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Subject: 5 point plan (including subsequent updates) [~~SEC-UNCLASSIFIED~~]
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ATTACHMENT A: Oliver Browne's 5 Point Plan: Sustainable and Competitive Banking Package

1. Covered Bonds – Treasury to continue dialogue with CoFR and regional banks:

- Key message to APRA: FCS protects 99.5% of depositors, ex-post levy on industry protects Government/taxpayers
- Key message to RBA: Stability and diversification of funding, cost of credit
- Key message to Regionals: Further commitment to RMBS, including bullet-structure

2. Corporate Bond Market – proceed with listing CGS:

- Initiate preliminary negotiations with ASX in first instance, but leverage potential competition from other exchange providers if required to minimise cost
- Explore demand-side policies for promoting deep and liquid corporate bond market (e.g. retail investor education and incentives for institutional investors)
- How do we encourage superannuation flows into: (i) corporate bonds and (ii) specifically bank bonds to help fund the banks
- Link to forward analysis of requirements for liquid CGS market, including 30-year CGS. Also requirements for amending and rationalising debt cap/legislation. Link to bank liquidity regulation, including implications if we develop alternative liquidity arrangements (RMBS).

3. RMBS – develop sustainable model for RMBS, together with further short-term support:

- Develop case for third tranche of RMBS: first two-tranches have been effective in making RMBS funding competitive again, but market still dislocated and further improvements required to improve smaller lender ability to compete (or at least contest) mortgage market
- Potential for specific allocation to small business, or whole "tranche" for small business
- Develop 'bullet structure' as long term sustainable model, for inclusion in bond indices
- Develop repo 'insurance contract' model for bank liquidity regulations, allowing banks to use RMBS as collateral with RBA in return for liquidity. Need further work to understand impacts on demand for RMBS. To what extent would any additional RMBS

be issued by regionals rather than majors, how do we avoid majors just issuing RMBS to each other? Would we have to exclude self-securitised RMBS to stop majors just doing this instead of supporting regional bank RMBS issuance?

- Treasury to talk to APRA about recent clarification on RMBS capital requirements. Is there a case for banks only holding capital against those tranches they retain and therefore have economic/credit exposure to i.e. not the whole RMBS transaction? Need to avoid hurting banking competition.

- New Treasury analysis of how effective the first two tranches of RMBS have been in supporting competition in the mortgage market

4. Supporting Mutuals and encouraging Foreign Banks

- Election commitment to ABACUS to explore the potential with APRA for mutuals to call themselves "banks". Why cant they?

- Explore ways to encourage mutuals with lazy deposits to partner with originators (with geographic distribution) like Gateway has done with Mark Bouris (YBR)

- Explore 'pool structures' for mutuals to issue covered bonds.

- Do we need pro-active strategy to market Australian banking sector to foreign banks to encourage entry?

- *[Added by Oliver on 20 September]* Coordinate with international sections of Treasury to develop a strategy for engaging foreign banks.

5. Demand-side consumer policies

- Further explore practical and effective ways of helping consumers drive competition

[Added by Oliver on 23 September] - Advice on whether Australia Post could enhance its distribution of banking products (particularly lending products). Could Australia Post originate business for credit unions to underwrite (and take the risk on) like mortgages and small business loans?

AP already provides some banking products so we just need to work out what would be required to expand this offering and help the credit unions distribute their products. Don't think we need to discuss with AP at this stage, just interested in Treasury's preliminary thoughts.