



31 May 2016

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Australian Prudential Regulation Authority  
GPO Box 9836  
Sydney NSW 2001

Via email to [Basel3liquidity@apra.gov.au](mailto:Basel3liquidity@apra.gov.au)

Dear Mr Brennan

**APRA discussion paper on the Basel III liquidity - net stable funding ratio**

COBA welcomes the opportunity to comment on APRA's discussion paper on the Basel III Net Stable Funding Ratio (NSFR).

As you know, COBA is the industry association for Australia's customer-owned banking institutions—credit unions, mutual building societies and mutual banks. Collectively, the sector we represent has \$97 billion in assets and serves more than four million customers.

The customer-owned model is the proven alternative to the listed model in the Australian banking market, delivering competition, choice, and consistently market leading levels of customer satisfaction.

COBA supports APRA's proposal to only apply the NSFR requirements to the group of larger and more complex ADIs subject to the Liquidity Coverage Ratio (LCR) regime. COBA members are not presently part of this group and are instead subject to the minimum liquidity holding regime. The approach is consistent with the Basel Committee's intention for the Basel accords to apply to "internationally active banks".

While the NSFR proposal will not directly impact COBA members, it will have an indirect impact as LCR ADIs chase more stable long term funding, which will increase competition for deposits.

Deposits are a major funding source for customer-owned banking institutions with 84 per cent of our sector's funding coming from deposits compared to 63 per cent for the major banks.<sup>1</sup>

Greater competition for deposits will increase the cost of this funding source for customer-owned banking institutions. These institutions will be forced to pass these costs onto consumers, or seek alternative funding sources.

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<sup>1</sup> KPMG Mutuals Industry Review 2015

As you would be aware, customer-owned banking institutions currently have limited access to alternative funding sources. In order to maintain the diversity and competition in Australia's financial system, customer-owned banking institutions should have equitable access to alternative forms of funding.

COBA believes that APRA plays an important role in enabling competition through its prudential policy settings, a role that COBA is keen to see strengthened following the Government's acceptance of the Financial System Inquiry recommendation to strengthen the focus on competition in the financial system.<sup>2</sup>

COBA would therefore like to see APRA take a 'pro-competitive' stance in relation to the diversity of funding options for mutual ADIs, particularly post-NSFR implementation.

One such alternative funding source is securitisation. As you would recall from our recent submission on APRA's revised APS120, securitisation is an important current and potential funding source for COBA members and allows COBA members to reduce their heavy reliance on retail deposits.

In our submission, COBA supported APRA's principles-based approach to securitisation, but advocated that APRA consider the competitive implications of the increased costs of securitisation resulting from APRA's proposed changes to the standard. COBA also requested that APRA explicitly recognise multi-seller structures (MSS) in the prudential standards as MSS offer smaller ADIs economically viable vehicles to undertake securitisation.

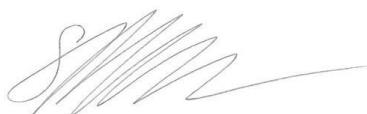
Issuing capital also increases the funding options available to mutual ADIs and improves our sector's ability to manage regulatory capital. The ability to easily issue capital can also improve the ratings of mutual ADIs' wholesale debt funding.

As you would be aware, under the current prudential framework mutual ADIs have limited access to capital, particularly common equity tier 1 in the form of ordinary shares. COBA notes the Basel framework allows supervisors to account for mutuals' specific constitutions and legal structures when applying the ordinary share criteria.<sup>3</sup> The current mutual equity interest (MEI) instrument shows that APRA is willing to use this allowance. However, the MEI instrument alone has not improved our ability to raise capital.

Recognising this, the recent Senate Inquiry into Mutuals and Cooperatives recommended "that APRA set a target date for the outcome of discussions on issues of capital raising and bring those discussions to a timely conclusion". COBA looks forward to continuing to engage with APRA on this issue.

On behalf of our member ADIs, we look forward to work with you to improve the competitive balance for mutual ADIs. This process is an opportunity for us to deliver a more competitive banking sector and to implement "policy choices that, where possible, add to the competitive dynamic of the industry when this doesn't undermine prudential outcomes."<sup>4</sup>

Please do not hesitate to contact me on [REDACTED] or Mark Nguyen on [REDACTED] to discuss any aspect of this submission. Yours sincerely



**SALLY MACKENZIE**

<sup>2</sup> See Financial System Inquiry Recommendation 30

<sup>3</sup> See footnote 12 page 14 Basel III: A global regulatory framework for more resilient banks and banking systems <sup>4</sup> APRA Chair's speech on 29 January 2016 to Australian Economic Forum

**Acting Head of Public Affairs**