Bank Australia

RESPONSIBLE BANKING

Response to APRA discussion paper "Common Equity Tier 1 capital instruments for mutually owned ADIs"

September 2017

About Bank Australia

Bank Australia is a different kind of bank. We are a customer owned responsible bank, driven by the purpose of creating mutual prosperity for our customers, the community and the environment.

While making a profit is important, we believe the business of banking should serve people and that money should also be put to good use by creating a positive social, environmental and cultural impact.

We are 100% owned by customers and we are 100% Australian based. This allows us to put profits back into creating jobs in Australia, providing better rates and lower fees for our customers while investing in projects that have meaningful, positive impacts through the Bank Australia Impact Fund.

Being owned by our customers means we act only in their long term best interests. We respect their views, which is why our customers each have an equal say in how we go about our business.

We changed our name to Bank Australia in 2015 but customers have been banking with us since 1957 and today over 130,000 people and community sector organisations choose to bank with us.

Our Submission

Bank Australia supports the proposed changes to the prudential framework that would allow Mutual ADIs to directly issue Common Equity Tier One (CET1) Capital in the form of Mutual Equity Instruments (MEIs). Direct capital issuance would augment organic capital generation enabling us to better serve our members and pursue growth opportunities. Importantly, being able to directly issue MEI capital will improve the competitiveness of Mutual ADIs compared to listed peers who are able to issue share capital.

We support the intent of APRA's proposed amendments to *APS111 Capital Adequacy: Measurement of Capital* with the exception of the issue noted below. Bank Australia acknowledges the significant steps taken in the proposed new standard to provide a relatively simple capital instrument. The amendments balance the Basel III criteria for high quality loss absorbing capital instruments with the need for Mutual ADIs to preserve their member based ownership structure. The proposed disclosure requirements are reasonable given the nature of capital instruments.

However, Bank Australia does not agree with limiting MEIs to 15% of an ADIs CET1 capital (Attachment K paragraph 5). Firstly, given that we support the proposed restriction on distributions on issued MEI to 50% of NPAT (Attachment K paragraph 2 (e)), we feel this in itself provides a natural limit on the volume of MEI that an ADI can issue. Requiring an additional limit, which would need to be separately monitored, increases complexity with little practical benefit.

Secondly, we feel a limit of any size, but in particular as low as 15%, would send a negative message to investors about the depth of the market for MEI instruments. Smaller issuance volumes would decrease the likelihood of large institutional investors (in particular superannuation funds) purchasing MEIs.

Finally, as noted below, we feel there would be economies of being able to issue MEI capital less frequently in larger volumes. The costs of MEIs would largely be driven by the process of issuing not the volume of an issuance and as such we believe it would be more economic to issue a large volume infrequently rather than small amounts more often.

Cost of Implementation

APRA has specifically requested information on the potential compliance cost burden associated with the proposed amendments. Bank Australia does not believe the incremental costs of compliance would be significant compared to other funding instruments. All forms of capital management involve costs and whilst those associated with MEI issuance may differ from other capital eligible instruments we consider them business as usual expenses.

Removing the 15% cap on MEI at a proportion of CET1 capital would reduce the costs of issuance by making it easier to issue larger volumes less frequently as noted above. We concur with APRA's overall assessment that the proposed amendments will provide benefits to Mutual ADIs that outweigh any potential costs of implementation.

Conclusion

Bank Australia broadly supports the proposed changes to *APS111 Capital Adequacy: Measurement of Capital*. We believe these changes will provide a viable avenue for Mutual ADIs to issue CET1 capital. We do not agree with capping the MEI proportion of CET1 capital at 15% and urge APRA to remove this cap completely and rely solely on the distribution cap of 50% of NPAT.

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