25-36 Summary of non-confidential submissions

Submission provided by:	Excerpts from submission:
Australian Banking Association	• “We agree that design features such as discretionary coupons and the 5.125 per cent CET1 trigger point may not be as effective as APRA requires in helping to stabilise a bank ahead of the declaration of the point of non-viability (PONV)” • “We accept APRA’s proposal and intention to increase CET1 for Advanced banks by 0.25 per cent and increase Tier 2 by 1.25 per cent in order to continue to meet the Basel III minimum total Tier 1 requirement. At the same time, the proposal to allow Standardised banks to replace the entirety with Tier 2 capital is an appropriate application of proportionality.” • “The ABA acknowledges that APRA’s approach of removing AT1 capital from the capital stack and replacing it with CET1 and Tier 2 is simple, is likely to work in a business-as-usual scenario and is clear in a bank resolution where all Tier 2 capital instruments would be required to be bailed in.” • AT1 provides a substantive layer of protection to Tier 2 investors through the subordinated ranking it provides in winding-up and through conversion providing an ability to absorb loss ahead of Tier 2 holders. • Recommend APRA allow this continued layer of subordination by allowing for Tier 2 instruments with a more deeply subordinated claim in liquidation. • The removal of AT1 would adversely affect credit ratings of Tier 2 instruments. • While only S&P have confirmed a rating downgrade for Tier 2 as a result of the proposal, the ABA considers that during a stress scenario both Tier 2 and senior ratings could be adversely affected. • The removal of AT1 reduces international comparability of the capital framework for Australian banks. • This may impact market perception of investors regarding Australian banks and could impact capacity from international investors. • Recommends recalibrating large exposures, and to improve consistency with the Basel Large Exposure framework – for example, removing limits for sovereigns and aligning exposures measurements, particularly for structured vehicles. • ADIs with trading operations may hold other issuers AT1 instruments, including from foreign bank and insurance issuers. • Currently these holding are deducted using the ‘Corresponding Deduction Approach’.

	• With the removal of AT1, the ABA recommends that these are instead deducted from Tier 2 capital.
Australian Financial Markets Association	• "AFMA remains supportive of measures to enhance banks and system resilience. We note that the current proposal builds on Australia's already 'unquestionably strong framework for bank capital' and that Australia has implemented the Basel III post-crisis regulatory reforms ahead of major international jurisdictions." • Timeframes are reasonable, but encourages APRA to continue engaging with industry to ensure markets continue functioning through the transition.
Australian Shareholders' Association	• "ASA agrees that the exposure of retail investors to AT1 capital could impede the use of the loss absorbing trigger in extreme crisis in the unlikely event of that failure."
Customer Owned Banking Association	• "APRA's proposal to fully replace Additional Tier 1 (AT1) capital with Tier 2 capital is expected to have a positive impact on the customer owned banking sector." • "COBA generally supports the simplification of the capital framework in Australia, while recognising the need to maintain a strong, stable and well capitalised financial system which works to protect Australians' savings." • "APRA's approach to implementing the changes in a proportional way is welcome, as a simplified capital framework will be easier for mutual ADIs, which are smaller and less advanced than their larger, lister peers, to manage their capital needs." • "Tier 2 instruments are generally cheaper and easier to issue relative to AT1, and COBA welcomes APRA's proposal to remove the Tier 1 requirements and allow standardised banks to issue Tier 2 capital as a replacement for AT1. This is expected to make it easier for COBA members to increase their capital buffers through the issuance of Tier 2 instruments." • Tier 2 instruments are generally cheaper than AT1. • However, COBA members will incur costs in setting up Tier 2 capital programs, especially smaller banks with resource constraints. • More APRA support for smaller banks setting up Tier 2 programs would be welcomed, for example, the provision of standardised Tier 2 issuance documentation by APRA (vs what is currently provided by industry). • The removal of AT1 and the resulting increased demand for Tier 2 issuance could shift market pricing dynamics, potentially leading to higher issuance costs for Tier 2 Capital. • Mutual banks have limited pathways to distributing franking credits to investors, given their non-dividend paying nature. • AT1 offered the ability to issue franked distributions, removal of AT1 could hamper this ability. • Although MEIs offer a pathway to pay dividends, the cost and complexity of issuing such instruments does not generally represent a viable option for many mutual ADIs. • Banks with AT1 on issue should have large exposure limits grandfathered until the first call date of the AT1 instrument.

	• APRA should clarify how the transition arrangement (AT1 counting as Tier 2) would impact mutual ADIs' liquidity requirements through changes to the adjusted liability base. • APS 111 requires Tier 2 to be amortised on a straight-line basis at a rate of 20% per annum over the last four years to maturity – will AT1 that is being counted as Tier 2 from 2027 be subject to these requirements?
Seed Funds Management	• The proposal lowers the overall credit quality of the Australian banking industry, currently among the best globally. • The proposal removes a crucial element of capital support for banks, diminishing the competitiveness of our banking industry against international rivals. • The proposal lowers the overall credit quality of the Australian banking industry, currently among the best globally • The proposal imposes substantial new costs on banks and reduces funding flexibility by narrowing their choices for capital issuance. • The proposal increases risk for depositors, directly contradicting APRA's core mandate.
Morgans Financial Limited	• Introduce a new class of Tier 2 (suggests 'Exchangeable Tier 2', 'ET2'). • This new instrument would replace AT1 over time as junior subordinated capital and reflect the specific terms that give APRA the flexibility and confidence it seeks in a going-concern bank resolution. • AT1 provides a significant and quality investment alternative for institutions, wholesale and select retail investors. • The listing of AT1 provides for transparency and disclosure. • In the absence of exchange traded AT1, investors would move to sectors where there is little or no disclosure or transparency. • Investors could be drawn to unlisted managed investment schemes offered by poorly resourced and/or opportunistic operators. • ASIC should be alerted to this. • Codify and clarify terms removing the need for a non-exchange write-off. • Automatic conversion of exchangeable Tier 2 instruments to common equity should be codified in the security terms. For example, based on market-based triggers such as share prices declines. • Recommend APRA introduces explicit terms of conversion / bail-in. • This would replace discretionary security terms with specific codified triggers and processes while maintaining APRA's broader regulatory discretions. • Remove the ambiguity of a PONV trigger. Enact changes to deliver a simplified going-concern bank resolution process
Acacia Partners Pty Ltd	• If APRA eliminates AT1, it should introduce lower and upper Tier 2m with lower Tier 2 effectively replacing some functions of AT1 and continuing to be issued in a listed format. • Expects to see T2 widen significantly, which would lead to higher funding costs for banks.

	• These higher costs will be passed on to borrowers. • It will have a disproportionate impact on regional banks. • Australian At1 is unique. It is resilient as a source of funding when other markets are not functioning. • Biggest concern with the removal is the impact on the availability of capital. • Increase minimum denominations to $5000 to limit participation of smaller retail investors.
Shaw and Partners	• During a crisis, it is beneficial to have an additional form of equity to strengthen a bank's balance sheet, instead of being forced to conduct a highly dilutive CET1 issue. • AT1 also provide flexibility with discretionary non-cumulative distributions, subject to an ordinary dividend stopper. • Investors who predominantly hold hybrids are via DDO obligations with risks communicated, where Shaw and Partners does not object to investors requiring advice as a further safeguard mechanism. • Sees some merit in increasing the trigger from 5.125%. • Could support a discretionary trigger, depending on the design. • Strongly prefers maintaining the status quo. • ASX AT1 market functioned well and provided healthy levels of liquidity during COVID and the GFC. • The ability to see market depth provides more transparency to investors than an opaque OTC market.
Stockbrokers and Investment Advisers association	• Investors are prepared to take credit risk by moving down capital structures of financially strong and well management institutions and acquire hybrids for the income stream. • Investors understand these products. • The bond market is not readily available to those unable to invest the minimum $500,000, making hybrids more accessible. • There is no corporate debt available to Australian retail investors. • Investors will go to private debt funds. • It would be imprudent to shut the door on an increasing cohort of investors reaching retirement. • DDOs should allay APRA's concerns with unadvised retail clients holding hybrids. • Strongly dispute APRA's concerns with the level of retail investment. • A high proportion of investors holding hybrids are not retail. • Hybrids only make up a small proportion of investor portfolios. • Retail investors hold much more equity than AT1. • APRA has not taken the evidence put forward by the SIAA and its members int account when developing its Discussion Paper.
Wilson Asset Management	• Hybrids are very popular with Australian retail investors as they offer higher-yielding franked-income streams with both debt and equity characteristics.

	• The removal of these securities from the retail investors' investment universe would deprive their investment portfolio of diversification benefits with respect to risk and returns. • It also reduces valuable franked income streams, especially for retirees and those in SMSFs. • Retail investors are free to own bank equities which are higher risk securities in a bank's capital structure than 'bank hybrids', so why take away the option of owning lower risk investments? • We suggest investors should be able to make up their own mind by assessing the risks of investing in hybrids. • They can either educate themselves or consult with existing adviser and broker channels.