

CFR Initiatives on Systemic Risks and Vulnerabilities

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Introduction

This publication provides an annual update on the Council of Financial Regulator's (CFR) initiatives to address risks and vulnerabilities in the Australian financial system. It covers progress on CFR initiatives in 2025 and outlines focus areas for 2026.

Australia's financial regulators have complementary and, in some cases, shared mandates and responsibilities in relation to financial stability. CFR agencies therefore work closely with each other to promote financial stability. A core element of this work involves identifying and monitoring systemic risks and vulnerabilities, and coordinating actions by CFR agencies to mitigate them.

The aim of this update is to inform industry stakeholders and the broader public about the collective actions that CFR agencies are taking to strengthen the resilience of the Australian financial system.

The CFR's approach to systemic risks and vulnerabilities

The CFR discusses and reviews a wide range of systemic risks and vulnerabilities at each of its regular meetings, including emerging risks in the domestic and international environment.¹

These discussions are informed by perspectives and analysis from across the CFR agencies, including the RBA's assessment of financial stability, which is published in its semi-annual *Financial Stability Review*.² APRA also publishes a semi-annual report on the outlook for systemic risks, outlining what it is seeing in the risk environment through a prudential lens.³

The CFR maintains a targeted set of key focus areas that are prioritised for inter-agency collective action to address systemic vulnerabilities. Inter-agency actions and initiatives are taken forward by CFR Working Groups and Forums through structured work programs. The Deputy Chairs (or equivalents) of the CFR agencies meet regularly to oversee these work programs, and progress is reported at each CFR meeting. The set of key focus areas is reviewed annually.

Following each meeting, the CFR publishes a statement outlining its discussion and any actions arising from the meeting. This publication provides additional detail on the CFR's initiatives to address systemic risks and vulnerabilities, and progress on key priorities. Further information about the CFR's approach and organisational structure is available on the CFR website.

¹ A 'systemic risk' is a potential adverse outcome for the financial system as a whole, such as the risk of a severe and widespread disruption or shock, while 'systemic vulnerabilities' are underlying characteristics of the financial system that could give rise to risks or amplify shocks. An example of a systemic risk would be a severe economic downturn, while a systemic vulnerability could be excessive leverage that could lead to widespread losses in such an event. For more details, see RBA (2025), [4.1 Focus Topic: A Conceptual Framework for Assessing Financial Stability](#), *Financial Stability Review*, April.

² See RBA (2025), *Financial Stability Review*.

³ See APRA (2025), 'System Risk Outlook', November.

Progress on CFR initiatives in 2025

CFR initiatives to address systemic vulnerabilities aim to deepen our understanding of potential impacts, coordinate agency actions to address them, enhance connections with key stakeholders and strengthen crisis preparedness. For 2025, there were five key CFR focus areas, as summarised below.

Geopolitical vulnerabilities



A lack of preparedness for geopolitical risks is a key potential vulnerability for the financial system in the current global environment. In this context, geopolitical risk can be defined as *the potential for adverse impacts on the financial system from international tensions, including (but not limited to) trade disruptions, sanctions, grey-zone activities and conflicts*. Geopolitical risk is increasingly cited as a principal concern for regulators and industry internationally, and is likely to fundamentally characterise global affairs for some time.

In December 2024, the CFR agreed an inter-agency work program designed to ensure that the Australian financial system is prepared for a range of geopolitical risks. Over the course of 2025, CFR agencies have engaged with large financial institutions on the program, with a focus on scenario analysis to ensure there is a clear understanding of the potential impact of adverse geopolitical events, and on the development of robust payment system contingency capabilities. CFR agencies have also strengthened engagement with relevant government agencies to support information sharing and response coordination. In addition, APRA, RBA and ASIC are integrating geopolitical considerations into routine supervisory activities, to ensure that regulated entities strengthen risk management and contingency planning.

Operational vulnerabilities, including cyber and third parties



Operational vulnerabilities have been an important area of focus for the CFR for some time. There are a wide range of operational risks facing the Australian financial system, including those associated with cyber threats and managing dependencies on third parties. While digitalisation and new technologies offer significant benefits, they also introduce greater complexity and interconnectedness, which can increase the risk of disruption.

CFR agencies are working to strengthen inter-agency and system-wide coordination and uplift the operational and cyber resilience of financial institutions. Over 2025, key initiatives have included mapping the ecosystem of key service providers, ongoing cyber stress testing through the Cyber Operational Resilience Intelligence-led Exercises framework (CORIE), and enhancing coordination on incident response, including for payments cyber incidents.

Systemic liquidity risk



The potential for systemic liquidity risk to be amplified in the digital age was highlighted by international events in 2023, which saw rapid deposit runs at major financial institutions overseas. For the Australian financial system, the increasing interconnections between the banking and superannuation sectors have also led to regulators stepping up their engagement with industry on the potential for contagion risk in times of stress.

Over 2025, CFR agencies have advanced several initiatives to address vulnerabilities in this area, aimed at better understanding the factors that could amplify systemic liquidity risk and strengthening crisis preparedness arrangements. APRA has been conducting a system risk stress

test, designed to explore how risks to the financial system could transmit across the banking and superannuation sectors. CFR agencies have also been strengthening coordination arrangements to be able to respond quickly in the event of financial market volatility, as well as strengthening operational readiness for liquidity support.

High household leverage



High household leverage remains a longstanding structural vulnerability in Australia. While lender and borrower resilience is currently high, this strength could be eroded over time if lending standards deteriorated and households respond to an actual or anticipated easing in financial conditions by accumulating excessive debt.

The CFR has continued to closely monitor the housing market and lending standards over the past year, including through the CFR Macroprudential Policy Forum and the CFR Housing Forum. The RBA and APRA have also strengthened policy coordination through an updated Memorandum of Understanding (MOU), which includes a more structured process for RBA advice on financial stability to support macroprudential policy.⁴ In consultation with the CFR, APRA has regularly reviewed its macroprudential policy settings over the past year, and in November announced limits on high debt-to-income home lending to pre-emptively contain a build-up of housing-related vulnerabilities in the financial system.

Climate change



Climate change presents a long-term structural vulnerability to the financial system. It introduces physical risks, such as extreme weather events, transition risks, such as changes in policy and technology, and legal risks. Over the past year, there has been an increasingly complex international landscape with material changes to climate risk policy and posture in some jurisdictions.

In this context, the CFR has continued to oversee a number of initiatives to support the financial system in preparing for the effects of climate change. The aim of these initiatives has been to support financial institutions and other key stakeholders in being able to understand, measure and prepare for the effects of climate change, in line with the Australian Government's sustainable finance strategy. These initiatives have included taking steps to improve the transparency of climate and sustainability-related information, enhancing the financial system's capabilities to manage sustainability-related risks, and continuing to engage internationally in climate forums to support the development of best practices in risk management.

⁴ RBA and APRA (2025), 'Memorandum of Understanding Between the RBA and APRA'.

CFR key areas of focus for 2026

The CFR conducted its annual review of systemic vulnerabilities and key focus areas in late 2025. The aim of this review was to identify whether any reshaping or changes to the CFR's key focus areas and associated work programs were needed. This review was informed by consideration of progress over the past year and developments in the domestic and international environment, as well as a horizon scan of emerging risks and trends.

The emerging risks and trends considered in this year's horizon scan included global sovereign debt levels and demand-supply imbalances, the implications of fragmentation of the international system, and the opportunities and risks from AI. These developments generally reinforced the importance of existing CFR focus areas and, in some cases, have helped to reshape initiatives to address them.

The key CFR focus areas for inter-agency collective action for 2026 are:

- **Improving preparedness for geopolitical risks:** progressing the CFR's inter-agency work program to ensure the Australian financial system is prepared for a range of potential geopolitical shocks.
- **Operational vulnerabilities, including cyber, third parties and AI:** continuing to advance initiatives to enhance the resilience of the financial system to operational vulnerabilities, with a focus on cyber threats, third-party dependencies and AI.
- **Amplification of systemic liquidity risk:** further strengthening CFR and industry readiness to respond to systemic liquidity stress events, with a focus on scenario testing and operational arrangements.
- **High household leverage:** continuing to closely monitor household leverage and bank lending standards, and coordinating to manage any policy interactions if needed.

Initiatives to address these systemic vulnerabilities will continue to be overseen by CFR Deputy Chairs, with progress reported to CFR agency heads at CFR meetings. In addition, CFR agencies will continue to engage closely to monitor, assess and coordinate actions to address a broader range of risks and vulnerabilities. This includes the challenges associated with climate change, the growth of private markets, innovations in digital money and assets, and the risks beyond the regulatory perimeter in non-bank financial intermediation.