CUSTOMER OWNED BANKING ASSOCIATION
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11 November 2016

Ms Heidi Richards
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Dear Heidi

Discussion Paper: Counterparty credit risk for ADIs

Thank you for the opportunity to comment on APRA's proposed revisions to its prudential framework for counterparty credit risk (CCR) for ADIs.

COBA supports:

- introducing a "simple and conservative" way to measure CCR exposures; and
- retention of the simplified approach to credit valuation adjustment (CVA).

COBA member ADIs use derivatives to reduce their exposure to interest rate and foreign exchange risks. They use APRA's current exposure method (CEM) to calculate their CCR default risk exposures.

The proposed new Standardised Approach to CCR (SA-CCR) would be disproportionately burdensome for COBA member ADIs.

COBA member ADIs are not 'internationally active banks' that are the target of the Basel Committee's changes to the CCR framework. Feedback from COBA members indicates that calculating exposures using the SA-CCR is complex and unsuitable.

COBA agrees with APRA's comment that "considerations of competition and efficiency may warrant the introduction of an alternative to the proposed approach for measuring counterparty credit risk exposures for ADIs with immaterial counterparty credit risk exposure."

COBA members have a clear preference for APRA's suggestion of "a simple and conservative alternative, such as the adoption of a modified current exposure method (CEM) or a flat rate capital add-on." COBA and COBA members would like to engage with APRA about these options.

COBA members use the simplified CVA risk approach as APRA deems their exposures immaterial. COBA supports the retention of this method ahead of any Basel Committee changes to its CVA framework.

Eligibility criteria for alternative approach

Eligibility criteria for an alternative to SA-CCR should be based on APRA's current approach to calculating CVA risk capital, as outlined in APS 112, i.e. "Where APRA is satisfied that the nature and scale of the ADI's OTC derivatives usage are such that the resulting CCR exposures are not sufficiently material, then it may allow an ADI to calculate its CVA risk capital charge as equal to its counterparty credit default risk capital requirement."

Eligibility could also be determined on the basis of whether an ADI meets APRA's test of being a "smaller, less complex" ADI, as applied in the context of the liquidity prudential framework.

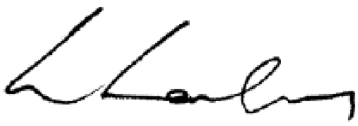
COBA members noted other potential threshold factors such as:

- the percentage or value of CCR risk weighted assets; or
- the nature and/or duration of the swaps.

COBA appreciates APRA's focus on considerations of competition and efficiency and we look forward to achieving an outcome that balances these objectives with a strong prudential framework.

Please contact me on
to discuss any aspect of this submission.

Yours sincerely



LUKE LAWLER
Head of Public Affairs

About customer owned banking
COBA represents the customer owned banking sector, comprising credit unions, mutual banks and building societies. The sector has $101 billion in total assets, 4 million customers and 10 per cent of the household deposits market. Customer owned banking institutions provide the full range of retail banking products, including highly competitive home loans and personal loans. The customer owned model is the proven alternative to the listed model in retail banking, delivering competition, choice and market leading customer satisfaction. Customer owned banking institutions are public companies structured under mutual ownership principles.