

Loan, Nick

From: Lonsdale, John  
 Sent: Monday, 20 September 2010 5:59 PM  
 To: MG FSD Managers & Specialist Advisors  
 Subject: FW: Bank Funding Five Point Plan [SEC=UNCLASSIFIED]

Security Classification: UNCLASSIFIED

Kanwaljit/Caroline/Jerome

Note Ollie's comment on foreign banks. We need to come up with a strategy

John

-----Original Message-----

From: Browne, Oliver  
 Sent: Monday, 20 September 2010 5:56 PM  
 To: Lonsdale, John  
 Cc: Murphy, Jim  
 Subject: RE: Bank Funding Five Point Plan [SEC=UNCLASSIFIED]

Thanks John, that all sounds great.

On attracting foreign banks, can you coordinate with international sections of Treasury to develop a strategy for engaging foreign banks?

Cheers

Ollie

-----Original Message-----

From: Lonsdale, John  
 Sent: Monday, 20 September 2010 5:37 PM  
 To: Browne, Oliver  
 Cc: Murphy, Jim  
 Subject: RE: Bank Funding Five Point Plan [SEC=UNCLASSIFIED]

Ollie

The 5 point plan looks good to us and is a good summary of the action points from last week's discussion with the Treasurer.

In terms of process (as we set out in the minute) we are giving some priority to the securitisation/RMBS work streams (your point 3) because the current tranche of the AOFM program has a finite life. We hope to have a good idea of what a new RMBS tranche could look like and the workability and look of a bullet market by the end of October. This would enable us to get Govt decisions and announcements before the end of the year. We are progressing options on corporate bonds with BPD. Both corporate bonds and covered bonds should drop out of the process we have going with the ABA later in the year. On mutuals we are examining options but I was not clear about your thoughts on marketing Australian banking sector to foreign banks - did you have specific things in mind?

On the demand/consumer side there are a number of possibilities but we think the most promising is improved disclosure and standard terminology for fees and charges ie require mortgage providers to:

- use standardised terminology for fees and charges ( i.e. all mortgage exit fees must be called exit fees, not 'deferred establishment fees', 'set up recovery fees', 'break costs', etc...); and
- provide standardised and simple "key facts" document to potential customers to allow consumers to more easily compare products. This has been used in the UK.

Finally there is another important stream of work that has links - the FCS review. This will be considered by the CFR on Friday and we will be seeking to get a Government decision on the way forward hopefully next month. The size of the cap and the transition arrangements do have important competition aspects to them.

Once we get over the CFR meeting I will give you a clearer view on some of the timing aspects.

John

-----Original Message-----

From: Browne, Oliver  
Sent: Friday, 17 September 2010 12:13 PM  
To: Lonsdale, John  
Cc: Murphy, Jim  
Subject: RE: Bank Funding Five Point Plan [SEC=UNCLASSIFIED]

In fact, see attached - new title!

-----Original Message-----

From: Lonsdale, John  
Sent: Friday, 17 September 2010 11:58 AM  
To: Browne, Oliver  
Cc: Murphy, Jim  
Subject: Re: Bank Funding Five Point Plan [SEC=UNCLASSIFIED]

Classification: [SEC=UNCLASSIFIED]

Thanks Ollie. We will examine and come back to you. We are getting cracking now!

John

----- Original Message -----

From: Browne, Oliver  
To: Lonsdale, John  
Cc: Murphy, Jim  
Sent: Fri Sep 17 11:55:01 2010  
Subject: Bank Funding Five Point Plan [SEC=UNCLASSIFIED]

John,

This is my understanding of the package the DPM is keen for following Wednesday's meeting.

Perhaps the next step is for you (and Jim) to review and suggest anything I've missed?

Then we can agree the framework and you guys can get cracking on pulling the 5PP (new nickname!) together?

Cheers

ollie

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Sub-paragraph 22(c)(a)(ii)  
(not relevant)

## 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:

*Sub-paragraph 22 (1)(g)(ii)  
(not relevant to request)*

- 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?

#### **5. Demand-side consumer policies**

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