

08 September 2017

General Manager, Policy Development
Policy and Advice Division
Australian Prudential Regulation Authority
Level 12
No. 1 Martin Place
SYDNEY NSW 2000
By email ADIpolicy@apra.gov.au

Dear Sir/Madam

Discussion Paper: Common Equity Tier 1 capital instruments for mutually owned ADIs

The Australian Bankers' Association (**ABA**) appreciates the opportunity to provide APRA with comments on the Discussion Paper: *Common Equity Tier 1 capital instruments for mutually owned ADIs (discussion paper)*.

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 welcomes APRA's proposed revisions to the capital framework for mutually owned authorised deposit-taking institutions (**mutual ADIs**) to enable them to directly issue Common Equity Tier 1 (**CET1**) capital instruments. The ABA recognises the critical importance of cooperatives, mutuals and member-owned firms in the Australian economy and supports meaningful reforms to an important industry sector which contributes around 7 per cent of Australia's GDP.

The ABA is broadly supportive of APRA's proposed changes that would allow mutual ADIs to issue mutual equity interest (**MEI**) capital directly. The ABA agrees with much of the proposed criteria and restrictions in the draft revisions to Prudential Standard APS 111 Capital Adequacy: Measurement of Capital (**APS 111**), including the disclosure requirements. There is one area which the ABA urges APRA to reconsider the proposed settings.

APRA limits on MEI inclusion in an ADI's capital base

The ABA does not support APRA's proposed limit of 15 per cent of the issuing ADI's total CET1 capital such that MEI can only constitute 15 per cent of CET1 capital. We would view this cap as too low and it would force relatively small issuance amounts more often. The ABA holds that the cap on the distributions payable on MEI capital (50 per cent of NPAT) is a sufficient restriction on the volume of issuance.

The ABA agrees with APRA's view stated in the discussion paper that in the proposed the key elements for high quality capital are preserved and that the expectation is that there will not be any material effect on prudential safety. Therefore the ABA would recommend that a prescribed limit is not necessary.

In the alternative, once the framework is in place and after an appropriate time, APRA should consider assessing the prescribed limit with a view to progressively increasing the cap.



Strong banks – strong Australia

2015 Senate Economics References Committee inquiry into cooperatives, mutuals and member-owned firms.

The ABA strongly supports the recommendations arising from the 2015 Senate Economics References Committee inquiry¹ into cooperatives, mutuals and member-owned firms (**the inquiry**).

The inquiry highlighted APRA's proposed revisions to the capital framework for mutual ADIs sit within a broader landscape that still includes legislative prohibitions which may restrict the ability of mutual ADIs to issue MEIs or make them attractive to investors. The ABA accepts that the necessary reforms, such as making distributions on MEI's frankable, sit outside APRA's direct control. However, these reforms are critical for ultimate success of APRA's proposed framework which can only be evidenced by mutual ADIs conducting capital raisings.

The ABA urges APRA to continue engaging with the Government, ASIC and the Hammond Review², as only a holistic approach from the Australian Government and regulators will remove these impediments to innovation, growth, and competition within the banking industry.

Yours faithfully

Signed by

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¹ The Senate Economics References Committee, Cooperative, mutual and member-owned firms, http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/Cooperatives. March 2016

² Reforms for cooperatives, mutuals and member-owned firms
<https://treasury.gov.au/consultation/reforms-for-cooperatives-mutuals-and-member-owned-firms/>
24 March 2017