



Abacus
Australian Mutuals

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Neil Grummitt
General Manager, Policy Development
Policy, Research and Statistics
Australian Prudential Regulation Authority

By email: Basel3capital@apra.gov.au

Dear Neil

Basel III disclosure requirements: composition of capital and remuneration

Abacus welcomes the opportunity to comment on APRA's discussion paper proposing additional disclosures around the composition of capital and remuneration.

The customer owned model is the proven alternative to the listed model in the Australian retail banking market. Customer owned ADIs have 4.5 million customers, a strong share of the household deposit and new home loan markets, and are consistent leaders in customer satisfaction and responsible lending.

Abacus recognises the important role that transparent disclosure plays in supporting financial stability, and we acknowledge that the global financial crisis highlighted some international shortcomings in this area. However, we would also note that many of the proposals contained in this discussion paper appear targeted at addressing a lack of transparency in the operations of internationally active banks, and we would therefore question the relevance of their application to small domestic ADIs.

As with all new regulation, these obligations will impose additional costs and this burden will fall disproportionately on small ADIs. It is important that APRA carefully consider whether the benefits of these additional regulatory requirements outweigh the costs of implementation, particularly in relation to smaller ADIs, where the costs are higher and the benefits are less apparent.

Capital disclosures

APRA's proposed capital disclosure requirements flow from the Basel Committee's June 2012 publication, *Composition of capital disclosure requirements*. This paper notes that "internationally-active banks across Basel member jurisdictions will be required to publish their capital positions according to common templates."¹ The paper proposes introducing this new requirement for internationally-active banks in order to "improve consistency and ease of use of disclosures relating to the composition of regulatory capital, and to mitigate the risk of inconsistent formats undermining the objective of enhanced disclosure."²

¹ Basel Committee on Banking Supervision, *Composition of capital disclosure requirements*, June 2012, p. 1.

² *ibid.*

APRA proposes to apply the new capital disclosures to all ADIs.³ We note that, in contrast, APRA currently takes a two-tier approach to capital disclosures in APS 330, with IRB/AMA approved ADIs required to meet the capital disclosures set out at Attachments A & B of APS 330. Other ADIs are instead required to meet the “basic prudential disclosures”⁴ regarding capital set out at Attachment B.⁵

In its original discussion paper around the introduction of APS 330, APRA noted that “while there are good reasons to require the larger, more complex and internationally active ADIs ... to make the full and detailed disclosure ... it is less clear that such extensive disclosure requirements are appropriate for other ADIs. For the smaller ADIs in particular, the requirements could add to costs with uncertain benefit in terms of market discipline.” APRA noted that it had taken “a pragmatic approach” to the development of APS 330, and that “in particular, it has looked to minimise the reporting burden on the smaller ADIs.”⁶

Given APRA has previously acknowledged the uncertain benefit of detailed disclosure requirements for smaller ADIs, we would request that APRA give further consideration to whether additional capital disclosure obligations should be applied to the customer owned banking sector, and if so, whether a more streamlined form of reporting obligations could achieve the same outcome.

Remuneration disclosures

APRA’s proposed remuneration disclosure requirements are a response to the Basel Committee’s July 2011 publication, *Pillar 3 disclosure requirements for remuneration*. This paper notes that “the requirements have been designed to be sufficiently granular and detailed to allow meaningful assessments by market participants of a bank’s compensation practices...”⁷ and are designed to build on the Pillar 2 guidance principle that “firms must disclose ... information about their compensation practices to facilitate constructive engagement by all stakeholders, including in particular shareholders.”⁸

Given that these disclosures focus on the needs of market participants and shareholders, the Basel paper goes on to acknowledge that “there is a broad spectrum of banks that are subject to Basel II and that the proposed disclosures may not be relevant for all such banks...” and that the disclosure obligations “may include thresholds of materiality or proportionality,” including “whether the bank as a whole is exempt fully or partly from disclosure, depending on the risk profile of the bank.”⁹

APRA acknowledged this to some extent in its letter to ADIs on 7 October 2011, where it stated that it “will expect a proportionate approach to the implementation of these requirements that reflects the nature, size and complexity of ADIs.” However, APRA’s

³ APRA, *Draft Prudential Standard APS 330*, April 2013, para. 9.

⁴ APRA, *Prudential Standard APS 330*, January 2013, Attachment B, p. 25.

⁵ *ibid.*, paras 18-19.

⁶ APRA, *Implementation of the Basel II Capital Framework – 7. Market disclosure*, June 2007, p. 5.

⁷ Basel Committee on Banking Supervision, *Pillar 3 disclosure requirements for remuneration*, July 2011, p. 1.

⁸ Financial Stability Forum, *FSF Principles for Sound Compensation Practices*, April 2009, p. 3.

⁹ Basel, *op. cit.*, p. 2.

subsequent discussion paper has proposed that the new obligations will apply to all locally incorporated ADIs.¹⁰

Abacus notes that listed and unlisted locally incorporated ADIs currently face different remuneration disclosure requirements. In particular, we note that listed ADIs are required to prepare a remuneration report in accordance with the requirements of the *Corporations Act*.¹¹ The current approach recognises that shareholders are the principal reason for remuneration disclosure – as noted by the Government’s Corporations and Markets Advisory Committee (CAMAC), the purpose of the remuneration report is that “it enables shareholders and others to assess the remuneration strategy of the company and the outcomes for key management personnel.”¹²

Our members, as smaller, less complex, and unlisted institutions, do not employ remuneration policies as intricate as those used by larger publicly listed ADIs. The nature of the customer owned banking business model means that there is no need for our members to employ the sorts of complex remuneration arrangements that can potentially lead to excessive risk taking.

In contrast to the rest of the ADI sector, customer owned banking institutions do not have investor shareholders, which makes the need for disclosures of this kind questionable. In addition, as with regulatory reporting requirements more generally, the smaller size of customer owned ADIs means that the cost burden of complying with these obligations is higher when compared to larger ADIs.

Abacus members are very conscious of the importance of good disclosure, including around remuneration, and we believe that the current regulatory framework is performing well in this regard. For these reasons, we do not believe requiring customer owned ADIs to meet these proposed remuneration reporting obligations serves a useful purpose. Given APRA’s commitment to a proportionate approach in this area, we believe that further consideration should be given to whether simplified reporting obligations could be applied to this sector, or if these reporting obligations could be eliminated altogether for customer owned banking institutions.

We note that there are areas where the new reporting requirements are not relevant to the mutual ADI sector. For example, questions about the use of share and share-linked instruments in variable remuneration packages are simply not applicable to mutual ADIs. If APRA believes there is a real need for mutual ADIs to provide remuneration disclosures under APS 330, we believe that a separate template should be developed which takes a considered approach to the reporting needs of the sector, similar to the two-tiered approach to capital disclosures currently contained in APS 330.

Timeframes

APRA is proposing that the new capital and remuneration disclosure obligations take effect from the first balance sheet date occurring on or after 30 June 2013. In effect,

¹⁰ APRA, *Basel III disclosure requirements: composition of capital and remuneration*, April 2013, p. 6.

¹¹ See section 300A of the *Corporations Act 2001*

¹² CAMAC, *Executive remuneration report*, April 2011, p. 68.

this will mean that the new disclosure requirements will apply to reporting for the 2012-2013 financial year.


Abacus is concerned that APRA would release a discussion paper in April which proposes to apply additional reporting obligations to a financial year which is already nearly completed. The retrospective nature of these proposals will make compliance by smaller ADIs particularly difficult, as they will now need to review their data to collect this information "after the fact," rather than being able to proactively collect information over the course of the financial year.

Given the limited relevance of these disclosures to the customer owned banking sector, we believe that, as a minimum, Abacus members should not be required to meet these obligations for the 2012-13 and 2013-14 financial years. If these obligations are to apply to our sector, they should not be introduced before 1 July 2014, to ensure that these ADIs have sufficient time to prepare for the changes. Providing them with a transitional timeframe of this nature will not compromise the effectiveness of the new reporting obligations to the rest of the ADI sector.

We believe that a concession of this kind is appropriate given the size, nature and complexity of the customer owned banking sector.

Please contact me on [REDACTED] or Micah Green, Senior Policy Adviser, on [REDACTED] to discuss any aspect of our submission.

Yours sincerely



LUKE LAWLER
Senior Manager, Public Affairs