



Australian Banking Association

17 December 2019

Dr John White
Inquiry secretary
Standing Committee on Economics
PO Box 6021
Parliament House
Canberra ACT 2600

Dear Dr White,

I write regarding a recent appearance from Ms Anna Bligh AC, Chief Executive Officer, Australian Banking Association (ABA) at the House of Representatives Economics Committee, *Review of the Four Major Banks and Other Financial Institutions*.

During Ms Bligh's appearance, she made reference to the definition of the credit exposure threshold for small business in the Banking Code of Practice (the Code) and the associated impact on risk in banks if it was increased to \$5 million from the existing \$3 million. This was in response to a question about a recommendation from the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

Ms Bligh explained to the Committee that the ABA was concerned about the possible impact on competition from this recommendation. This is because the current definition entitles those businesses who come within it, to simpler contracts appropriate for very small businesses. However, they create more risk for banks and therefore this proposed change in definition would have a greater impact on non-major banks.

At the time, the ABA sought the view of the Council of Financial Regulators (CFR) and Ms Bligh tabled a copy of this letter for the benefit of the Committee. CFR shared the view of the industry that it was a significant issue and agreed that the effect of the existing changes to the definition had yet to be gauged. The relevant excerpt is captured in the minutes as follows;

'In light of this and the tightening in credit conditions that has taken place, members supported maintaining the current borrowing threshold to define small businesses within the Code, with an independent review to be undertaken within 18 months of the Code's commencement. This would allow time for sufficient information to be gathered on the effects of the initial changes and the potential effects of the changes in the small business definition recommended by the Royal Commission. At that point it would be appropriate to consider whether to increase the limit from \$3 million to \$5 million for all banks. Members expressed a view that a limit based on total credit exposures is more appropriate than one based on loan size. Council members noted that other Royal Commission recommendations relevant to the Banking Code are expected to be implemented in the near term'

For completeness, I have enclosed with this letter a copy of the minutes of the March meeting of the Council of Financial Regulators which outlines the CFR response to the ABA letter.

I hope you find this useful. If you have any queries, please do not hesitate to contact me.

Yours sincerely,

Fiona Landis
Director, Government Relations
Australian Banking Association

Below is a link to the minutes from the Council of Financial Regulators I refer to in my correspondence.

<https://www.cfr.gov.au/news/2019/mr-19-01.html>