

## Chapter 4

### Schedule 3—Thin capitalisation—Application to certain groups

4.1 Schedule 3 to the bill introduces a choice mechanism under which a particular type of authorised deposit-taking institution (ADI) — known as a specialist credit card institution — may, in certain circumstances, be treated for thin capitalisation purposes as if it was not an ADI but rather as if it was a financial entity.

#### Background

4.2 There are various tests that entities may use to determine their thin capitalisation position — the 'safe harbour' test, the 'arm's length' test and the 'worldwide gearing' test. The tests require the calculation of an entity's debt, assets and/or equity. The calculation method depends on various classifications of the entity, two of which are whether the entity is an authorised deposit-taking institution (ADI) or a financial entity that is not an ADI.

4.3 Specialist credit card institutions (SCCIs) were a new class of ADI established in 2003 as part of reforms to the credit card market. SCCIs are authorised under the *Banking Act 1959* to conduct banking business that is confined to credit card acquiring and/or credit card issuing. They are authorised and supervised by APRA which supervises them differently to other ADIs because of the limits placed on the banking business that they can conduct.

4.4 Unlike other ADIs, the capital adequacy of SCCIs is not determined on a consolidated group basis where an SCCI is part of a group that does not contain any other types of ADI. In this case, the capital adequacy requirements apply to an SCCI and its subsidiaries (if any) on a consolidated basis but not to the wider corporate group.

4.5 At the time the thin capitalisation rules were introduced, they did not foresee the advent of ADIs whose capital adequacy is not determined on a consolidated group basis for prudential purposes. Hence, the rules require all consolidated or multiple entry consolidated (MEC) groups containing ADIs to determine capital adequacy taking into account risk-weighted assets on a group-wide basis. In the case of groups containing only specialist credit card institutions, this unnecessarily increases compliance costs.

4.6 Therefore the amendments in the bill will allow the head company of a consolidated or MEC group containing one or more ADIs to apply the thin capitalisation rules as if the group did not contain an ADI, where all the ADIs in the group are specialist credit card institutions. Each specialist credit card institution will instead be treated as if it was a financial entity.

4.7 There were no submissions received in relation to this Schedule.