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Loan, Nick

From: Richardson, Tracy
Sent: Thursday, 28 October 2010 8:55 AM
To: Murphy, Jim
Cc: MG FSD Bank Competition Unit; Lonsdale, John
Subject: FW: Table on Coalition 9 Point Plan for banking system [~~SEC=PROTECTED:CABINET-
IN CONFIDENCE~~]
Attachments: 101027 Coalition 9 proposals for banking system.docx

Security Classification: ~~Cabinet-In-Confidence~~

Good morning Jim

On 25 October the Shadow Treasurer addressed the AIG Annual Forum on banking issues:
<http://www.ioehockey.com/mediahub/speechDetail.aspx?prID=1078>. In that speech, the Shadow Treasurer put forward the Coalition's 9 Point Plan for the banking system. The ABA outlined their views in this press release:
<http://www.bankers.asn.au/Shadow-Treasurers-clarification-on-banking-proposals/default.aspx>.

Please find attached a table summarizing the Coalition's 9 Point Plan for the banking system, the ABA's response and further comments.

Kind regards,
Tracy

Tracy Richardson
Analyst

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From: Lonsdale, John
Sent: Thursday, 28 October 2010 8:39 AM
To: Richardson, Tracy
Cc: Clausen, Timothy; Hall, Ray; Loan, Nick
Subject: RE: Table on Coalition 9 Point Plan for banking system [~~SEC=PROTECTED~~]

Tracy

Thanks for this, it is a very handy table. Could you pls forward to Jim he will find it interesting.

John

From: Richardson, Tracy
Sent: Wednesday, 27 October 2010 3:17 PM
To: Lonsdale, John
Cc: Clausen, Timothy; Hall, Ray; Loan, Nick; Richardson, Tracy
Subject: Table on Coalition 9 Point Plan for banking system [~~SEC=PROTECTED~~]

Good afternoon John

As requested, please find attached the table on the Coalition's 9 Point Plan, the ABA's response and any further comments.

Kind regards,
Tracy

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Coalition 9 Point Plan for the Banking System

Coalition proposal	ABA position	Comment
1. ACCC to be given powers to investigate collusive price signalling.	Disagree If adopted, ABA is concerned that it will result in a public debate on banks' funding costs that may preclude the banks from making comments on their funding costs.	This issue will be progressed through the Competitive and Sustainable Banking Package.
2. APRA to assess whether banks are participating in risk behaviour.	Disagree ABA of view that there is already a central role for APRA and no additional investigations are necessary.	APRA already administers an extensive set of prudential standards and guidance notes, and administer government regulations for superannuation. These standards provide APRA regulated entities with extensive guidance in matters such as risk management and minimum capital levels.
3. Mandate RBA to regularly publish information on banks' interest rate margins, return on equity and profitability to determine whether banks are extracting monopolistic profits.	Agree RBA and APRA already publish this information, as such mandating a scheduled release is unnecessary.	Information on banks' net interest margins, returns on equity and profitability are contained in APRA and RBA monthly information releases; RBA's Financial Stability Review (released every 6 months), RBA chart pack (updated monthly) and APRA's monthly banking statements (release prior to the start of each month). There is scope to pull these data sources together into an annual report on banking competition statistics. This would satisfy a key recommendation made earlier this year by the Senate Inquiry on Access of Small Business to Finance. The Senate Committee suggested that the ACCC and RBA prepare this report jointly.

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<p>4. Investigate whether Australia Post should be distribution network for financial service providers. <u>Note:</u> Coalition does not advocate Australia Post assuming balance-sheet risk and becoming a banking business.</p>	<p>Agree Of Australia Post's 4,433 retail outlets, around 3,300 offer access to a range of banking products. Australia Post already acts as a distribution point for more than 70 banks and other financial service providers. Australia Post provides business banking services for 7 member institutions (6 banks and 1 credit union).</p>	<p>Preliminary advice suggests that Australia Post could not expand provision of financial services without legal amendments. Further detailed legal advice would be required to determine the nature and extent of further services Australia Post may be able to provide. It would also be essential to consult with Australia Post and its joint shareholder departments, the Departments of Finance and Deregulation (DFD) and Broadband, Communications and the Digital Economy (DBCDE).</p>
<p>5. Treasury and RBA should investigate approaches to improving liquidity of the residential and commercial mortgage-backed securities market in order to assist smaller lenders. <u>Note:</u> Coalition also suggests extending the Government's credit rating to AAA rate commercial papers in those markets.</p>	<p>Agree ABA notes the existing AOFM program.</p>	<p>This issue will be progressed through the Competitive and Sustainable Banking Package.</p>
<p>6 Simplify Financial Services Reform Act to simplify processes and to reduce red-tape.</p>	<p>Agree ABA notes existing and recent reviews of advice and conduct and disclosure obligations.</p>	<p>Further simplification may be warranted but this would require consultation with ASIC. New Product Disclosure Statement (PDS) requirements were developed in June 2010 by the Financial Services Working Group. Key features of the regulations include a maximum page length of 8 pages (for superannuation and MIS PDSs) and 4 pages (for margin loan PDSs);</p>

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		<p>prescribed minimum font sizes, section headings and key content requirements; and provision for other material to incorporation by reference. The new regulations commence on 1 January 2011 for margin lending facilities and 22 June 2011 for superannuation products and simple MIS products.</p> <p>In April 2010, the Government announced the Future of Financial Advice reforms which focus on improving the quality of financial advice and enhancing retail investor protection. Key reforms include a prospective ban on conflicted remuneration structures, including commission payments, and a statutory fiduciary duty for financial advisers requiring them to act in the best interests of their clients.</p> <p>Other reforms include strengthening the powers of ASIC in relation to the licensing and banning of individuals from the financial services industry, and simplifying the disclosure of advisory services provided to consumers. The reforms also involve examining the need for a statutory compensation scheme for financial services. Key reforms will apply from 1 July 2012.</p>
<p>7 APRA to explore risk weighting on small business loans secured by residential properties are appropriately allocated.</p>	<p>Agree</p> <p>Notes that with a similar process will examine risk-weighting for supervised entities.</p>	<p>It would be necessary to consult with APRA to determine their willingness to review the weightings. However, there are constraints on APRA's ability to determine them.</p> <p>For most ADIs, APRA sets the credit risk weightings. However, these are based on Basel II requirements.</p> <p>The major ADIs set their own credit risk weightings, in</p>

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		consultation with APRA.
8 Finalise whether banks should be able to issue covered bonds.	Agree, at least among the 4 major banks. The second-tier banks have raised competition concerns. Notes programs available to banks in other jurisdictions.	This issue will be progressed through the Competitive and Sustainable Banking Package.
9 Full review, Wallis-Style inquiry of the financial system.	Neutral Banking industry is subject to constant stream of inquiries but we would be happy to co-operate with any further inquiries.	