



Manager
Banking, Insurance and Capital Markets Unit
Financial System Division
The Treasury
Langton Crescent
PARKES ACT 2600
Via: BEAR@treasury.gov.au

29 September 2017

Dear Sir/Madam

Submission to the Treasury Banking Executive Accountability Regime - Draft Legislation consultation

The Business Council of Co-operatives and Mutuals (BCCM) welcomes the opportunity to comment on the Banking Executive Accountability Regime draft legislation (the draft legislation).

We refer the Treasury to our submission in response to the Banking Executive Accountability Regime consultation paper, which we have attached to this submission. That submission includes appendices that provide information about the BCCM and about the co-operative and mutual sector.

The BCCM understands that the purpose of the draft legislation is to better align the interests of executives receiving variable remuneration with long-term outcomes for key stakeholders including customers through enhanced accountability measures. The BCCM supports this policy objective and more broadly supports reforms that aim to enhance choice and competition in financial services. Our customer-owned ADI members are committed to offering choice and competition for Australian consumers through competitively priced, high quality products and services.

1. The draft legislation does not adequately reflect that the remuneration of executives in customer-owned ADIs already aligns them with the long-term interests of customers.

Customers are also the owners in customer-owned ADIs. The purpose of customer-owned ADIs is long-term, sustainable customer outcomes rather than returns to external shareholders. Remuneration structures for executives in customer-owned ADIs reflect this.

Customer-owned ADIs use reasonable levels of variable cash remuneration, and do not use share remuneration. From an initial analysis of larger customer-owned ADIs the BCCM has found that 12.8% of total remuneration of senior managers and

material risk takers in customer-owned ADIs was variable.¹ In comparison, between 52% and 69% of total remuneration of senior managers and material risk takers was variable across the big four ADIs. Up to 64% of that variable remuneration was by way of shares.

The BCCM suggests that the key aspect of remuneration that has led to the need for enhanced accountability measures is share remuneration in ADIs where managers need to balance the interests of shareholders and customers. As such, the draft legislation in its present form is overly broad, potentially applying to all ADIs and even modest levels of variable cash remuneration.

The BCCM's preferred approach is that the draft legislation is refined to cover only the specific types of remuneration that are undermining the policy objective of long-term outcomes for customers and other stakeholders.

2. The draft legislation potentially undermines the broader choice and competition objectives of the government's suite of financial services reforms.

The draft legislation would impose disproportionate compliance costs on smaller ADIs that were not exempted from its application. It would also disproportionately affect the ability of smaller ADIs to attract, retain and develop high quality employees through the use of reasonable variable cash remuneration strategies.

As such, the draft legislation potentially undermines the ability of smaller ADIs to offer choice and competition to the benefit of consumers.

3. The BCCM therefore recommends that the draft legislation is narrowed to cover only the types and level of remuneration and the classes of ADI that need enhanced accountability.

The BCCM is happy to provide further information or comment on any aspect of this submission.

Yours faithfully



Melina Morrison
CEO
Business Council of Co-operatives and Mutuals

¹ Based on the most recent APS 330 disclosures to APRA.