



AUSWIDE
— B A N K —

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Manager
Banking, Insurance and Capital Markets Unit
Financial System Division
The Treasury
Langton Crescent
PARKES ACT 2600

Dear Sir/Madam

**BANKING EXECUTIVE ACCOUNTABILITY REGIME (BEAR)
SUBMISSION**

AUSWIDE BANK

Recently there have been numerous examples of poor behavior/culture identified at the Big 4 banks. The BEAR proposal seeks to address accountability and improve culture across the ADI sector. As such it captures all ADI's however does not capture all providers of financial products and particularly the "Shadow Banking" sector.

Auswide Bank makes the following observations and suggestions:

Auswide Bank agrees with the intent of the BEAR proposal and supports initiatives that improve the culture, behavior and the long term stability of the financial system.

Auswide Bank supports the proposal of BEAR with the following recommendations:
COVERAGE:

Shadow Banks should also be included in the provisions of BEAR given the growth of this sector in recent times. Many of them are larger than the mutual and small listed ADI's in Australia and pose a growing level of risk/influence over the financial services sector.

SENIOR EXECUTIVE REGISTRATION

It is recommended that APRA is set a tight time if it is required to approve the appointment of senior executives or directors. Senior appointments are competitive and time critical. As such APRA should be set a Service Level Agreement or KPI that allows for a response within 24 – 48 hours. If this is not achievable then the process should be reconsidered. In this case I would suggest that the access to information on banned or tarnished executives be available for access by ADI's in a similar way that ADI's access information on peoples credit history.

Small things. Big difference.



PENALTIES

Auswide Bank agrees with a penalty regime however believes that the proposed recommendation does not adequately address the substantial difference in scale and profitability across the industry. Whilst accepting the penalties are defined as maximums nonetheless there remains substantial variance in consequence.

Consider that one of the big 4 banks was levied the maximum fine of \$200m. This would represent less than 5% of their Net Profit.

Consider the mutual Building Societies, Credit Unions, Banks and the smaller listed Banks (excluding BoQ, Bendigo and Suncorp) having a \$50m maximum fine imposed. In most cases this would materially damage the ADI via a substantial loss and put the organization at risk.

Auswide Bank would recommend that the maximum penalties imposed are either broken into three categories of \$200m for big banks, \$50m for large regionals and \$10m for smaller ADI's. Alternatively maximum fines are based on a % of revenue which ensures a consistent impact on ADI's consistent with the size of their businesses.

REMUNERATION

Auswide Bank remuneration "at risk" is very modest in comparison to the big banks, Macquarie and large regional banks. Auswide Banks LTI provisions currently run over 3 years and typically are 50% of total "at risk" payments.

Incentive payments, aligned to the right measures and sustainable performance are both relevant and appropriate. They should represent better value for shareholders, customers and community than higher base salaries.

Auswide Bank supports the need for incentive payments to be aligned to the longer term and sustainable outcomes for customers, shareholders and the community. However we believe the provisions recommended are overly onerous on smaller ADI's with more modest salary and incentive programs. As such we recommend:

- 1) Provisions as outlined in the SMR that include materiality measures. Auswide Bank would recommend that this materiality is set at a level of \$200,000. Executives of the big banks and large regionals would be captured by these provisions.
- 2) Auswide Bank would support "clawback" of incentive payments where it is subsequently proved (within a 4 year window) that an executive has not met their responsibilities under the BEAR. This could extend to all Executives including those that fall outside the recommended threshold above.

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CONCLUSION

Auswide Bank is supportive of the Federal Governments initiatives to improve the reputation of the ADI industry and believes that BEAR should also extend to the shadow banking sector.

We have made some recommendations which we believe are appropriate based on the enormous difference in scale and remuneration across the sector. We also believe that consideration is required to ensure APRA meets fast turnaround times on critical executive and director appointments. APRA are a very capable and highly skilled regulator but they are not known for quick timely responses.

Yours faithfully

Martin Barrett
Managing Director

Small things. Big difference.