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Byres puts bankers to the sword

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The low-profile, balding head of the nation's banking regulator, Wayne Byres this week stepped out of the shadows to pierce Anna Bligh's budget night warning that the $6.2 billion banking levy would threaten the stability of the banking system.

Indeed, it is Byres who knows a thing or two about stability given his secretive Australian Prudential Regulation Authority is tasked with guarding the financial health of the country's trillion dollar financial system.

Since the budget was handed down on May 9, a rout in bank shares has far eclipsed the financial impact of the bank levy. Indeed, the banks are showing a paper loss of about $40bn. That figure underpins the pronouncements of doom and gloom emanating from Bligh, the newly installed Australian Bankers' Association chief executive — and former Queensland Labor premier — who since budget night has warned the levy threatens the viability of the major banks.

On budget night Bligh fronted the cameras declaring: "There is the potential for the stability of our banking system to be undermined by this kind of reckless move. It is policy on the run. It is policy that every Australian will pay for."

It's an assertion that was completely demolished by Byres at a Senate hearing this week.

"Obviously they're not happy about having to pay the levy. That's true. But they will still be, even after that levy is paid, quite profitable institutions," Byres told the committee.

Coming from someone like Byres, a former official of the Reserve Bank of Australia who never enters the political area, the

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comments had extra punch.

And as an adviser to the government on the creation of the levy, he ought to know.

After the first "heads-up" he received from Treasury in late March, Byres received a formal request in early April from the department for assistance with data. Later, an APRA employee was put on secondment to Treasury to help build the levy, which will apply a 0.06 per cent tax on banks with liabilities above $100bn.

The bank levy legislation, introduced into parliament by the Treasurer Scott Morrison this week, noted "any risks to financial market disruption arising from the major bank levy have been minimised by its design" and "the major bank levy should have a negligible impact on the real economy".

Even so, Bligh and the banks affected by the tax argue the levy will harm the sector's ability to retain capital for their reserve buffers in the event of a financial crisis.

APRA will, in the next month or so, unveil new rules requiring the banks to hold more capital in their reserves as part of a government plan to make the lenders "unquestionably strong".

When asked what he had advised the government on the levy, Byres said APRA "expressed the view that this didn't jeopardise our prudential objectives and it wasn't going to have a material impact on the reslience of the banking system."

He also said it wouldn't alter or delay the regulator's plans for strict new capital rules.

"It's less than six basis points spread over the entirety of their funding structure," Byres said. "Funding costs seem to move regularly by more than that. So it didn't seem to me to be, in that sense, in any way destabilising or such a shock to the system that it couldn't be managed in a fairly orderly fashion."

The former Queensland premier has maintained the ABA's stance.

"The full impact remains to be seen," Bligh told *The Weekend Australian.*

"The banking system is complex and rushed policy like this bank levy runs the risk of unintended consequences that may take years to play out.

"Since the levy was announced, analysts have become more bearish on banks and have expressed concerns about the impact of the levy on bank profitability."

Although shares in the major banks have fallen since the levy was announced, the stocks are still substantially higher than they were before November's US presidential election, which sparked a broad jump in markets globally.

Brokerage Citi this week tipped the annual cost of the levy would be $281 million for ANZ, $367m for CBA, $310m for National Australia Bank and $345m for Westpac. Macquarie Group will wear a charge of just $69m, Citi calculates.

The appointment of Bligh to the head of the ABA rankled Liberal Party MPs, who had been defending the sector against Labor's calls for a royal commission.

Morrison's former chief adviser, Sasha Greber, was also in contention for the role.

Former Labor treasurer Wayne Swan said the banks' over-reaction was a replay of when he introduced laws prohibiting price signalling in 2011 that targeted the banking sector. "We've seen this from the bankers before. They said the world was going to end," Swan told *The Weekend Australian*.

The behaviour of the ABA has also inflamed tensions with smaller banks and regional lenders, which are members of the industry group but are overwhelmingly supportive of the levy.

Tasmanian Senator Peter Whish-Wilson, a former merchant banker, said the ABA was interested in "supporting policies that preserve the market dominance of the majors".

"If the ABA was doing their job properly they would be using the bank levy as an opportunity to support a more level playing field in the banking sector," the Greens senator said.

During questioning, Byres made it clear APRA's biggest concern was not the levy but the extreme level of household debt amid surging house prices, and enforcing sound lending standards at the banks. "The ABA's Henny Penny claims amount to nothing," Whish-Wilson said.

Finance professor Kevin Davis, a member of the government's Financial System Inquiry, said there were no "obvious consequences" for financial stability resulting from the tax. "I don't think it has any particular effects really. It's a relatively minor thing," he said. "The 6 basis point tax is levied on non-retail deposits. So it's only applying to around half of their balance sheet. As a percentage of total assets, it's then something like 3 or 4 basis points," he added.

Morrison said he stood by APRA's assessment and had "full confidence in the strength of our banking and financial system".