



Australian Government



Australian  
**Small Business and  
Family Enterprise**  
Ombudsman

11 April 2022

Mr Gideon Holland  
General Manager, Policy  
Policy and Advice Division  
Australian Prudential Regulation Authority  
GPO Box 9836  
SYDNEY NSW 2001

*via email: ADIpolicy@apra.gov.au*

Dear Mr Holland

**Post-implementation review (PIR) of the Basel III liquidity ratios in Australia**

We welcome the opportunity to comment on the PIR of the Basel III liquidity reforms. We agree that Australia needs a stable banking sector. However, there are elements of the Basel III reforms that are negatively affecting Small and Medium Enterprise (SME) access to finance.

The implementation of Basel III has slowed pace and tightened conditions for SME lending.<sup>1</sup> An SME entering a new lending relationship is more likely to be affected than repeat customers.

Under the Basel III risk-based capital requirements in Australia, SME lending is considered high-risk compared to other loan types such as residential mortgages. In particular, SME lending has higher capital ratios, liquidity requirements and compliance costs for banks, effectively encouraging limitations on SME product offerings. The potential size and structure of a bank's loan book is also influenced by the capital and liquidity requirements for differing loan types, ultimately reducing competition for small business lending in the banking sector and the capacity of new banks to lend to SMEs.

Whilst APRA's new bank capital framework has the intention of increasing the number of SMEs eligible for lower risk loans, the capital conditions continue to apply an abnormally high risk rating to some loan types (commercial property and property development), making related finance products high-cost, high-compliance and unattractive to banks to lend against.

We recommend APRA consider these matters in any future evaluations of the Australian Prudential Standards to ensure that whilst complying with Basel III, risk-ratings and bank capital requirements maximise SMEs access to finance and eligibility for lower-risk loans.

Thank you for the opportunity to comment. If you would like to discuss this matter further, please contact Ms Sarah Blyton, Analyst, on 02 6263 2550 or at [sarah.blyton@asbfeo.gov.au](mailto:sarah.blyton@asbfeo.gov.au).

Yours sincerely

**The Hon. Bruce Billson**  
Australian Small Business and Family Enterprise Ombudsman

<sup>1</sup> 29 November 2019. Financial Stability Board. *Evaluation of the effects of financial regulatory reforms on small and medium-sized enterprise (SME) financing* December 2019. World Bank. *Basel III Implementation and SME Financing*