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Jon Sutton, Managing Director and CEO

15 June 2017

Senator Jane Hume
Chair
Senate Economics Legislation Committee
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Senator Hume

Major Bank Levy Bill 2017

Confidential Submission

Bank of Queensland (BOQ) welcomes the opportunity to provide the Senate Economics Legislation Committee (Committee) with a submission on the Major Bank Levy Bill 2017 (Levy).

Competitive and efficient banking system

BOQ strongly believes that economic growth is best supported through an efficient banking system where each bank competes for customers on a level playing field. Competition plays a critical role in promoting this efficiency by ensuring consumers and businesses have access to financial products and services that are innovative and affordable.

BOQ agrees with the Treasurer's comments that Australia's banking system must be unquestionably competitive and notes that the Government plays a key role in promoting competition in the sector. Australia has a highly concentrated banking system and the second tier banking participants play an important role in moderating the market power of the major banks. BOQ believes the competitiveness of the second tier banks is critical to the efficiency of the Australian banking industry. Currently the playing field is not level and this is most evident in funding advantages and inequitable capital requirements enjoyed by the major banks through their advanced regulatory status.

BOQ supports the Levy as a step towards a more competitive banking system as it properly recognises the major banks' too-big-to-fail funding advantage that they enjoy.

Although BOQ supports the Levy, our calculations indicate it is too small to materially affect competition in the manner promoted by the Government. The coincidental timing of S&P's credit downgrade further erodes any financial benefits that may have flowed to the non-major banks.

Given this, we ask the Committee to request Treasury to explain how the Levy supports the unquestionably competitive banking system promoted by the Treasurer.

Capital

The differences in capital requirements for an advanced and standardised bank have a significant effect on competition in the residential mortgage market.

Major banks currently enjoy capital benefits from a 25% risk weighting (compared to BOQ and non-major bank's risk weight of ~ 40%). This requires BOQ to hold \$3.50 of capital against a mortgage for every \$2.00 held by a major bank.

BOQ draws the Committee's attention to this anomaly and suggests that an increase to the risk weighting of advanced banks would be more effective than the Levy at levelling the playing field between the banks and supporting the objective of an unquestionably strong banking system.

Ministerial instrument

The ABA has publicly raised its concerns with section 8 of the Levy Bill, which provides the Minister with the power to effectively alter the levy calculation methodology by legislative instrument. BOQ shares the ABA's concerns and is troubled by the fact that the Minister could seemingly extend the Levy to BOQ and other regional banks. It is not clear why the Government believes these powers are required.

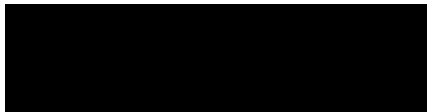
BOQ urges the Committee to seek removal of the relevant subsections.

Consultation

BOQ notes the extensive criticism from the major banks over the lack of meaningful consultation on the Levy. BOQ would be concerned if this practice was repeated by Treasury in relation to other banking reform measures and certainly if the Minister adopted such approach in exercising the legislative instrument powers.

BOQ requests the Committee treat this as a confidential submission and would be pleased to discuss these comments further with the Committee if required.

Yours faithfully

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Jon Sutton
Managing Director and Chief Executive Officer