

28 November 2017

Ms Melisande Waterford  
General Manager, Licensing  
Policy and Advice Division  
Australian Prudential Regulation Authority

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

Dear Ms Waterford

***Licensing: A phased approach to authorising new entrants to the banking industry***

Thank you for the opportunity to provide comments on this discussion paper. COBA welcomes measures to increase competition. Disproportionate regulation creates barriers for both new and existing entrants. We are comfortable with the approach outlined in the discussion paper.

COBA is the industry association for Australia's customer owned banking institutions, i.e. mutual banks, credit unions and building societies. Collectively, our sector has over \$108 billion in assets and 10 per cent of the household deposits market. Customer owned banking institutions are authorised deposit-taking institutions (ADIs) and subject to APRA's full set of prudential standards.

We strongly endorse the discussion paper's observation that competition can bring many benefits, such as generating greater choice, lower prices and better quality financial products and services.

We also welcome APRA's statements that it:

- needs to ensure the community expectation that deposits placed with all ADIs (including new entrants) are adequately safeguarded is met, and
- aims to avoid compromising financial system stability or creating competitive advantages for a group of ADIs – for example for small new entrants over small incumbent ADIs.

COBA notes that APRA proposes to take a 'phased' approach to licensing for new entrants who want to become ADIs. This is intended to allow new entrants to overcome the "resource and capability advantages held by established financial institutions", with some impacts on competitive neutrality.

It is important that APRA does not create a situation where new entrants receive a regulatory holiday compared to existing entities. Any such situation could decrease financial stability or an increase the risk of depositor harm. The potential failure of a restricted ADI could have broader impacts on other ADIs and these may be disproportionately felt by smaller ADIs.

COBA supports APRA's proposed approach whereby 'restricted' ADIs are subject to licence restrictions, full fit & proper requirements, restricted ADI disclosures, and simpler & more conservative capital and liquidity requirements in exchange for

concessional risk management. COBA supports limiting this concessional treatment to APRA's proposed period of 2 years. These conditions will ensure that any concerns about competitive neutrality and financial stability are appropriately tempered.

We support the proposal that restricted ADIs should be primarily focussed on building capabilities and systems and are not expected to be actively conducting business with the general public.

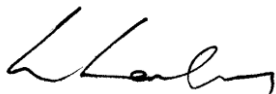
Under APRA's current ADI authorisation guidelines, mutually owned ADIs are permitted to have start-up capital made up entirely or mostly of Tier 2 capital and the timeframe for these institutions to build up Tier 1 capital will be agreed with APRA on a case-by-case basis.

This treatment for new entrant mutual ADIs should be preserved.

We note that the guidelines will need to be revised to reflect passage of legislation currently before Parliament amending section 66 of the *Banking Act 1959* in relation to use of the term 'bank'.

Please contact Mark Nguyen on 02 8035 8443 if you have any further questions or need more information.

Yours sincerely

A handwritten signature in black ink, appearing to read 'L. Lawler', written in a cursive style.

**LUKE LAWLER**  
**Director - Policy**