3. The Australian Financial System

The Australian financial system is resilient and well positioned to support the economy through a more challenging period for households and businesses, as interest rates increase to bring inflation back to the target band.

Banks have strong capital and liquidity positions. Robust economic activity and solid employment growth have contributed to bank profitability and the low level of non-performing loans over the past year. Conditions in wholesale funding markets have been tight at times as investors adapt to the rapid increases in policy rates by central banks, amid ongoing geopolitical tensions and heightened economic uncertainty. Despite this, Australian banks' bond issuance has been high, supported by banks' strong credit ratings and the variety of funding options available. Overall, banks' balance sheets are expected to remain resilient to the impact of rising interest rates. Results from stress testing suggest that banks would be well placed to continue lending even if the economic outlook were to deteriorate markedly (see 'Box D: Stress Testing and Australian Bank Resilience').

Financial institutions more broadly have remained resilient. Insurers' capital levels remain well above regulatory minimums, despite a recent decline in profits as higher interest rates have reduced the value of insurers' fixed-income portfolios and several natural disasters have led to increased claims. Higher interest rates have also reduced returns for superannuation funds, although five-yearly returns remain above 5 per cent. Non-bank lending for housing has continued to grow rapidly in an environment of strong competition for lending, but the size of the sector remains small and there is little evidence that lending standards have deteriorated. Funding conditions in the residential mortgage-backed securities (RMBS) market have tightened in recent months, which might weigh on non-banks' credit growth or profits.

The Australian financial system is continuing to manage a number of important challenges, including those related to cyber risks and climate change. The threat of a significant cyber incident remains high, and such an incident could have implications for financial stability. The recent Optus cyber incident – where data for a large number of customers were compromised – demonstrated that there can be indirect implications for the financial system of cyber-attacks. This, along with a number of other large-scale cyber incidents over the past year, has highlighted the need for regulators and financial institutions to continue building cyber resilience. Climate change also represents a major challenge for the financial system. Financial institutions and regulatory agencies continue to progress their understanding of the financial risks resulting from climate change. Australian financial institutions are taking actions to manage these risks, but this work is still in its early stages. Financial institutions will need to continue to invest in systems and processes to understand and manage climate-related risks, including by collecting, analysing and disclosing appropriate data; work done by global and Australian regulators on climate-related

disclosures and taxonomies should assist with this.

The resilience of the banking system is supported by banks' profitability …

Bank profitability has been supported by strong credit growth and low levels of non-performing loans. However, net interest margins (NIMs) have trended lower for more than a decade, partly in response to the trend decline in, and low levels of, interest rates. Strong competition for lending further contributed to the narrowing in banks' NIMs (Graph 3.1). More recently, banks have increased their holdings of low-yielding liquid assets ahead of the wind down of the Committed Liquidity Facility (CLF) at the end of 2022 (discussed below).

Market pricing implies that the cash rate is expected to increase further over the coming year, which would have mixed implications for banks' profits. This reflects the interplay of banks' NIMs, asset growth and asset quality. Higher interest rates increase earnings on banks' interest-earning assets (such as variable rate loans) but they also increase funding costs for banks (such as for deposits and wholesale debt). As the cash rate moves further away from the effective lower bound, market analysts expect lending rates to increase by more than funding costs, unwinding the earlier compression on NIMs. However, higher interest rates are likely to reduce the demand for credit, which would slow the pace of growth in banks' assets, and lead to an increase in non-performing loans (discussed below); these developments would weigh on profits.

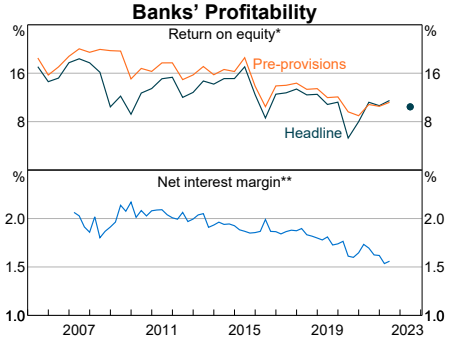
Market indicators suggest that investors are confident that banks' earnings will remain solid as interest rates rise. Market analysts expect banks' return on equity to remain around current levels over the coming year. The share-price-to-book ratio is above 1 for most banks, and within the range of the past decade; this is despite periods of volatility in markets due to uncertainty about the economic outlook and therefore banks' earnings (Graph 3.2).

… low levels of non-performing loans …

Banks' asset quality has improved over the past couple of years. Non-performing loans (NPLs) are around their lowest level of the past decade, supported by a strong labour market, low interest rates and household savings accumulated throughout the pandemic (see 'Chapter 2: Household and Business Finances in Australia'). The decline in NPLs has mainly been driven by housing loans; business NPLs have

Graph 3.1

Banks' Profitability

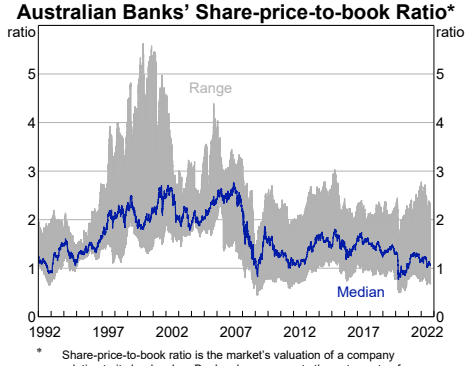


* Dot represents forecast based on 12-month forward earnings.
** Interest income received less interest expenses paid, expressed as a percentage of assets.

Sources: APRA; RBA; Refinitiv

Graph 3.2

Australian Banks' Share-price-to-book Ratio*



* Share-price-to-book ratio is the market's valuation of a company relative to its book value. Book value represents the net assets of a company (assets minus liabilities). When this ratio is greater than 1, it indicates the company is trading at a premium to its book value.

Sources: RBA; Refinitiv

been little changed from their low levels for several years, and personal NPLs have increased recently but represent a very small share of banks' lending (Graph 3.3). This improvement in asset quality, along with better-than-expected economic outcomes during the pandemic, has resulted in banks' unwinding most of the provisions as a share of gross loans that were built up during this period (Graph 3.4). The unwinding of provisions has supported banks' headline profits (Graph 3.1).

Higher interest rates, rising input costs and prices are likely to squeeze the incomes of many households and businesses, making it more difficult for them to service their debt (see 'Chapter 2: Household and Business Finances in Australia'). Higher interest rates could also result in lower collateral values of assets that secure loans. Market analysts and the Reserve Bank's liaison with banks suggest that arrears and bad debts are likely to increase from their current low levels. Some banks have increased their provision overlays to account for the possibility of a larger number of bad debts, leaving provision balances higher than they would be otherwise but still much lower than during the pandemic.

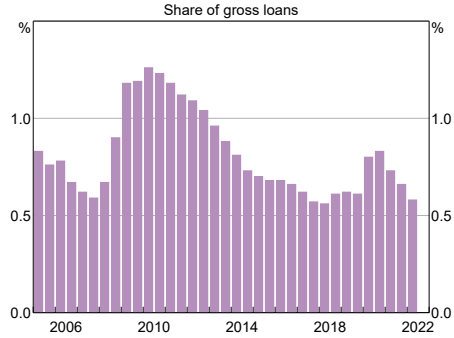
… and high capital levels

Banks' capital ratios remain high and well above regulatory minimum requirements (Graph 3.5). Banks' Common Equity Tier 1 (CET1) capital ratios have decreased slightly over the past year. In part, this has reflected the large increase in banks' risk-weighted assets, which has been driven by strong lending growth and a higher capital charge for increased risk on banks' balance sheets due to higher and more volatile interest rates. In addition, several of the major banks' have returned some capital to shareholders through share buybacks and dividends.

Graph 3.4

Banks' Provision Balances

Share of gross loans

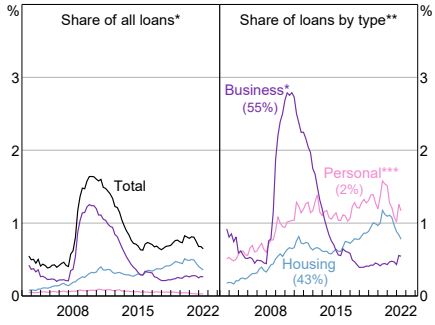


Sources: APRA; RBA

Graph 3.3

Banks' Non-performing Loans

Domestic books



* Includes lending to financial businesses, bills, short-term and long-term debt securities and other non-household loans.

** Share of total domestic lending shown in parentheses.

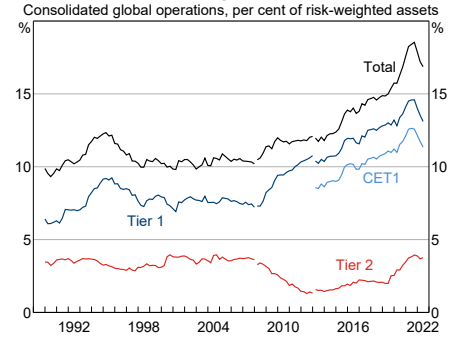
*** Series break in March 2021.

Sources: APRA; RBA

Graph 3.5

Banks' Capital Ratios*

Consolidated global operations, per cent of risk-weighted assets



* Breaks in 2008 and 2013 due to the introduction of Basel II and III for most banks. CET1 is ordinary share capital and retained earnings; Tier 1 is CET1 and perpetual subordinated debt; Tier 2 is dated subordinated debt.

Source: APRA

High capital levels will underpin banks' resilience. Stress testing simulations that incorporate the impact of rising interest rates and inflation suggest that banks are well placed to absorb the resulting effects and to continue lending to households and businesses (see 'Box D: Stress Testing and Australian Bank Resilience').

Banks are well positioned to meet the Australian Prudential Regulation Authority's (APRA) 'unquestionably strong' capital framework that will come into effect in January 2023. The changes to the capital framework will increase APRA's alignment with international standards and will include a larger capital conservation buffer and a non-zero countercyclical capital buffer that can be drawn down in periods of stress. Risk weights for some loans to small and medium-sized businesses will decrease and risk weights for higher risk mortgages will increase; this is intended to improve the allocation of capital to risk. As a result, the average risk weight will decrease, which has the effect of increasing system-wide capital ratios for a given amount of capital (Graph 3.6). This, along with banks' already high levels of capital, means it is unlikely that banks will require any additional capital to meet the increased CET1 requirement. However, some banks may need to further increase their total capital, likely through the issuance of Tier 2 instruments, to meet APRA's 2026 loss-absorbing capital requirements. Consistent with this, banks have been raising Tier 2 capital over the past year or so.

The digital bank Volt exited banking in mid-2022 after failing to secure sufficient capital via equity funding. Its exit was orderly – depositors' funds were returned to depositors (deposits that were unable to be returned were transferred to another bank) – and there was no material impact on the broader financial system. Volt was the second digital bank to close in recent years. In late 2020, Xinja had an orderly exit from banking after it was unable to secure additional capital. Other digital banks include 86400, which was meeting capital requirements at the time it was acquired by a major bank in 2021, and Judo, which is meeting capital requirements and continues to grow its business lending book.

Banks have strong liquidity positions …

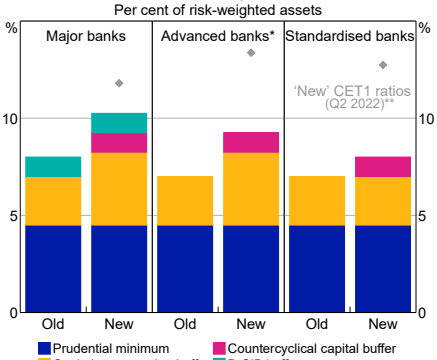
Banks' Liquidity Coverage Ratios (LCRs) – which measure banks' ability to meet cash outflows in a period of stress – are comfortably above regulatory requirements (Graph 3.7). Banks' holdings of high-quality liquid assets (HQLA) have increased since 2020. This has reflected banks' precautionary behaviour early in the pandemic, deposit inflows outpacing credit growth and Reserve Bank policy measures that resulted in higher Exchange Settlement balances at the Reserve Bank.

Reflecting sufficiently high levels of available HQLA, in late 2021 APRA considered that the CLF was no longer required to help banks meet liquidity requirements and that the facility would be wound down over 2022.[1] Banks have managed CLF reductions totalling $107 billion over the past year; the final reduction of $33 billion is scheduled for 1 January 2023. To replace the CLF allocations, over recent months

Graph 3.6

CET1 Capital

Per cent of risk-weighted assets



* Non-major banks using the internal ratings-based approach to credit risk.

** Adjusted for changes to risk-weighted assets under the new framework.

Sources: APRA; RBA

banks have increased their holdings of Australian Government Securities (AGS) and securities issued by the state and territory borrowing authorities (semis).

Banks also have stable longer term funding profiles, which support their resilience to more prolonged liquidity pressures. Banks' Net Stable Funding Ratios (NSFRs) – which measure the extent to which longer term liabilities are used to fund illiquid assets – comfortably meet regulatory requirements. Recently, NSFRs have decreased from high levels for some banks due to rapid credit growth.

… and are well placed for upcoming funding tasks

Banks have continued to experience strong deposit inflows. Almost two-thirds of banks' funding is from deposits (Graph 3.8). Banks have recently increased rates offered on deposits, particularly on some term deposits.

Banks' debt issuance over the year to date has been high, despite some periods of volatility in wholesale funding markets amid uncertainty about the economic outlook both globally and domestically (Graph 3.9). To make debt issuance more attractive during the period of higher interest rate volatility, banks have: issued with higher yields; tilted their issuance to shorter tenors (e.g. three-year and five-year instead of seven-year); and/or issued secured debt such as covered bonds, which have a lower risk profile. While there is a regulatory limit to the amount of funding that banks can raise through covered bonds, banks still have ample capacity to issue these instruments. Banks' continued access to wholesale markets is also supported by their high credit ratings.

The upcoming wind-down of the CLF and the refinancing of funds borrowed from the Reserve Bank's Term Funding Facility (TFF) over the next 18 months are sizeable but not unprecedented. Given the lead times involved, this should not pose a significant challenge for the banking sector, provided banks manage their funding requirements prudently and absent a prolonged dislocation in funding markets. Smaller banks are likely to be disproportionately affected by any repricing or disruptions in funding markets.

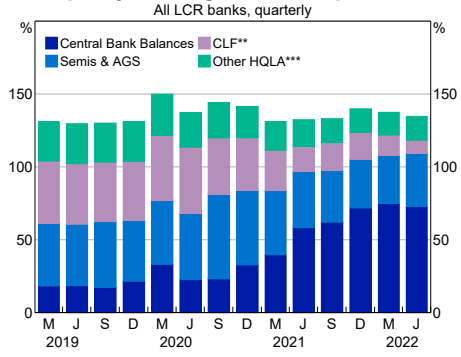
Non-bank housing credit growth is strong but resulting risks to financial stability are limited

Non-bank housing credit has continued to grow rapidly, reaching its fastest pace of growth in over a decade at 21 per cent on a six-month-ended annualised basis. This is in contrast to slowing growth in housing credit by banks, and

Graph 3.7

Liquidity Coverage Ratio Components*

All LCR banks, quarterly

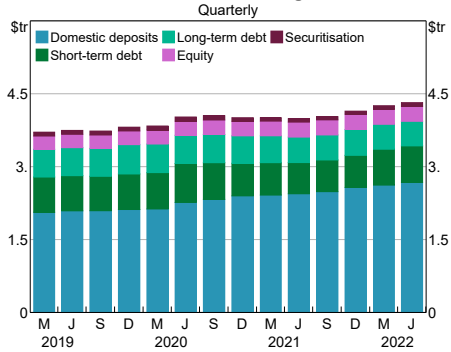


* LCR is decomposed into HQLA relative to net cash outflows.
** Refers to eligible amount for LCR calculation.
*** Includes HQLA type 2, coins and notes, RBNZ securities and other.
Sources: APRA; RBA

Graph 3.8

Banks' Total Funding Base

Quarterly



Sources: ABS; APRA; Bloomberg; RBA; Refinitiv

could indicate that financial stability risks from this source are building (Graph 3.10). One related scenario could see concerns from investors about non-banks' credit quality lead to disruptions in the RMBS market and a tightening of domestic financial conditions.

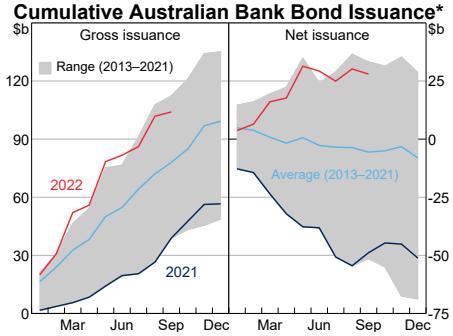
However, given the small size of the sector, this risk to financial stability would likely require non-bank housing lending standards to ease materially and result in a sharp rise in expected loan arrears, and for any resulting funding difficulties to spill over to the banking sector. While non-bank lenders tend to have higher shares (compared with banks) of borrowers that are self-employed or work in industries more sensitive to economic conditions, as well as a greater proportion of loans with higher loan-to-income (LTI) ratios, there is little evidence that these risks have increased in a material way overall. Loan-to-value ratios for non-bank lending are below those at banks and have decreased over the past year, but LTI ratios have ticked higher amid rising housing prices. Loan arrears are at historically low levels, and the share of total housing lending by non-banks remains small at less than 5 per cent. Funding costs and arrears are likely to pick up over the coming year as interest rates rise, income growth slows and housing prices decline, following a similar trend as banks.

Non-banks' reliance for funding from warehouse facilities (which are typically supplied by banks and have parameters set for newly written loans, such as LVR limits) and the RMBS market (where the credit quality of underlying loans is closely scrutinised by investors) is also likely to restrict non-bank lenders from moving too far out the credit risk spectrum. Consistent with this, over the past year or so, the bulk of non-bank RMBS issuance has been for prime loans (Graph 3.11).

Liaison suggests that non-bank lenders have become more active in lending for property development and have increased their market share over recent years. However, risks to banks and wider financial system stability are limited

Graph 3.9

Cumulative Australian Bank Bond Issuance*

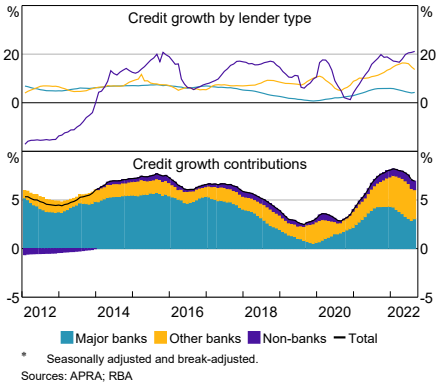


* Includes senior unsecured and covered bond issuance.
Sources: Bloomberg; Private Placement Monitor; RBA

Graph 3.10

Housing Credit Growth*

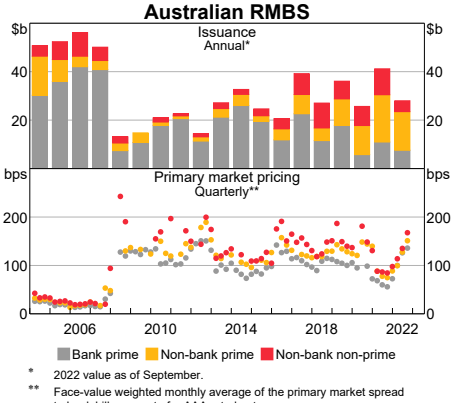
Six-month-ended annualised



* Seasonally adjusted and break-adjusted.
Sources: APRA; RBA

Graph 3.11

Australian RMBS



* 2022 value as of September.
** Face-value weighted monthly average of the primary market spread to bank bill swap rate for AAA rated notes.
Sources: Bloomberg; RBA

because this lending is primarily done by specialist lenders that are typically funded by investor equity.

Insurers face challenges, but capital positions are robust

Insurers' capital positions remain well above APRA's prescribed capital amount, despite higher interest rates, rising inflation and natural disasters weighing on profits (Graph 3.12). Higher interest rates have reduced the value of insurers' bond holdings and resulted in large mark-to-market investment losses. At the same time, higher interest rates reduce the present value of liabilities to the extent that nominal interest rates increase due to higher real interest rates (insurers might adjust assumptions for future payouts to account for higher expected inflation, which could leave liabilities little changed). Rising inflation has also increased the cost of claims for inflation-indexed policies sold by life insurers, while strong economic conditions have supported profits for lenders mortgage insurers (LMIs).[2]

General insurers have experienced an increase in both the cost and frequency of claims. Higher inflation and labour shortages have increased the cost of claims that are paid, particularly for building repairs. At the same time, the number of insurance claims have increased following several natural disasters along the east coast of Australia. Insurers use reinsurance to mitigate the impact of rising claims on profits, along with increasing premiums. Climate change is expected to exacerbate these trends as more frequent and severe natural disasters lead to larger claim payouts and could lead to further premium rises and the possibility of insurance becoming unaffordable or unavailable in some locations. The Australian Government has established a reinsurance pool for cyclone and related flood damage, which is backed by a $10 billion government guarantee, to improve insurance affordability in cyclone-prone areas.

Declines in asset prices have reduced returns for superannuation funds

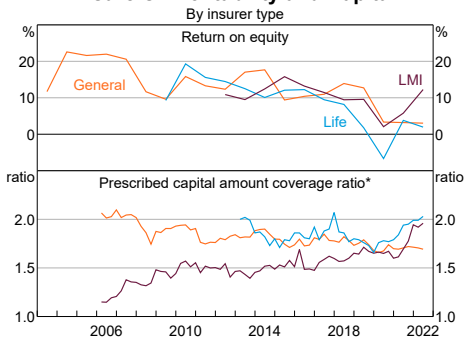
Superannuation funds' returns declined over the first half of 2022, driven by rising interest rates and falling asset prices, particularly equities (Graph 3.13). Over this time, investment income fell by $200 billion, although this was partly offset by member contributions (Graph 3.14, right panel). Negative returns do not pose a solvency risk to most superannuation funds in Australia due to their lack of leverage and defined contribution structure where the investment risk is passed on to members. However, most members are still accumulating their superannuation and have longer term investment horizons. Five-year annualised returns are currently above 5 per cent (Graph 3.14, left panel).

To improve the sector's resilience and outcomes for members, APRA conducts an annual performance test for MySuper products, using returns from the previous eight years. The assessment compares the performance of individual funds to industry benchmarks (after fees). Superannuation funds that underperform the industry benchmark by 0.5 per cent must notify their members; if a fund underperforms for two consecutive years, they are prohibited from accepting new members on some

Graph 3.12

Insurers' Profitability and Capital

By insurer type

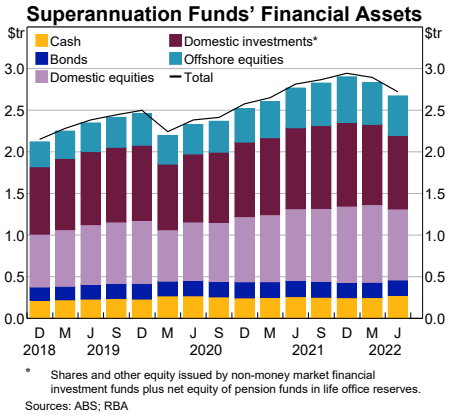


* Eligible capital as a multiple of prescribed capital amount or minimum capital requirement (prior to March 2013).

Sources: APRA; RBA

products. In 2022, five superannuation funds failed the performance test (four of which also failed in 2021), accounting for 3 per cent of financial assets. Of the 13 products that failed the test in 2021, five improved their performance and seven have exited or plan to exit the industry. The government is currently reviewing the performance test to ensure superannuation funds are not discouraged from certain investments, such as nation-building investments like infrastructure. With asset prices falling, APRA is also monitoring how superannuation funds are valuing their unlisted assets, to ensure appropriate valuation procedures are in place.

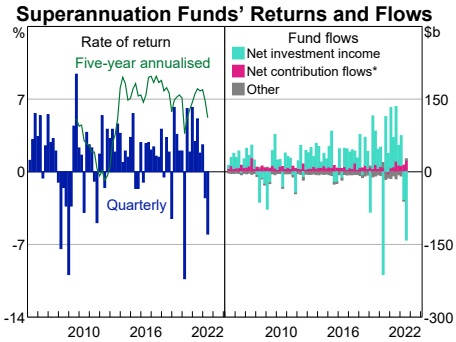
Graph 3.13



* Shares and other equity issued by non-money market financial investment funds plus net equity of pension funds in life office reserves.

Sources: ABS; RBA

Graph 3.14



* Total contributions and net rollovers less benefit payments.

Sources: APRA; RBA

Superannuation funds are currently well placed to manage liquidity flows that result from member contributions, withdrawals and portfolio rebalancing. A large portion of superannuation funds' financial assets are liquid (such as cash, bonds and equities), which supports their ability to meet liquidity needs. Net contributions for workers will be supported over the coming years by the mandated increase in the minimum employer superannuation contributions from 10.5 per cent of wages to 12 per cent by 2025.

Crypto-assets currently pose limited risks to the Australian financial system, but this could change

The decline in crypto-asset prices in the first half of 2022 had limited impact on Australia's financial system, despite causing large losses for some investors (see 'Chapter 1: The Global Financial Environment'). As is the case internationally, the interconnections between crypto-assets and the traditional financial system in Australia are small, which limits the impact of crypto-asset volatility on financial stability. However, this could change if the crypto-asset market continues to grow and there is significant engagement by traditional financial institutions (see 'Box A: Financial Stability Risks from Crypto-assets').

Some Australian banks, payment service providers and other organisations have demonstrated their interest in crypto-assets, particularly AUD-denominated stablecoins. Earlier this year, a major bank – ANZ – conducted some test transactions in a controlled environment with its pilot stablecoin (A$DC) that was fully backed by deposits of the customers involved. Several other AUD stablecoins have been issued or announced, though their value on issue remains low. Stablecoins backed by financial assets are less risky than algorithmic stablecoins or other unbacked crypto-assets. However, the asset

holdings backing some of these stablecoins are not transparent to investors, which could expose customers to the risk of runs if the value of the underlying assets proves to be less stable or liquid than envisaged.

Another major bank – CBA – had announced plans to allow some crypto-assets to be purchased using the CommBank app, though these plans are on hold pending further clarity on the regulatory environment for crypto-assets. There are now many other providers offering similar services. The increased ability to purchase crypto-assets through a trusted platform could lead to an increase in the number of Australians investing in them, including where the crypto-asset lacks a functional use case and derives its value from investors' speculation about future capital gains. With crypto-assets' increasing popularity, the Australian Securities and Investments Commission (ASIC) and the Australian Competition and Consumer Commission have warned investors of related scams.[3] Crypto-asset scams account for the majority of recent investment scam losses.

Australian policymakers are currently working on a regulatory framework for crypto-assets in an effort to protect the public and limit risks to financial stability (see 'Chapter 4: Domestic Regulatory Developments'). The need for a robust regulatory framework was highlighted by the recent volatility in crypto-asset markets and concern that investors do not fully recognise the risks involved in crypto-assets; ASIC's 2022 retail investor survey suggested that only 20 per cent of crypto-asset investors considered their investment to be risky.

Financial market infrastructures continue to focus on improving resilience

Financial market infrastructures (FMIs) – such as central counterparties (CCPs), securities settlement facilities and high-value payment systems – enable financial system participants to manage credit and liquidity risks. The Reserve Bank's 2022 assessments of Australian FMIs concluded that, on balance, all had conducted their affairs in a way that helped to promote overall stability in the Australian financial system.[4] However, it also found that FMIs must continue to focus on enhancing their resilience.

In August, ASX announced that the replacement of its ageing CHESS system – which supports clearing and settlement of nearly all listed Australian equities – would be delayed by at least another 18 months, to late 2024 at the earliest. ASIC and the Reserve Bank have expressed disappointment at this further delay, while welcoming an external review initiated by ASX to assess the work required to complete the program and to determine a new go-live date. ASX will need to continue to invest in and maintain the current CHESS system so that it can service the market reliably until the CHESS replacement goes live.

FMIs have also had to manage risks from recent volatility in commodity markets. ASX Clear (Futures) provides central clearing for Australian electricity derivatives, which were affected by the temporary suspension of the National Electricity Market in June, as well as ongoing price volatility. The CCP has increased margin requirements and introduced new stress test scenarios to ensure that its financial resources remain adequate. CCPs hold margin and other financial resources to minimise the effect a potential participant default might have on other participants, the CCP and the financial system.

Agencies and financial institutions continue to work together to address longer term challenges

The threat from cyber incidents to financial institutions and the broader financial system remains high. There have been further large-scale and high-profile international cyber incidents over recent months, including the

Conti and Maui malware attacks and the Shanghai police data breach. In Australia, Optus recently experienced a cyber-attack that resulted in the theft of its customers' data. Given the scale of the data breach and the potential harm to affected customers, the Australian Government is seeking to remove legal barriers to Optus temporarily sharing approved customer information with financial institutions – under strict conditions – to allow them to implement enhanced monitoring and safeguards for affected customers. APRA has instructed banks to tighten their controls further where possible to limit the risk of fraud. A cyber-attack of this size has potential systemic implications, as an increase in fraudulent activity associated with the leaked information could undermine confidence in banks. More broadly, financial regulators continue to work with the government and institutions to further enhance the Australian financial system's resilience to cyber risks (see 'Chapter 4: Domestic Regulatory Developments'). APRA is also undertaking consultations on strengthening operational risk standards for banks, insurers and superannuation funds, which could include new requirements on operational risk and updated requirements on business continuity and managing third-party service providers.

Climate change remains a key long-term risk for the financial system that will need to be carefully managed by financial institutions and monitored by regulatory agencies.[5] The Australian financial system is vulnerable to physical risks through direct losses on assets from climate events, and transition risks that arise from changes to policies and the economy in the move towards lower emissions. Reflecting this, Australian financial institutions have begun to take action to manage climate risks, including by committing to lending that supports the transition to a net-zero economy. All four major banks have joined the Net-Zero Banking Alliance, which requires a commitment to reduce emissions from their lending and investment portfolios, with a target of net-zero emissions by 2050 along with intermediate emission reduction targets. While the major banks have not announced a universal exit from financing thermal coal, they have made commitments to restrict lending to the sector to varying degrees. CBA and Westpac recently released reports detailing their climate strategies and their progress on meeting their targets and commitments. Beyond banks, some superannuation funds and insurers have been reducing their investments in fossil fuel producers, citing concerns that they lack viable plans to decarbonise their activities.

Nonetheless, it will take time for financial institutions to adjust their lending and risk management practices in response to the risks and opportunities from climate change. For example, climate-related disclosure standards are still being finalised. These standards are expected to improve the quality of data needed by financial institutions for their own climate risk reporting. Related to this, taxonomies are being developed internationally and domestically, which will improve the quality and consistency of information available to financial market participants. Australian financial institutions are also still in the process of embedding climate risk into their risk management frameworks; a recent APRA self-assessment survey found that 23 per cent of institutions did not have metrics to monitor climate risks.

APRA, the Reserve Bank and the other agencies on the Council of Financial Regulators (CFR) are undertaking further work to better understand the financial risks associated with climate change. APRA is leading the Climate Vulnerability Assessment (CVA), which examines the effect of two climate scenarios on Australia's five largest banks. Banks provided results based on the CVA scenarios to APRA in May 2022 and APRA is seeking to publish an assessment later this year. The Reserve Bank is using scenario

analysis to further develop its understanding of the risks to financial stability from climate change. Internationally, other central banks and prudential regulators are assessing climate risks in their own jurisdictions, and in the process are continually improving how these exercises are conducted. The Reserve Bank, along with other CFR agencies, collaborate with international peers to share learnings, both directly and through forums such as the Network for Greening the Financial System, the Financial Stability Board and the G20 Sustainable Finance Working Group.

Endnotes

[1] The CLF complements available HQLA to ensure banks have sufficient access to liquid assets during a period of stress. It is a contractual liquidity commitment from the Reserve Bank that banks are able to use towards meeting their LCR requirements. The CLF has been required in Australia given the historically limited supply of HQLA due to low levels of HQLA securities (AGS and semis) on issue. APRA instructed banks to phase out CLF holdings over 2022 as there is now sufficient HQLA (such as AGS and semis) available for banks to meet liquidity requirements without the need for the CLF.

[2] For more information on the effects of rising interest rates and inflation for insurers, see RBA (2018), 'Box C: Interest Rate Risk in the Australian Financial System', *Financial Stability Review*, April.

[3] See Armour C (2022), 'Regulating Crypto-asset-based Investment Products within the Financial Services Framework', AFR Cryptocurrency Summit, 6 April; ACCC (2022), 'Australians Are Losing More Money to Investment Scams', Media Release, 6 June.

[4] See RBA (2022), 'Assessment of the Reserve Bank Information and Transfer System', June; RBA (2022), *Payments System Board Annual Report* ; RBA (2022), 'Assessment of ASX Clearing and Settlement Facilities', September.

[5] See Kearns J (2022), 'Climate Change Risk in the Financial System', Speech at the Credit Law Conference, Sydney, 24 August.