



# GUIDELINES

## Licensing: locally-incorporated ADIs

August 2021

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# About these guidelines

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These guidelines form part of a package of documents which set out the Australian Prudential Regulation Authority's (APRA's) approach to the licensing and supervision of authorised deposit-taking institutions (ADIs) (figure 1). APRA recommends prospective ADI licence applicants, prior to reading these guidelines read the information paper *ADIs: New entrants - a pathway to sustainability* ('new entrants information paper'), which sets out APRA's application of its prudential and supervisory frameworks for new entrant ADIs. These guidelines are for prospective Australian body corporates seeking an authority to carry on banking business in Australia under the [Banking Act 1959](#) (Banking Act). They set out the licensing process and the necessary information and documents to be submitted with an application.

Overseas banks seeking to operate as a branch in Australia and intend to apply for a foreign ADI licence should refer to APRA's Guidelines - Overseas Banks: Operating in Australia.

The guidelines outline the expected characteristics of applicants eligible for different licensing pathways and the minimum criteria needed for APRA to make a licensing decision. Additional information requests will likely be required during the licensing process. These guidelines provide an initial source of reference for potential applicants. APRA expects that applicants will familiarise themselves with ADI prudential standards and prudential practice guides (PPGs), and ensure that their policies/procedures meet the required standards.

This document is provided for information and guidance purposes only. The content of this guidance is not legal advice and does not form part of the law or create enforceable requirements. Users are encouraged to obtain professional advice about the application of any legislation or prudential standard to their particular circumstances. Users should exercise their own skill and care when relying on any material contained in this guidance.

Links to relevant legislation, guidance and web pages have been provided throughout these guidelines to assist readers. The links were correct at time of publication.

**Figure 1. Requirements and Guidelines applicable to a new entrant ADI**



# Glossary

|                                |   |
|--------------------------------|---|
| <b>ADI</b>                     | Authorised deposit-taking institution – for the purposes of this paper ‘ADI’ refers to a body corporate which holds an ADI licence and is not a foreign ADI or a purchased payment facility provider.   |
| <b>ADI licence</b>             | For the purpose of this paper, an ADI licence is an authority granted by APRA under section 9 of the Banking Act to permit a body corporate to conduct banking business in Australia, with or without conditions, that is not limited by time.  |
| <b>APRA</b>                    | Australian Prudential Regulation Authority.   |
| <b>Banking Act</b>             | The <i>Banking Act 1959</i> .   |
| <b>Banking business</b>        | Has the meaning given in section 5 of the Banking Act.  |
| <b>FCS</b>                     | The <a href="#">Financial Claims Scheme</a> (FCS) is an Australian Government scheme that provides protection to deposits with ADIs and policies with general insurers in the unlikely event that one of these financial institutions fails. In the case of ADIs, the FCS only covers deposits in protected accounts held with institutions that are incorporated in Australia and recorded in Australian currency. The FCS can only be activated by the Australian Government. APRA is responsible for administering the scheme. |
| <b>Formal application</b>      | Application to APRA requesting authority to conduct banking business in Australia under section 9 of the Banking Act (including any supporting information) accompanied by the appropriate application fee.   |
| <b>FSCODA</b>                  | <i>Financial Sector (Collection of Data) Act 2001</i> .   |
| <b>Licensing</b>               | Licensing refers to the process by which APRA grants a Restricted ADI / ADI licence to an institution.  |
| <b>New ADI</b>                 | An ADI that is not a Restricted ADI, has recently been granted an ADI licence and is subject to an adjusted supervisory approach.   |
| <b>New Entrant</b>             | A collective term for a Restricted ADI and a new ADI.   |
| <b>NOHC</b>                    | Non-operating holding company, has the meaning in section 5 of the Banking Act.   |
| <b>Prudential framework</b>    | Prudential framework refers to the legislation, as well as prudential and reporting standards plus associated guidance material, which relate to the prudential regulation of ADIs.   |
| <b>Prudential requirements</b> | Includes requirements in the Banking Act, prudential standards made under the Banking Act, reporting standards made under the <i>Financial Sector (Collection of Data) Act 2001</i> , conditions on an ADI’s authorisation and any other requirements imposed by APRA in writing.   |
| <b>Restricted ADI</b>          | A body corporate that holds a Restricted ADI licence.   |

**Restricted ADI licence**

An authority granted by APRA under section 9 of the Banking Act to permit a body corporate to conduct banking business in Australia, which is for a limited period and is subject to specific requirements and restrictions.

**Substantially complete application**

An application where an applicant has demonstrated that it has sufficient financial and non-financial resources, and has submitted all of the expected supporting material, which is of sufficient quality and detail to allow APRA to complete its assessment.

# Overview

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If a business intends to carry on banking business in Australia, it must have an ADI licence from APRA.

- 'Banking business' is defined in section 5 of the Banking Act as taking deposits (other than as part-payment for identified goods or services) and making advances of money, as well as other financial activities prescribed by regulations made under the Banking Act.
- Under sections 7 and 8 of the Banking Act it is an offence to conduct banking business in Australia without the proper authority.
- APRA can grant an authority to a body corporate to carry on banking business in Australia under section 9 of the Banking Act. This means APRA cannot consider applications from associations, partnerships or unincorporated entities. Prospective applicants may refer to the Australian Securities and Investments Commission (ASIC) website ([www.asic.gov.au](http://www.asic.gov.au)) for information about the requirements and procedures for registration of a body corporate in Australia.

These guidelines are intended to assist entities in navigating APRA's licensing process for an ADI licence. They outline:

- the licensing process, the type of support and guidance an applicant can expect to receive from APRA;
- the minimum criteria to be addressed by applicants under the restricted and direct ADI licensing pathways; and
- the minimum supporting information APRA expects to be lodged with an application in order for an applicant to demonstrate they have met the relevant prudential requirements to be granted a licence.

## ADI licensing pathways

Achieving an ADI licence requires significant resources and capabilities which can take time for a business to develop. To assist entities, APRA has two pathways available to become an ADI: the direct and the restricted pathway.

- The **direct pathway** is suitable for applicants that have existing resources and capabilities with which to establish an ADI. It allows the applicant to conduct its intended banking business from the granting of its licence. The applicant must demonstrate it meets the full prudential framework and is ready to commence banking business prior to being granted an ADI licence.
- The **restricted pathway** is suitable for applicants that do not have the resources and capabilities to establish an ADI and need time to develop these. This pathway allows applicants to conduct limited banking business as a Restricted ADI before being required to meet the full prudential framework. It can assist applicants in seeking the investment required to operationalise their business, test their operational model,

progress their compliance with the prudential framework and their application for an ADI licence.

The pathway that is available will depend on the applicant's particular circumstances. The direct pathway is available for applicants that have the existing resources and capabilities to immediately establish an ADI. Common characteristics of a suitable direct applicant include:

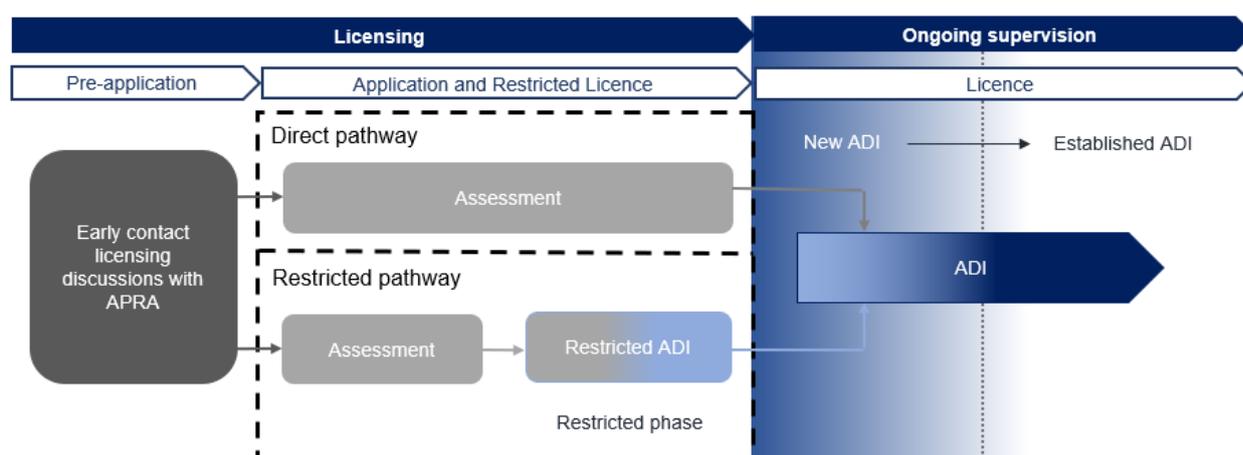
- Substantial capital resources at the point of application and/or a very clear avenue for access to such capital;
- A significant existing banking-related business (e.g. lending);
- An existing governance structure at the point of application that wholly or substantially mirrors the requirements of APRA's governance prudential standard and any other relevant prudential standards (e.g. an independent Chair, majority independent directors on the board, board audit committee etc.);
- A good breadth of suitably-experienced staff in key roles at the point of application;
- A demonstrated operational track record of building or running a banking-related business.

Prospective applicants will need to agree the most suitable pathway with APRA, as part of the pre-application process. Eligibility for either pathway is ultimately at APRA's discretion. For further information on APRA's ADI licensing pathways please refer to the new entrants information paper.

## Outline of the licensing process

APRA's licensing process is consultative and each applicant is assigned a lead contact from APRA Licensing, who will be the main contact for the entity on all APRA-licence related matters.

**Figure 2. APRA's ADI licensing process**



The licensing process involves the following steps:

- Pre-application – preliminary consultation between APRA and the entity on its plans to carry on banking business in Australia;

- Formal application – entity makes its formal application to APRA requesting authority to conduct banking business in Australia and pays the applicable application fee;
- Assessment – APRA’s assessment of the application. An iterative process between the applicant and APRA including meetings with senior officers and other responsible persons, review of policies and procedures and an on-site review;
- Substantially complete application – An application is determined to be substantially complete once an applicant has demonstrated that it has sufficient and financial and non-financial resources and has submitted all of the expected supporting material, which is of sufficient quality and detail to allow APRA to complete its assessment; and
- Licensing decision – APRA grants or refuses the application for a banking licence.

Once APRA is satisfied that it has a substantially complete application, a licensing decision is ordinarily made within 90 days. The entire application process from submission of formal application until decision may take twelve – eighteen months depending on the readiness of the applicant and complexity of the business.

The licensing process is an iterative process which can involve several rounds of feedback from APRA, and resubmissions from the applicant. Some common factors that can delay the grant of a licence, or result in a refusal include:

- an application that contains incomplete or inadequate documentation;
- an entity being unable or unwilling to comply with APRA’s requirements (for example, being unable to raise the required level of capital) or provide APRA with the expected documentation;
- material threshold issues or prudential concerns (for example legal structure, fitness and propriety of key individuals, lack of experience in operating proposed business); and
- delays in responding to APRA’s requirements and requests.

APRA encourages all prospective applicants to contact [licensing@apra.gov.au](mailto:licensing@apra.gov.au) as early as possible during their planning phase to discuss their intent (or likely intent) to apply for a licence.

A diagram of the full licensing process is available in Attachment D.

## When is a licence not required?

Some common examples of when an ADI licence would not be applicable are given below.

|  | Entity A | Entity B | Entity C |
|--|----------|----------|----------|
| Provides finance   | ✓        | ✗        | ✓        |
| Accepts deposits   | ✗        | ✗        | ✓        |
| Provides branding, customer interface technology and customer support                                      | ✗        | ✓        | ✗        |
| Conducting Banking Business?   | ✗        | ✗        | ✓        |
| Needs to be registered under Financial Sector (Collection of Data) Act 2001? (depending on business model) | ✓        | ✗        | ✗        |
| Is able to use restricted terms such as 'Bank' and 'Banking'?  | ✗        | ✗        | ✓        |

Entity A raises equity and provides finance to individuals. An ADI licence is not required because under the Banking Act an entity must both take deposits and make advances of money. As Entity A is only advancing money it is not conducting banking business so an ADI licence is not required. (However, Entity A may need to be registered under the [Financial Sector \(Collection of Data\) Act 2001](#), depending on the nature of the business undertaken.)

Entity B is working jointly with Entity C to offer a bank account and personal loans. Entity B is providing all of the branding, customer interface technology and customer support while Entity C is providing the bank account and the financing for the personal loans. Entity B would not need an ADI licence as it is not conducting banking business. The banking business of accepting deposits and advancing money is being provided by Entity C, which must be an ADI. (However, section 66 of the Banking Act would apply to Entity B. Entity B would not be permitted to refer to itself as a bank and would need to make clear that the bank products were being provided by Entity C.)

## Restricted words or expressions

The Banking Act places restrictions on financial businesses using certain words and expressions related to banking. Under sections 66 and 66A of the Banking Act, only persons that have been granted approval by APRA can use the following words or expressions in Australia in relation to their financial business (unless an exception in the Banking Act applies):

- 'bank', 'banker' and 'banking';
- 'building society', 'credit union', 'credit society' and 'credit co-operative';
- 'authorised deposit-taking institution'; and
- 'ADI' (except where these letters are used as part of another word).

Further information on the application of section 66 and 66A of the Banking Act is available in the guidelines [Restricted Words under the Banking Act 1959](#).

When APRA grants an ADI licence, the company becomes eligible to use the restricted words 'authorised deposit-taking institution' and 'ADI'. An ADI is also permitted to use the restricted words 'bank', 'banker' and 'banking' unless APRA determines otherwise.

A company that has made an application for an ADI licence may make limited use of restricted words or expressions provided that it complies with sections 66 and 66A of the Banking Act, and the use is not misleading. For further information on the assumption and use of restricted words and expressions and how the restrictions apply, please refer to section 1.2.7.

### **Investment banking**

As the definition of banking business is the activity of both taking deposits and making advances of monies there is no concept of 'investment banking' in Australia. Entities which wish to offer investment services would need to seek the appropriate licences from ASIC. As these companies would not be conducting banking business and would not be ADIs they are not permitted to use the term 'banking' in relation to their business.

# Chapter 1 - The licensing process

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This chapter discusses the process for applying for an ADI licence (via either the restricted or direct pathway) and the engagement with APRA. It provides information that will assist applicants in ensuring they are able to demonstrate they have sufficient and appropriate financial and non-financial resources and that their supporting documentation is of sufficient quality and detail to enable APRA to make a decision on their application as efficiently as possible.

## ***APRA Licensing***

APRA Licensing is APRA's centralised licensing function and the point of contact for entities to engage on all licensing matters, from pre-application through to decision.

While entities can expect ongoing engagement with APRA and guidance on the licensing process during the assessment, APRA cannot provide guidance on how an applicant should build its policies and procedures. The applicant is expected to have sufficient experience and understanding of the business it intends to conduct and APRA's prudential requirements for such business.

## **1.1 Pre-application — early contact with APRA**

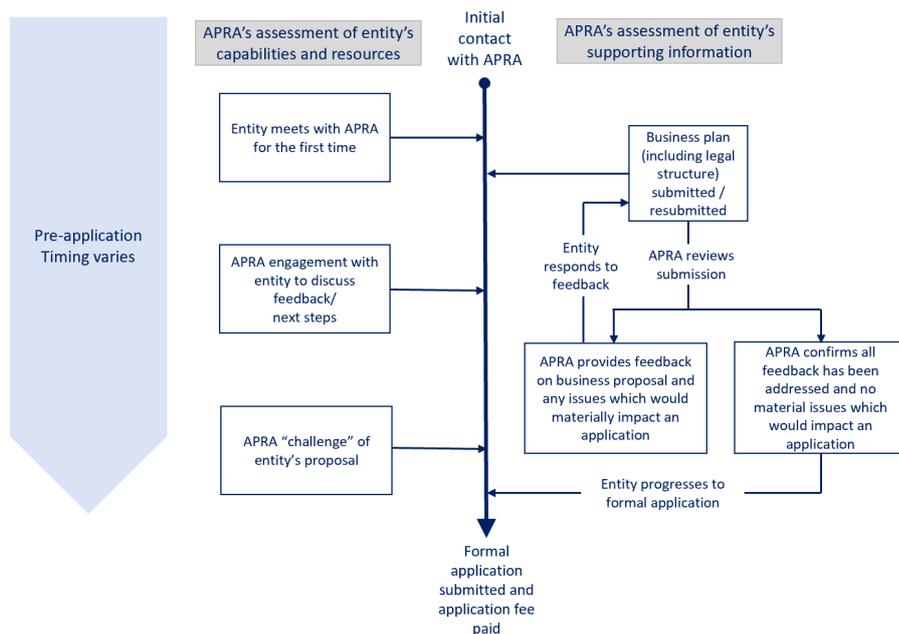
All entities contemplating an ADI licence application should engage in pre-application discussions with APRA to discuss licensing pathways, and address any material issues, or concerns raised by APRA ahead of submitting an application and starting the licensing process.

Discussions with entities in the early stages of considering a licence application are highly beneficial for both parties, providing an opportunity for:

- APRA to outline the licensing process and clarify what an entity will need to do to obtain a licence;
- an entity to ask questions so that it understands APRA's expectations and the licensing process; and for
- APRA to gain an understanding of the entity's plans and raise any likely issues or concerns as soon as possible.

Early contact can inform whether or not an entity proceeds to an application and its approach to developing its application. For example, early discussions with entities have on occasion highlighted that the intended business does not need an ADI licence to proceed, or that the intended structure of institutions in a group will need adjustment.

**Figure 3. Pre-application process**



### 1.1.1 Pre-application meetings

Pre-application meetings are intended to help entities commence the licensing process and ensure that their applications are as complete as possible. Often more than one pre-application meeting is needed, where entities intend to apply via the restricted pathway or the proposals include innovative or complex features, such as unproven IT systems. While the number and type of pre-application meetings will differ on a case-by-case basis, more common meetings are noted below.

#### *Initial enquiry meeting*

The initial meeting gives entities an opportunity to discuss their plans with APRA and for APRA to understand the general proposal and give feedback. These meetings are often held at a formative stage of a potential applicant's planning.

## Preparing for an initial enquiry discussion with APRA: What do applicants need to do?

In advance of the initial meeting, entities should prepare a brief, high-level summary of their business proposition. As a minimum it should include:

- an explanation of why the entity wants to be licensed as an ADI; and
- the entity's initial business proposition and strategy, including high level information on its:
  - a) business proposition – what products it will be offering, how it will offer them and its target market;
  - b) sources of funding – how it proposes to fund the business and whether it has any investors and/or funding in place;
  - c) owners and structure – details of proposed owners and the ownership / group structure, as far as these are known;
  - d) corporate governance – proposed structure, board, senior management and governance arrangements, as far as these are known; and
  - e) project plan - an overview and timeline of the plan to set up the ADI.

### *Feedback meeting*

Once an entity's plans have developed and it considers it will be in a position to submit an application in the short to medium term, it should submit its developed business plan to APRA for high-level review (see Chapter 2 for APRA's business plan expectations). This is a key step in the licensing process and allows APRA to determine whether there are any prudential issues associated with the proposal and to raise with the entity any concerns that APRA may have. It also assists with the entity submitting a good quality application which will add to the efficiency of the licensing process.

APRA will meet with the entity to present high-level feedback and give the entity the opportunity to ask questions or discuss any issues it may have. At the end of the meeting, APRA will provide feedback on the entity's readiness to submit an application and discuss the actions the entity will need to take if it wants to progress with its application. Following the meeting APRA will send formal feedback to the entity in a letter. Depending on the feedback given, the entity may require additional pre-application feedback meetings prior to a final pre-application challenge meeting.

## Common issues encountered during pre-application:

- The business model does not include offering banking business (i.e. taking money on deposit and making advances of monies).
- The business model does not appear viable and does not have sufficient market research on its point of difference, particularly for niche proposals.
- The entity has insufficient access to capital that meets APRA's requirements for regulatory capital (i.e. entities do not have enough capital to meet minimum requirements or complexity in their capital instruments make them ineligible as regulatory capital).
- The entity has inappropriate governance structures which do not promote effective risk management.
- The group structure of the proposed ADI legal entity and related entities does not support effective supervision or resolution by APRA.
- The entity has existing financial business within the group and it is not intending to operate this appropriately for a banking group. APRA expects all banking type business within an ADI group to be subject to prudential supervision.
- There is a lack of understanding by the entity of the skills and experience required to start-up a bank.

## *Risk specialist meetings*

Depending on the type of business which a potential applicant proposes to undertake, APRA may arrange a meeting with one or more of APRA's risk specialist teams.

As an example, where a potential applicant's proposed business involves innovative, particularly complex or unproven IT systems, APRA may arrange a meeting with APRA's Technology Resilience specialists to focus on the applicant's IT systems (including any third-party (outsourcing) agreements). The meeting would cover how the applicant expects to manage the risks associated with its IT systems (for example security, testing, software maintenance, and incident handling), how it plans to manage the operational risks associated with its use of third-party suppliers (if any) and its plans for monitoring and oversight of these arrangements.

Similarly, depending upon the underlying risks proposed in the potential applicant's business plan, APRA may arrange for the applicant to meet other risk teams such as APRA's liquidity, operational, credit or market risk teams.

## Do applicants have to offer full banking services?

Applicants need not offer a full range of banking services. They may choose to provide specialised services if they can demonstrate expertise in their selected area of operation. For example, an applicant may choose to only offer services to the SME market and not have retail customers. Where an applicant is not offering full banking services APRA may add conditions to the applicant's licence limiting them to their selected area. Should the applicant want to expand its business model at a later point, it would need to demonstrate to APRA that it has the capabilities to operate more broadly. At this point any licence conditions may be altered or removed.

## ***Challenge meeting***

The final meeting APRA will have with entities before they submit their application is the challenge meeting. Before the challenge meeting is held entities should have fully developed their business plan, and incorporated APRA's feedback from previous meetings. The challenge meeting is an opportunity for APRA to challenge the entity's management on any aspect of their business plan, their understanding of APRA's prudential requirements, and the entity's preparedness for application. Key topics likely to be covered are:

- Business model and financials - business strategy, route to profitability (short-term viability and longer-term sustainability) and financial projections (forecasts and key performance indicators);
- Governance and risk management – owners and controllers, corporate governance, risk management and control framework, including staffing;
- Operational resilience – recovery and exit strategies, IT infrastructure and systems and timescales for implementation and testing, outsourcing;
- Policies, procedures and plans – timeframe for building the ADI, operational and regulatory policies and procedures, strategy to ADI (if following the restricted pathway).

Following the meeting APRA will provide feedback on the entity's proposition. The entity should take the necessary time and care to consider and fully address this feedback prior to applying for a Restricted ADI or ADI licence.

## **1.2 Application**

After the entity has addressed or has an acceptable proposal to resolve any issues arising from the pre-application meetings, it should be ready to make its formal application under the agreed licensing pathway and pay its non-refundable application fee. Applications should be made to APRA in writing and should be accompanied by the appropriate fee and the information and supporting documents as set out in these guidelines.

### **1.2.1 Application expectations**

To be successful at being granted a licence, an applicant is responsible for demonstrating:

- an approach which on a proportionate basis meets the requirements of the prudential standards;
- a sound risk culture; and
- that it has adequate financial and non-financial resources, including staff with appropriate expertise to commence the operations for which it is being licensed and to competently implement sound risk management practices.

The written application is an important demonstration of the strength of an applicant's proposal. It supports APRA's assessment of whether an applicant will have the ability to be able to comply with all relevant prudential requirements from the commencement of their licence. The applicant's documented framework is an important foundation in demonstrating understanding of the prudential requirements and the capacity of the applicant to conduct its

business in a manner that will meet APRA's requirements. APRA's assessment of an applicant's ability to comply with the requirements in the prudential standards goes beyond assessing an applicant's documented policy framework to consideration of their ability to operationalise the requirements and to manage this on an ongoing basis.

Details of the minimum expectations APRA has for an ADI or Restricted ADI licence applicant to demonstrate it meets the prudential requirements are covered in Chapter 2. The expectations in Chapter 2 are applied on a proportionate basis and are not exhaustive. Entities should discuss with APRA the specific expectations for their application which may differ depending on the proposed business model.

Documents supporting the application should be largely final and approved by the relevant management, and/or governance body ahead of submitting to APRA.

### External advisors

Applicants may use external advisors to facilitate or provide structure in preparing their application. However, the applicant is ultimately responsible for how its frameworks operate, how risk is managed within its organisation, and for information provided to APRA. Where applicants engage external consultants, APRA expects that the applicant reviews and understands the information provided by the consultants to ensure it is appropriate for the size, nature and complexity of the proposed operation and aligns with the applicant's risk profile. APRA will test, through discussions and onsite visits during the licensing process, how an applicant's frameworks will be implemented and used by the business.

Checklists<sup>1</sup> have been provided in Attachments A (ADI) and B (Restricted ADI) which align to all the sections in Chapter 2 and provide a list of minimum supporting documentation that is expected to be supplied with the application. APRA may request additional information from an applicant as is necessary to assess the application. While the information is presented as a set of specific documents, it may suit an applicant for certain information to be presented in a different manner.

### 1.2.2 Self-assessments

Applicants are expected to perform self-assessments of their policies and procedures against the relevant APRA prudential standards (Restricted ADI Framework as applicable) and PPGs to ensure that the principles as stated within the standards and guides have been adequately addressed. A self-assessment consists of a paragraph by paragraph review of the requirements and/or guidance and cross references the relevant clause in the applicant's policies, or otherwise contains an explanation as to why a requirement is not applicable. The purpose of the self-assessment is to enable management and the board to gain comfort that the applicant will meet the requirements, or alternatively highlight areas of non-compliance

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<sup>1</sup> APRA may from time to time update these checklists to reflect any changes in prudential standards or APRA's expectations. Updated checklists will be made available on APRA's website.

that may lead to further discussions with APRA. An example of a 'best practice' self-assessment is available at Attachment C.

In the event that an applicant is unable to meet a prudential requirement, there may be exceptional circumstances where APRA will consider a request to adjust or exclude a requirement. For example, where the proposed business model is substantially different to existing models and it is not possible under the applicant's proposed business model to comply with the requirement.

A request for an adjustment or exclusion of a requirement may not be approved. Applicants should factor in additional time for the review of any request and have alternative arrangements if the request is not granted.

PPGs provide guidance on APRA's view of sound practice in particular areas. The PPGs aim to assist ADIs in complying with the requirements in the prudential standards. As these set out practices which APRA considers prudent and sound where an entity does not follow the guidance in the PPGs they should provide their rationale for not doing so.

#### **Common issues encountered during application:**

- Capital instruments which do not meet APRA's requirements for inclusion as regulatory capital and in particular clauses which impact eligibility as Common Equity Tier 1 capital.
- Opaque ownership structures and/or issues where shareholders have not been subject to appropriate due diligence.
- Policies and procedures which do not sufficiently demonstrate an understanding of, and compliance with, the requirements of the prudential standards.
- Late and/or regular adjustments to business strategy and project timelines.
- Applicants not effectively managing the competing priorities of operationalising the business, developing risk frameworks and controls, and marketing the business.
- Applicants have insufficient executives, or plans to hire executives, with relevant experience such as banking, risk management or information technology.

### **1.2.3 How to submit**

APRA uses a secure document portal for submission of applications and supporting material. Applicants must provide APRA with the details of individuals who will be responsible for submitting the application. Access to the secure document portal will then be arranged for the selected individuals representing the applicant.

Documents should be submitted via APRA's secure portal. APRA prefers that applicants submit documents in no more than one to three batches, rather than individually or in small groups. APRA expects the first batch to include, at a minimum, details of the applicant's business plan, financials, capital, governance and ownership, and risk management strategy. When submitting information in regards to specific risk classes, all of the documents for one risk class should be submitted together to enable efficient review. If an applicant chooses to submit their supporting information in multiple batches, the first batch should include an index of all the documents to be submitted, what each document covers and which batch

each document will be included in. Documents need to be consistent and coherent with documents submitted in prior batches.

If information submitted as part of an application changes while APRA is still considering the application, applicants should inform APRA as soon as possible.

Each policy, procedure or other document should be submitted as a separate file, with a clear numbering system and document title to facilitate navigation of the documents. Where minimum supporting information is contained within another document its location should be clearly stated. APRA does not require applicants to submit hard copy documents.

### **Application confidentiality**

While APRA will treat information given to it during the course of a licence application in confidence, the information is not covered by the secrecy provisions in section 56 of the [Australian Prudential Regulation Authority Act 1998](#) and could be subject to a Freedom of Information request. Applicants may therefore wish to mark their documents to APRA as “commercial in confidence” where this is appropriate.

### ***Resubmissions***

While APRA expects the documents being submitted as part of an application to be largely final, circumstances can require applicants to resubmit documentation. For instance, where there has been a material change to the applicant’s business or if APRA has provided feedback which it requires the applicant to incorporate in its documentation.

When resubmitting documents to APRA, applicants should provide a tracked changes version of the original submission as well as a ‘clean’ copy of the revised document. This is so APRA can focus on the revisions rather than having to re-review a document in its entirety.

Resubmissions should be provided with a cover note or email to APRA detailing the rationale for resubmission, with a brief summary of the changes.

### **Document names**

APRA’s records management system does not support the inclusion of the following special characters & " ' ? < > # { } % ~ / \ in file names, accordingly applicants should refrain from including these in the file names of documents provided to APRA. To assist with version control in the case of resubmissions, applicants should include the version number in the file name. The version number should relate to the version supplied to APRA and not necessarily the number from the document’s own version control. For example, first submission documents would be marked ‘V1’, if resubmitted to APRA the resubmitted versions would be ‘V2 – tracked’ / ‘V2 – clean’.

## 1.2.4 Application fees

All applicants are required to pay an application fee prior to APRA commencing its detailed assessment of their application. APRA will provide applicants with an invoice for the application fee once APRA has received a significant component of the expected application documentation.

The fees for licence applications are available in the Licensing section of APRA's website. Application fees are reviewed on a regular basis with the fees determined on a cost recovery basis. APRA's application fees, along with other charges and levies, are published in the annual Cost Recovery Implementation Statement.

In instances where an applicant's organisational structure involves a Non-operating Holding Company (NOHC), APRA may require the NOHC to be licensed as an authorised NOHC. An authorised NOHC is subject to a licensing assessment and a separate application fee.

For applicants which require an approval under the *Financial Sector (Shareholdings) Act 1998* (FSSA) for shareholding interests above the FSSA threshold, an application fee may also be applicable.

All application fees are non-refundable regardless of the outcome of the application(s).

APRA will issue applicants with an invoice for the application fee and the account details to make the Electronic Funds Transfer (EFT). To facilitate this, applicants should provide APRA with:

- Name of company (applicant)
- ABN of applicant
- Contact details:
  - name and position of contact
  - applicant address

## 1.2.5 Withdrawals

An applicant may withdraw its application at any time. Withdrawal requests must be submitted to APRA in writing and signed by two senior officers of the applicant.

During the course of assessing an application APRA expects to have regular engagement with applicants. If APRA does not hear from an applicant for a period of over six months APRA will write to the applicant asking if they wish to withdraw their application. If an applicant does not withdraw its application and continues to fail to engage with APRA, APRA will take steps to refuse the application on the basis that it has insufficient evidence to make an assessment that the applicant meets the prudential requirements.

Withdrawal of an application does not prejudice any future applications the entity may make; however, the application fee is non-refundable so any subsequent application would be required to be submitted with the applicable fee.

## 1.2.6 Other regulators

Applicants will also need to separately apply for licences/approvals for other non-APRA regulated/administered activities. For example, all ADIs require an Australian Financial Services Licence (AFSL) or an exemption from the Australian Securities and Investments Commission (ASIC). It is the applicant's responsibility to ensure it applies for such licences/approvals. APRA suggests that these are submitted to the respective regulatory body at the same time as the ADI application. Examples of the most common additional approvals required are provided below. APRA may communicate directly with the regulatory bodies below, as well as other regulatory bodies such as AUSTRAC regarding the application.

### *Australian Securities and Investments Commission*

Applicants should contact ASIC regarding applications for an AFSL and/or Australian Credit Licence (ACL). APRA recommends that applications required for an AFSL or ACL be made at the same time as an application to APRA. APRA will not grant an ADI licence if an applicant does not have the required ASIC licences (or exemptions) to enable it to commence business.

### *Reserve Bank of Australia*

Applicants should contact the Reserve Bank of Australia (RBA) separately regarding requirements for establishing an Exchange Settlement Account (ESA). Applicants establishing ESAs are responsible for keeping the RBA apprised of the status of their application. Applicants may also choose to engage another ADI as its ESA agent if it falls within the RBA's thresholds for not requiring its own ESA. Applicants may also need to contact the Australian Payments Network with regards to access to the payments system.

### *Australian Treasury*

Where the applicant has foreign ownership, they are responsible for ensuring that they obtain relevant approval from the Foreign Investment Review Board (FIRB) as required under the [Foreign Acquisitions and Takeover Act 1975](#).

### *Australian Competition and Consumer Commission (ACCC)*

ADIs have obligations as data holders under the Consumer Data Right (CDR). ADI applicants should contact the ACCC for information on registering and participating in the CDR. Restricted ADIs are excluded from the data holder obligations under the [Competition and Consumer \(Consumer Data Right\) Rules 2020](#), however have the option of becoming accredited ADIs if they wish to participate in the CDR prior to progressing to ADI. Restricted ADI applicants should contact the ACCC about accreditation.

## 1.2.7 Assumption of restricted words and expressions

Applicants can start the licensing process as 'Applicant Ltd', and can request approval from APRA to reserve with ASIC a company name containing a restricted term e.g. 'Applicant Bank Ltd'. Applications for consent to reserve a company name containing a restricted word or expression should only be made once a formal application for an ADI licence has been made to APRA and the appropriate licensing application fee paid. Any consent granted will be subject at a minimum to the following conditions:

- the use of the restricted word or expression by the applicant is confined to those acts necessary to apply for and obtain reservation of the company name 'Applicant Bank Limited' (the company name) with ASIC;
- the applicant must notify APRA promptly upon obtaining reservation of the company name with ASIC;
- the applicant must not trade under the company name or otherwise assume or use the restricted word 'bank' in Australia in relation to its financial business unless APRA grants the applicant an ADI licence; and
- if the applicant withdraws its ADI licence application or is advised by APRA that its application has been refused, the applicant must request that ASIC deregister the company name within 21 days of withdrawing its application or receiving notification from APRA that its application has been unsuccessful.

Once APRA has granted the applicant a licence it can use certain restricted words and expressions in reference to its business and will be able to register a previously reserved company name with ASIC and call itself by that name. Restricted ADIs, although able to use restricted terms in reference to their business, will still need to make certain disclosures to make it clear to consumers that they are operating under a restricted licence. Refer to the new entrants information paper for more information on the specific disclosure requirements.

APRA understands that applicants, especially start-ups, may need to approach investors and start marketing their business ahead of being granted a licence, which can be difficult to do when the applicant is not permitted to use restricted terms. APRA will generally not object to applicants making certain factual statements, which use restricted terms, once an ADI application is submitted and the relevant fee paid, provided the statements are not misleading and it is made clear with prominent disclosure that the institution has not yet been granted an ADI licence.

Where APRA becomes aware of an applicant or potential applicant making misleading statements using restricted terms (e.g. on its website or social media), APRA may seek an order under section 65A of the Banking Act restraining the making of such statements, and requiring other corrective action.

Misleading or inappropriate use of restricted terms will be looked at unfavourably by APRA when assessing a licence application. Applicants can check their proposed use of restricted terms with APRA if they are unsure whether the use would be misleading.

While some potential applicants may not yet be carrying on a financial business, they should follow these guidelines in marketing their business or dealing with investors to avoid breaching section 66 of the Banking Act or other laws.

### 1.3 Assessment

In assessing the application, APRA will seek to understand the risks the applicant's business will face and its capabilities in addressing those risks. APRA will need to be confident that if the applicant is granted a licence it will:

- be financially sound;

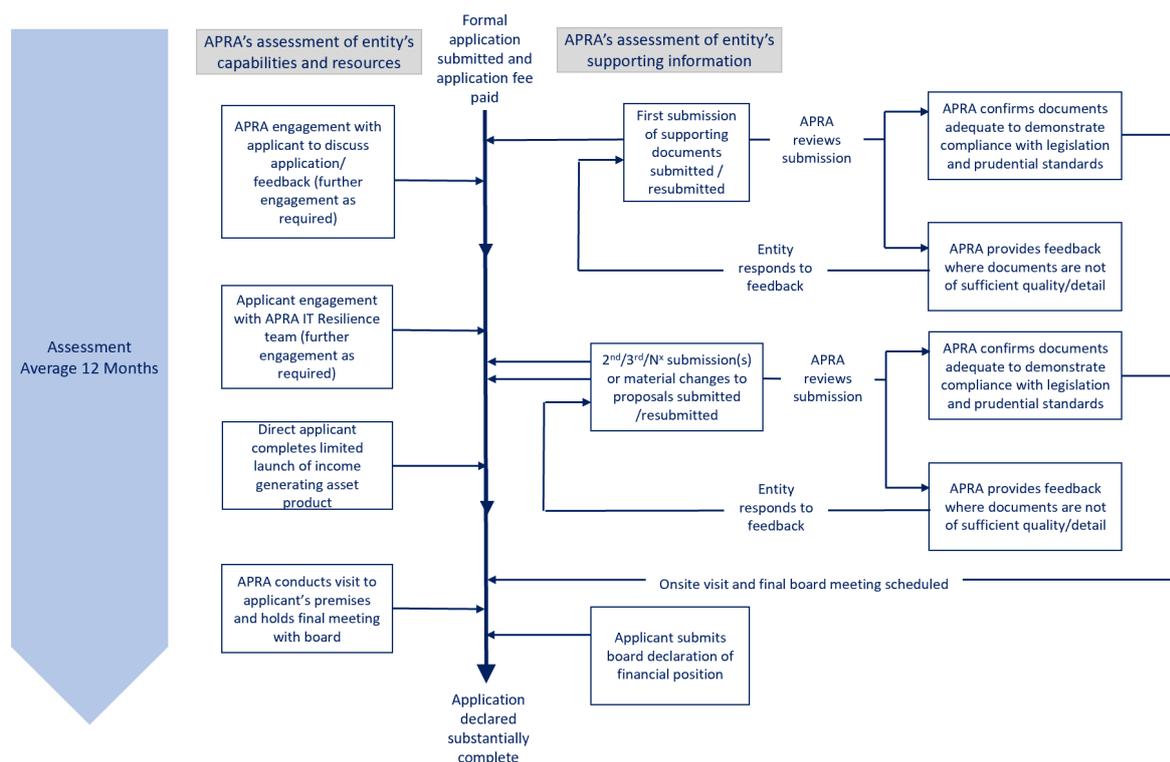
- manage its risks effectively, including having sufficient financial and non-financial resources and capabilities;
- meet fit and proper expectations;
- on a proportionate basis satisfy all relevant prudential requirements;
- have a sound risk culture;
- not pose an undue risk to the safety of depositors' funds or the stability of the financial system; and
- be open and honest in all its dealings with APRA.

Proposed new ADIs differ widely in their potential impact on the financial system and complexity. Consistent with APRA's risk-based approach, the depth of APRA's assessment through the licensing process will be proportionate to the risks within the applicant's business.

APRA breaks down assessment of the application into three distinct components:

- **Formal application** – This is where an applicant makes their formal application under section 9 of the Banking Act for authority to conduct banking business in Australia. Applicants should be in the position to be able to provide a significant amount of the supporting documentation prior to making a formal application. However, if an applicant has not finalised some of the expected documentation when it submits its formal application it should indicate when the finalised supporting information will be provided.
- **Ongoing submissions** - As APRA assesses the applicant and its material, resubmissions may be required and additional material will be sought.
- **Substantially complete application** – An application where an applicant has demonstrated that it has sufficient financial and non-financial resources, and has submitted all of the expected supporting material which is of sufficient quality and detail to allow APRA to complete its assessment.

**Figure 4. Assessment process**



### 1.3.1 What happens when an application is submitted?

Once a formal application is received, APRA will review the information provided in the application and start to assess the application against the relevant requirements. APRA will provide feedback on the application and may request additional information, hold meetings with the applicant and review aspects of the applicant's operations onsite.

Once APRA has received all of the expected supporting information which it considers is of sufficient quality and detail to enable it to make its decision on the application and the applicant has in place appropriate financial and non-financial resource to enable it to commence banking business on grant of a licence APRA will determine the application to be substantially complete. During the assessment phase, an applicant will be assigned a lead contact from APRA who will remain in contact with the applicant throughout the licensing process. In circumstances where the applicant is part of an existing APRA-regulated entity/group, the lead contact will likely be the Responsible Supervisor.

If an applicant makes material changes to the information submitted in support of its application such as changes to its strategy, board, management, legal structure etc. during the assessment or after APRA has agreed the application is substantially complete (see 1.4) this will impact the time taken for a licensing decision as APRA will have to assess the impact of the changes on the entity's application.

### 1.3.2 Document review and feedback

Document review and feedback by APRA is an iterative process designed to ensure that the documents submitted by the applicant are of the appropriate quality to demonstrate that the applicant is able, or is likely to be able, to meet its obligations and comply with the provisions

of the Banking Act, APRA prudential standards and the [Financial Sector \(Collection of Data\) Act 2001](#) (FSCODA). This is the foundational part of the licensing process. While the document review and feedback will continue to some degree until the application is deemed substantially complete, APRA will typically not progress to onsite reviews or board meetings until a substantive proportion of the licence application has been assessed.

### **APRA's role in reviewing policies/documents**

APRA reviews documents during the licensing process to assess adherence to and understanding of prudential standards, as well as to obtain a view in regard to the competency of an applicant's staff. APRA does not approve the individual policies, as ensuring the policies are suitable for the entity's business is the responsibility of the board and management.

### **1.3.3 IT resilience meetings**

APRA's IT Resilience team will meet with applicants during the assessment process. The IT Resilience meetings are intended to assess the applicant's IT infrastructure, systems and timescales for implementation and testing, outsourcing arrangements and business continuity plans to ensure that these are fit for purpose. The meetings also assist in giving APRA confidence that those individuals responsible for the management of the applicant's IT risk have the necessary skills, knowledge, expertise to do so. The scheduling of the IT Resilience meetings will be dependent on the progress of the applicant's IT system build, applicants can expect to meet with APRA IT Resilience at least twice during the assessment process, with further meetings scheduled as required. Additional meetings are normally required where an applicant has unique or complex IT systems.

### **1.3.4 Board and management meetings**

APRA will meet with individual members of management and the board during the course of the assessment as specific issues arise. However, APRA will also schedule specific meetings with the board as a whole, independent directors individually and the senior management to discuss the entities business proposition, risk management and governance and readiness to operate as an ADI. The board and management meeting(s) are designed to give APRA confidence that those who have influence and control over the applicant have the necessary skills, knowledge, expertise, diligence and soundness of judgement to undertake and fulfil the responsibilities involved. APRA typically schedules the final board meeting towards the end of the licensing process to discuss any outstanding issues material to the licence application.

### **1.3.5 Site visit**

APRA will arrange to visit the applicant's premises to assist it in assessing the applicant's resources and ability to operationalise. The on-site visit will usually be scheduled in conjunction with the final board meeting.

### **1.3.6 Board declaration of financial position**

Following the final meeting with the board, the applicant must submit a board declaration of their current financial position. The declaration must include the:

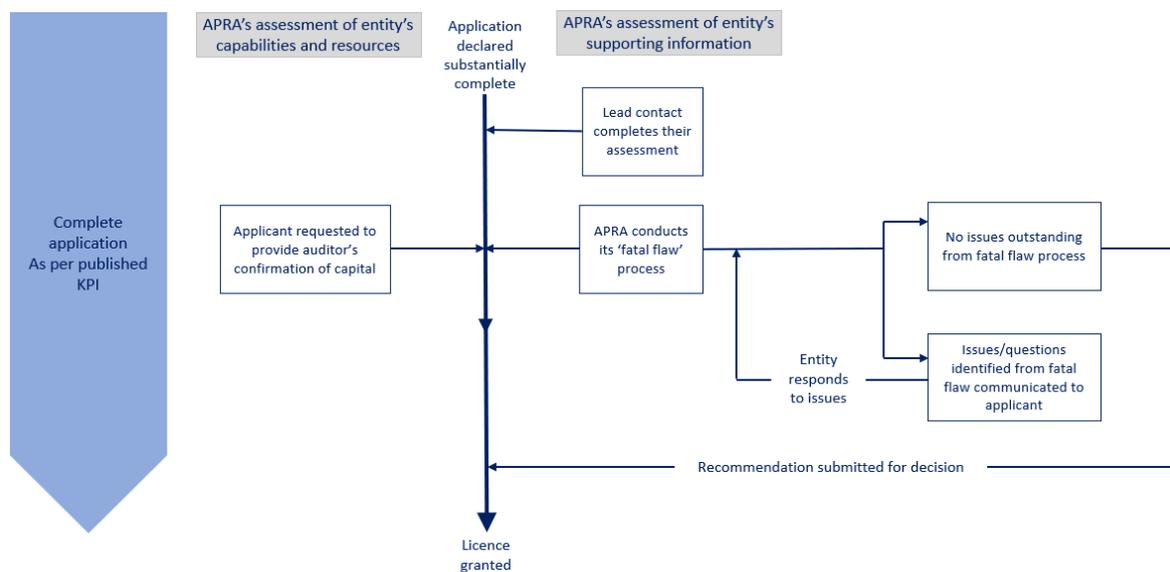
- applicants most recent Common Equity Tier 1 capital position;
- the estimated monthly burn rate until three months post licensing for Restricted ADI applicants and six months post licensing for ADI applicants;
- an estimate of how long the applicant expects their current capital to remain above minimum requirements without additional capital raises; and
- the amount and timing of any expected capital raises up to and immediately after licensing.

It is important to note where an applicant is unable to demonstrate that it has sufficient capital, such that on grant of licence it will be able to operate without further capital raises for at least three months for Restricted ADI applicants or six months for ADI applicants, APRA will not declare the application to be substantially complete. The applicants will need to raise the required capital in order for APRA to be satisfied that the applicant has adequate financial resources.

## 1.4 Substantially complete application

APRA will advise an applicant when it considers its application to be substantially complete. APRA determining an application is substantially complete does not prevent APRA requesting further information it requires to make its decision.

**Figure 5. Substantially complete application process**



### 1.4.1 Fatal flaw review process

A recommendation by the lead contact in regards to the licence application is subject to a challenge process by APRA subject matter experts. Applications are not progressed to fatal flaw review unless the lead contact is satisfied that there are no unresolved substantial issues. However, the challenge process may bring up additional matters to be resolved ahead of a recommendation being made to the decision maker.

## 1.4.2 Decision process

The lead contact prepares a recommendation in relation to the outcome of the licence application for an independent decision maker (i.e. the lead contact will not decide whether to approve or refuse an application). A recommendation will only be submitted to a decision maker following the satisfactory resolution of any issues that arise from the fatal flaw review.

## 1.4.3 Reconsideration and review of decisions

A decision to refuse an application under section 9 of the Banking Act is subject to Part VI of the Banking Act – Reconsideration and Review of decisions. Under Part VI a person who is dissatisfied with a decision may request APRA reconsider the decision. The request for APRA to reconsider must be made within 21 days of the date the person was notified of the decision and must set out the reasons for the request.

From receipt of a request to review a decision APRA has 21 days to confirm, vary or revoke its decision. If APRA does not confirm, vary or revoke its decision within this timeframe then its decision is taken to be confirmed.

If the applicant is dissatisfied with the outcome of APRA's review then they may make an application to the Administrative Appeals Tribunal for a review of APRA's decision. Applicants should refer to Part VI of the Banking Act for full details of the reconsideration and review of decision process.

## 1.5 Timeframe

The timeframe to obtaining a licence varies, depending on the quality of the application, the complexity of the proposed arrangements, how clearly an applicant meets the requirements and how responsive the applicant is to APRA's requests throughout the assessment phase. It will also depend on the number of existing applicants in the licensing process. As a guide, applicants generally take twelve to eighteen months to receive a decision on their application from the date of their initial application. An applicant is considered to have made its initial application when it submits its first batch of documents to APRA along with its request under section 9 of the Banking Act for authority to conduct banking business in Australia. The time taken from initial application to decision for a licence for a Restricted ADI is likely to be shorter than the time for an ADI licence reflecting the proportionately fewer application requirements.

APRA does not have a statutory obligation to make a licensing decision for ADI applicants within a set timeframe. However, once APRA is satisfied that it has a substantially complete application, a licensing decision is ordinarily made within 90 days.

## Operational capabilities

Applicants should consider their own operational capabilities when submitting a licence application. APRA expects applicants to be fully operational and ready to fully launch to the public on the grant of an ADI licence. Restricted ADIs are expected to be able to demonstrate that they will be able to progress to an ADI within the two years permitted under the framework. If ADI applicants are not able to demonstrate they are operationally capable of launching deposit products, or Restricted ADI applicants are unable to demonstrate an adequate path to ADI then any licence decision will likely be delayed until these capabilities are demonstrated.

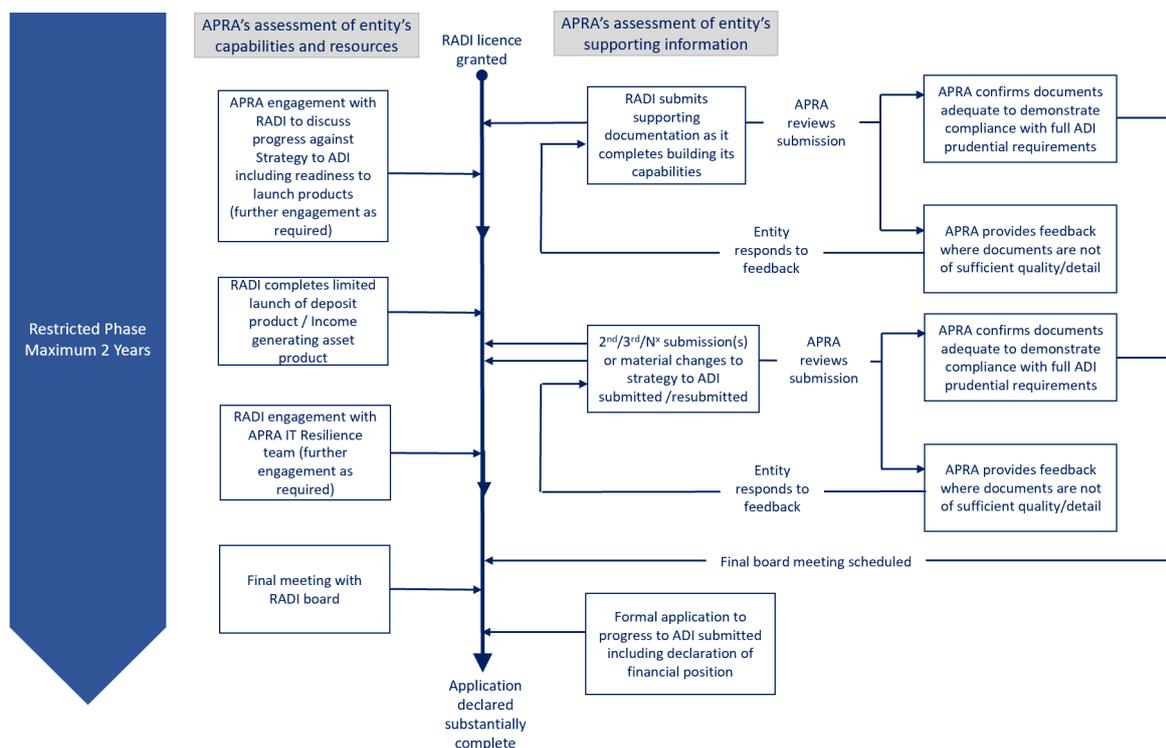
Pre-application engagement will allow APRA to discuss timeframes that are likely for each applicant. It will also assist applicants in ensuring they have better prepared applications when entering the licensing process which will assist with timing.

Applicants need to ensure that they have sufficient investment to be able to fund themselves during the licensing process. APRA is not able to 'fast-track' applications due to applicants having insufficient funds.

## 1.6 Restricted ADI progression to ADI

Regardless of the pathway an applicant takes to become an ADI, the requirements and thresholds to be met are the same. Applicants will be expected to demonstrate they meet the ADI prudential framework and provide all of the information covered in Chapter 2 for ADI applicants prior to being granted an ADI licence.

**Figure 6. Restricted ADI – progression to ADI process**

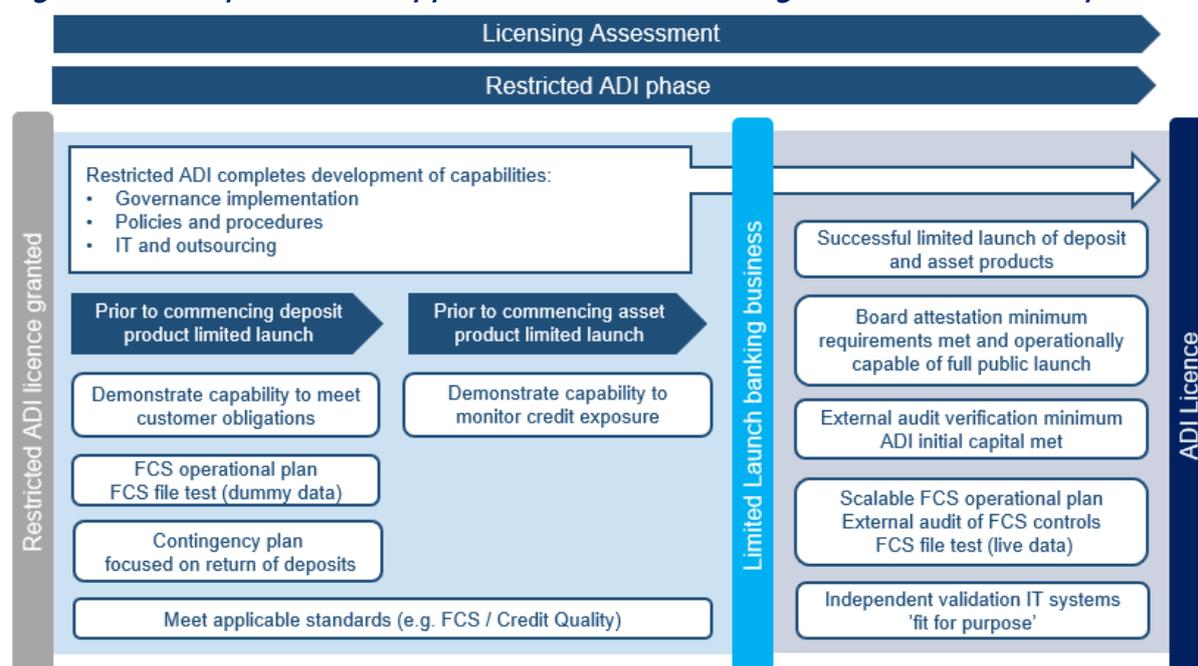


Restricted ADIs can expect to submit information to APRA in support of their application to progress to ADI throughout the restricted licence phase as they build their systems and capabilities. The timing on when a RADl submits the information will vary dependent on the Restricted ADI's business model and its 'strategy to ADI'.

Certain documents and capabilities will have to be provided or demonstrated to APRA prior to the Restricted ADI commencing its limited product launches. For example, prior to granting approval for the Restricted ADI to accept deposits and commence its limited launch of deposit products, APRA will require a Restricted ADI to develop a credible contingency plan that includes at least one option to execute its orderly and solvent exit from banking business. Prior to commencing its limited launch of deposit products, APRA will also require a Restricted ADI to demonstrate, and provide a CEO attestation, that it meets the requirements of APRA's FCS prudential standard. APRA will have particular focus on the Restricted ADIs FCS operational plan and will also expect Restricted ADIs to perform an FCS payment instruction file test.

A high-level overview of the requirements which need to be met at different stages during the RADl phase is provided in figure 7. which should assist Restricted ADI's in determining when they will need to provide certain documents or evidence of capability to APRA.

**Figure 7. Requirements applicable in different stages of the restricted phase**



When a Restricted ADI is satisfied that it meets the prudential framework and is able to demonstrate the criteria for progression as detailed in the new entrants information paper, it should:

- ensure it has provided APRA with all relevant documentation to demonstrate it meets the full prudential requirements; and
- submit a formal written application to APRA, requesting the restrictions and time limit on its Banking Authority be removed. The written application should include an

attestation from its board that the entity has completed its 'strategy to ADI' and is operationally ready to launch the provision of banking business to the general public.

Provided APRA is satisfied that the Restricted ADI has submitted sufficient information to demonstrate it meets the full prudential requirements, and has completed successful limited launches of both a deposit and income generating product, then receipt of the formal written application will likely mark the Restricted ADI's application to progress to ADI as being substantially complete. This will start APRA's formal decision-making process to remove the restrictions and time limit on the applicant's Banking Authority. The decision will be based on an assessment of the Restricted ADI against the new ADI supervisory and prudential framework in the same way that an institution applying via the direct entry pathway would be assessed.

## 1.7 Post licensing

ADIs must continue to meet APRA's prudential standards, proportional to their business, and provide relevant information to show they are meeting these standards. ADIs will also be subject to ongoing supervision by APRA and to an annual supervisory levy.

### 1.7.1 Supervision

Once an entity has been granted an ADI licence it will be allocated to one of APRA's frontline supervision teams where it will be subject to ongoing supervision to ensure it is meeting APRA's prudential requirements. APRA supervisors do this by examining data and reports about institutions and the broader financial sector (off-site analysis), and by visiting supervised institutions to speak to staff and, where appropriate, examine records and files (on-site analysis). APRA's supervision aims to identify potential financial or operational weaknesses in an institution as early as possible, and ensure they are rectified before they can threaten its safety and soundness.

APRA's approach to supervision is underpinned by its Supervision Philosophy<sup>2</sup>. APRA's Supervision Philosophy is aligned with its mandate, and vision for financial resilience and supervisory excellence. Central to the philosophy are three core elements – risk based, forward looking and outcomes focussed and these are supported by five foundational elements that describe the key areas of emphasis for supervision. Grounded on the three core attributes of APRA's Supervision Philosophy is APRA's Supervision Risk and Intensity (SRI) model<sup>3</sup> which sets out how APRA will assess the level and nature of risk within each APRA regulated entity.

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<sup>2</sup> [APRA's Supervision Philosophy | APRA](#).

<sup>3</sup> [Supervision Risk and Intensity \(SRI\) Model | APRA](#).

## 1.7.2 Reporting

Under the FSCODA, APRA collects information for the purposes of performing its functions and publishing information on the financial sector industries. APRA also provides information to other financial sector agencies such as ASIC. As an ADI, entities will be required to provide regular reporting to APRA under the FSCODA.

More information about reporting requirements under the FSCODA, and any additional reporting relevant to an ADI's business, can be found on APRA's website<sup>4</sup>

## 1.7.3 Supervisory levies

Regulated institutions are subject to an annual levy. The levies are set to recover the majority of the operational costs of APRA, and other specific costs incurred in relation to the financial sector by certain other Commonwealth agencies and departments. The levies are imposed to ensure the full cost of regulation is recovered from those that benefit from it (that is, institutions that are regulated). For more information see the industry levies section of APRA's website<sup>5</sup>.

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<sup>4</sup> [Reporting resources for authorised deposit-taking institutions | APRA.](#)

<sup>5</sup> [Industry fees and levies | APRA.](#)

# Chapter 2 - Application: Minimum expectations

The expectations set out in this chapter represent the minimum requirements that an applicant will need to meet for a Restricted ADI or an ADI licence, and should not be taken as an exhaustive list. These guidelines are not a substitute for the need for applicants to read and familiarise themselves with the new entrants information paper, APRA's prudential standards and PPGs and to consider and comply with these in the context of their business. APRA may refuse an application on other prudential grounds not covered in these guidelines. Each expectation indicates whether it is relevant to **ALL** applicants, Restricted ADI (**RADI**) applicants or **ADI** applicants.

The table below provides a high-level comparison between the expectations for a Restricted ADI applicant and an ADI applicant at the point of licensing. Ultimately, regardless of the pathway taken, an entity will have to provide the same level of supporting information in order to be granted an ADI licence.

**Table 1. Comparison between expectations for Restricted ADI and ADI applicants at the point of licence**

| Licence assessment area        | Restricted ADI  | ADI   |
|--------------------------------|---|---|
| <b>Business plan</b>           | Fully developed.  | Fully developed.  |
| <b>Strategy to ADI licence</b> | Fully developed.  | N/A.  |
| <b>Group structure</b>         | Final structure, and with the Restricted ADI or a NOHC at the head of the Australian Group.   | Final structure, and with the ADI or a NOHC at the head of the Australian Group.  |
| <b>Board and management</b>    | High-level structure.<br>Key personnel critical to Restricted ADI operations in place with senior roles critical to operations as an ADI identified and ready to be recruited.<br>Meets the requirements of the applicable accountability regime. | Majority independent board and committees in place.<br>All key senior management identified.<br>Meets requirements of APRA governance standards.<br>Meets the requirements of the applicable accountability regime. |
| <b>Fit and proper</b>          | Fully developed – able to demonstrate meets requirements of APRA Fit and Proper standard.   | Fully developed – able to demonstrate meets requirements of APRA Fit and Proper standard.   |
| <b>Capital</b>                 | Capital management plan proportionate to the activities during the restricted phase.  | Finalised Internal Capital Adequacy Process (ICAAP).<br>Meets requirements of all capital related prudential standards.   |

| Licence assessment area               | Restricted ADI   | ADI   |
|---------------------------------------|--|---|
| Liquidity                             | High-level liquidity risk appetite and funding strategy covering liquidity requirements during the restricted phase.<br>Sufficient financial resources so as not to breach the liquidity requirements during the restricted phase.                                       | Meets requirements of APRA's liquidity standard.  |
| Risk governance                       | Developed sufficiently to be able to monitor material risks.   | Fully developed – meets requirements of APRA's risk management standard and all other relevant standards.   |
| Material outsourcing arrangements     | Not required unless material outsourcing arrangements impact on the strategic plans during the restricted phase – development should be planned.   | Fully developed – meets requirements of APRA's outsourcing standard.  |
| Information technology                | Outline of technology strategy and implementation roadmap.<br>Details of products, services and service providers selected/under consideration.  | Fully developed – IT systems meet the requirements of relevant prudential standards and have regard to the expectations of PPGs and information papers. |
| Business continuity plan              | Not required however, Restricted ADI should be able to demonstrate how it will meet customer obligations in the event of a disruption – may form part of scenario planning in the business plan.   | Fully developed – meets requirements of APRA's business continuity management standard.   |
| Contingency plan                      | A high level plan is required prior to Restricted ADI licence. Prior to launching deposit-taking products, this will need to evolve into a contingency plan that includes at least one option to exit from banking business, with a primary focus on return of deposits. | Fully developed, including at least one exit option. This is likely to be return of deposits in the early stages but evolving with the business.        |
| FCS systems and operational readiness | Not required prior to Restricted ADI licence. Prior to launching deposit-taking products, should meet the requirements of APRA's financial claims scheme standard, with particular focus on an FCS operational plan, FCS payment   | Fully developed – meets requirements of APRA's financial claims scheme standard.  |

| Licence assessment area            | Restricted ADI   | ADI  |
|------------------------------------|--|--|
|                                    | instruction file test, and CEO attestation.                            |  |
| Additional policies and procedures | Not required but development should be planned.                        | Fully developed - meets requirements of relevant prudential standards. |
| Other approvals i.e. AFSL, FSSA    | Relevant approvals must be obtained before commencement of operations. | Relevant approvals must be obtained before commencement of operations. |

## 2.1 Application for authority under the Banking Act

**ALL:** Applicants are required under section 9(2) of the Banking Act to apply in writing to APRA for authority to conduct banking business in Australia. As such applicants should submit a covering letter formally requesting APRA consider their application for authority to conduct banking business in Australia.

An application under section 9(2) must also be accompanied by a copy of the document by which the body corporate is constituted.

The covering letter must be signed by a senior officer of the applicant and include a statutory declaration that the information supplied to APRA in regards to the application is true and correct to the best of the individual's knowledge.

**RADI:** Restricted ADI applicants must state in their covering letter that they are applying for a time limited authority as per section 9D(1) of the Banking Act. On application to progress to ADI, applicants must submit a further request under section 9(2) for an authority which is not subject to a time limit.

### Providing information to APRA

When providing information to APRA, applicants should note that section 137.1 of the [Criminal Code Act 1995](#) makes it an offence to give false or misleading information to a Commonwealth entity or to a person who is exercising powers or performing functions under, or in connection with, a law of the Commonwealth, or to omit any matter or thing without which the information is misleading. The penalty for this offence is 12 months imprisonment.

## 2.2 Ownership and group structure

**ALL:** APRA needs to understand who owns and controls the applicant and the relationships the applicant might have with other individuals or institutions. Applicants can refer to Chapter 4 of the new entrants information paper and any published guidance from APRA on Non-Operating Holding Companies for further information on structural considerations.

In assessing an applicant's ownership structure, a non-exhaustive list of considerations includes APRA satisfying itself that it is clear:

- who the ultimate beneficial owners of the applicant are;
- that those who will influence and control the applicant are fit and proper to do so; and
- what level of reliance the applicant can place on its shareholders for access to additional capital, if required.

Applicants will need to provide a group structure chart showing the ownership structure of the applicant as well as any subsidiaries (of the proposed Restricted ADI/ADI and its parent) and any related companies. The chart should include details of related entities' business and any proposed linkages with the applicant (e.g. outsourcing/insourcing arrangements, funding arrangements, common directorships).

### Group legal structure and non-operating holding companies

The protections provided under the Banking Act are predicated on APRA regulating the parent entity of ADI groups, either as the ADI operating company or an APRA-regulated non-operating holding company (NOHC). Section 9 of the Banking Act explicitly allows APRA to make the granting of an ADI licence conditional on the ADI's parent company being an authorised NOHC. This reflects the importance of this structure in facilitating access to important powers under the Banking Act. In times of stress, in particular, it is essential that APRA has flexible, timely and robust powers. When dealing with groups, it is often not sufficient to apply powers to the ADI alone. Critical services (such as information technology, financial positions or essential staff) may be located in other group entities and contagion effects can occur within groups. In assessing a group's legal structure and determining if a regulated NOHC is required, APRA will have regard to whether the structure:

- hinders APRA's ability to perform its role as a prudential supervisor;
- hinders APRA's ability to exercise its powers, including the power to issue Directions to material activities of the business;
- impedes APRA's line of sight over key activities;
- hinders APRA's ability to resolve the entity if required; and
- seeks to gain an unfair competitive advantage, for example through regulatory arbitrage.

An applicant should, as part of its application, provide details about its twenty largest shareholders. As a minimum the applicant should provide details of the shareholders' long-term commitment to the applicant, their financial standing, the source of their funds and their ability to provide future capital, and their fitness and propriety.

Ownership of ADIs and their holding companies is governed by the [Financial Sector \(Shareholdings\) Act 1998](#) (FSSA) which limits the control of an individual shareholder, or group of associated shareholders, over the voting power in an ADI to a defined percentage of the ADI's voting power. Shareholders who hold a stake in excess of the FSSA limit are considered to have an unacceptable shareholding. A higher percentage limit may be approved by the Treasurer or their delegate subject to criteria set out in the FSSA.

Where a group of associates holds a stake that exceeds the FSSA threshold, each associate will need to submit an FSSA application for approval to exceed the FSSA shareholding limit. If the application is within the Treasurer's delegation to APRA, APRA will make a decision on the increased shareholding limit as part of the licensing assessment. Otherwise APRA will provide advice to the Treasurer, who will make the final decision.

Shareholders with stakes in excess of the FSSA limit should submit their own applications for approval under the FSSA to APRA. Ideally these should be submitted at the same time as the Restricted ADI/ADI application. The Restricted ADI/ADI applicant may submit an FSSA application on behalf of all of the relevant shareholders providing they have been authorised to do so by the relevant parties.

It is a shareholders' individual responsibility to ensure they have the correct approvals under the FSSA and any other relevant legislation such as the [Foreign Acquisitions and Takeovers Act 1975](#). APRA recommends shareholders seek their own independent legal advice to ensure they are compliant with all applicable legislation.

## 2.3 Business model

**ALL:** The applicant's description of its proposed business is an important part of the overall application and integral to APRA's decision making. The amount of detail submitted should be proportionate to the scale and complexity of the proposed business and to the risks associated with the proposed business.

### 2.3.1 Business plan

Applicants should set out their business models, in their business plans, in sufficient and granular detail in order to explain why their proposed business models will be successful, i.e. viable (in the short term) and sustainable (in the longer term). The applicant should submit its business plan which as a minimum must:

- set out the rationale for applying to become an ADI;
- provide details of products, delivery channels and target market, including all the regulated and unregulated business that it intends to carry out;
- demonstrate the ongoing viability and sustainability of its business proposal, including
  - its competitive advantage, referring to appropriate supporting material and market research; and
  - plans to maintain business model viability should market conditions change.
- demonstrate that the business will run in a prudent manner i.e. will have appropriate financial and non-financial resources to manage its risks;
- set out the capital and liquidity strategy and the proposed funding model;
- identify all the likely business and regulatory risk factors and explain how it will monitor and control these risks;
- clearly identify proposed owners and controllers, the proposed corporate structure, and how the structure is intended to change as further investment is sought (as far as this is known);
- indicate the proposed resourcing of roles critical to obtaining an ADI licence and any further roles to operationalise the ADI going forward;

- include details of planned key outsourcing arrangements (as far as they are known); and
- provide details on planned IT systems.

APRA may require applicants to submit revised business plans closer to anticipated date of licencing if it considers the information and projections contained in the plan have changed materially during the licensing process.

### 2.3.2 Organisational structure

**ALL:** Applicants are expected to demonstrate that they have an appropriate organisational structure, and sufficient personnel to carry out their business plan. Applicants should provide a structure chart which should tell APRA about the applicant's key officers and directors and their responsibilities within the structure of the institution. It should clearly show:

- the names of significant staff (e.g. directors, chief executive, senior management);
- the function(s) for each individual;
- number of direct reports for each individual;
- direct reporting lines into the board including board committees, where applicable; and
- any roles which are currently vacant and when the applicant intends to recruit for these roles.

### 2.3.3 Financial projections

**ALL:** Applicants are expected to provide five years of financial projections. The projections should provide sufficient detail to demonstrate that the applicant's business model is sustainable and it can continue to meet its regulatory capital and liquidity requirements.

The projections should include:

- a full balance sheet, cash flow and profit and loss statement accompanied by assumptions;
- key financial and prudential ratios; and
- a sensitivity analysis showing down-side and worst-case (i.e. where the applicant would become insolvent) scenarios.

## 2.4 Strategy to ADI

**RADI:** APRA needs to be satisfied that an applicant has credible plans to progress to an ADI within two years. Applicants will be expected to provide their 'strategy to ADI' as part of the application process and provide regular updates against the strategy during the restricted phase. APRA will consider an applicant's strategy to ADI as part of its supervision and oversight of the Restricted ADI business during the restricted phase. The strategy to ADI should therefore be sufficient for APRA to understand the key activities and dependencies, including for each key activity the milestones and timescales (including time for regulator assessment work), for the applicant to successfully meet the full prudential requirements.

Strategies to ADI should:

- detail all the necessary key actions that need to be completed in order for the entity to meet the full prudential requirements;
- give expected timings on when actions will be completed;
- detail key dependencies such as capital raisings and IT systems;
- detail the applicant's plans if key milestones are not met;
- link with the applicant's business plan; and
- be documented in such a way that both APRA and the entity can track the applicant's progress against the plan on an on-going basis.

## 2.5 Governance, culture, remuneration and accountability

### 2.5.1 Board

**ALL:** The applicant's board must satisfy requirements set out in APRA's governance prudential standards (for restricted ADI as modified under the Restricted ADI framework). In particular the applicant must have regard to the size, composition and independence of its board. The board is considered paramount towards the good governance of an ADI and APRA is unlikely to accept any proposals that do not meet prudential requirements.

Applicants will be expected to demonstrate that the proposed board has the required skills and experience to competently oversee and direct the business. Applicants should submit their board charter and details on the experience of each of its appointed directors, their rationale in making the appointments and their assessment of the combined skills of the board (skills gap analysis). Applicants should also provide details of the proposed board committees and, if known, which directors will chair/be members of the committees.

APRA will meet with the board and with individual directors during the licensing process as part of its assessment of the board's competence and capabilities.

### 2.5.2 Conflicts of interest

**ALL:** Applicants must demonstrate how potential conflicts of interest will be minimised and appropriately managed. Applicants should provide their conflicts of interest policy which should as a minimum show how they will identify, disclose and manage any actual, potential or perceived conflicts of interest. Where conflicts have been identified, or arise during the licensing assessment process, applicants should advise APRA of how they are managing the conflict.

### 2.5.3 Staff

**ALL:** Applicants should ensure that key personnel responsible for the operation and risk management of their business possess an appropriate level of technical knowledge and experience for carrying out their responsibilities.

## Appropriate resources

Applicants should consider the skills required both to build an ADI and to run an ADI. The staff required at the beginning of the project to build the ADI may not have the requisite skills for the ongoing running of an ADI and vice versa. Common issues APRA encounters are:

- Insufficient executives, or plans to hire executives, with relevant financial services/banking experience;
- Insufficient staff with the experience of building and implementing risk and control frameworks from scratch; and
- Digital business models with insufficient executives, or plans to hire executives with IT and information security skills.

Applicants should consider their business and the associated risks at various points during and after the licensing process and ensure they match the skills and experience of their resources to the risks faced.

### 2.5.4 Risk culture

**ALL:** Risk culture is an entity's behaviours and attitudes towards risk taking and risk management. It is the "norms of behaviour for individuals and groups that shape the ability to identify, understand, openly discuss, escalate and act on an entity's current and future challenges and risks". Risk culture is not separate to organisational culture but reflects the influence of organisational culture on how risks are managed.

An applicant's risk culture plays a critical role in ensuring board-approved statements of appetite and policy are translated into practices that deliver sound prudential outcomes. Applicants are expected to be able to demonstrate that they have organisational values and beliefs in place which promote behaviours that support robust risk management and decision making and that effective risk frameworks and clear accountabilities are in place.

It is expected that applicants will have initiatives in place to enable their desired risk culture, and have appropriate governance in place to be able to monitor them.

### 2.5.5 Remuneration

**ALL:** Applicants must demonstrate that they have remuneration practices which do not promote excessive risk taking and which meet the requirements of APRA's remuneration standards and the relevant accountability regime. APRA expects applicants to have established performance-based incentive structures that align remuneration outcomes with good risk management and the long-term soundness of their business.

Applicants must satisfy APRA that they are able to defer or reduce an accountable person's variable remuneration. APRA recommends (and may request) that applicants seek their own legal advice with regards to whether they meet remuneration requirements.

## 2.5.6 Accountability

**ALL:** Applicants must satisfy APRA that they are able to meet their accountability<sup>4</sup> obligations. An applicant is expected to identify its accountable persons, and demonstrate how accountability will work in practice within the organisation. Applicants may need to revise how they meet their accountability obligations as board composition and management team structure changes. Where applicants make material changes during the assessment process or restricted phase (if applicable) these should be provided to APRA as soon as possible.

## 2.5.7 Fit and proper and responsible persons

**ALL:** Applicants must satisfy APRA that they have policies in place to ensure that persons who hold key positions within the proposed ADI are fit and proper, in accordance with APRA's Fit and Proper prudential standards.

Applicants should provide their board-approved Fit and Proper Policy and the assessments conducted in accordance with the policy on persons holding key positions. Where key persons are hired during the licensing assessment, the applicant should provide fit and proper assessments of those individuals to APRA as soon as possible.

### Fit and proper assessments

Fit and proper assessments should clearly articulate how the applicant has determined that an individual is both fit (i.e. has the skills, experience and qualifications) and proper (i.e. is of good repute and moral character) for the role; self-declarations are not sufficient. Where an individual has made a disclosure or negative information has been sourced from probity checks, this should be addressed in the assessment with details on how the applicant gained comfort that the disclosure does not impact on the individual's fitness and propriety in relation to their proposed role.

## 2.6 Operational resilience

### 2.6.1 Risk management

**RADI:** Applicants are expected to satisfy APRA that their proposed (or existing) risk management and internal control systems are adequate and appropriate for the material risks the applicant will be exposed to on commencement of the restricted phase, e.g. project risk. Applicants will be expected to provide evidence of how they have identified the risks and that they have implemented suitable controls.

Applicants will need to satisfy APRA that they have appropriate policies and procedures in place in regards to the material risks they will be exposed to during the restricted phase. For example, if the strategy relies on material outsourcing to build key systems such as the core

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<sup>4</sup> At the time of publication, the relevant accountability regime for ADIs is the Banking Executive Accountability Regime (BEAR). The BEAR will be replaced with the Financial Accountability Regime in 2022.

banking system, APRA would expect the applicant to demonstrate its vendor selection process meets the requirements of APRA's outsourcing standard. Applicants can discuss their specific business proposition with APRA and agree which policies (or components of) will need to be finalised prior to a Restricted ADI licence being granted.

As well as risks primarily under APRA's purview (such as credit risk, liquidity and market risk), applicants will need to consider risks primarily under the purview of other agencies (e.g. Know Your Customer, Anti-Money Laundering, segregation of client funds etc.).

During the restricted phase, a Restricted ADI will be expected to continue to develop its risk management framework to ensure it remains fit for purpose in the context of the changes to the business as it builds. It will also be expected to provide APRA with updated versions of its risk management documentation to support its application to progress to an ADI licence

**ADI:** Applicants are expected to satisfy APRA that they understand the risk profile of their business and have identified the material risks and that their proposed (or existing) risk management and internal control systems meet the risk management requirements of APRA's prudential standards. An applicant's risk management framework (RMF) is expected to be adequate and appropriate for monitoring and mitigating risk exposures in relation to all aspects of its business including, where relevant, offshore operations from the date of licensing. Applicants will be expected to provide evidence of their risk identification, assessment and controls design processes.

APRA expects an applicants' RMF to:

- include a risk management approach that provides a comprehensive strategy to effectively manage the risks, including a risk management system which supports the implementation of the strategy and the risk management framework;
- include processes for establishing risk appetite and how this is monitored including escalation procedures when risk limits are breached;
- include adequate resourcing across the three lines of defence and clearly define roles and responsibilities of the board, senior management, governing bodies and individuals for each material risk (while recognising that the board is ultimately accountable for all material risks);
- consider the risks the business faces both at a business wide level and at a product and service level;
- ensure the underlying causes and drivers of risk issues, and incidents are identified and analysed, including consideration of the potential for ineffective or inadequate systems, processes, and people;
- include an analysis of changes to internal and external environments across the business for potential impact to the risk profile;
- ensure the control environment remains effective to mitigate risk exposures, especially, whenever there are changes in the business;
- include a risk management function that provides effective assurance over the completeness and accuracy of the data and information, and consequently, the resulting risk profile and an internal audit function which provides assurance on the effectiveness of controls and implementation of the risk management framework; and
- include risk reporting that provides timely, complete and accurate data and information that informs the board, risk committees and senior management that

there has been a material shift in the risk profile, including risks exceeding risk tolerances and appetite that they need to act on

Applicants are also expected to have:

- established a risk management capability for each material risk commensurate with the risk exposures; and
- a risk management system that effectively supports the implementation of its risk management framework for each material risk.

In assessing whether the policies and procedures proposed for identifying, managing and controlling risk are adequate and appropriate for the applicant's operations, APRA will take account of the size, nature and complexity of the operations, the volume of transactions to be undertaken, the proposed organisational structure, and the geographical distribution of the business as set out in the business plan.

### Use of group policies

Where permitted under the prudential standards, use of group policies and procedures is allowed. However, the board of the ADI must still review the group policies and confirm they are appropriate for the risks of the ADI. Where group policies are being used, the applicant must satisfy APRA that this consideration and acceptance by the applicant board has been completed. This may be demonstrated by providing copies of the ADI board minutes confirming acceptance or by including provision for approval/acceptance by level 1 and level 2 within the policy itself.

### 2.6.2 Credit risk

**RADI:** Where a Restricted ADI licence will not be offering credit products at the point of licensing, applicants are not expected to submit any credit risk supporting information. Information demonstrating that the entity meets APRA's credit risk standards should be provided during the restricted phase prior to the entity's launch of any credit products, as APRA's approval is required before any such launch. If a Restricted ADI applicant will be offering credit at the point of licensing, such as where they have a pre-existing lending business, then the applicant should refer to the ADI credit risk requirements.

**ADI:** An applicant must have a clear and comprehensive understanding of the credit risk inherent in its business. Applicants will need to demonstrate to APRA that it has appropriate policies, procedures and systems in place to meet the credit requirements of APRA's prudential standards and to manage and monitor the credit risk arising from its proposed business.

APRA will need to understand:

- the applicant's credit risk appetite and lending strategy;
- the types of products that the applicant will offer/offers and the proposed composition of the applicant's credit portfolio;
- the ongoing review and oversight of the credit portfolio by the applicant; and
- (if applicable) the location of credit resources across the three lines of defence (i.e. where resources are outsourced to a 3<sup>rd</sup> party or another entity within the group).

In assessing an applicant's credit risk management framework, APRA will have regard to the following (non-exhaustive):

- overview of the credit risk management framework and structure, including the credit approval structure, credit risk functions and Committees (transactional and oversight);
- responsibilities and accountabilities under each of the three lines of defence framework for the end to end lending process;
- governance and reporting to senior management and board committees - adequate risk monitoring to identify and measure all material credit risk exposure and provide senior managers and board committees with timely reports on the financial condition and credit risk profile of the applicant's loan portfolio;
- governance and processes around the use of automated decision-making tools (i.e. scorecards) used in the origination and monitoring of lending;
- control and review of credit policies/underwriting standards & procedures and systems for originating, managing and monitoring credit risk exposures;
- process around the use, approval and monitoring of serviceability overrides/exceptions to credit policy;
- use of third parties (if applicable) – accreditation and on-going review, monitoring and reporting framework and remuneration/compensation arrangements.

### 2.6.3 Market and investment risk

**RADI:** In most cases it is expected that applicants for a Restricted ADI licence would have little to no market risk exposure at the point of licensing, therefore applicants for a Restricted ADI licence are not expected to submit any market risk supporting information. Information demonstrating that the entity meets APRA's market risk standards should be provided during the restricted phase.

**ADI:** Applicants will need to demonstrate to APRA that they can manage the market and investment risks arising from their operations.

Market risk comprises both traded and non-traded market risk. Traded market risk applies to ADIs which engage in activities that give rise to risks associated with potential movements in market prices (for example, proprietary trading). Non-traded market risk applies to all ADIs. Note, typically APRA applies a higher level of supervisory scrutiny to ADIs that undertake traded market risk activities than those that do not.

In assessing an applicant's market and investment risk management, APRA will have regard to the following (non-exhaustive):

- appropriate risk limits for exposures, including counterparty limits where relevant;
- approved products for the use of managing market risk;
- appropriate management and monitoring of exposures/investments; and
- governance arrangements and reporting to senior management and the board.

Applicants which intend to undertake traded market risk activities will be expected to demonstrate they have appropriate policies, procedures and systems in place to manage and monitor the market risk arising. These applicants will be expected to provide additional information such as their traded market risk policies and trading book policy statement.

## Interest rate risk in the banking book

As non-traded market risk applies to all ADIs, applicants are expected to have a market risk policy detailing how they manage interest rate risk in the banking book (IRRBB). APRA does not have a specific prudential standard for IRRBB for non-advanced ADIs. However, APRA uses the qualitative provisions in the advanced ADI prudential standard and PPG as a guide to assessing, on a proportionate basis, appropriate market risk frameworks for all ADIs.

### 2.6.4 Operational risk

**ALL:** APRA expects applicants to have an effective understanding of their operational risks. Applicants will need to demonstrate to APRA that they have appropriate policies, procedures controls and systems in place to manage and monitor the operational risk arising from their proposed business at the point of licensing.

APRA will need to understand:

- the types of operational risks the applicant will be exposed to;
- the applicant's operational risk appetite; and
- the ongoing review and oversight of the operational risk exposures by the applicant.

### Restricted ADIs – operational risk

The expectations set out in these guidelines refer to a Restricted ADI's risk exposures at the point of licensing and assume that Restricted ADI applicants will be new entrants which do not have any existing resources or operations. Where a Restricted ADI applicant has existing business or has already commenced the build of its operations, its operational risk management framework (including service providers, business continuity, compliance risk, IT management and information security) should be commensurate with the size of its current operations. Applicants should discuss with APRA the level of supporting information they will be expected to provide to demonstrate they will be able to adequately manage their operational risk exposures during the restricted phase. As a Restricted ADI progresses through the restricted phase it will be expected to develop its operational risk management capability in-line with the build and development of its operations.

**RADI:** Applicants should be able identify the material operational risks they will be exposed to during the restricted phase and demonstrate how they will manage their exposures. In particular, applicants will be expected to demonstrate how they will manage, monitor and report on the build of the ADI operations and progress against their strategy to ADI. Applicants should also demonstrate how they will ensure that all staff, representatives and employees are reasonably trained about the restrictions applicable as a Restricted ADI and the conditions under which it will operate.

**ADI:** In assessing an applicant's operational risk management, APRA will have regard to whether the applicant is able to demonstrate that they meet the operational risk requirements in APRA's prudential standards and have the following (non-exhaustive):

- a risk management system that supports the implementation of its operational risk management framework;
- a robust outsourcing framework which should include how the ADI will manage and monitor its material outsourcing arrangements (refer to 2.6.5);
- effective business continuity management (refer to 2.6.6);
- an appropriate fraud risk management framework for internal and external fraud;
- a formal methodology for project management covering how projects are developed and implemented; and
- a robust new/varied product management framework outlining methodology and a formal process for introducing new/varied products.

### **2.6.5 Service provider management, including cloud computing services**

**RADI:** Applicants are expected be able to demonstrate to APRA that any outsourcing arrangements for material business activities that impact on the strategic plans during the restricted phase meet the requirements of APRA's outsourcing standard, and that the applicant has in place procedures to ensure it manages and monitors each material outsourcing arrangement. Applicants will be expected to provide APRA with a list of any material outsourcing arrangements they will have in place at the point of licensing, and any arrangements being considered for the restricted phase. APRA may request the applicant provide details of its vendor selection process.

**ADI:** APRA expects that the documentation provided as part of the licence application clearly demonstrates that the applicant has the following (non-exhaustive):

- clearly defined the service provision-related roles and responsibilities of the board, senior management, governing bodies and individuals;
- established service provision management capability commensurate with the materiality of the reliance on service providers, and which enables the continued sound operation of the business;
- identified and classified service providers and associated services by materiality; and
- controls in place to manage related party and third-party risks at each stage of a service provision arrangement.

## Cloud computing services

While the use of shared computing services (cloud computing) offers the potential for substantial benefits and opportunities, it also presents significant risks that applicants must manage. Disruption or compromise of a cloud service could have material consequences for the entity or its customers. The various services offered through the cloud present differing risk profiles, with each cloud provider offering numerous options with varying technologies, controls and responsibility models. These factors add greater layers of complexity and, potentially, a lack of clarity with respect to responsibility, which can challenge effective risk management.

Applicants should refer to APRA's standards, PPGs and the information paper [Outsourcing involving cloud computing services](#), for more information on APRA's expectations on outsourcing and cloud computing.

Applicants should ensure there is clarity concerning any outsourcing involving (shared) computing services, both to third parties and related bodies corporate such as parent entities. To gain assurance regarding outsourced functions, APRA may require access to third party service providers and/or the parent entity.

### 2.6.6 Business continuity

**RADI:** Applicants are not expected to have fully developed business continuity plans, however an applicant should have considered its exposure to, and developed response plans for, plausible disruption scenarios to its business operations during the restricted phase. For example, loss of a key vendor required for its operations build. This may be incorporated in an applicant's operational risk framework, strategy to ADI or exit plan.

**ADI:** APRA expects applicants to be able to demonstrate that they meet the business continuity requirements of APRA's prudential standards and have established business continuity plans and arrangements (for plausible disruption scenarios impacting critical business services) which enable the continued sound operation of the institution and have undertaken testing to validate their business continuity capability.

In regard to information assets<sup>7</sup>, applicants are expected to be able to demonstrate they have:

- business continuity and disaster recovery arrangements including key controls to recover information assets in response to a range of plausible scenarios (e.g. service provider outage, local outage and application outage); and
- backup strategies for information assets, including replication, point-in-time and out-of-band backups.

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<sup>7</sup> Information assets has the meaning given in APRA's prudential standards. At the time of publication, the relevant standard was Prudential Standard CPS 234 Information Security.

### 2.6.7 Compliance risk

**RADI:** Applicants for a Restricted ADI licence are not expected to have fully developed compliance risk functions and are therefore not expected to submit any compliance risk supporting information. However, compliance risk considerations may form part of an applicant's operational risk management framework.

**ADI:** Applicants must satisfy APRA that their compliance processes and systems are adequate and appropriate. The expectation is that the framework will articulate the systems, processes, and practises for ongoing adherence to legal and regulatory requirements, and ensuring compliance with internal policies and procedures.

#### *Privacy and anti-money laundering and counter-terrorism financing (AML/CTF)*

**RADI:** Applicants for a Restricted ADI licence are not expected to submit any privacy or AML supporting information unless they already have a product in market and have existing privacy or AML/CTF obligations. If an applicant has existing obligations they should confirm that they have in place a board-approved privacy policy and AML/CFT Program which meet the requirements of the relevant legislation, and attest they are registered with AUSTRAC. A Restricted ADI that does not already have privacy and AML/CTF obligations will be expected to provide the attestation of documents and confirmation of registration prior to / within 28 days respectively of its limited launch of deposits.

**ADI:** Applicants must attest to APRA that they have a board-approved privacy policy and AML/CFT Program which meet the requirements of the relevant legislation. APRA does not require copies of the documents to be submitted.

**ADI:** Applicants must confirm to APRA once they have registered as a designated service provider with AUSTRAC.

### 2.6.8 Information technology (including information security)

**RADI:** Applicants should provide a description of IT systems, identifying whether these are existing (indicating the amount of changes needed to accommodate the proposed business) or new systems. Applicants should detail their IT strategy and proposed testing approach to ensure that systems will be operational and that risk management will be sufficiently mature by the time the applicant progresses to an ADI licence. Applicants are expected to be able to demonstrate that they maintain information security commensurate with the size and extent of threats to information assets during the restricted phase.

**ADI:** Applicants will need to demonstrate that they have IT systems in place which are fit for purpose and that they have an appropriate IT management and control framework in place. This includes ensuring that management of IT is integrated with management of operational risk and information security as part of the applicant's wider RMF. The applicant is expected to demonstrate that they have established an information security and business continuity capability, and implemented controls commensurate with the criticality and sensitivity of the information assets.

In assessing an applicant's information technology (including information security), APRA will have regard to the following (non-exhaustive):

- IT strategy;
- principal applications and IT service providers;
- high level implementation plans, migration plans, test plans, and timelines;
- clearly defined roles and responsibilities (including information security) of the board, senior management, governing bodies and individuals;
- established an information security capability commensurate with the size and extent of threats to its information assets, and which enables the continued sound operation of the entity;
- implemented controls to protect its information assets commensurate with the criticality and sensitivity of those information assets (includes recovery); and
- undertaken systematic testing and assurance regarding the effectiveness of controls.

APRA will request applicants provide independent validation of their IT systems design and operating effectiveness, and audit assurance that the systems are 'fit for purpose'. Refer to section 2.10 for further information of the independent validation and assurance requirements.

### *Technology resilience specialists' meetings*

**ALL:** Applicants can expect to meet with APRA's Technology Resilience specialists during the licensing process to discuss the design, build, operation, governance and security of their IT systems. Meetings are likely to occur at the beginning of the licensing process, during the restricted phase (if applicable) and post limited launch of products. Depending on the complexity of an applicant's IT systems and third-party arrangements more meetings may be necessary for APRA to gain comfort that the applicants' systems are fit for purpose.

### **2.6.9 Audit (external and internal)**

**ALL:** Applicants must demonstrate to APRA that arrangements have been established with external auditors, and demonstrate the appropriateness of the internal audit function (whether the function is outsourced or not) and the adequacy of the audit coverage and approach in providing the independent assurance role (i.e. third line of defence). In particular, internal audit personnel are expected to possess the appropriate level of technical knowledge and experience to carry out an effective third line of defence function.

## **2.7 Financial resilience**

### **2.7.1 Capital**

**ALL:** Applicants will need to ensure that their capital instruments meet APRA's requirement for inclusion as regulatory capital. To facilitate this, applicants are expected to submit to APRA, as part of the licence application, a self-assessment against APRA's measurement of capital prudential standard, as well as copies of their constitution and any shareholder agreements or other documents associated with the issuance of the applicant's capital instruments.

## Capital instruments

APRA's preference is for applicants to adopt simple share structures consisting of only one class of share that is fully subordinated to all other capital and debt, and has full voting rights and equal rights across all shares with respect to dividends and rights in liquidation. APRA expects applicants to refrain from features that may be ineffective (or less effective) in absorbing losses. For example, APRA would expect applicants to refrain from complex share structures where the same prudential objective can be achieved more simply. Complex features and structures complicate the prudential assessment and may also undermine instruments' loss-absorbing properties.

**RADI:** An applicant should be able to demonstrate that its capital resources will be sufficient to meet its prudential capital requirement (PCR) both at authorisation and on an ongoing basis. Applicants should provide their capital management plan which should cover at a minimum:

- the applicant's strategy for maintaining capital resources over time, for example, by outlining its capital needs for supporting the degree of risks involved in its business, how the required level of capital is to be met, and the means available for sourcing additional capital where required; and
- actions and procedures for monitoring that the applicant meets minimum capital adequacy requirements, including setting trigger ratios to alert management to, and initiate actions to avert, potential breaches to the minimum capital required by APRA.

**ADI:** An applicant is expected to be able to demonstrate that its capital resources will be sufficient to meet its PCR both at authorisation and on an ongoing basis. Details on the PCR requirements for new ADIs are set out in the new entrants information paper.

Applicants should provide their documented Internal Capital Adequacy Process (ICAAP) including the ICAAP summary statement to APRA. APRA will inform applicants during the pre-application stage of an indicative percentage for the risk weighted asset (RWA) component of a new entrant's PCR. This indicative percentage may be used in forecasts and in the ICAAP. An applicant's final RWA PCR will be confirmed closer to a licence being granted.

APRA has provided a PPG that assists ADIs in developing their ICAAP on its website<sup>8</sup>.

### *Stress testing framework*

**RADI:** Applicants for a Restricted ADI licence are not expected to have a formal stress testing framework, however stress testing considerations should be taken into account in an applicant's business plan and may form part of its capital plan.

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<sup>8</sup> At the time of publication, the relevant PPG was CPG 110 – Internal Capital Adequacy Assessment Process and Supervisory Review.

**ADI:** Applicants are expected to perform stress tests on a regular basis for a variety of short-term and protracted institution-specific and market-wide stress scenarios (individually and in combination i.e. a combined institution and market wide scenario). This is to identify sources of potential strain and to ensure that their exposures remain in accordance with the proposed risk appetite. The stress testing framework is expected to include articulation of severe but plausible stress scenarios with clearly documented assumptions used for each scenario.

APRA also expects applicants to review stress test outcomes to adjust their risk appetite and funding strategy/plan.

## 2.7.2 Liquidity

**RADI:** Applicants should be able to demonstrate how they will meet their liquidity requirements on an ongoing basis. Applicants should provide their liquidity management plan which should cover:

- the applicant's strategy for maintaining liquidity resources over time, as well as the means available for sourcing additional liquidity where required;
- actions and procedures for monitoring the applicant's compliance with minimum liquidity requirements, including setting trigger ratios to alert management to, and initiate actions to avert, potential breaches to the minimum liquidity required by APRA; and
- (if applicable) the applicant's strategy for managing a retail deposit run.

**ADI:** ADIs are required to hold a minimum level of liquid assets. Unless APRA determines otherwise, as per the liquidity requirements in APRA's prudential standards a newly licensed ADI will be subject to the minimum liquidity holdings (MLH) framework. An applicant will need to demonstrate to APRA that it has a robust liquidity risk management framework and ensure that it meets its prudential liquidity risk requirements.

APRA expects that the documentation provided as part of the licence application clearly describes the level of liquidity risk that the applicant is willing to assume and strategies to maintain sufficient liquidity to meet its obligations as they fall due at all times. A common issue observed in licence applications is that an applicant's liquidity risk management framework does not demonstrate clear linkage between the liquidity risk appetite statement, funding strategy/plan, stress testing framework and contingency funding plan to meet this expectation.

In assessing an applicant's liquidity risk management, APRA will have regard to the following (non-exhaustive):

- formally approved funding strategy and liquidity policy;
- liquidity risk appetite and tolerance including limits, targets for key liquidity metrics and transparent monitoring against those risk tolerances. Risk limits and tolerances should include appropriate buffers above regulatory requirements;
- maintaining a diversified liquid asset portfolio (except for Commonwealth Government securities, sovereign debt in other jurisdictions in which the ADI operates, central bank reserves and cash),
- procedures and controls to identify, measure, monitor and control liquidity risk;

- appropriate governance for liquidity monitoring and breach reporting to senior management and the board; and
- a contingency funding plan that is robust and operational. For applicants which propose to take retail deposits, the contingency funding plan must include a retail deposit run plan.

### Securitisation warehouse funding

For new entrant ADIs reliant on securitisation warehouse facilities (i.e. greater than 20 per cent of funding in any projected year), APRA expects the warehouse facility to be automatically placed into amortisation if the warehouse facility is not renewed. Where this occurs, this will be considered long-term wholesale funding and will not add to the minimum MLH requirement.

This approach reduces the risk that the reliance on warehouse facilities would result in a situation where the new ADI either has to transfer the mortgages to the warehouse provider, which may replace the new ADI as servicer, or sell the mortgages to another party if that facility is not renewed (noting that the ADI itself repurchasing the assets would be likely to breach APRA's prudential standards relating to securitisation). These scenarios would likely threaten the viability of the start-up ADI, as the loss of mortgages will eliminate servicing income and retained equity in the warehoused mortgages.

### 2.7.3 Contingency planning

**ALL:** An applicant is expected to have a credible contingency plan to respond to a financial stress that threatens its viability, and which demonstrates how it can restore its resilience ('recovery') or execute an orderly and solvent exit from banking business ('exit').

APRA expects an applicant's contingency plan to include at least one option to execute an orderly and solvent exit from banking business ('exit option'). Any exit option must be capable of executing an exit from banking business without reliance on activation of the FCS by the Australian Government or the use of APRA's resolution powers, and without an impact on financial system stability.

Applicants should submit a copy of their contingency plan to APRA which as a minimum must:

- be current and tailored to the applicant's specific business model;
- be linked to the applicant's business plan, key risks, and risk management framework;
- include a clear and robust trigger framework to enable early identification of threats to the applicant's viability, to allow enough time to activate the contingency plan and execute an exit option. The trigger framework should include consideration of threats to the applicant's viability from deterioration of the ability of the ADI to maintain its licence (including from breaches of licencing requirements or the business model becoming not viable);

- include at least one feasible exit option, including the operational details for executing that option. In choosing the most feasible exit option, applicants should consider their business model / business mix, complexity, potential barriers to implementation and capability to address these barriers.
- include a communication strategy to support the deployment of recovery/exit options, including communication with relevant parties, e.g. APRA, ASIC, service providers, customers and investors; and
- include governance arrangements with clear accountability covering monitoring, escalation and timely activation of the contingency plan.

Additional guidance on APRA's recoverability expectations is available to applicants from APRA on request.

## Contingency plan

For new ADIs at the early stage of their development, and for Restricted ADIs, APRA considers that a return of deposits option is likely to be a more feasible exit option. As an ADI's business grows, a return of deposits option may become more complex while a merger or sale of the business to another ADI may become a more feasible exit option. Therefore, APRA expects new ADIs to review the feasibility of their chosen exit option on a regular basis, especially as the ADI undergoes significant and rapid balance sheet growth, and to be prepared to switch to a different exit option as necessary.

The board of a Restricted ADI or an ADI is responsible for activating a contingency plan, including where it determines that it would no longer be prudent or appropriate to continue to conduct banking business, guided by the entity's trigger framework. If, in the event of a threat to the entity's viability, APRA considers that the board has failed to appropriately consider the activation of the contingency plan or that the entity is not capable of executing an orderly exit, APRA may intervene through relevant enforcement / resolution powers if necessary.

**RADI:** At the point of licensing, especially where the applicant has no pre-existing business, a Restricted ADI's contingency plan may be high level, setting out how it would cease relevant operations and request that APRA revokes its Restricted ADI licence. However, prior to APRA granting approval for a Restricted ADI to commence its limited launch of deposits, the Restricted ADI will be required to update its contingency plan to one that can credibly execute an exit from banking business, with a primary focus on a return of deposits option.

In meeting the expectations for a clear and robust trigger framework, set out above, Restricted ADI applicants should include triggers that can identify threats to the Restricted ADI's viability from deterioration of the ability of the Restricted ADI to achieve its strategy to ADI, including failure to achieve key milestones in the strategy.

**ADI:** In addition to developing an exit option, ADI applicants are expected to consider, and where relevant, include recovery options to support the entity's ability to restore financial

resilience in the event of a threat to the entity's viability, and which may avoid the need for the ADI to execute an exit from banking business<sup>9</sup>.

## 2.8 Other requirements

### 2.8.1 Financial Claims Scheme (FCS)

**RADI:** Where a Restricted ADI applicant does not expect to commence deposit-taking immediately upon licensing, it is not expected to submit any FCS supporting information prior to licensing. During the restricted phase and prior to APRA granting approval for the limited launch of deposits, the Restricted ADI will need to demonstrate it meets the above requirements of APRA's FCS prudential and reporting standards, proportionate to the number of deposit accounts.

**ALL:** Applicants must demonstrate that they meet the requirements of APRA's FCS prudential and reporting standards including their ability to generate Single Customer View data; capture alternative ADI account data for account holders to which an electronic payment may be made in an FCS payout; generate and transmit payment instruction to the RBA; and communicate with account holders and other customers in the event that they become a declared ADI.

APRA expects applicants to have an FCS operational plan which sets out the process, resources, data/systems, communications and arrangements with critical service providers to meet both ongoing testing requirements and to facilitate a payout or transfer in the event the ADI is declared for FCS purposes.

Applicants should provide a CEO attestation against APRA's FCS prudential standard requirements and prepare and submit an FCS payment instruction file test. Where applicants have not commenced deposit-taking, the file test may be based on dummy data.

Under APRA's FCS prudential standards, ADIs are required to provide independent assurance of their FCS controls on an annual basis. Once a Restricted ADI or new ADI has a meaningful number of live deposit accounts, APRA may require the entity to engage an auditor to undertake a limited assurance. Refer to section 2.10 for further information on the assurance requirements.

Further guidance on preparing an ADI's operations to facilitate the activation of the FCS is available on the APRA website<sup>10</sup>.

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<sup>9</sup> Note that APRA may require an entity to develop recovery options as part of an ADI licence application, or within a set timeframe after licensing.

<sup>10</sup> [Financial Claims Scheme for authorised deposit-taking institutions | APRA](#).

## FCS communications

In conjunction with industry, APRA has developed a set of frequently asked questions that may be used if an ADI is declared under the FCS. These questions are divided into two parts:

- Part A consists of three general FCS questions and answers. APRA expects applicants to incorporate the general questions and answers on their websites (along with a link to the FCS website [www.fcs.gov.au](http://www.fcs.gov.au)) to ensure consistent messaging and public awareness regarding the FCS.
- Part B is the remaining FAQs which are only intended to be used in the event of an FCS declaration for an individual ADI, and should not be published unless instructed by APRA.

These frequently asked questions are available to all applicants upon request.

### 2.8.2 Regulatory disclosures

**RADI:** Applicants must satisfy APRA that they have the processes and procedures to enable them to provide the required Restricted ADI disclosure statement to consumers as set out in the new entrants information paper. Applicants should provide samples of their disclosure statements as part of their application.

#### Restricted ADI disclosure

Restricted ADIs must comply with all consumer protection measures required by the Australian Securities and Investments Commission (ASIC), including the requirement to give a Product Disclosure Statement (PDS) (unless an exemption applies). The Restricted ADI disclosure statement may be included as part of these measures provided it is prominently displayed. For example, if a PDS is required to be given for a particular product, information about the restrictions on the ADI authorisation may be information that is required to be included, as it is information that might reasonably be expected to have a material influence on a consumer's decision about whether to acquire the product. The Restricted ADI disclosure statement could be included in the PDS to meet both the Restricted ADI disclosure requirements and the content requirements for the PDS.

**ADI:** Applicants must satisfy APRA that they have the processes and procedures to enable them to make the required public disclosures of key information on their capital, risk exposures and remuneration practices as per the public disclosure requirements of APRA's prudential standards.

### 2.8.3 Reporting

**ALL:** Applicants must satisfy APRA that from grant of a licence they will be able to submit complete and accurate reports to APRA in the manner APRA prescribes and in accordance with the FSCODA. Information on APRA's reporting systems is available on our website [www.apra.gov.au/statistics-and-reporting](http://www.apra.gov.au/statistics-and-reporting). Applicants will need to register for MyGovID<sup>11</sup> in order to access APRA's reporting systems.

Applicants are expected to be able to demonstrate that they have:

- developed processes and procedures to enable required data to be extracted and reported in line with APRA's reporting timeframes once licensed;
- identified key individuals who will be involved in reporting and who will have direct access to APRA's reporting systems;
- established the relevant authentications so identified individuals can access APRA's reporting systems; and
- conducted appropriate testing to ensure that they can obtain the relevant data at the appropriate time and that staff understand their role in reporting to APRA, and can action this up to the point of needing to submit to APRA.

Access to APRA's reporting system live environment is not granted until after licensing, therefore any testing conducted prior to being granted a licence may involve spreadsheet versions of reports to APRA or, if available, the APRA reporting system test environment.

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<sup>11</sup> <https://www.mygovid.gov.au/>.

## Restricted ADI reporting

Restricted ADIs are given an exemption from the full suite of ADI returns required under FSCODA and are instead subject to minimum reporting requirements for Restricted ADIs which include:

- Shareholders – the top ten ultimate shareholders and associates, and their percentage ownership;
- Capital – the amount of share equity, retained profits, reserves and regulatory deductions;
- Liquidity – MLH portfolio, including the composition of MLH;
- Deposit reporting – number and amount of protected accounts and non-protected accounts broken down to different buckets;
- Assets – cash, other liquid holdings, loans (broken down to different categories), investments, fixed assets and intangible assets;
- Liabilities – deposits (broken down to different categories), short term borrowings, long term borrowings, provisions, hybrid capital/securities;
- Impaired assets and past due loans;
- Off-balance sheet information such as lending commitments;
- Large and related party exposures;
- Profit and Loss statement – interest income, fee income, other income, interest expense, personnel expenses, director expenses, IT expenses, charges for bad or doubtful debts and depreciation; and
- Reporting against forecasted profit and loss and balance sheet metrics.

The reporting requirements apply on a Level 1 and, if applicable, Level 2 consolidated basis to be submitted within 10 days of month end. Depending on the Restricted ADI's business model, APRA may also request any entity-specific information from time to time.

A copy of the reporting requirements for Restricted ADIs is available from APRA on request.

## 2.9 Overseas banking groups

**ALL:** Applicants that are Australian incorporated subsidiaries of overseas banks must provide a letter from the home supervisor of their parent company. The letter must include:

- consent for the overseas bank to establish a subsidiary in Australia;
- confirmation that the overseas bank is of good financial standing;
- confirmation that the overseas bank is supervised on a consolidated basis in accordance with the principles contained in the Basel Concordat; and
- agreement to co-operate with APRA in the supervision of the proposed subsidiary, in terms of the Basel Concordat.

## 2.10 Independent validations

To assist in its assessment, APRA requires applicants to seek a number of independent validations. Unless otherwise stated the validations can be provided by any independent party i.e. a party not involved with the design, development, build or implementation of a system.

### 2.10.1 External auditor's assurance of the level and type of capital

**ALL:** APRA requires the applicant to provide written verification from its appointed external auditor that it meets the minimum regulatory capital level required prior to licensing. This must include meeting the applicable minimum level of capital and capital ratios as advised by APRA. The written verification should set out the steps taken by the external auditor in making the verification, including the calculation of minimum capital requirements where applicable. The auditor's verification can be based on agreed upon procedures, verifying the applicant's capital against the relevant reporting standard<sup>12</sup>. The verification should be provided when requested by APRA, towards the end of the licensing assessment.

#### Capital and authorisation

Investors in applicant entities often prefer to have a measure of certainty before committing to an equity investment. Commonly, investors want the applicant to have achieved the grant of a licence from APRA as a precondition for making their investment.

As APRA requires a new entrant to evidence it has sufficient capital to meet its initial capital amount prior to licensing, APRA will permit convertible notes and preference shares (which convert to eligible Common Equity Tier 1 (CET1) on grant of a licence) to be included in calculating whether an entity has met its initial capital amount requirement. This is subject to APRA being satisfied that the convertible notes/shares issued by the applicant are:

- irrevocably committed i.e. placed in escrow and neither the applicant nor the investors can withdraw those funds unilaterally; and
- that conversion to ordinary share capital CET1 is automatic upon the grant of a licence.

The convertible notes/shares may have a maturity date, such that funds would be returned to investors should the applicant fail to be granted a licence by the nominated date.

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<sup>12</sup> At the time of publication, the relevant reporting standard was ARF 110.

## 2.10.2 Independent validation of controls

**ADI:** APRA may require an applicant to provide independent assurance on the design and operating effectiveness of its controls with regard to service provider management, business continuity and IT security, including compliance with the requirements from the relevant APRA prudential standards<sup>13</sup>.

## 2.10.3 Independent validation of IT design and operating effectiveness

**ALL:** Prior to an applicant's limited launch of products, the applicant must provide independent validation of its IT design and operating effectiveness. The 'IT design and operating effectiveness' validation should:

- detail whether the applicant's IT design meets the user needs and intended use;
- identify key controls and perform inquiry;
- include observation and walkthroughs; and
- inspect relevant documentation to ensure that requirements specified in the design have been fulfilled and are operating effectively.

Validation may be performed in a test environment utilising test data provided the test environment contains the same version of the system which will go live. The independent validation should be completed and any material issues resolved prior to the applicant's limited launch of products.

## 2.10.4 Independent assurance of information security

**ALL:** Applicants are expected to provide assurance on the security of their information assets. The testing should be conducted by appropriately skilled and functionally independent specialists. APRA would expect applicants to undertake assurance work at various points during the licensing process as they build and operationalise the ADI and material changes are made to their IT systems. As part of their application, applicants will be expected to provide their information security testing plans such as audits, penetration testing and risk assessments.

## 2.10.5 External auditor assurance IT systems are 'fit for purpose'

**ALL:** Once an applicant has achieved a limited launch of its products it will be expected to appoint an auditor to provide limited assurance that its IT systems are "fit for purpose" (e.g. assurance its systems maintain fair and true records for financial obligations, systems calculate interest accurately etc.). This assurance must cover the systems that are used by the applicant, and confirm that the calculations performed by the system(s) and outputs are in line with what they are intended to do. For instance, if the applicant is taking interest-bearing deposits, the system must accurately calculate interest accrued amounts.

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<sup>13</sup> At the time of publication, the relevant prudential standards are CPS231 Outsourcing, CPS232 Business Continuity Management and CPS234 Information Security.

Assurance should be performed in the live environment utilising data from the applicant's limited launch. Applicants will need to provide assurance for systems for both income generating products and deposit products (if applicable), and will be expected to resolve all material issues identified by the auditor prior to the applicant launching the respective product to the general public.

**ADI:** As direct applicants are not able to launch deposits prior to being granted an ADI licence their limited launch and external audit assurance that their deposit systems are fit for purpose should occur shortly after licensing and prior to APRA granting approval for them to launch deposits to the general public.

### **2.10.6 External auditor assurance of FCS Single Customer View**

**ALL:** Once a Restricted ADI, or new ADI has a meaningful number of live deposit accounts, APRA may require the entity to engage an auditor to undertake a limited assurance engagement of its Single Customer View (SCV) systems and data, and the systems used to generate and transmit FCS payment and reporting information. The appointed auditor must provide limited assurance that:

- the ADI, or Restricted ADI, has controls that are designed to ensure that SCV data, to the extent practicable, and FCS payment and reporting information can be relied upon as being complete and accurate and in accordance with APRA's FCS prudential standard; and
- these controls operated effectively when tested.

# Attachment A: Direct pathway minimum supporting information checklist

This checklist sets out the minimum supporting material expected to be submitted by an applicant under the direct ADI licence pathway. It is provided as guidance only, APRA may request applicants submit additional information in support of their application. While the information is presented as a set of specific documents, it may suit an applicant to present certain information in a different manner. All of the information is expected to be provided during the licensing process and prior to an ADI licence being granted, however the timings of when an applicant submits the relevant supporting information can vary depending on the applicant's implementation timeline. Applicants should discuss the checklist with APRA during their pre-application meetings to confirm when APRA would expect supporting information to be submitted.

## Ownership and group structure

- |     |   |                          |
|-----|---|--------------------------|
| 1.1 | Certificate of incorporation  | <input type="checkbox"/> |
| 1.2 | Certified copy of Constitution or Memorandum and Articles of Association and any associated shareholders agreements   | <input type="checkbox"/> |
| 1.3 | Address of registered office and operational offices  | <input type="checkbox"/> |
| 1.4 | Group structure chart including:  |                          |
|     | - Full name of entity or individual shareholder (including, if an entity, its legal status)   | <input type="checkbox"/> |
|     | - Country of incorporation (for entities) or origin (for individuals)   | <input type="checkbox"/> |
|     | - Percentage of shares or voting rights held in applicant and its parent  | <input type="checkbox"/> |
|     | - Nature of relationship between applicant and persons who may have control or influence over the applicant (e.g. investor/founder etc. and the influence they will have on the applicant)                | <input type="checkbox"/> |
|     | - Details of any previous bankruptcy and criminal proceedings that the shareholders/associates have been subject to   | <input type="checkbox"/> |
|     | - Source of shareholder funds and evidence of probity/AML/sanctions checks that have been conducted on the shareholder (NB Credit reports are not a source of probity and should not be provided to APRA) | <input type="checkbox"/> |
|     | - Where the applicant is owned by large number of minority shareholders or members, list of the 20 largest shareholders or members  | <input type="checkbox"/> |
|     | - Where the applicant is a part of a group, all subsidiaries and related companies of the applicant and parent (including dormant) indicating:  |                          |
|     | i) where subsidiaries/related companies are regulated, the name of the regulator and nature of business regulated; and  | <input type="checkbox"/> |
|     | ii) where there are interlinkages and outsourcing arrangements between the applicant and subsidiaries/related companies   |                          |

- |     |  |                          |
|-----|--|--------------------------|
| 1.5 | Latest accounts for any substantial shareholder that is a body corporate, partnership or trust | <input type="checkbox"/> |
| 1.6 | FSSA application (if applicable)   | <input type="checkbox"/> |

## Business model

- |     |  |                          |
|-----|--|--------------------------|
| 2.1 | Business plan including:   |                          |
|     | <ul style="list-style-type: none"> <li>- Explanation of the applicant’s overall strategic goal, why the applicant was established and has decided to carry on the business for which it is seeking a licence <span style="float: right;"><input type="checkbox"/></span></li> <li>- Description of the proposed business, including: <ul style="list-style-type: none"> <li>i) Geographical scope of operations and future expansion plans <span style="float: right;"><input type="checkbox"/></span></li> <li>ii) Target markets and customer segmentation <span style="float: right;"><input type="checkbox"/></span></li> <li>iii) Clients – including types, sources, client base <span style="float: right;"><input type="checkbox"/></span></li> <li>iv) Products and services including any borrowing, lending or off-balance sheet activities <span style="float: right;"><input type="checkbox"/></span></li> <li>v) Delivery channels – branches, internet, postal, agencies, subsidiaries <span style="float: right;"><input type="checkbox"/></span></li> <li>vi) Pricing <span style="float: right;"><input type="checkbox"/></span></li> <li>vii) Promotion and marketing – initial and future <span style="float: right;"><input type="checkbox"/></span></li> <li>viii) Funding profile and diversification <span style="float: right;"><input type="checkbox"/></span></li> <li>ix) Details of any planned trading book activity <span style="float: right;"><input type="checkbox"/></span></li> <li>x) an estimate of total staff envisaged and the proposed organisational structure <span style="float: right;"><input type="checkbox"/></span></li> <li>xi) plans to transfer any existing business into the proposed ADI <span style="float: right;"><input type="checkbox"/></span></li> <li>xiii) the proposed date for commencement of operations <span style="float: right;"><input type="checkbox"/></span></li> </ul> </li> <li>- High level summary of financial resources, including details of the source of funds that will be injected into the applicant to support its proposed activities <span style="float: right;"><input type="checkbox"/></span></li> </ul> |                          |
| 2.2 | 5 year financial projections including:  |                          |
|     | <ul style="list-style-type: none"> <li>- Detailed balance sheet, cash flow and earnings (including assumptions) <span style="float: right;"><input type="checkbox"/></span></li> <li>- Key financial and prudential ratios (e.g. capital ratios, liquidity ratios, etc.) <span style="float: right;"><input type="checkbox"/></span></li> <li>- Detailed explanation of the initial and long-term viability of the business model <span style="float: right;"><input type="checkbox"/></span></li> <li>- Stress scenarios to show what will be the effect of key assumptions underpinning the business model and its viability not turning out as planned (down-side and worst-case scenario) <span style="float: right;"><input type="checkbox"/></span></li> </ul>   |                          |
| 2.3 | Annual statutory accounts for applicant and relevant related firms i.e. holding company (if applicable)  | <input type="checkbox"/> |

- |     |   |                          |
|-----|---|--------------------------|
| 2.4 | Organisational chart  | <input type="checkbox"/> |
| 2.5 | High-level implementation timeline through to point when applicant is fully operational | <input type="checkbox"/> |

### Governance, culture, remuneration and accountability

- |      |   |  |
|------|---|--|
| 3.1  | Board and committee structure including names of members  | <input type="checkbox"/>   |
| 3.2  | Applicant's assessment of the board including: <ul style="list-style-type: none"> <li>- Assessment of skills and experience required collectively by the board for business model proposed</li> <li>- Assessment of the collective skills required by the independent directors to enable them to provide effective challenge</li> <li>- Gaps identified in the proposed board against the collective skills and experience assessment</li> <li>- The plans to resolve the gaps identified</li> <li>- The recruitment process, including such areas as compliance with anti-discrimination best practice</li> </ul> | <input type="checkbox"/><br><input type="checkbox"/><br><input type="checkbox"/><br><input type="checkbox"/><br><input type="checkbox"/> |
| 3.3  | Board charter   | <input type="checkbox"/>   |
| 3.4  | Board renewal policy  | <input type="checkbox"/>   |
| 3.5  | Board performance assessment procedure  | <input type="checkbox"/>   |
| 3.6  | Remuneration policy   | <input type="checkbox"/>   |
| 3.7  | Remuneration committee charter/terms of reference   | <input type="checkbox"/>   |
| 3.8  | Audit committee charter/terms of reference  | <input type="checkbox"/>   |
| 3.9  | Risk committee charter/terms of reference   | <input type="checkbox"/>   |
| 3.10 | Board delegation of authority   | <input type="checkbox"/>   |
| 3.11 | Management structure and reporting lines chart  | <input type="checkbox"/>   |
| 3.12 | Conflicts of interest management policy   | <input type="checkbox"/>   |
| 3.13 | List of identified conflicts and how they are being managed   | <input type="checkbox"/>   |
| 3.14 | Overview of the intended structure, resources, responsibilities and reporting lines for: <ul style="list-style-type: none"> <li>- Liquidity and treasury</li> <li>- Risk and compliance</li> <li>- Internal audit</li> </ul>  | <input type="checkbox"/><br><input type="checkbox"/><br><input type="checkbox"/>   |
| 3.15 | Banking Executive Accountability Regime (BEAR) statements   | <input type="checkbox"/>   |
| 3.16 | BEAR Accountability Map   | <input type="checkbox"/>   |
| 3.17 | Self-assessment against APRA Prudential Standard CPS 510 Governance   | <input type="checkbox"/>   |
| 3.18 | Self-assessment against APRA Prudential Standard CPS 511 Remuneration   | <input type="checkbox"/>   |

## Fit and proper and responsible persons

- 4.1 Fit and proper policy
- 4.2 For each individual who will hold a responsible person position:
- Position title
  - Full name
  - Date of birth (for ID purposes only)
  - Role description and main responsibilities
  - Copy of the assessment completed under fit and proper including competency and capability in relation to the position held
  - Evidence of probity/AML/Sanctions (NB Credit reports are not a source of probity and should not be provided to APRA)
- 4.3 Self-assessment against APRA Prudential Standard CPS 520 Fit and Proper

## Risk management

- 5.1 Risk appetite statement
- 5.2 Risk management strategy
- 5.3 Code of conduct
- 5.4 Whistle-blower policy
- 5.5 List of policies and procedures supporting the management of material risks throughout the entity that the applicant has in place and can be ready to provide on request
- 5.6 Overview of the management information system in place for measuring, assessing and reporting on all material risks across the entity
- 5.7 List of reports proposed to be provided to the board
- 5.8 Details of review process to ensure that the risk management framework is effective
- 5.9 Consequence management policy
- 5.10 Self-assessment against APRA Prudential Standard CPS 220 Risk Management

## Credit risk

- 6.1 Credit risk management policies and procedures addressing:
- Monitoring of credit quality
  - Identification and appropriate measurement of impaired facilities
  - Estimation of inherent credit risk in its business
  - Recognition of collateral
  - Write-down or write-off of uncollectible facilities

- Validation of credit assessment and provisioning and reserve process
  - Adequacy of provisions and reserves covering existing and estimated future credit losses and the timely establishment of such provisions and reserves
  - Production of data and other information required for adequately assessing the credit risk exposure of impairment, accounting for asset impairment and reporting to APRA
  - Delegations for approval of credit facilities
- 6.2 Lending policy, including:
- Underwriting standards
  - Risk tolerances and limits
- 6.3 Large exposures and risk concentrations policy
- 6.4 Related entities policy
- 6.5 Self-assessment against APRA Prudential Standard APS 220 Credit Quality

#### Market and investment risk

- 7.1 Market risk management policy including
- Asset and liability management
  - Interest rate risk in the banking book management
  - Investment strategy/management
- 7.2 Traded Market Risk Policy (if applicable)
- 7.3 Trading Book Policy Statement (if applicable)

#### Operational risk

- 8.1 Operational risk management framework
- 8.2 Training and competence regime
- 8.3 Product governance policy
- 8.4 Fraud management policy
- 8.5 Incident Management policy

#### Service provider management

- 9.1 Outsourcing policy
- 9.2 List of principal service providers, and the services they provide, whether external or intra-group, identifying any link to the applicant, and including supplier location, rationale for the outsourcing, and supplier due diligence and selection process
- 9.3 Details of oversight responsibilities and arrangements, systems and controls for each service provider material to the firm's management and operations

9.4 Self-assessment against APRA Prudential Standard CPS 231 Outsourcing

### Business continuity

10.1 Business continuity management policy

10.2 Business impact analysis

10.3 Recovery objectives and strategies

10.4 Business continuity plan

10.5 Business continuity plan review and testing program

10.6 Disaster recovery validation and testing (including key service providers):

- Testing strategy

- Tests conducted and results

- Reporting mechanisms

10.7 Pandemic plan

10.8 Self-assessment against APRA Prudential Standard CPS 232 Business Continuity Management

### Compliance risk

11.1 Compliance framework (can be amalgamated in operational risk management framework)

11.2 Obligations Register

11.3 Confirmation that there is a board approved AML & CTF program and that the applicant has/will register with AUSTRAC as a designated service provider. (APRA does not require a copy of the program)

11.4 Confirmation that there is a board approved privacy policy (APRA does not require a copy of the policy)

### Information technology (including security)

12.1 IT strategy

12.2 IT organisation chart

12.3 IT roles and responsibilities of key IT functions, personnel and service providers (where relevant)

12.4 Overview of IT, including

- Principal applications, including key details such as function, vendor provided or internally developed, how supported and by whom

- For core systems being implemented, high level implementation plans, migration plans, test plans, and timetables

- Details of data centres (location, support arrangements, function e.g. primary/secondary etc.)

- Systems diagram, providing overview and main applications and their interactions

- Simple network diagram providing insight into the design of the architecture
- 12.5 Testing strategy to ensure systems are fit for purpose (e.g. systems maintain fair and true records for financial obligations, systems calculate interest accurately etc.)
- 12.6 Information security strategy
- 12.7 Information security governance: overview oversight mechanisms, including key committees, charters of relevant committees, etc.
- 12.8 Information security roles and responsibilities
- 12.9 Information security policies
- 12.10 Information security procedures
- 12.11 Key controls to detect, prevent and respond to security incidents in order to maintain confidentiality, integrity and availability of information assets (hardware, software and data)
- 12.12 High-level risk and control assessments, risk profiles, plausible worst-case scenarios and alignment to risk appetite and tolerance
- 12.13 Key controls to detect, prevent and respond to security incidents in order to maintain confidentiality, integrity and availability of information assets (hardware, software and data)
- 12.14 Incident detection and response plans and test results (including critical outsourcing arrangements /service providers)
- 12.15 Overview of approach to management of high-value, exploitable data - e.g. credit/debit card numbers, CVVs, PINs, customer and privileged credentials
- 12.16 Information security testing plans e.g. audits, penetration testing and risk assessments
- 12.17 Information security testing results: Independent assurance regarding security, including e.g. IT audits, risk assessments, penetration test results identifying scope and results of the penetration test(s), including actions taken to eliminate shortcomings and planned frequency
- 12.18 Self-assessment against APRA Prudential Standard CPS 234 Information Security

### Audit

- 13.1 Internal audit scope and plan (minimum 12 months post licensing)
- 13.2 Appointed auditor terms of engagement and, if applicable, other instructions or correspondence, including management letters
- 13.3 Appointed auditor independence declaration
- 13.4 Fit and proper assessment of appointed auditor
- 13.5 External audit plan (minimum 12 months post licensing)

### Capital

- 14.1 ICAAP
- 14.2 ICAAP Summary Statement

- |      |  |                          |
|------|--|--------------------------|
| 14.3 | Copies of all relevant issuance documentation for capital instruments  | <input type="checkbox"/> |
| 14.4 | Self-assessment of capital instruments against APRA Prudential Standard APS 111 Capital Adequacy: Measurement of Capital | <input type="checkbox"/> |
| 14.5 | Self-assessment against APRA Prudential Standard APS 110 Capital Adequacy  | <input type="checkbox"/> |

### Liquidity risk

- |      |  |  |
|------|--|--|
| 15.1 | Liquidity risk tolerance statement   | <input type="checkbox"/>   |
| 15.2 | Liquidity management strategy and policy including: <ul style="list-style-type: none"> <li>- Composition and maturity of assets and liabilities</li> <li>- Diversity and stability of funding sources</li> <li>- Approach to managing liquidity in different currencies, across borders and across business lines and legal entities</li> <li>- Approach to intraday liquidity management</li> </ul> | <input type="checkbox"/><br><input type="checkbox"/><br><input type="checkbox"/><br><input type="checkbox"/> |
| 15.3 | Operating standards for identifying, measuring and controlling liquidity risk in accordance with liquidity risk tolerance  | <input type="checkbox"/>   |
| 15.4 | Funding strategy   | <input type="checkbox"/>   |
| 15.5 | Contingency funding plan   | <input type="checkbox"/>   |
| 15.6 | Self-assessment against APRA Prudential Standard APS 210 Liquidity   | <input type="checkbox"/>   |
| 15.7 | Self-assessment against APRA Prudential Standard APS 120 Securitisation (if applicable)  | <input type="checkbox"/>   |

### Contingency planning

- |      |                  |                          |
|------|------------------|--------------------------|
| 16.1 | Contingency plan | <input type="checkbox"/> |
|------|------------------|--------------------------|

### Other requirements

- |      |  |                          |
|------|--|--------------------------|
| 17.1 | FCS operational plan   | <input type="checkbox"/> |
| 17.2 | FCS CEO Attestation  | <input type="checkbox"/> |
| 17.3 | FCS payment file test  | <input type="checkbox"/> |
| 17.4 | Self-assessment against APRA Prudential Standard APS 910 Financial Claims Scheme | <input type="checkbox"/> |
| 17.5 | Public disclosure policy   | <input type="checkbox"/> |
| 17.6 | Self-assessment against APRA Prudential Standard APS 330 Public Disclosure       | <input type="checkbox"/> |
| 17.7 | Confirmation of ability to complete required regulatory returns                  | <input type="checkbox"/> |

### Overseas banking groups (if applicable)

- 18.1 A statement from the applicant's parent company's home supervisor:
- consenting to the application to establish a banking subsidiary in Australia;
  - confirming that the parent is of good financial standing;
  - confirming that the parent is supervised on a consolidated basis in accordance with the principles contained in the Basel Concordat; and
  - agreeing to co-operate in the supervision of the proposed subsidiary, in terms of the Basel Concordat
- 

### Independent validations

- 19.1 Independent validation of IT controls design and operating effectiveness (deposit product)
- 19.2 Independent validation of IT controls design and operating effectiveness (income generating asset product)
- 19.3 External auditor's assurance that systems are 'fit for purpose' (income generating asset product)
- 19.4 External auditor's verification of the level of capital and type of capital (i.e. CET1, AT1 etc.)

# Attachment B: Restricted pathway minimum supporting information checklist

This checklist sets out the minimum supporting material expected to be submitted by an applicant under the restricted ADI licence pathway. It is provided as guidance only, APRA may request applicants submit additional information in support of their application. While the information is presented as a set of specific documents, it may suit an applicant for certain information to be presented in a different manner.

The checklist is the same as the ADI checklist in Attachment A, however it breaks down whether APRA expects the documents to be submitted during the Restricted ADI licence application (**RADI**) or during the restricted phase prior to progression to ADI (**ADI**). In some cases, APRA expects applicants to resubmit documents already provided during the Restricted ADI application as the entity updates them to reflect their operations as an ADI. In these instances, the document will be shown in both the RADI and ADI columns.

The exact timing of when an applicant submits the relevant supporting information can vary depending on the applicant's implementation timeline and strategy to ADI. Applicants should discuss the checklist with APRA during their pre-application meetings and during the restricted phase to confirm when APRA would expect supporting information to be submitted.

| Ownership and group structure |  | RADI                     | ADI |
|-------------------------------|--|--------------------------|-----|
| 1.1                           | Certificate of incorporation   | <input type="checkbox"/> |     |
| 1.2                           | Certified copy of Constitution or Memorandum and Articles of Association and any associated shareholders agreements  | <input type="checkbox"/> |     |
| 1.3                           | Address of registered office and operational offices   | <input type="checkbox"/> |     |
| 1.4                           | Group structure chart including:   |                          |     |
|                               | - Full name of entity or individual shareholder (including if an entity its legal status)  | <input type="checkbox"/> |     |
|                               | - Country of incorporation (for entities) or origin (for individuals)  | <input type="checkbox"/> |     |
|                               | - Percentage of shares or voting rights held in applicant and its parent   | <input type="checkbox"/> |     |
|                               | - Nature of relationship between applicant and persons who may have control or influence over the applicant (e.g. investor/founder etc. and the influence they will have on the applicant) | <input type="checkbox"/> |     |
|                               | - Details of any previous bankruptcy and criminal proceedings that the shareholders/associates have been subject to  | <input type="checkbox"/> |     |

- Source of shareholder funds and evidence of probity/AML/sanctions checks that have been conducted on the shareholder (NB Credit reports are not a source of probity and should not be provided to APRA)
  - Where the applicant is owned by large number of minority shareholders or members list of the 20 largest shareholders or members
  - Where the applicant is a part of a group, all subsidiaries and related companies of the applicant and parent (including dormant) indicating:
    - i) where subsidiaries/related companies are regulated, the name of the regulator and nature of business regulated; and
    - ii) where there are interlinkages and outsourcing arrangements between the applicant and subsidiaries/related companies
- 1.5 Latest accounts for any substantial shareholder that is a body corporate, partnership or trust
- 1.6 FSSA application (if applicable)

| Business model |  | RADI                     | ADI |
|----------------|--|--------------------------|-----|
| 2.0            | Strategy to ADI  | <input type="checkbox"/> |     |
| 2.1            | Business plan including: <ul style="list-style-type: none"> <li>- Explanation of the applicant's overall strategic goal, why the applicant was established and has decided to carry on the business for which it is seeking a licence <input type="checkbox"/></li> <li>- Description of the proposed business, including:               <ul style="list-style-type: none"> <li>i) Geographical scope of operations and future expansion plans <input type="checkbox"/></li> <li>ii) Target markets and customer segmentation <input type="checkbox"/></li> <li>iii) Clients – including types, sources, client base <input type="checkbox"/></li> <li>iv) Products and services including any borrowing, lending or off-balance sheet activities <input type="checkbox"/></li> <li>v) Delivery channels – branches, internet, postal, agencies, subsidiaries <input type="checkbox"/></li> <li>vi) Pricing <input type="checkbox"/></li> <li>vii) Promotion and marketing – initial and future <input type="checkbox"/></li> <li>viii) Funding profile and diversification <input type="checkbox"/></li> <li>ix) Details of any planned trading book activity <input type="checkbox"/></li> <li>x) an estimate of total staff envisaged and the proposed organisational structure <input type="checkbox"/></li> </ul> </li> </ul> |                          |     |

- xi) plans to transfer any existing business into the proposed ADI
- xii) the proposed date for commencement of operations
- High level summary of financial resources including details of the source of funds that will be injected into the applicant to support its proposed activities
- 2.2 5 year financial projections including:
  - Detailed balance sheet, cash flow and earnings (including assumptions)
  - Key financial and prudential ratios (e.g. capital ratios, liquidity ratios, etc.)
  - Detailed explanation of the initial and long-term viability of the business model
  - Stress scenarios to show what will be the effect of key assumptions underpinning the business model and its viability not turning out as planned (down-side and worst-case scenario)
- 2.3 Annual statutory accounts for applicant and relevant related firms i.e. holding company (if applicable)
- 2.4 Organisational chart
- 2.5 High-level implementation timeline through to point when applicant is fully operational

| <b>Governance, culture, remuneration and accountability</b> |  | <b>RADI</b>              | <b>ADI</b>               |
|---|--|--------------------------|--------------------------|
| 3.1   | Board and committee structure including names of members   | <input type="checkbox"/> |                          |
| 3.2   | Applicant's assessment of the board including: <ul style="list-style-type: none"> <li>- Assessment of skills and experience required collectively by the board for business model proposed <input type="checkbox"/></li> <li>- Assessment of the collective skills required by the independent directors to enable them to provide effective challenge <input type="checkbox"/></li> <li>- Gaps identified in the proposed board against the collective skills and experience assessment <input type="checkbox"/></li> <li>- The plans to resolve the gaps identified <input type="checkbox"/></li> <li>- The recruitment process, including such areas as compliance with anti-discrimination best practice <input type="checkbox"/></li> </ul> |                          |                          |
| 3.3   | Board charter  | <input type="checkbox"/> |                          |
| 3.4   | Board renewal policy   |                          | <input type="checkbox"/> |
| 3.5   | Board performance assessment procedure   |                          | <input type="checkbox"/> |
| 3.6   | Remuneration policy  | <input type="checkbox"/> |                          |
| 3.7   | Remuneration committee charter/terms of reference  |                          | <input type="checkbox"/> |
| 3.8   | Audit committee charter/terms of reference   |                          | <input type="checkbox"/> |

|      |  |                          |                          |
|------|--|--------------------------|--------------------------|
| 3.9  | Risk committee charter/terms of reference  |                          | <input type="checkbox"/> |
| 3.10 | Board delegation of authority  |                          | <input type="checkbox"/> |
| 3.11 | Management structure and reporting lines chart   | <input type="checkbox"/> |                          |
| 3.12 | Conflicts of interest management policy  | <input type="checkbox"/> |                          |
| 3.13 | List of identified conflicts and how they are being managed                              | <input type="checkbox"/> |                          |
| 3.14 | Overview of the intended structure, resources, responsibilities and reporting lines for: |                          |                          |
|      | - Liquidity and treasury   | <input type="checkbox"/> |                          |
|      | - Risk and compliance  | <input type="checkbox"/> |                          |
|      | - Internal audit   | <input type="checkbox"/> |                          |
| 3.15 | Banking Executive Accountability Regime (BEAR) statements                                | <input type="checkbox"/> | <input type="checkbox"/> |
| 3.16 | BEAR Accountability Map  | <input type="checkbox"/> | <input type="checkbox"/> |
| 3.17 | Self-assessment against APRA Prudential Standard CPS 510 Governance                      |                          | <input type="checkbox"/> |
| 3.18 | Self-assessment against APRA Prudential Standard CPS 511 Remuneration                    |                          | <input type="checkbox"/> |

| <b>Fit and proper and responsible persons</b> |  | <b>RADI</b>              | <b>ADI</b>               |
|---|--|--------------------------|--------------------------|
| 4.1   | Fit and proper policy  | <input type="checkbox"/> |                          |
| 4.2   | For each individual who will hold a responsible person position:<br>(submission during restricted phase only required for new responsible persons) |                          |                          |
|   | - Position title   | <input type="checkbox"/> | <input type="checkbox"/> |
|   | - Full name  | <input type="checkbox"/> | <input type="checkbox"/> |
|   | - Date of birth (for ID purposes only)   | <input type="checkbox"/> | <input type="checkbox"/> |
|   | - Role description and main responsibilities   | <input type="checkbox"/> | <input type="checkbox"/> |
|   | - Copy of the assessment completed under fit and proper including competency and capability in relation to the position held                       | <input type="checkbox"/> | <input type="checkbox"/> |
|   | - Evidence of probity/AML/Sanctions (NB Credit reports are not a source of probity and should not be provided to APRA)                             | <input type="checkbox"/> | <input type="checkbox"/> |
| 4.3   | Self-assessment against APRA Prudential Standard CPS 520 Fit and Proper  | <input type="checkbox"/> |                          |

| <b>Risk management</b> |                          | <b>RADI</b>              | <b>ADI</b>               |
|------------------------|--------------------------|--------------------------|--------------------------|
| 5.1                    | Risk appetite statement  | <input type="checkbox"/> | <input type="checkbox"/> |
| 5.2                    | Risk management strategy | <input type="checkbox"/> | <input type="checkbox"/> |
| 5.3                    | Code of conduct          |                          | <input type="checkbox"/> |

|                    |  |                          |                          |
|--------------------|--|--------------------------|--------------------------|
| 5.4                | Whistle-blower policy  |                          | <input type="checkbox"/> |
| 5.5                | List of policies and procedures supporting the management of material risks throughout the entity the applicant has in place and can be ready to provide on request        | <input type="checkbox"/> | <input type="checkbox"/> |
| 5.6                | Overview of the management information system in place for measuring, assessing and reporting on all material risks across the applicant                                   | <input type="checkbox"/> | <input type="checkbox"/> |
| 5.7                | List of reports proposed to be provided to the board   | <input type="checkbox"/> | <input type="checkbox"/> |
| 5.8                | Details of review process to ensure that the risk management framework is effective  | <input type="checkbox"/> | <input type="checkbox"/> |
| 5.9                | Consequence management policy  |                          | <input type="checkbox"/> |
| 5.10               | Self-assessment against APRA standard CPS 220 Risk Management  | <input type="checkbox"/> | <input type="checkbox"/> |
| <b>Credit risk</b> |  | <b>RADI</b>              | <b>ADI</b>               |
| 6.1                | Credit risk management policies and procedures addressing:   |                          |                          |
|                    | - Monitoring of credit quality   |                          | <input type="checkbox"/> |
|                    | - Identification and appropriate measurement of impaired facilities  |                          | <input type="checkbox"/> |
|                    | - Estimation of inherent credit risk in its business   |                          | <input type="checkbox"/> |
|                    | - Recognition of collateral  |                          | <input type="checkbox"/> |
|                    | - Write-down or write-off of uncollectible facilities  |                          | <input type="checkbox"/> |
|                    | - Validation of credit assessment and provisioning and reserve process   |                          | <input type="checkbox"/> |
|                    | - Adequacy of provisions and reserves covering existing and estimated future credit losses and the timely establishment of such provisions and reserves                    |                          | <input type="checkbox"/> |
|                    | - Production of data and other information required for adequately assessing the credit risk exposure of impairment, accounting for asset impairment and reporting to APRA |                          | <input type="checkbox"/> |
|                    | - Delegations for approval of credit facilities  |                          | <input type="checkbox"/> |
| 6.2                | Lending policy, including:   |                          |                          |
|                    | - Underwriting standards   |                          | <input type="checkbox"/> |
|                    | - Risk tolerances and limits   |                          | <input type="checkbox"/> |
| 6.3                | Large exposures and risk concentrations policy   |                          | <input type="checkbox"/> |
| 6.4                | Related entities policy  |                          | <input type="checkbox"/> |
| 6.5                | Self-assessment against APRA Prudential Standard APS 220 Credit Quality  |                          | <input type="checkbox"/> |

| <b>Market and investment risk</b>  |   | <b>RADI</b>              | <b>ADI</b>               |
|------------------------------------|---|--------------------------|--------------------------|
| 7.1                                | Market risk management policy including   |                          |                          |
|                                    | - Asset and liability management  |                          | <input type="checkbox"/> |
|                                    | - Interest rate risk in the banking book management   |                          | <input type="checkbox"/> |
|                                    | - Investment strategy/management  |                          | <input type="checkbox"/> |
| 7.2                                | Traded market risk policy (if applicable)   |                          | <input type="checkbox"/> |
| 7.3                                | Trading book policy statement (if applicable)   |                          | <input type="checkbox"/> |
| <b>Operational risk</b>            |   | <b>RADI</b>              | <b>ADI</b>               |
| 8.1                                | Operational risk management framework   | <input type="checkbox"/> | <input type="checkbox"/> |
| 8.2                                | Training and competence regime  | <input type="checkbox"/> | <input type="checkbox"/> |
| 8.3                                | Product governance policy   |                          | <input type="checkbox"/> |
| 8.4                                | Fraud management policy   |                          | <input type="checkbox"/> |
| 8.5                                | Incident management policy  |                          | <input type="checkbox"/> |
| <b>Service provider management</b> |   | <b>RADI</b>              | <b>ADI</b>               |
| 9.1                                | Outsourcing policy  |                          | <input type="checkbox"/> |
| 9.2                                | List of principal service providers, and services provided by each, whether external or intra-group, identifying any link to the applicant, and including supplier location, rationale for the outsourcing, and supplier due diligence and selection process. | <input type="checkbox"/> | <input type="checkbox"/> |
| 9.3                                | Details of oversight responsibilities and arrangements, systems and controls for each service provider material to the applicant's management and operations  | <input type="checkbox"/> | <input type="checkbox"/> |
| 9.4                                | Self-assessment against APRA Prudential Standard CPS 231 Outsourcing  |                          | <input type="checkbox"/> |
| <b>Business continuity</b>         |   | <b>RADI</b>              | <b>ADI</b>               |
| 10.1                               | Business continuity management policy   |                          | <input type="checkbox"/> |
| 10.2                               | Business impact analysis  | <input type="checkbox"/> | <input type="checkbox"/> |
| 10.3                               | Recovery objectives and strategies  | <input type="checkbox"/> | <input type="checkbox"/> |
| 10.4                               | Business continuity plan  |                          | <input type="checkbox"/> |
| 10.5                               | Business continuity plan review and testing program   |                          | <input type="checkbox"/> |
| 10.6                               | Disaster recovery validation and testing (including key service providers):   |                          |                          |
|                                    | - Testing strategy  |                          | <input type="checkbox"/> |
|                                    | - Tests conducted and results   |                          | <input type="checkbox"/> |
|                                    | - Reporting mechanisms  |                          | <input type="checkbox"/> |
| 10.7                               | Pandemic plan   |                          | <input type="checkbox"/> |

| 10.8  | Self-assessment against APRA Prudential Standard CPS 232<br>Business Continuity Management  |                          | <input type="checkbox"/> |
|---|---|--------------------------|--------------------------|
| Compliance risk                             |   | RADI                     | ADI                      |
| 11.1  | Compliance framework (can be amalgamated in operational risk management framework)  |                          | <input type="checkbox"/> |
| 11.2  | Obligations Register  |                          | <input type="checkbox"/> |
| 11.3  | Confirmation that there is a board approved AML & CTF program and that the applicant has/will register with AUSTRAC as a designated service provider. (APRA does not require a copy of the program)   |                          | <input type="checkbox"/> |
| 11.4  | Confirmation that there is a board approved privacy policy (APRA does not require a copy of the policy)   |                          | <input type="checkbox"/> |
| Information technology (including security) |   | RADI                     | ADI                      |
| 12.1  | IT strategy   | <input type="checkbox"/> | <input type="checkbox"/> |
| 12.2  | IT organisation chart   | <input type="checkbox"/> | <input type="checkbox"/> |
| 12.3  | IT roles and responsibilities of key IT functions, personnel and service providers (where relevant)   | <input type="checkbox"/> | <input type="checkbox"/> |
| 12.4  | Overview of IT, including <ul style="list-style-type: none"> <li>- Principal applications, including key details such as function, vendor provided or internally developed, how supported and by whom</li> <li>- For core systems being implemented, high level implementation plans, migration plans, test plans, and timetables</li> <li>- Details of data centres (location, support arrangements, function (e.g. primary/secondary etc.))</li> <li>- Systems diagram, providing overview and main applications and their interactions</li> <li>- Simple network diagram, providing insight into the design of the architecture</li> </ul> | <input type="checkbox"/> | <input type="checkbox"/> |
| 12.5  | Testing strategy to ensure systems are fit for purpose (e.g. systems maintain fair and true records for financial obligations, systems calculate interest accurately etc.)  | <input type="checkbox"/> | <input type="checkbox"/> |
| 12.6  | Information security strategy   | <input type="checkbox"/> | <input type="checkbox"/> |
| 12.7  | Information security governance: overview oversight mechanisms, including key committees, charters of relevant committees, etc.   |                          | <input type="checkbox"/> |
| 12.8  | Information security roles and responsibilities   |                          | <input type="checkbox"/> |
| 12.9  | Information security policies   |                          | <input type="checkbox"/> |
| 12.10                                       | Information security procedures   |                          | <input type="checkbox"/> |
| 12.11                                       | Key controls to detect, prevent and respond to security incidents in order to maintain confidentiality, integrity and availability of information assets (hardware, software and data)  |                          | <input type="checkbox"/> |

|                       |  |                          |                          |
|-----------------------|--|--------------------------|--------------------------|
| 12.12                 | High-level risk and control assessments, risk profiles, plausible worst-case scenarios and alignment to risk appetite and tolerance  |                          | <input type="checkbox"/> |
| 12.13                 | Key controls to detect, prevent and respond to security incidents in order to maintain confidentiality, integrity and availability of information assets (hardware, software and data)   | <input type="checkbox"/> | <input type="checkbox"/> |
| 12.14                 | Incident detection and response plans and test results (including critical outsourcing arrangements /service providers)  | <input type="checkbox"/> | <input type="checkbox"/> |
| 12.15                 | Overview of approach to management of high-value, exploitable data - e.g. credit/debit card numbers, CVVs, PINs, customer and privileged credentials   |                          | <input type="checkbox"/> |
| 12.16                 | Information security testing plans e.g. audits, penetration testing and risk assessments   | <input type="checkbox"/> | <input type="checkbox"/> |
| 12.17                 | Information security testing results: Independent assurance regarding security, including e.g. IT audits, risk assessments, penetration test results identifying scope and results of the penetration test(s), including actions taken to eliminate shortcomings and planned frequency |                          | <input type="checkbox"/> |
| 12.18                 | Self-assessment against APRA Prudential Standard CPS 234 Information Security  |                          | <input type="checkbox"/> |
| <b>Audit</b>          |  | <b>RADI</b>              | <b>ADI</b>               |
| 13.1                  | Internal audit scope and plan (minimum 12 months post licensing)   |                          | <input type="checkbox"/> |
| 13.2                  | Appointed auditor terms of engagement, and if applicable, other instructions or correspondence, including management letters   | <input type="checkbox"/> |                          |
| 13.3                  | Appointed auditor independence declaration   | <input type="checkbox"/> |                          |
| 13.4                  | Fit and proper assessment of appointed auditor   | <input type="checkbox"/> |                          |
| 15.5                  | External audit plan (minimum 12 months post licensing)   | <input type="checkbox"/> |                          |
| <b>Capital</b>        |  | <b>RADI</b>              | <b>ADI</b>               |
| 14.0                  | Capital management plan  | <input type="checkbox"/> |                          |
| 14.1                  | ICAAP  |                          | <input type="checkbox"/> |
| 14.2                  | ICAAP summary statement  |                          | <input type="checkbox"/> |
| 14.3                  | Copies of all relevant issuance documentation for capital instruments  | <input type="checkbox"/> |                          |
| 14.4                  | Self-assessment of capital instruments against APRA Prudential Standard APS 111 Capital Adequacy: Measurement of Capital   | <input type="checkbox"/> |                          |
| 14.5                  | Self-assessment against APRA Prudential Standard APS 110 Capital Adequacy  |                          | <input type="checkbox"/> |
| <b>Liquidity risk</b> |  | <b>RADI</b>              | <b>ADI</b>               |
| 15.0                  | Liquidity management plan  | <input type="checkbox"/> |                          |
| 15.1                  | Liquidity risk tolerance statement   |                          | <input type="checkbox"/> |
| 15.2                  | Liquidity management strategy and policy including:  |                          |                          |

|  |  |                          |                          |
|--|--|--------------------------|--------------------------|
|  | - Composition and maturity of assets and liabilities   |                          | <input type="checkbox"/> |
|  | - Diversity and stability of funding sources   |                          | <input type="checkbox"/> |
|  | - Approach to managing liquidity in different currencies, across borders and across business lines and legal entities                      |                          | <input type="checkbox"/> |
|  | - Approach to intraday liquidity management  |                          | <input type="checkbox"/> |
| 15.3   | Operating standards for identifying, measuring and controlling liquidity risk in accordance with liquidity risk tolerance                  |                          | <input type="checkbox"/> |
| 15.4   | Funding strategy   | <input type="checkbox"/> |                          |
| 15.5   | Contingency funding plan   | <input type="checkbox"/> |                          |
| 15.6   | Self-assessment against APRA Prudential Standard APS 210 Liquidity   |                          | <input type="checkbox"/> |
| 15.7   | Self-assessment against APRA Prudential Standard APS 120 Securitisation (if applicable)  |                          | <input type="checkbox"/> |
| <b>Contingency planning</b>                    |  | <b>RADI</b>              | <b>ADI</b>               |
| 16.1   | Contingency plan   | <input type="checkbox"/> | <input type="checkbox"/> |
| <b>Other requirements</b>                      |  | <b>RADI</b>              | <b>ADI</b>               |
| 17.1   | FCS operational plan   |                          | <input type="checkbox"/> |
| 17.2   | FCS CEO Attestation  |                          | <input type="checkbox"/> |
| 17.3   | FCS payment file test  |                          | <input type="checkbox"/> |
| 17.4   | Self-assessment against APRA Prudential Standard APS 910 Financial Claims Scheme   |                          | <input type="checkbox"/> |
| 17.5   | Public disclosure policy   |                          | <input type="checkbox"/> |
| 17.6   | Self-assessment against APRA Prudential Standard APS 330 Public Disclosure   |                          | <input type="checkbox"/> |
| 17.7   | Confirmation of ability to complete required regulatory returns  |                          | <input type="checkbox"/> |
| 17.8   | Restricted ADI public disclosure   | <input type="checkbox"/> |                          |
| <b>Overseas banking groups (if applicable)</b> |  | <b>RADI</b>              | <b>ADI</b>               |
| 18.1   | A statement from the applicant's parent company's home supervisor:   |                          |                          |
|  | - consenting to the application to establish a banking subsidiary in Australia;  |                          |                          |
|  | - confirming that the parent is of good financial standing;  | <input type="checkbox"/> |                          |
|  | - confirming that the parent is supervised on a consolidated basis in accordance with the principles contained in the Basel Concordat; and |                          |                          |
|  | - agreeing to co-operate in the supervision of the proposed subsidiary, in terms of the Basel Concordat                                    |                          |                          |

| Independent validations |  | RADI                     | ADI                      |
|-------------------------|--|--------------------------|--------------------------|
| 19.1                    | Independent validation of IT controls design and operating effectiveness (deposit product)                 |                          | <input type="checkbox"/> |
| 19.2                    | Independent validation of IT controls design and operating effectiveness (income generating asset product) |                          | <input type="checkbox"/> |
| 19.3                    | External auditor's assurance that systems are 'fit for purpose' (income generating asset product)          |                          | <input type="checkbox"/> |
| 19.4                    | External auditor's verification of the level of capital and type of capital (i.e. CET1, AT1 etc.)          | <input type="checkbox"/> | <input type="checkbox"/> |
| 19.5                    | External auditor's assurance that systems are 'fit for purpose' (deposit product)                          |                          | <input type="checkbox"/> |
| 19.6                    | External auditor's assurance of FCS systems  |                          | <input type="checkbox"/> |

# Attachment C: Self-assessment example

## Prudential Standard CPS 220 Risk Management – *Risk appetite*

### Poor self-assessment

| Requirement  | Assessment |
|--|------------|
| 27. An APRA-regulated institution must maintain an appropriate, clear and concise risk appetite statement for the institution that addresses the institution's material risks. The board is responsible for setting the risk appetite of the institution and must approve the institution's risk appetite statement. | Met        |
| 28. The risk appetite statement must, at a minimum, convey:  |            |
| (a) the degree of risk that the institution is prepared to accept in pursuit of its strategic objectives and business plan, giving consideration to the interests of depositors and/or policyholders (risk appetite);  | Included   |
| (b) for each material risk, the maximum level of risk that the institution is willing to operate within, expressed as a risk limit and based on its risk appetite, risk profile and capital strength (risk tolerance);   | Included   |
| (c) the process for ensuring that risk tolerances are set at an appropriate level, based on an estimate of the impact in the event that a risk tolerance is breached, and the likelihood that each material risk is realised;  | Included   |
| (d) the process for monitoring compliance with each risk tolerance and for taking appropriate action in the event that it is breached; and   | Included   |
| (e) the timing and process for review of the risk appetite and risk tolerances.  | Included   |

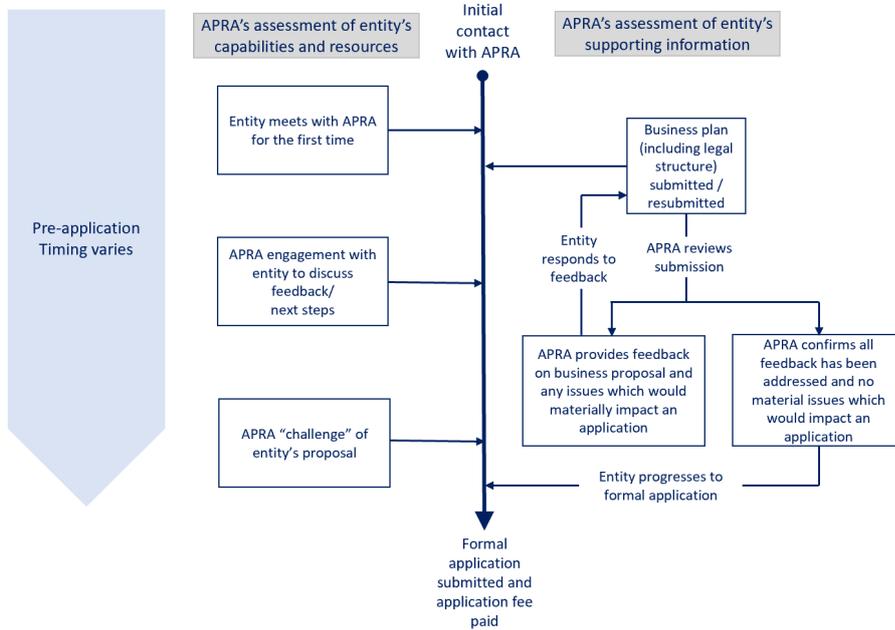
### Better practice self-assessment

| Requirement  | Assessment  |
|--|---|
| 27. An APRA-regulated institution must maintain an appropriate, clear and concise risk appetite statement for the institution that addresses the institution's material risks. The board is responsible for setting the risk appetite of the institution and must approve the institution's risk appetite statement. | Board approved risk appetite statement (RAS) on 30 July 2021.   |
| 28. The risk appetite statement must, at a minimum, convey:  |   |
| (a) the degree of risk that the institution is prepared to accept in pursuit of its strategic objectives and business plan, giving consideration to the interests of depositors and/or policyholders (risk appetite);  | Risk tolerances are detailed in section 3 of the RAS and include both qualitative statements and metrics. |

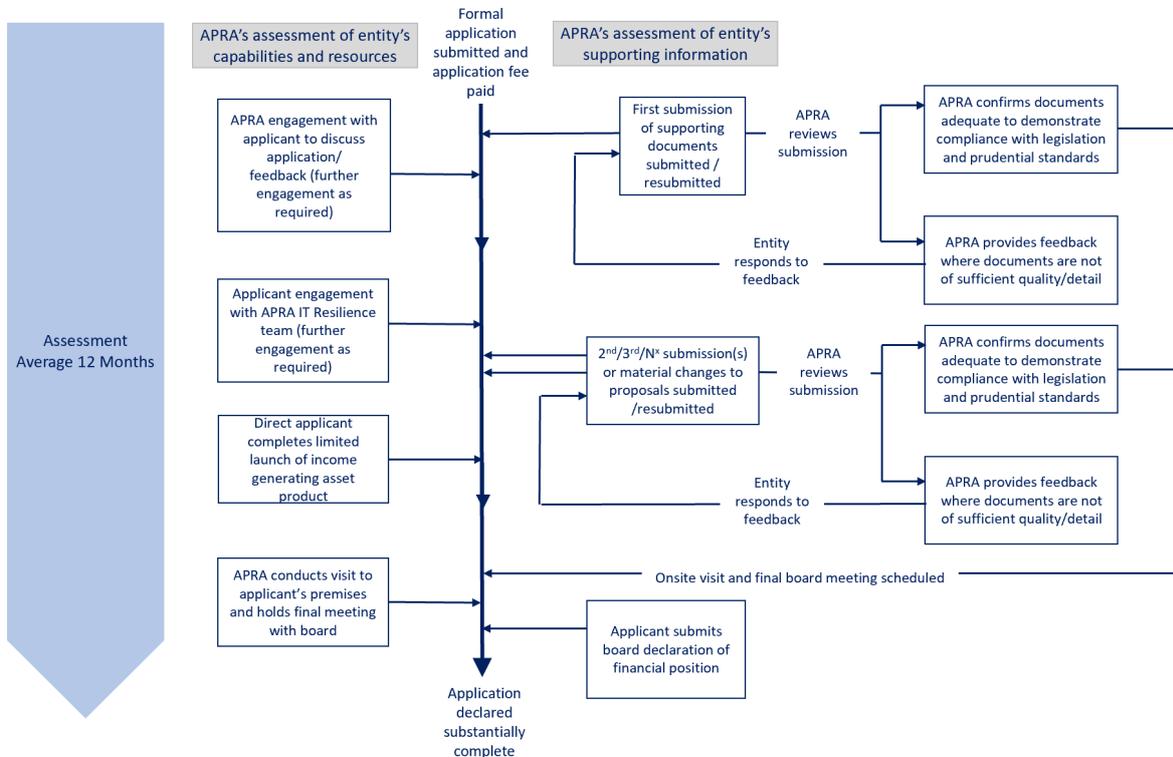
| Requirement   | Assessment   |
|---|--|
| (b) for each material risk, the maximum level of risk that the institution is willing to operate within, expressed as a risk limit and based on its risk appetite, risk profile and capital strength (risk tolerance);        | A red, amber, green risk limit framework for the material risks is included in section 4 of the RAS.   |
| (c) the process for ensuring that risk tolerances are set at an appropriate level, based on an estimate of the impact in the event that a risk tolerance is breached, and the likelihood that each material risk is realised; | A risk impact/likelihood matrix is included in section 3 of the RAS.   |
| (d) the process for monitoring compliance with each risk tolerance and for taking appropriate action in the event that it is breached; and  | Monitoring of risks, reporting and escalation is covered in section 5 of the RAS. Breaches and actions to resolve are recorded in the risk management system.      |
| (e) the timing and process for review of the risk appetite and risk tolerances.   | The risk appetite shall be reviewed annually or where there is a material change to the business plan, process for the review is detailed in section 2 of the RAS. |

# Attachment D: The licensing process

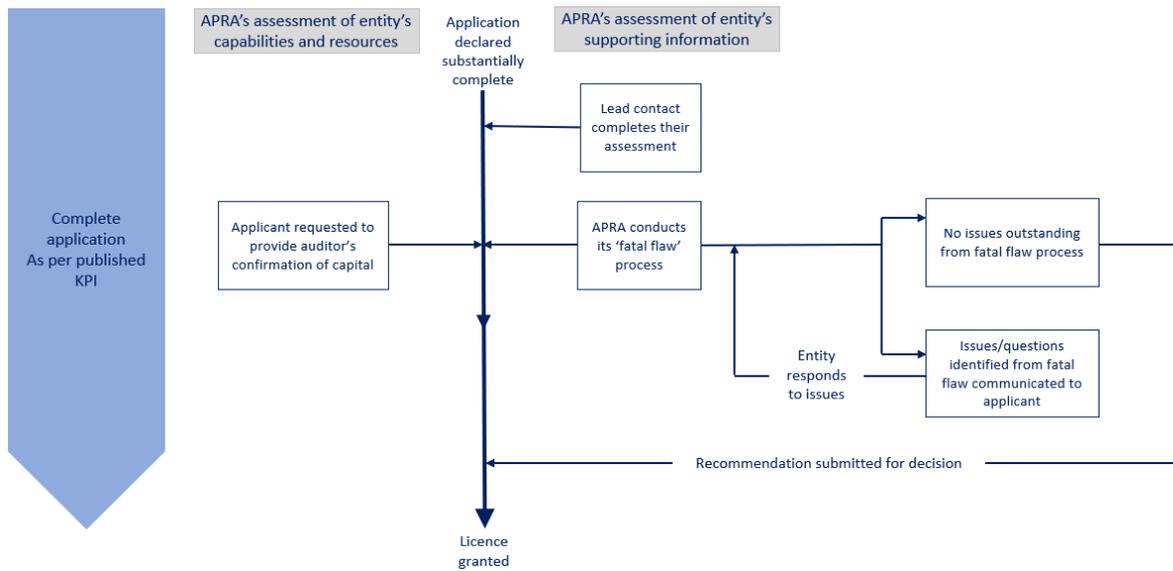
## Pre-application



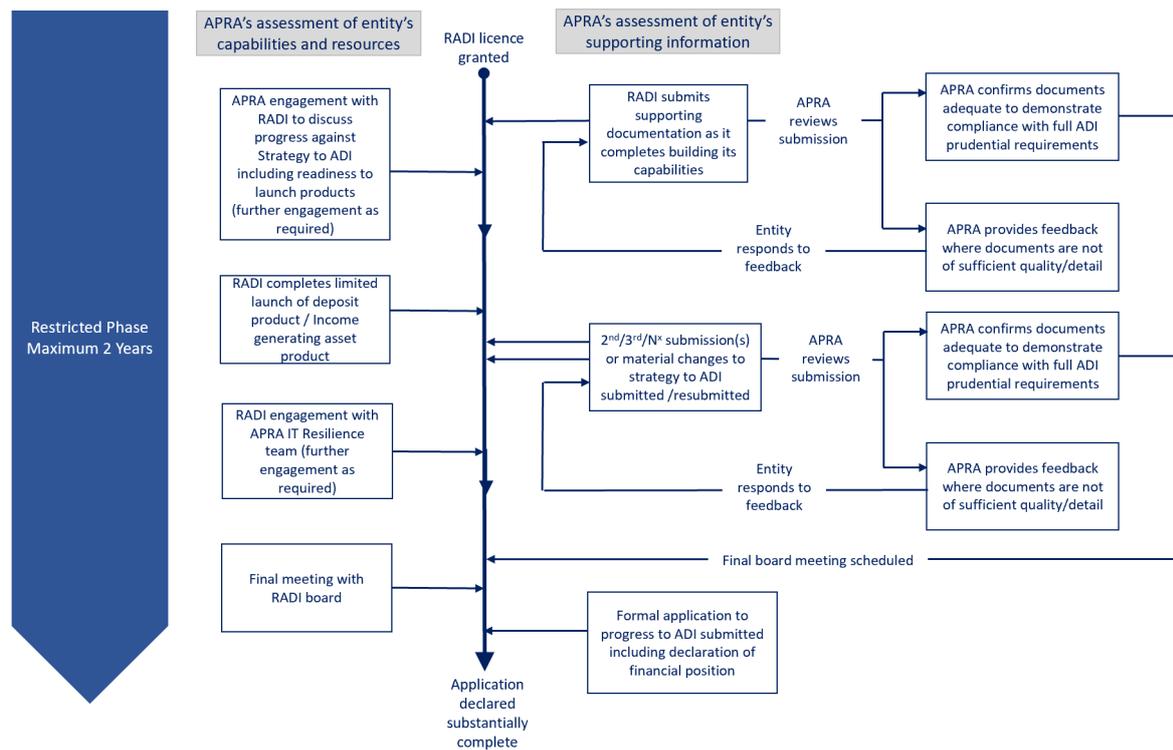
## Assessment



## Complete application



## Restricted phase





 **APRA**