Senate Economics Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

2017 - 2018

Division/Agency: Australian Prudential Regulation Authority
Question No: 70
Topic: Bank Levy
Reference: Hansard page 113 (30 May 2017)
Senator: Ketter, Chris

Question:

Senator KETTER: I just have a few more questions which I will try to whip through as quickly as possible. Mr Byres, I will try again on the bank levy and just suggest to you that, in terms of competing designs for the bank levy, is it true that a profits based model would minimise balance sheet risks as compared to a liability based model?
Mr Byres: A profit based model, I presume, just means an increase in the corporate tax rate. Is that equivalent to what you are suggesting?
Senator KETTER: Something along those lines, yes.
Mr Byres: I would have to think that through. I am not sure. The answer is not obvious to me. Is your question, 'Is one worse than the other or some way more risky than the other?' I would have to think that through. It is not obvious to me—
Senator KETTER: The question was in relation to balance sheet risks. Would a profits based approach avoid the issue of banks preferring riskier lending?
Mr Byres: I am not sure I agree with the starting proposition that it encourages more risky lending, but I will take it on notice and provide you with a considered response.

Answer:

APRA considers that banks would take a number of factors into account when configuring their balance sheets, including any costs associated with particular activities. A levy based on liabilities may have an impact on the configuration of the types of funding sources a bank relies on, whereas a profit-based levy would not typically impact the funding profile.

Riskier lending involves higher capital charges, and this is one type of cost that a bank would consider in structuring its asset profile. The return on different classes of assets would be another consideration for a bank in determining its asset profile.

Overall, APRA does not consider that the size of the bank levy will have a significant impact on financial stability of the banks or the financial sector as a whole.