AUSTRALIAN BANKERS'
ASSOCIATION INC.

Strong banks – strong Australia

Level 3, 56 Pitt Street
Sydney NSW 2000
Australia
+61 2 8298 0417
@austbankers
bankers.asn.au

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The Manager
Banking, Insurance and Capital Markets Unit
Financial System Division
The Treasury
Langton Crescent
PARKES ACT 2600
By email lenderrules@treasury.gov.au

Dear Sir/Madam

New APRA powers to address financial stability risks - non-ADI lender rules - consultation

The Australian Bankers' Association (**ABA**) appreciates the opportunity to provide The Treasury with comments on *New APRA powers to address financial stability risks - non-ADI lender rules* (**consultation**).

With the active participation of its members, the ABA provides analysis, advice and advocacy for the banking industry and contributes to the development of public policy on banking and other financial services. The ABA works with government, regulators and other stakeholders to improve public awareness and understanding of the industry's contribution to the economy and to ensure Australia's banking customers continue to benefit from a stable, competitive and accessible banking industry.

The ABA supports Treasury's proposals to provide the Australian Prudential Regulation Authority (**APRA**) with some additional powers in respect of the provision of credit by entities that are not authorised deposit-taking institutions (**non-ADI lenders**); powers which complement, but not equate to APRA's existing powers in respect of ADIs.

Systemic trust in the financial sector comes from customers being able to trust all financial institutions within the system, regardless of whether they are (or are associated with) an ADI.

As the lending market evolves and transforms, it is only logical that all types of lenders should play their part in contributing to systemic stability of the Australian financial system while also being held to a standard to ensure good outcomes for customers.

The ABA acknowledges the existing role ASIC has in regulating non-ADI lenders that hold either an Australian financial services licence or a credit licence as granted by ASIC.

Where APRA has identified material risks of instability in the Australian financial system, their additional powers will allow them to make rules relating to the lending activities of non-ADI lenders and promote financial stability through strengthening their ability to respond to developments in non-ADI lending that pose a risk to financial stability. Given APRA currently has no power with respect to non-ADI lenders this existing gap potentially undermines their ability to promote financial stability, as lending practices that APRA has curtailed or prohibited for ADIs may continue to be pursued by non-ADI lenders.

The proposed powers also fulfil Australia's commitment[1], as a member of the Financial Stability Board (**FSB**) to implement the following FSB recommendations:

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[1] Assessment of shadow banking activities: risks and the adequacy of post-crisis policy tools to address financial stability concerns
http://www.fsb.org/2017/07/fsb-publishes-assessment-of-shadow-banking-activities-risks-and-the-adequacy-of-policy-tools/ 3 July 2017

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- Enhance system-wide oversight of shadow banking and policy responses to address the identified risks by: (i) establishing a systematic process for assessing financial stability risks from shadow banking, and ensuring that any entities or activities that could pose material financial stability risks are brought within the regulatory perimeter; (ii) addressing identified gaps in risk-related data; and (iii) removing impediments to cooperation and information-sharing between authorities.
- Strengthen the monitoring of shadow banking activities and data collection.

The ABA notes that the FSB has not identified any new financial stability risks from shadow banking that would warrant additional regulatory action at the global level. However, since shadow banking evolves over time, authorities should continue to vigilantly monitor and promptly address emerging financial stability risks.

Yours faithfully

Signed by

Aidan O'Shaughnessy
Policy Director - Industry Policy
02 8298 0408
aidan.oshaughnessy@bankers.asn.au