Getting the balance right': "We deliver our primary financial safety and stability objectives without undue cost for industry" (page 17).

savings”³. In this context, a potential substantial increase in funding costs for FABs, estimated to exceed \$300 million per year, does not appear proportionate or to align with APRA’s strategic objective of ‘getting the balance right’.

The focus of discussions to date has largely been on the minimum LCR requirement for FABs. No particular LCR minimum (for local or foreign ADIs) will guarantee an entity’s financial safety or the stability of the financial system. While the LCR minimum is an important component of the liquidity framework, it should be considered in conjunction with other aspects of the framework, such as any Pillar 2 add-ons, along with an entity’s risk appetite and approach to risk management. Importantly, for foreign banks this broader consideration should also take into account the ability to access parental capabilities and liquidity support.

To help progress discussions on an appropriate liquidity framework for FABs and to support discussions at our upcoming roundtable on 16 September, AFMA provides the attached additional analysis and recommendations for APRA’s consideration. These recommendations have been developed through the lens of considering the liquidity framework holistically, including FAB’s ability to access parental support, and aims to create a proportional framework for FABs that maintains their ability to support the Australian economy.

- Appendix A: Provides a summary of AFMA’s recommendations.
- Appendix B: Provides a summary of the current framework and research findings.
- Appendix C: Provides further detail on our analysis and recommendations.

We look forward to discussing these important reforms with APRA.

I will contact you separately regarding setting up a time for AFMA and its members to meet with APRA. In the meantime, please feel free to contact me at brendonh@afma.com.au or 0411 281 562.

Regards,



Brendon Harper
Head of Banks and Prudential

About AFMA and its members

The Australian Financial Markets Association is the peak industry body for Australia’s financial markets industry – including the capital, credit, derivatives, foreign exchange, and other specialist markets. AFMA represents more than 140 industry participants from Australian and international banks, leading brokers, securities companies, government treasury corporations to asset managers, energy firms, carbon market participants, and industry service providers.

AFMA promotes efficiency, integrity, and professionalism in Australia’s financial markets enabling the markets to continue to support the Australian economy, high skilled job markets and the energy transition.

³ APRA (2026) [2026-27 Corporate Plan](#), page 18

Appendix A: Summary of AFMA recommendations

AFMA recommends that APRA:

Recommendation 1: Maintain the current 40% minimum LCR requirement for FABs.

Recommendation 2: Implement a tiered framework to incentivise the reliability of parental support.

Recommendation 3: Remove exacerbating elements of its framework that impact FABs.

Recommendation 4: Pillar 2 add-ons be applied to FABs in a manner cognisant of the disproportionate impact.

Recommendation 5: Clearly articulate its expectation that Pillar 2 add-ons can be 'absorbed' within current buffers.

Recommendation 6: Implement proportional FAB ILAAP requirements, taking into account Home Office processes, procedures and documentation.

Recommendation 7: Engage with industry on an appropriate transition period for the new requirements.

Appendix B: Summary of the current framework and research findings

The following summary provides a high-level overview of research and analysis by AFMA and its members into the current APRA liquidity framework, the frameworks of global peers and the potential impact of the proposed changes. Further detail on this analysis is included in Appendix C and our previous letters to APRA.

The current framework

- APRA's liquidity framework for FABs has proven to operate effectively.
- FAB operations are supported by local liquidity holdings and holdings of their parent.
- The policy rationale for a material change to FAB's liquidity requirements remain unclear to industry.

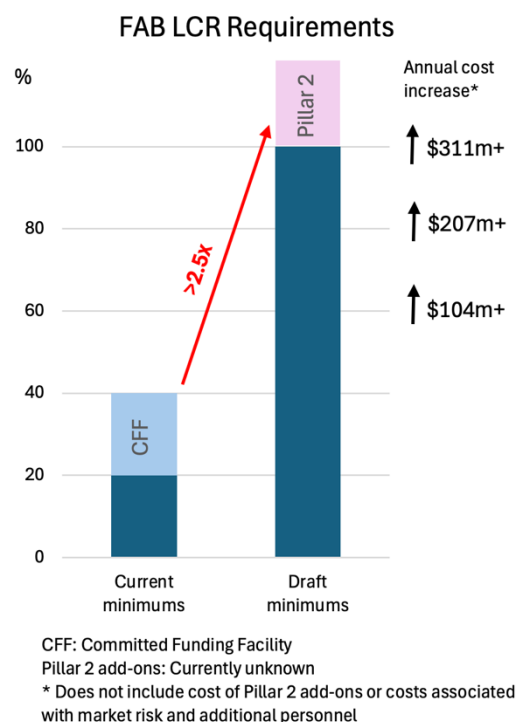
Foreign liquidity frameworks

- There is no standard global approach to LCR requirements for foreign bank branches.
- Comparable jurisdictions with 100% LCR requirements for foreign bank branches only apply the 100% requirement to a subset of entities, for example, to those foreign banks deemed to be systemically important in that country – no FAB is considered systemically important in Australia.
- Peer foreign regulators, like the UK's PRA, rely on a 'whole of firm' liquidity approach, rather than setting a specific branch minimum.
- Learnings from foreign jurisdictions show frictions can exist in the timely transfer of parental support to a branch during a crisis – a challenge to which we recommend a tiered approach to CFF recognition (detailed in Appendix C).

Potential impact of policy proposals

The draft FAB liquidity requirements:

- Would make Australia a less attractive destination for international banking activity than comparable financial centres;
- Are likely to reduce the capacity of some FABs to support Australian businesses, Australian investors and the Australian economy;
- Equate to a more than 2.5 times increase in local liquidity holdings (or more than 5x if currently utilising the CFF);
- Create a material risk that some FABs reduce the capital, balance sheet capacity and personnel allocated to Australia;
- Conservatively, would require FABs to purchase a combined notional of \$31bn of HQLA;
- Conservatively, would cost FABs an estimated \$255m-\$311m annually to meet the increased LCR minimum alone;
- Would have flow on costs, such as from the potential material increase in market risk associated with greater liquid holdings at the local branch.



Appendix C: FAB Liquidity Framework Recommendations

AFMA provides the following policy proposals to help progress discussions and policy thinking towards a pragmatic and proportional approach to the FAB liquidity framework. The proposals aim to balance APRA's competing objectives, being to promote financial system stability while balancing efficiency, competition, contestability and competitive neutrality.

A review of APRA's liquidity regime is warranted given the passage of time, global liquidity events and developments in foreign jurisdictions' approaches to liquidity. However, the current FAB liquidity requirements have proved to be effective, while the reasoning for a material increase in requirements remains unclear to industry.

The current draft proposals, in the view of AFMA, do not adequately balance APRA's various objectives. It would result in a material increase in regulatory burden for FABs, while reducing costs or being cost neutral for other cohorts of ADIs.

As noted in AFMA's responses to APRA, a material increase in the minimum FAB LCR (and the removal of CFF recognition) would reduce some FABs' ability to support local customers and the Australian economy.

Minimum FAB LCR requirements

Proposition: The FAB liquidity requirements should balance financial system stability with efficiency, competition, contestability and competitive neutrality, including FABs' ability to support the Australian economy.

Recommendation 1: Maintain the current 40% minimum LCR requirement for FABs.

Policy rationale:

- The FAB liquidity framework has proven to be effective and there is no clear policy rationale for a material change in the framework.
- The LCR minimum should be considered in the broader context of APRA's prudential framework.
- Liquidity requirements impact different cohorts of ADIs differently. Liquidity requirements impact FABs disproportionately compared to local ADIs.
- FABs have the additional liquidity support of a parent entity, that is not available to local ADIs.
- A material increase in the liquidity requirement for FABs will likely diminish FABs' ability to support the local economy.

The FAB liquidity framework has proven to be effective and there is no clear policy rationale for a material change in the framework.

Additionally, no particular LCR minimum will guarantee an entity's financial safety or the stability of the financial system. Consideration of a branch's soundness should include APRA's broader prudential framework and that branches are part of a parent legal entity, with parental support and access to a global framework.

Furthermore, as previously presented, it is more costly for FABs to meet liquidity holdings than local banks, for example due to not having access to retail deposits. As such, imposing the same or similar

levels of liquidity holdings would have a disproportionate burden on FABs and not be competition neutral.

Reliability of parental support

Proposition: Parental support can increase the resilience of a branch and should be encouraged in the prudential framework.

Recommendation 2: APRA implement a tiered framework to incentivise the reliability of parental support.

Policy rationale:

- Branches are more resilient with parental support.
- Greater reliability of parental support enhances local branch resilience.
- The policy framework should incentivise entities to increase the reliability and operational readiness of their parental support.

Parental support enhances a branch's resilience and should be encouraged in the prudential framework. However, to assist a local entity in a crisis, parental support needs to be reliably available.

APRA has indicated that learnings from global liquidity events includes that parental support is not always readily available to branches during a crisis, in a timely manner.

As a result of Australia's strong economic track record, there are very limited examples of banks in Australia facing financial stress. Notwithstanding this, there are options to demonstrate the likely reliability and operational readiness of parental support during a crisis.

Aligning to the policy rationale that the policy framework should incentivise entities to increase the reliability and operational readiness of their parental support, AFMA recommends APRA consider the following tiered framework for the recognition of parental support.

Potential tiered framework incentivising the reliability of parental support

Greater recognition of parental support (for example, through a CFF) should be available to branches that can demonstrate greater reliability and operational readiness of that parental support. This can be demonstrated in a number of ways and should align to a branch's 'Australian ILAAP' and contingent funding plan (CFP).

The proposed framework below would reduce the default recognition applied to a letter of support by 50% while increasing the expectations on entities seeking recognition.

Summary of tiered recognition of CFF

Tier 1: 10% recognition: Reliable parental letter of support

Tier 2: 20% recognition: Specific and operationally credible commitment

Tier 3: 30% recognition: Embedded in governance and liquidity frameworks

Detail of tiered recognition of CFF

Tier 1: 10% CFF Reliance - Parental Letter of Support

An entity would need to provide APRA with evidence of a parental letter of support that has been signed by the SOOA, an appropriate local FAR accountable representative and a Parent Bank senior-level bank executive. The letter of support would need to include:

- confirmation that the Parent Bank will support the branch in liquidity stress;
- the broad forms of support available, such as intragroup loan or deposit placement;
- the circumstances in which support would be considered; and
- sufficient detail to enable a clear interpretation of the nature, scope, and circumstances under which support would be provided, and to allow appropriate scrutiny by both regulators.

Tier 2: 20% CFF Reliance - Specific and Operationally Credible Commitment

In addition to Tier 1 requirements, a FAB would need to document and demonstrate:

- defined stress triggers;
- indicative or committed amount of support available and Head Office's capacity to meet this amount;
- expected timing for drawdown/funding;
- clear funding mechanics;
- internal governance and escalation processes; and
- clear linkage to the branch's CFP.

30% CFF Reliance - Embedded in Governance and Liquidity Frameworks

In addition to Tier 1 and 2 requirements, a FAB would need to document and demonstrate:

- inclusion of support, and associated assumptions, in stress testing, recovery planning, and CFPs;
- tested drawdown procedures and clear operational playbooks on funding flows, timing, currency, and location funds will be received from; and
- annual CFP testing, including of support assumptions and mechanisms.

Exacerbating aspects of liquidity regimes

Proposition: Compliance with APRA's liquidity regime is more costly for foreign ADIs.

Recommendation 3: APRA remove exacerbating elements of its framework that impact FABs.

Policy rationale:

Removing punitive aspects of the liquidity framework would:

- increase alignment with global practices; and
- reduce disproportionate burdens on foreign bank branches, while maintaining the rigour of APRA's regime.

Design elements of liquidity frameworks in Australian and other jurisdictions create additional costs for FABs that do not impact local ADIs. As a result, *ceteris paribus*, it is more expensive for FABs to meet APRA's liquidity requirements. By extension, applying a single LCR requirement to local and foreign ADIs is not competition neutral and would hinder FABs' ability to support Australian customers and the Australian economy.

Certain exacerbating elements are outside APRA's control. These include the application of interest withholding tax, investment mandates imposed by Home Offices, non-recognition of Pillar 2 add-ons in Home Office liquidity calculations and, foreign jurisdictions not recognising semi-government bonds as HQLA.

However, some elements are within APRA's control. These include APRA's LCR explicitly requiring a 10% outflow for the buy-back of an ADI's own short term securities issued, and 5% outflow assumption for long-term securities. In contrast, Basel only mentions outflows for buy-backs to be recognised as part of stress scenarios. AFMA is not aware of any comparable jurisdictions applying such outflow assumptions in the calculation of a branch's LCR.

Additionally, AFMA notes that long term securities currently require a 5% outflow recognition. In the experience of industry, there are no market expectations that a firm would buy back this debt in the event of stress event. As such, the 5% outflow appears punitive and not aligned to the operation of financial markets.

Pillar 2 add-ons

Proposition: Pillar 2 add-ons should be proportional applied in a manner complementary to the APRA's broader liquidity framework.

Recommendation 4: Pillar 2 add-ons be applied to FABs in a manner cognisant of the disproportionate impact.

Recommendation 5: APRA to clearly articulate its expectation that Pillar 2 add-ons can be 'absorbed' within current buffers.

Policy rationale:

- Pillar 2 add-ons represent 'trapped liquidity' for FABs as the associated liquidity holdings cannot be counted towards regional or Home Office liquidity requirements.
- Pillar 2 add-ons are unlikely to be 'absorbed' into FABs' buffers.

Pillar 2 add-ons are not recognisable by Home Offices towards regional or global liquidity holdings. As such, they represent 'trapped liquidity' for FABs and become disproportionately burdensome compared to local ADIs. In setting any Pillar 2 add-ons for FABs, AFMA recommends that APRA consider the disproportionate impact it will have and how any 'Pillar 2 risks' are considered and captured within a FAB's broader/Home Office liquidity assessments.

In a presentation to domestic ADIs, APRA indicated that Pillar 2 add-ons may be partially 'absorbed' within current buffers (as depicted in the reproduced slide below). However, FAB member feedback indicates that any branch level Pillar 2 add-ons are unlikely to be absorbed within current buffers. This can be due to, for example, the specific risk captured by the Pillar 2 add-on not being a binding

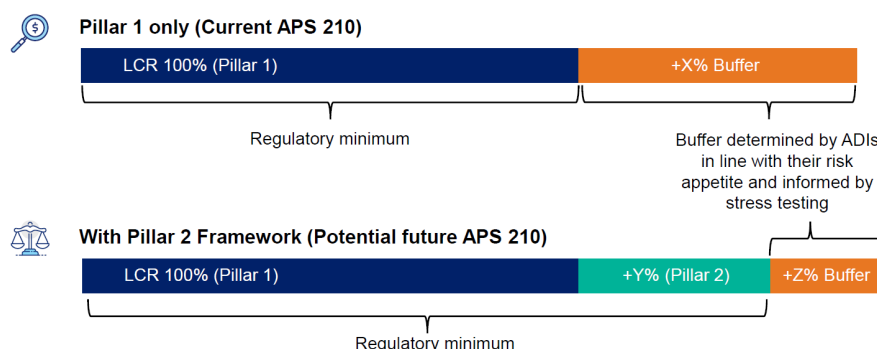
constraint on the FAB and/or the risks being captured within FAB's aggregate buffers needing to be preserved (for example forecasting uncertainty risk, balance sheet/inflow cap volatility risk). As such, Pillar 2 add-ons for FABs will effectively increase the liquidity levels upon which existing buffers are set. In other words, Pillar 2 add-ons for FABs will lead to direct increases in FABs' prudential liquidity holdings.

APRA slide to domestic ADIs

DRAFT [SEC=OFFICIAL]

Illustrative example of liquidity holdings under potential Pillar 2 framework

- Pillar 2 framework does not necessarily result in a 1-for-1 increase in liquidity holdings as existing buffers above Pillar 1 can contribute towards higher regulatory minimum.
- ADIs may also choose to reduce exposures to risks not captured by LCR, rather than hold more liquidity.



We note the flexible and proportionate approach by the PRA regarding Pillar 2 risks, which includes:

1.5 The Pillar 2 approach applies in a way that is proportionate to each firm's business model and to the risk that the firm poses to the PRA's objectives. In particular, if a supervisor judges the firm's Pillar 2 risks to be relatively immaterial compared to its Pillar 1 risks, the supervisor may choose not to apply Pillar 2 guidance. If, having reviewed the firm's Individual Liquidity Adequacy Assessment Process (ILAAP) document, a supervisor judges that the risks to the PRA's objectives from a particular firm are immaterial, the supervisor can also choose not to review the firm for Pillar 2 risks. A supervisor's assessment will involve consideration as to whether any Pillar 2 measures would have a disproportionate impact on a particular type of firm, including whether it results in a relatively greater burden on smaller firms.⁴

Such an approach may be appropriate for FABs in Australia. It may be reasonable to conclude that a FAB presents 'an immaterial risk to APRA's objectives'. It may then be appropriate, on the balance of risks and regulatory burden, for 'a supervisor to choose not to review a FAB's Pillar 2 risks'.

AFMA is available to work with APRA to develop such a framework.

⁴ Bank of England (2023) [Statement of Policy 1/18: Pillar 2 liquidity](#), December, page 3

Internal Liquidity Adequacy Assessment Process (ILAAP)

Proposition: FABs' local liquidity capabilities should be considered in the context of the broader group.

Recommendation 6: APRA implement proportional FAB ILAAP requirements, taking into account Home Office processes, procedures and documentation.

Policy rationale:

- Given the interconnectedness of FABs' operations with their Home Offices, liquidity capabilities are unavoidably linked.
- As such, any ILAAP assessment should take into account, and optimally leverage, Home Office liquidity analysis.

Being the same legal entity as their parents, FABs' liquidity plans are unavoidably linked to their parents; a linkage that represents an additional layer of safety for FABs. As such, a FAB's liquidity plans should be considered in the context of the plan of the Home Office. Optimally, the local ILAAP requirements would leverage the analysis and plans of the Home Office. Requiring FABs to recreate analysis and documentation already contained in their Home Office ILAAPs would add regulatory burden for no additional benefit.

Given this dynamic, a risk-based and proportional approach to Australian ILAAP requirements would allow FABs to provide APRA the necessary information and comfort without unduly adding to regulatory burden.

An approach differentiated by size and complexity would also align to the application of ILAAP requirements by the PRA, which positioned that:

The PRA recognises that for small firms with simple business models it may not be necessary to follow the template [required of large firms].⁵

⁵ Bank of England (2025) [Supervisor Statement SS24/15: The PRA's approach to supervising liquidity and funding risks](#), October, page 6

Transition period

Proposition: Appropriate transition periods are required to allow entities to build their liquidity holdings in a manner that does not impact the availability (and therefore liquidity) of their holdings.

Recommendation 7: APRA engage with industry on an appropriate transition period.

Policy rationale:

- A short transition period may result in a 'rush for liquid holdings' which may undermine the functioning of financial markets and reduce the liquidity of (otherwise) HQLA.
- The most appropriate transition period will depend on the final quantum of increase in required liquid holdings, any change in HQLA eligibility and market conditions.

A short implementation timeline could result in an increase in demand for certain instruments, such that they cease to be liquid. The most appropriate implementation timeline will ultimately depend on the final quantum of increase in required liquid holdings (across all ADIs), any changes to HQLA eligibility and market conditions. AFMA is available to assist APRA assess the potential market impacts, such as on the liquidity of relevant instruments, of the final changes to the liquidity framework.