

7 October 2022

Committee Secretariat
Senate Standing Committee on Economics
PO Box 6100
Parliament House
CANBERRA ACT 2600

Via email: economics.sen@aph.gov.au

Dear Secretariat

Inquiry into the Financial Accountability Regime Bill 2022 [Provisions]; Financial Sector Reform Bill 2022 [Provisions]; Financial Services Compensation Scheme of Last Resort Levy Bill 2022 [Provisions] and the Financial Services Compensation Scheme of Last Resort Levy (Collection) Bill 2022 [Provisions]

COBA appreciates the opportunity to contribute to the Senate Economics Legislation Committee inquiry into the Financial Accountability Regime Bill 2022, (the FAR Bill), the Financial Sector Reform Bill 2022, the Financial Services Compensation Scheme of Last Resort Levy Bill 2022, and the Financial Services Compensation Scheme of Last Resort Levy (Collection) Bill 2022. Our submission will be focused on the FAR Bill.

COBA is the industry association for Australia's customer owned banking institutions (mutual banks, credit unions and building societies). Collectively, our sector has \$155 billion in assets. Customer owned banking institutions account for around two thirds of the total number of domestic Authorised Deposit-taking Institutions (ADIs) and deliver competition and market leading levels of customer satisfaction in the retail banking market.

COBA's position on the FAR Bill

The FAR Bill largely replicates the Bill introduced into Parliament by the former Government and we broadly have no major concerns with the Bill in its current form. However, we would like to address a couple of key issues.

Commencement and accountable person responsibilities

COBA's members are already subject to the accountable persons responsibilities under the Banking Executive Accountability Regime (BEAR), which are similar to most of the responsibilities proposed to arise under FAR. However, there are additional obligations arising out of FAR and our members will need sufficient time to ensure a smooth transition.

We note that the Bill provides for a commencement date six months after it receives Royal Assent. While this is a short transition period, COBA's members will be able to manage the transition assuming that there are no major changes to the accountable persons responsibilities and other obligations under the FAR Minister Rules currently being consulted on by Treasury. If there are significant changes to the proposed responsibilities more time will be needed to allow for existing contracts of employment to be reviewed and updated to make clear who has responsibility.

Enhanced disclosure obligation threshold

COBA supports the intention of the FAR framework to create a tiered compliance model between the 'core' and 'enhanced' disclosure obligations so that smaller ADIs will have a lower regulatory burden. Creating a tiered system recognises the disproportionate cost impacts that regulation can have on our members compared to the larger banks and does so in a manner that does not create any material accountability risks.

The threshold to comply with the enhanced disclosure obligations in the FAR Minister Rules is being set at \$10 billion of total asset size. COBA's view is that this threshold should be set at \$20 billion.

Setting the threshold at \$20 billion of total asset size more accurately captures the point when smaller ADIs become larger and more complex ADIs. A \$20 billion threshold will also help create consistency between the FAR and other banking obligations. This is because it would align with APRA's \$20 billion threshold for its simplified capital framework for smaller, less complex ADIs and its threshold for significant financial institution status under the remuneration standard CPS 511.

COBA has several members that sit around the \$10 billion asset size. Increasing the threshold to \$20 billion would ensure that more of these smaller banks are exempted while also having room to grow further before becoming subject to the higher compliance costs.

ASIC and APRA as joint regulators

COBA appreciates the preliminary steps being taken by ASIC and APRA to ensure a smooth transition to the FAR. We understand that the regulators will publicly release a Joint Administration Agreement which will provide the high-level principles on how they will jointly regulate FAR. We also appreciate the work already underway to ensure that there is clear and effective communication between the joint regulators and the regulated entities.

Based on this work, COBA is comfortable with the joint regulatory function as provided in the Bill

I hope this submission assists the Committee in assessing the Bills. Please do not hesitate to contact Robert Thomas (RThomas@coba.asn.au) if COBA can be of any further assistance to the Committee.

Yours sincerely



MICHAEL LAWRENCE
Chief Executive Officer