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Australian Prudential Regulation Authority

BY EMAIL: Basel3liquidity@apra.gov.au

RE: Response to Submissions, Basel III liquidity – net stable funding ratio and the liquid assets requirement for foreign ADI's ("Response") issued 29 September 2016

Thank you for accepting our late submission to APRA's response which has recently been identified as significant for our members and the clients they service.

The Financial Services Council (FSC) has over 100 members representing Australia's retail and wholesale funds management businesses, superannuation funds, life insurers, financial advisory networks and licensed trustee companies. The industry is responsible for investing more than $2.7 trillion on behalf of 13 million Australians.

The pool of funds under management is larger than Australia's GDP and the capitalisation of the Australian Securities Exchange and is the third largest pool of managed funds in the world. The Financial Services Council promotes best practice for the financial services industry by setting mandatory Standards for its members and providing Guidance Notes to assist in operational efficiency.

The FSC encourages APRA to continue developing a NSFR framework that caters for features unique to the Australian economy and its banking and superannuation system in order to strike the critical balance between funding resilience, stability and supporting economic growth through all stages of the economic and demographic cycles.

Re: 2.4 Member-directed superannuation deposits

The FSC believes that APRA's proposals for member-directed superannuation deposits reproduced in Attachment A fails to reflect the stable characteristics and long-term investment strategies of superannuation funds.

The size of the superannuation system and stable long-term investment allocations towards deposits necessitates the development of NSFR factors tailored to reflect domestic characteristics as opposed to default Basel settings that cater holistically for financial systems where there is an abundance of deposits.

The development of NSFR settings that more accurately reflect the stable nature of these deposits is critical to the sustainability of the improvement of the funding resilience of the broader financial system and to reduce the relative detriment to members of APRA regulated superannuation funds and Investment platforms.

The proposed NSFR when considered in combination with current Liquidity Coverage Ratio (LCR) treatment could have the unintended consequence of:

- Discouraging term deposit investments through superannuation which has the potential to increase the risk profile of member funds.
- Deposits receiving very low interest rates, incentivising funds to pursue higher yielding investments. This will result in an increase in liquidity risk in these segments of the economy where there is limited capacity to manage.
- Reducing the retirement income of an ageing population, which in turn will place further stress on the Federal Governments fiscal position.

The FSC requests that APRA reconsiders the proposed stable funding settings assigned to superannuation fund deposits under the NSFR in order to recognise the value of this stable source of funding. This change will ensure greater system stability and members are not penalised because of the structural features of Australia's ever growing superannuation system.

Specifically we request that APRA recognise the significant amount of empirical evidence on the stability of superannuation deposits by;

- Removing long dated Trustee notice period requirement from member direct deposit ASF recognition criteria;
- Assigning a 90 per cent ASF for operating deposits;
- Revising the definition of financial institution to exclude superannuation funds from the financial institution customer segment and in turn recognise the stability and value of these deposits to the domestic financial system.

The FSC supports APRA continuing to work closely with FSC members as the industry develops legal structures to strengthen the concept where cash investment is member directed.

Yours sincerely

BLAKE BRIGGS
SENIOR POLICY MANAGER

Exert from Response to Submissions – Basel III liquidity – the net stable funding ratio and the liquid assets requirement for foreign ADI'S

2.4 Member-directed superannuation deposits

The primary means by which an ADI receives deposits via a superannuation trustee are:

- as the operating/transaction ADI for a superannuation fund (i.e. collections from payroll deductions, funds awaiting distribution, transfers between funds, etc may temporarily be in the form of an operational deposit as described in the LCR);
- at the direction of a superannuation member to place money on deposit (at-call or term); or
- based on the cash allocation within an investment option.

This section covers the first two of the above points for the purposes of the NSFR. The cash allocation within an investment option is considered a deposit from a financial institution and therefore must be assigned an available stable funding (ASF) factor of zero per cent for short-term deposits, 50 per cent for deposits maturing between six and 12 months and 100 per cent for deposits maturing beyond 12 months.

Currently, operational and member-directed monies deposited by superannuation funds are often classified by ADIs as short-dated financial institution deposits and, depending on the contractual terms between the trustee and the ADI, are often not recognised as a source of stable funding with an ASF factor of zero. However, treatment is not consistently applied.

Comments received

Submissions questioned the validity of applying a zero per cent ASF factor to superannuation deposits and proposed a retail treatment with a 90 per cent ASF factor. It was argued that superannuation deposits have been historically stable, even in times of stress. Further, a number of submissions argued that given the size of the superannuation system in Australia, ADIs are disadvantaged compared to their international peers. Submissions expressed the view that, while in a severe stress event a superannuation trustee would act in the interests of its members and withdraw its funds, the NSFR has a different focus - funding stability for an extended time horizon - hence, given superannuation deposits tend to be stable over a longer time-horizon, they should be recognised as such.

APRA's response

The Basel NSFR standard requires a deposit from a financial institutional to be treated as such unless it meets the criteria for treatment as a retail deposit. While acknowledging industry's view of the historic performance of superannuation deposits, APRA does not view the treatment proposed by industry of a 90 per cent ASF for either operating or member-directed superannuation as appropriate.

There is nevertheless scope for some superannuation deposits to receive a more favourable ASF treatment. In order to recognise the stable funding characteristics of certain superannuation deposits, and to clarify the treatment of these deposits, APRA notes that an ADI may:

- treat the operating or transactional portion of superannuation deposits as operational deposits under the LCR and for NSFR purposes apply a 50 per cent ASF factor if the deposits meet the definition of operational deposits in APS 210; and
- apply a 50 per cent ASF factor to member-directed deposits where the trustee cannot remove the deposit-holding ADI provider within six months and a 90 per cent ASF if the ADI cannot be removed within one year.

In all other circumstances, superannuation deposits are considered to be deposits from a financial institution, with the ASF factor corresponding to the maturity of the deposit. Where an ADI cannot determine the source of its superannuation deposits, it would be required to apply the most conservative (lowest ASF factor) treatment to those deposits.