



ABA Response to Pottinger Review

The ABA welcomes the Final Report of the Independent Review of the definition of small business in the Banking Code of Practice.

The Review is an important measure in clarifying the definition of small businesses in Australia and the ABA accepts all nine recommendations.

In relation to the proposed change to the threshold amount for total credit outstanding (TCE) that a business may have within the definition, the ABA has in the past maintained that the appropriate figure is \$3 million. This view was based on the fact that, at \$3 million TCE, more than 98% of businesses are covered by the Banking Code of Practice and the effect of new protections for small business introduced in 2019 was yet to be gauged.

Conducting the independent review has allowed for sufficient time to gather information on the potential effect of a change to \$5 million and the ABA accepts the recommendation of the Independent Review to increase the amount to \$5 million TCE.

The effect of the recommended change to the threshold is that the Code will now cover approximately an additional ten thousand businesses. While the Code already covered more than ninety-eight percent of businesses, this change will extend the effect of the Code even further.

Additional changes recommended by the Review will help clarify the definition of small business and make it easier to understand.

We believe that the Review has, in making recommendations on the timing of any changes to the Code, taken appropriate account of the prevailing economic uncertainty and the need for stability during the period of recovery from the effects of the COVID-19 pandemic.

Recommendation		ABA response	Comment
The criteria and values used	1. The criteria used by the definition of small business should be retained	Agree	
	2. An enterprise should continue to be required to meet all three criteria to qualify as a small business	Agree	
	3. The values related to employee numbers and turnover should be retained	Agree	
	4. The value used in the borrowing criterion should be increased to A\$5m in due course	Agree	
Related entities	5. All three criteria should be applied at a group level	Agree	

	6. The definition of related entities should be refined	Agree	We note that the Review did not prescribe particular amendments. We will task the Triennial Review of the Code with developing appropriate amendments to implement this recommendation.
Aggregate borrowings	7. The borrowings criterion should continue to apply to aggregate borrowings	Agree	
Exclusions	8. Certain categories of sophisticated business should be specifically excluded	Agree	
Implementation	9. The changes we propose should be endorsed by the ABA in the near term Two measures, namely the application of all three criteria at a group level (rather than an individual legal entity level) and the exclusion of certain types of sophisticated enterprise can readily be implemented more rapidly and accordingly we recommend that the Code be updated to address these in the near term Implementation of the other changes can commence following completion of the upcoming review of the Code, thus allowing sufficient time for banks to prepare and to ensure that all relevant implications are properly considered in advance	Agree	As outlined in this response, we agree to all of the Review's recommendations. We propose to implement the main changes following completion of the Triennial Review of the Code, which will commence in July 2021. We propose to implement the changes relating to the application of all three criteria at a group level (rather than an individual legal entity level) and the exclusion of certain types of sophisticated enterprise, so that they take effect from 1 March 2021.