



August 26, 2014

Mr David Murray AO
Chairman
Financial System Inquiry
GPO Box 89
SYDNEY NSW 2001

Dear David

Thank you for the opportunity to comment on the Interim report of the Financial System Inquiry.

We appreciate the challenging task of examining how the financial system could be positioned to best meet Australia's evolving needs and support our economic growth. We support key elements of the approach taken by the Inquiry and believe that the interim report has crystallised the key issues to be addressed.

As the Inquiry indicates, Australia's financial system has performed well. It is competitive and stable, with high levels of customer satisfaction. It is underpinned by market principles supporting risk taking, as well as strong consumer protections.

The effectiveness and efficiency of the financial system is integral to economic growth. At a time when Australia, like most countries, is seeking to return to a faster growth path, we need to take efficient, low-cost and prudent steps to improve growth, while ensuring the financial system is resilient against external shocks and delivers better outcomes for consumers.

A critical area for the consideration of the Inquiry is whether additional steps are required to minimise risks to taxpayers from a future stress event. ANZ considers that the Australian banking system has robust features that limit instability in the event of an external shock and provide strong capacity to respond to a crisis.

The significant strengthening of the system since the GFC, along with the wide range of other structural protections inherent in Australia's financial system, obviate the need for additional loss absorbency. In our view, a compelling case has not yet been made that further strengthening would provide additional benefits to the financial system.

Australian bank common equity capital ratios are at the 75th highest percentile compared to global peers. Regulatory strengthening that has been implemented or is planned, including the APRA Domestic Systemically Important Bank additional charge, will protect a capital level of 5.125 per cent against an extreme, one in 5000 year event. Further increasing capital requirements or loss absorbency will come at a material cost but would deliver limited additional benefit.

As set in our submission and responding to the Inquiry options, we see many other areas where efficient, low cost steps can be taken to improve system resiliency, growth and consumer outcomes.

Senior management, the Board and I would be very happy to assist the Inquiry in its work.

Tom Simby

Mike