



THE HON JIM CHALMERS MP
TREASURER

Ref: MS24-001141

Ms Michele Bullock
Governor
Reserve Bank of Australia
GPO Box 3947
SYDNEY NSW 2001

Dear Governor

I am writing to you in your role as the Chair of the Council of Financial Regulators (CFR) requesting that the CFR conduct a review of the small and medium-sized banking sectors, in consultation with the Australian Competition and Consumer Commission (ACCC).

I am aware of the important roles that these banks play in our communities, supporting households and businesses and the broader Australian economy. However, it is clear that there are a range of current and emerging challenges facing small and medium-sized banks.

I am therefore asking the CFR to examine:

- the role and state of the small and medium-sized banking sectors in providing competition;
- the regulatory and market trends affecting their competitiveness; and
- current and potential future sources of and barriers to competition from these sectors.

I am seeking the views of the CFR on how we can better support competition and dynamism in these sectors of the banking industry, including on what steps might be taken to improve regulation to ensure increased proportionality and an appropriate balance between competition, innovation and stability.

I would like the review to include at an examination of:

- how mechanisms to mitigate deposit risks and contagion risks (such as the Financial Claims Scheme) may enable more proportionate ex-ante regulation for smaller banks and lower barriers to entry and expansion;
- access and costs of funding by small and medium-sized banks, including the impact of current statutory limits on the use of covered bonds; and
- the cumulative regulatory reporting obligations from across the CFR agencies for small and medium-sized banks.

I am not seeking a review of matters subject to any current government legislative workstreams (e.g. the regulatory initiatives grid; the consumer data right; facilitating mortgage switching; payments regulation), on matters outside of the areas of responsibility of CFR agencies (e.g. anti-money laundering / counter terrorism funding requirements) or on matters relating to agency funding or industry levies.

I appreciate that the review would likely provide recommendations for consideration of system setting by both the Government and by CFR agencies themselves in the independent exercise of their regulatory functions.

I ask that the CFR seek to provide the Government with a final report by 1 July 2025.

Yours sincerely

A handwritten signature in black ink, consisting of a large, stylized 'J' followed by a long horizontal stroke that tapers to the right.

The Hon Jim Chalmers MP

08 JUL 2024

CC: Chair Gina Cass-Gottlieb, ACCC
Mr John Lonsdale, APRA
Mr Joseph Longo, ASIC
Mr Steven Kennedy, Treasury