

6 September 2017

General Manager, Policy Development
Policy and Advice Division
Australian Prudential Regulation Authority
Sent via: ADIpolicy@apra.gov.au

Dear General Manager, Policy Development

Re: Common Equity Tier 1 capital instruments for mutually owned ADIs

Please accept the attached submission from People's Choice Credit Union, for consideration as part of the proposed revisions to the capital framework to facilitate the issuance of Common Equity Tier 1 Capital instruments for mutually owned authorised deposit-taking institutions.

I thank you for the opportunity to contribute to ongoing discussions about the mutual banking sector.

People's Choice welcomes this consultation on the proposed revisions to the capital framework and I look forward to the opportunities arising from these revisions – for the mutual sector, our credit union, and of course, for the four million customer owned banking members nationwide.

Yours sincerely



Steve Laidlaw
Chief Executive Officer

People's Choice Credit Union submission to the discussion paper 'Common Equity Tier 1 capital instruments for mutually owned ADIs'



People's Choice Credit Union (People's Choice) strongly supports the revisions to the capital framework as proposed in the discussion paper titled 'Common Equity Tier 1 capital instruments for mutually owned ADIs'. People's Choice recognises the ability for a mutual to issue CET1 as a positive step forward for the growth of the mutual banking industry. In particular, these proposed changes will enable efficiency and be a positive step towards competitive neutrality within the Australian banking industry, and facilitate financial system stability through a strong and well capitalised banking system.

People's Choice's core purpose is to serve its members through the provision of a full range of banking services. People's Choice and other mutually owned ADIs play an important role in providing a genuine alternative to the major banks, promoting healthy competition and consumer choice within the Australian banking market.

People's Choice has a strong capital base, which positions us well to continue to grow at a moderate pace. While we manage a well capitalised and profitable business model, the inability to issue capital limits our ability to invest in innovation and growth opportunities. This is a challenge faced by many mutual ADIs and, over time, could lead to the reduction of consumer choice and competition in the market.

This is further heightened by the rate of digital advancements within financial services. Keeping pace with the market is critical for People's Choice and our mutual peers to ensure we continue to meet the needs of current and future members. The limitations on capital issuance makes it difficult for us to invest in products and services that will benefit our members to ensure we meet consumers' evolving expectations and maintain our competitiveness with the bigger banks. People's Choice does not enjoy the significant benefits of scale and efficiencies that large banks have, yet we still need the critical technological investment to maintain and advance our member experience through better products and services and to remain relevant and up to date with larger competitors' offerings.

Being a mutually owned ADI, our value proposition to our existing and future members is to provide an effective and competitive alternative to the larger banks. The flexibility that raising CET1 capital from members and non-members provides will enable mutually owned ADIs to continue to provide competitive and innovative financial products and services.

As such, People's Choice strongly supports '*Option 2: Extend the MEI framework*' as proposed in the discussion paper titled 'Common Equity Tier 1 capital instruments for mutually owned ADIs':

Option 2: Extend the MEI framework	Extend the MEI framework to allow mutually owned ADIs to directly issue MEIs while retaining their ability to issue AT1 and T2 instruments.
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However, People's Choice welcomes further discussion with APRA on the 15% capped limit of MEI in an issuing ADI's CET1 capital. People's Choice recognises that issuing MEIs will likely incur significant costs, and potentially place undue strain on the ability to generate retained earnings. However, the 15% cap may restrict our ability to invest in innovation and growth opportunities, and may limit mutuals to a single issuance. We respect and understand APRA's position and, given these are new instruments for the mutual industry, we would propose an initial capped limit of at least 25%, with a review after a period of time, such as two to three years, to enable APRA to assess and form a view of new issuances over that period.

We also believe that APRA's approval for the issuance of a new instrument should be consistent with other ADI CET1 instruments, based on self-assessment ensuring eligibility within APRA's prudential framework. Prior approval from APRA in issuing an instrument could potentially be time consuming and lead to delays for mutual ADIs. Furthermore, we do not believe that 'standardised documentation' amongst the mutual sector is appropriate given the diversity in the sector and the potential differing target markets for these instruments, which may impact the composition and complexity of the individual mutual ADI's prospectus documentation. For example, retail versus wholesale investors and listed versus unlisted instruments.

While there are still some obstacles to overcome before mutually owned ADIs can successfully issue CET1 capital instruments, such as provisions in the *Corporations Act 2001* and individual mutuals' constitutional changes, People's Choice acknowledges and appreciates the positive steps APRA has taken to facilitate this activity.

Thank you for considering our submission. We are available to provide further comment via mail or in person at any time convenient to you.