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5 December 2013

Head of Secretariat
Financial System Inquiry
The Treasury
Langton Crescent
PARKES ACT 2600

Dear Sir

Financial System Inquiry – Draft Terms of Reference

I'm writing in response to the release of the draft Terms of Reference for the Financial System Inquiry and your invitation for submissions to ensure that the inquiry does fail to consider potentially significant issues.

BOQ thanks you for seeking feedback on the draft terms, and we look forward to contributing to the important debate that has begun with the launch of this inquiry. As a regional bank, BOQ aims to compete by providing customers with a unique banking alternative, predominantly through our relationship-based service model. We do believe there could be changes implemented to level the playing field in the banking sector, in order to provide consumers and small businesses with a better range of options when it comes to banking services.

Our assessment of the draft terms is that they are sufficiently broad to cover the main areas of concern we have with the current financial system, particularly with respect to competition in the banking sector. To be more specific, the key areas that we believe should be examined closely as part of the inquiry are:

- The inequity created by the current regulatory risk-weighting regime for residential mortgages, which requires Standardised Banks to hold up to three times as much capital against the same loan as an Advanced Bank; This also includes the need for banks coming through the pipeline for Advanced Accreditation to be held to the same standards as the bigger banks were several years ago;
- The "too big to fail" guarantee provided by government to the major banks only, which provides a significant funding cost advantage through a credit rating notch upgrade; and
- The volume and timing of regulatory changes and the greater impact this has on smaller banks, given our smaller scale and cost base - ie before proposed regulatory changes are implemented a full regulatory impact assessment should be completed, taking into account the cost impact on all players in the industry and potential inequities that could be created.

We would welcome the opportunity to discuss these matters with you further and look forward to being involved in the inquiry as it progresses.

Yours Sincerely

A handwritten signature in black ink, appearing to read 'Stuart Grimshaw', is written over a light blue horizontal line.

Stuart Grimshaw
Managing Director and Chief Executive Officer
Bank of Queensland Limited