



Australian Finance Conference

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Mr Neil Grummitt
General Manager, Policy Development
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Australian Prudential Regulation Authority
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Dear Mr Grummitt

**Response to APRA Discussion Paper
Banking Act exemptions and section 66 guidelines**

The Australian Finance Conference (AFC) appreciates the opportunity to comment on the above Discussion Paper. A small number of AFC Members are Registered Financial Corporations (RFCs) that issue debentures to retail investors, and debenture funding is vital to their operations.

In our submission on ASIC Consultation Paper 199, we noted AFC's full support for reforms to enhance the financial strength of debenture issuers and to more clearly differentiate them from APRA regulated deposit takers. But we again emphasise the need to ensure that the package of reforms does not unduly compromise the ability of RFCs using debenture funding to generate quality earnings, the foundation of investor protection.

We suggest that the framework proposed in CP 199 is more restrictive than authorised deposit-taking institution (ADI) requirements, insofar as APRA does not generally apply risk-weightings in excess of 100%. Similarly, ADIs do not have a prohibition on taking deposits of less than 31 days, as proposed in the APRA Discussion Paper.

The APRA proposal to include additional conditions on the RFC Exemption Order raises two primary concerns for Member RFCs; firstly the minimum initial maturity period of 31 days, and secondly the proposed condition to require the investor to request that its investment be rolled over. In relation to the first, at call funding can be an important component of an RFC debenture issuer's funding strategy; it typically provides a lower cost of funds, which in turn contributes to earnings. It is also useful in attracting investors that will initially select the at call option but in time will transition to term investments. As such it represents a strategic component of the issuer's business model.

We suggest that the objective of differentiating these offerings from 'bank-like' or 'ADI-like' products could be achieved by modifying the accompanying proposal in the APRA paper, and to require an RFC to repay investor's funds only via cheque or direct credit to an account at an ADI. This distinction would be reinforced by the proposal to not allow RFCs to provide certain transaction facilities, including ATM access to an account with the RFC, BPAY, EFTPOS and cheque account facilities. These limitations would significantly differentiate RFCs and their offerings from 'ADI-like' products, without prejudicing the RFC's business model by prohibiting an important funding option.

In the event that a minimum maturity period is required, we believe that implementation arrangements should give due recognition to the total package of requirements that will be imposed on RFCs under these reforms which, as noted above, we suggest is more restrictive than the ADI framework. In this regard we are particularly concerned with the proposal to effect a rollover only if the investor has requested that its investment be rolled over.

We support the availability of a prospectus for rollovers and further offers, provided the specifics of this requirement do not impair the issuer's ability to raise funds; a requirement for RFC debenture issuers to put their current prospectus and continuous disclosure notices on their website could be a useful mechanism to balance investor protection and issuers' needs in this regard. If an investment is simply rolling over, and these documents are available on issuers' websites, it should not be necessary for the investor to take some action, rather the rollover should occur unless the investor otherwise advises. This is a critical aspect of these proposals; a requirement to obtain investor response every 31 days would substantially compromise the reliability of this form of funding, impairing the predictability of the issuer's cash flows. However, we agree that further investments should require investor action. Another approach we believe should be acceptable would be for RFCs to offer investments that require 31 days notice to redeem.

We endorse comments made in submissions by individual RFCs in relation to repayment prior to maturity to executors or administrators of deceased estates, and other early redemption requests. RFCs typically have a policy of allowing repayments prior to maturity without interest adjustment to executors or administrators of deceased estates, whereas for other early redemptions an interest adjustment is likely to be applied. RFCs should be able to prior redeem in such cases notwithstanding that the actual investment period may be less than any minimum maturity period.

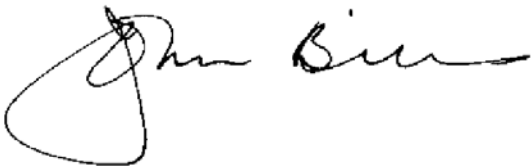
Under the transitional proposals any new funds raised from 1 July 2013 would need to comply with the proposed requirements. Existing retail debenture issues would be allowed a transitional period of up to three years, with existing debenture issues required to comply at the earlier of their next rollover date or 30 June 2016. We understand this to mean that existing at call investments can continue to run until redeemed or until 30 June 2016, whichever the earlier (which in practice will be considerably earlier than 1 July 2016 for the great majority of these investments). A transitional provision which required current at call funding to cease on 1 July this year could pose significant liquidity problems for an issuer; an issuer should not be placed in such a position. Also, we suggest the implementation date be

six months from when issuers have certainty in relation to the Government's decision on the reform package to be implemented, rather than the 1 July 2013 proposed.

In summary, AFC is supportive of measures to more clearly differentiate RFCs' offerings from APRA regulated deposit takers. However, the implementation of these measures should not weaken the ability of RFCs to prudently manage cash flows and to generate quality earnings. These are the foundations of investor protection, and some aspects of the proposed implementation of these reforms have the potential to impair the financial strength of RFC debenture issuers.

Thank you again for the opportunity for consultation on these proposals, and we would be pleased to provide further input as required.

Yours sincerely

A handwritten signature in black ink, appearing to read "John Bills". The signature is fluid and cursive, with a large loop at the beginning.

John Bills
Regional Director