

From: Alan B [REDACTED]
Sent: Tuesday, 14 November 2023 10:00 PM
To: Policy Development
Subject: APRA Discussion paper - Enhancing bank resilience: Additional Tier 1 Capital in Australia

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As a “small retail investor” I would like to comment on Design and Distribution Obligations (DDOs).

AT1 hybrids, mostly issued by major Australian banks, are purchased by small retail investors for their reliability of payments, higher yield than term deposits and for portfolio diversification.

The key attraction for small retail investors of hybrids is stability of income. During the GFC and Covid Pandemic many companies reduced or cancelled their dividends, which negatively impacted the income of small retail investors, particularly retirees. Hybrids, however, continued to pay out distributions even when bank dividends fell. The security of hybrid derived income means APRA must consider and minimise the impact of any changes to AT1s on small retail investors.

Design and Distribution Obligations exclude small retail investors from new hybrid issues. Small investors have to purchase on the secondary share market rather than directly from the issuer at a public offer or roll-over when a previous hybrid reaches maturity. DDOs result in small retail investors paying higher prices for hybrids, reducing their benefit. DDOs have allowed institutions and larger ‘sophisticated’ investors to purchase hybrids at a lower issuance price and to profit at the expense of small retail investors.

Please note a sample of articles and comments on the FirstLinks financial website:

<https://www.firstlinks.com.au/doubling-10-years-whats-7pc-bank-hybrids>

“Hybrid securities issued by banks have become mainstays of many portfolios, especially those of retirees looking for income.”

<https://www.firstlinks.com.au/ddo-change-hybrids-bank-treasurers-nightmare>

“We are retired and have used the bank hybrids as means of maintaining some liquidity with returns well exceeding bank deposit rates and without the volatility of shares and units.”

<https://www.firstlinks.com.au/ridiculous-hybrids-retail-investors>

“Compared with hybrids, equities are significantly more volatile and are far more likely to experience a rapid fall in value, dilutionary equity raisings, reductions or complete cuts of income (i.e. dividends) and even a complete loss of value.”

Limiting or excluding small retail investors from AT1s reduces income security and pushes them into taking on more risky equities. There is a higher risk of loss of capital and income from declining share investments than from hybrid investments.

Small retail investors should again be allowed access to AT1s at primary issuance, by removing, or amending DDOs. The withdrawal of DDOs would be welcomed by small retail investors, particularly self-funded retirees, who purchase hybrids for income, security and diversification.

Yours sincerely

Alan Brooke