

4. Domestic Regulatory Developments

Summary

The Council of Financial Regulators (CFR)^[1] and its working groups have continued to meet frequently to exchange information, assess developments and coordinate policy actions on financial stability-related issues in Australia. Over the past six months, the CFR has focused on the following four areas:

1. Assessing the impact of higher inflation and interest rates on the financial system.
2. Revisiting crisis management arrangements following recent global banking system stress.
3. Working to strengthen the resilience of the Australian financial system to external threats.
4. Further enhancing cooperation among CFR agencies.

These are discussed below in turn.^[2]

Assessing the impact of higher inflation and interest rates on the financial system.

The CFR has continued to closely monitor the resilience of households, businesses and the broader financial system to the effects of higher interest rates and cost-of-living pressures. While households and businesses have been largely resilient to date, the CFR recognises that the effects of higher interest rates and inflation have been felt unevenly across the community (see Chapter 2: Resilience of Australian Households and Businesses). ASIC has been closely monitoring lenders' approaches to supporting customers who are experiencing financial hardship and has recently published its expectations of lenders in meeting their related

obligations. The CFR continues to closely monitor labour market conditions, given employment remains the most important factor in households' resilience. The CFR judges that the Australian banking system is well placed to manage a material deterioration in economic conditions, should one occur.

At its September 2023 meeting, the CFR discussed the main considerations for macroprudential settings, including the risks arising from housing and business lending and the uncertainty around the economic outlook. It was noted that APRA would continue to assess the appropriateness of macroprudential policy settings as economic and financial conditions evolve and would consult with CFR members accordingly.

Revisiting crisis management arrangements following recent global banking system stress.

The Australian banking system remained resilient following the emergence of stress in parts of the global banking system in March 2023. This highlighted the importance of preventative measures, including a regulatory and supervisory framework requiring the banking system to manage risk appropriately and maintain high levels of capital and liquidity, combined with strong inter-agency crisis management arrangements. Given the speed of impact for the affected banks and other challenges faced by US and Swiss authorities, CFR agencies have been closely engaged with their international counterparts on the lessons to be drawn from the experience. The CFR agencies are also re-examining the crisis management arrangements that exist between them to ensure they remain fit for purpose. Furthermore, this episode highlighted the importance of crisis management tools, including Additional Tier 1 (AT1) capital, operating as intended and guarantee schemes being able to provide depositors with timely access to funds. APRA has begun exploring options with industry participants to improve the effectiveness of AT1 capital instruments for use in a potential bank stress scenario.

Working to strengthen the resilience of the Australian financial system to external threats.

There are key risks to financial stability originating from outside the financial system, including cyber-attacks, geopolitical risk and the transition and physical risks associated with climate change. CFR agencies have been working with industry participants to boost their defences and strengthen their financial and operational resilience to these evolving risks.

The CFR has a large program of work aimed at further strengthening the resilience of the

Australian financial system to increasingly sophisticated cybersecurity threats, including the following:

- APRA and ASIC have recently conducted reviews of regulated entities' cyber resilience measures.
- APRA has intensified supervision of cybersecurity, including where regulated entities' practices are found to be falling short of the expectations set out in the Information Security Prudential Standard.
- CFR agencies have been working closely with the Australian Government in the development of Australia's Cyber Strategy 2023–2030 and to improve information-sharing arrangements between regulators. The aim will be to deliver consistent whole-of-government cyber regulation and consolidated systemic incident response practices to collectively strengthen Australia's cyber resilience.
- Due to the strong links between the Australian and New Zealand financial systems, the CFR agencies are engaging regularly with New Zealand authorities to refine cyber-attack protocols.

CFR agencies are also coordinating to enhance the ability of financial market participants to manage the financial risks and identify the opportunities associated with adjusting to climate change. Over the past six months:

- Treasury has completed two consultation processes in relation to the implementation of standardised and internationally aligned climate-related financial disclosure requirements.
- ASIC has continued to focus on lifting sustainability-related disclosure and governance standards by listed companies and other issuers of financial products, including publishing measures taken to address instances of potential greenwashing.

- Following the completion of the APRA-led inaugural Climate Vulnerability Assessment for Australia's largest banks in 2022, APRA and the Reserve Bank have continued analysis of climate-risk exposures for both financial institutions and the financial system more generally.

The CFR priorities around climate change risks are aligned with the forthcoming Sustainable Finance Strategy; in addition to the work above, this includes providing oversight of the development of an Australian Sustainable Finance Taxonomy and continuing to support Australia's international engagement on sustainable finance.

Further enhancing cooperation among CFR agencies.

Over the past six months, the CFR has discussed recommendations from the Review of the Reserve Bank that are relevant to the CFR. CFR agencies have agreed to update their existing Memorandum of Understandings and the CFR Charter to provide more clarity and transparency

on how CFR agencies work together to promote financial stability. This includes close coordination with the work underway by APRA and the Reserve Bank involving interactions between monetary policy, financial stability and macroprudential policy.

In September 2023, the Australian Government passed the legislation for the Financial Accountability Regime (FAR). The FAR imposes a strengthened responsibility and accountability framework for APRA-regulated entities in the banking, insurance and superannuation industries, and their directors and senior executives. The FAR's objective is to improve the risk and governance cultures of those financial institutions. It will be jointly administered by APRA and ASIC and will come into force for the banking industry on 15 March 2024 and for the superannuation and insurance industries on 15 March 2025. APRA and ASIC are working closely to implement the FAR and engage with industry.

Endnotes

[1] The CFR is the forum for coordination between Australia's key financial regulatory agencies: the Australian Prudential Regulation Authority (APRA); the Australian Securities and Investments Commission (ASIC); the Australian Treasury; and the Reserve Bank of Australia. For more detail, see CFR <<https://www.cfr.gov.au/>>.

[2] For more information, see CFR (2023), 'Quarterly Statement by the Council of Financial Regulators – June 2023'; Media Release No 2023-02, 14 June; CFR (2023), 'Quarterly Statement by the Council of Financial Regulators – September 2023'; Media Release No 2023-03, 25 September.

