

10 June 2016

William Coen
Secretary General
Basel Committee on Banking Supervision
Bank for International Settlements
Centralbahnplatz 2
4051 Basel
Switzerland

By email: www.bis.org/bcbs/commentupload.htm

Dear Mr Coen

Pillar 3 disclosure requirements - consolidated and enhanced framework

COBA welcomes the opportunity to comment on the BCBS's March 2016 consultative document on the consolidation and enhancement of Pillar 3 disclosure requirements.

COBA is the industry body for Australia's credit unions, mutual building societies and mutual banks. Collectively, the sector we represent has AU\$98.7 billion in assets and serves more than 4 million customers.

The customer-owned model is the proven alternative to the listed model in the Australian banking market, delivering competition, choice, and consistently market leading levels of customer satisfaction.

Prudential regulation in Australia

All of Australia's banks, building societies and credit unions are Authorised Deposit-Taking Institutions (ADIs) and are regulated by the Australian Prudential Regulation Authority (APRA), our 'national supervisor', under Australia's Banking Act 1959.

All Australian ADIs are subject to the same prudential framework. While customer-owned banking institutions are not currently 'internationally active banks', APRA exercises its discretion to apply Basel frameworks to customer-owned banking institutions. APRA applies a proportional reporting approach on customer-owned banking institutions. As smaller and less complex standardised institutions, customer-owned banking institutions are not required to report against the full set regulatory disclosures.

Greater transparency for risk weighted assets under advanced approaches

COBA supports the BCBS proposal to benchmark the outcomes of advanced banks' internal models with hypothetical capital requirements calculated under standardised approaches. These disclosures increase the transparency of banks' internally modelled risk weighted assets and enhance comparability with other advanced banks and standardised banks. COBA also supports the requirement for advanced banks to provide an accompanying narrative to explain the factors, such as their modelling assumptions or different risk profiles, which allows them to have a different level of risk weighted assets (and therefore capital) compared to standardised institutions.

In Australia, the five largest banking institutions (Commonwealth Bank, National Australia Bank, Westpac, ANZ and Macquarie Bank) use advanced models to calculate their risk based capital requirements. These advanced institutions have around 80 per cent of the home loan market. All other Australian banking institutions, including customer-owned banking institutions, use APRA's standardised approaches.

Australia's 2015 Financial System Inquiry (FSI) found that the average mortgage risk weight for standardised ADIs is currently twice that of advanced ADIs. The FSI found that this gap was not justified by the relative riskiness of mortgages. This suggests that the modelling assumptions which produce these risk weights are too low. This risk weight 'gap' gives advanced banks a funding cost advantage as they can hold less capital against their mortgages despite having a similar risk level. This reduces competition and can also reduce financial stability. For example, the 2014 APRA stress test that found that advanced ADIs held insufficient regulatory capital for housing to cover the losses incurred under the stress test scenario.¹

In response to the FSI, the Australian Government has agreed to narrow the gap in average mortgage risk weights. APRA will raise the average IRB mortgage risk weight from 18 per cent to at least 25 per cent from 1 July 2016. Given that mortgages comprise a significant portion of the assets of Australian ADIs, this will help to reduce the funding disadvantage for standardised ADIs. This example highlights the benefits of greater comparability and how it can lead to a more resilient and competitive banking sector.

In summary, COBA supports measures that provide greater transparency of the advantages that advanced banks have over standardised banks. The proposed hypothetical risk weighted assets disclosure will increase the transparency of advanced modeling approaches and require advanced banks to justify these differences. In the long term, this transparency will help to ensure that advanced banks hold a proportionate amount of capital in line with the risk profile of their assets. This will reinforce the standardised approach as a viable alternative to advanced approaches. This will improve the competitiveness of standardised institutions and improve the diversity, competition and consumer choice in the banking sector.

Please do not hesitate to contact me on +61 2 8035 8450 to discuss any aspect of this submission.

Yours sincerely



SALLY MACKENZIE
Acting Head of Public Affairs

¹ In his November 7 speech, *Seeking strength in adversity: Lessons from APRA's 2014 stress test on Australia's largest banks*, APRA Chair Wayne Byres said "Regulatory capital for housing held by standardised banks was (just) sufficient to cover the losses incurred during the stress period; that was not the case for IRB banks",