

The background of the slide is a dark blue collage of various Australian banknotes. Visible elements include the portrait of Queen Elizabeth II on a \$50 note, a \$10 note, a \$5 note, and a \$20 note. The word 'AUSTRALIA' is visible on the top left, and 'DOLLARS' is visible on the bottom left. The text 'Systemic Importance: Country Perspectives' is overlaid in a bright yellow font.

Systemic Importance: Country Perspectives

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Reserve Bank of Australia

IMF Conference on Operationalizing
Systemic Risk Monitoring

Washington DC

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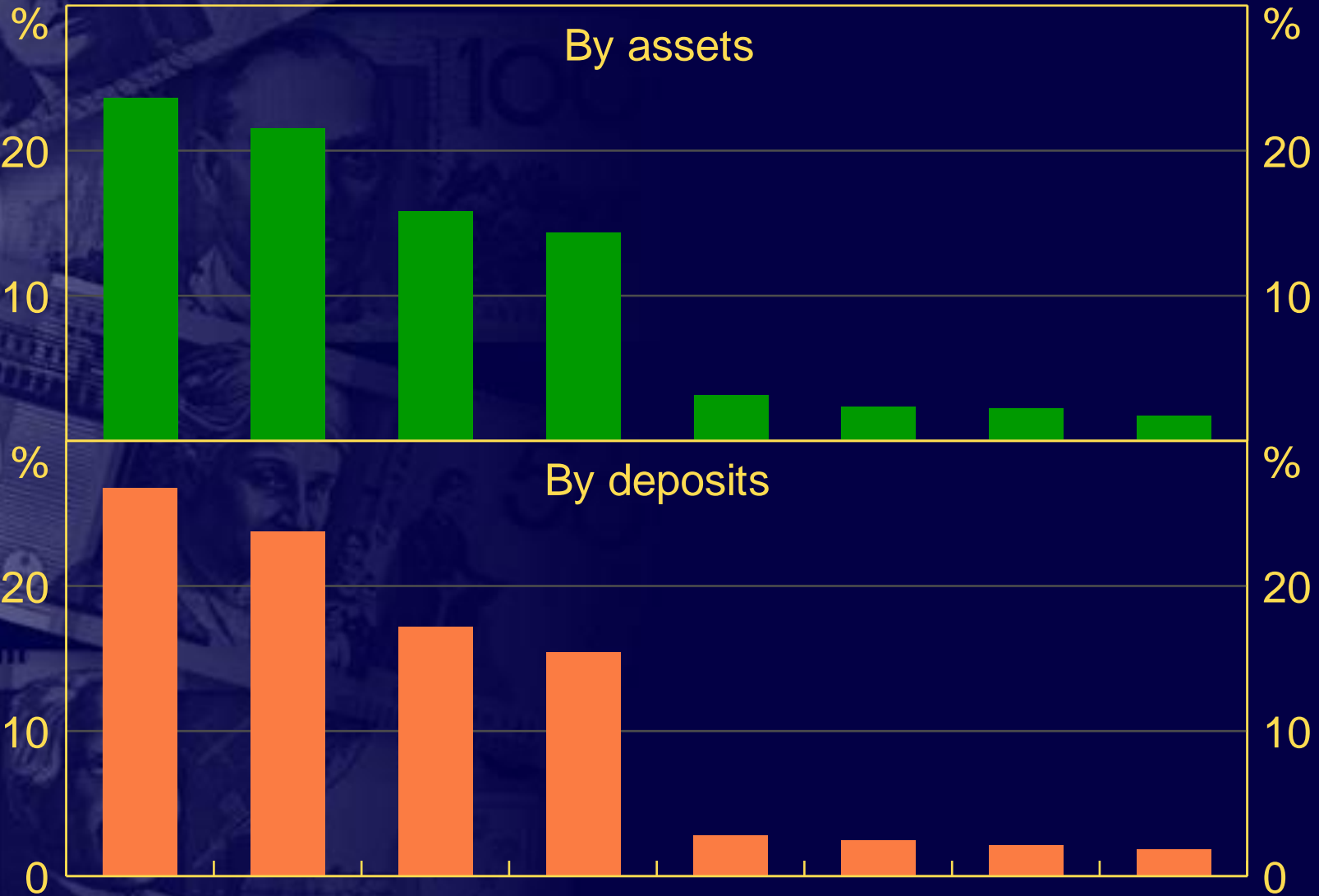
The Challenge of defining systemic importance

- Grappling with definitions of 'systemic importance' isn't a new challenge for most central banks and regulators.
- The RBA's long-standing policy is that banks can only access its balance sheet for emergency liquidity support if they are solvent and systemically important.
- The criteria for assessing systemic importance are whether the failure of the financial institution would:
 - Have a direct and material impact on the economy;
 - Likely lead to a cascading of problems within the financial system through cross-institution exposures; and
 - Have the potential to act as a trigger for broader contagion in the economy.



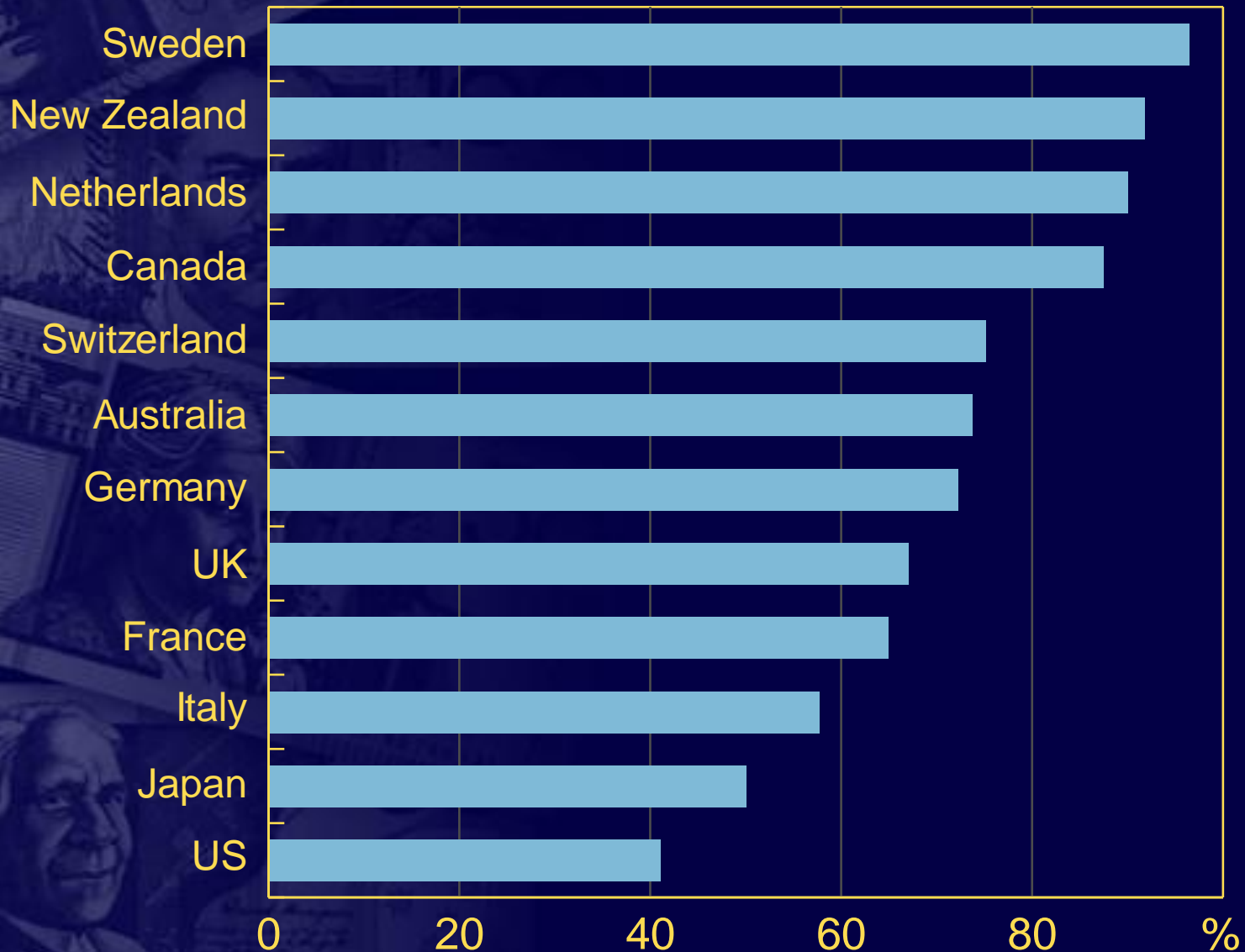
Australian Banks' Assets and Deposits

Eight largest banks: share of total, September 2009



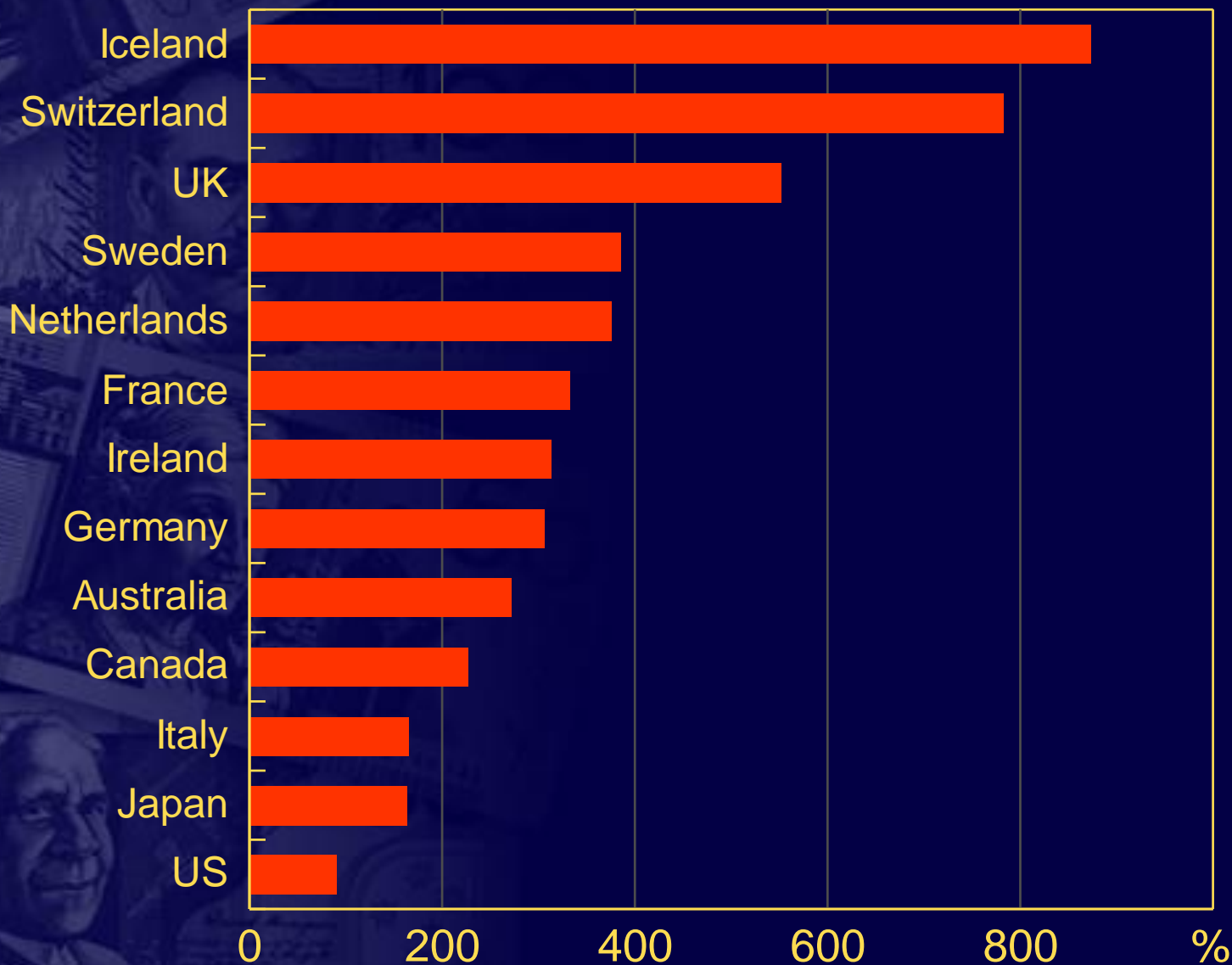
Assets of the Five Largest Banks

Per cent of System, December 2005



Banking Sector Assets

Per cent of GDP, 2008



Policies to contain systemic risk

1. Reduce the probability that a big bank will fail
2. Minimise the impact of a large bank failure through inter-agency contingency planning.
3. Reduce the size of banks by classifying institutions by systemic importance and imposing some kind of tax or capital surcharge on size.



Policies to contain systemic risk

In Australia, the formal classification of financial institutions by systemic importance isn't appealing, nor is the imposition of a 'tax' on size because:

- We don't claim to know what the optimal size of a bank is from a systemic perspective;
- It would formalise the 'too-big-to-fail' status of the existing big banks and create a two tier banking system; and
- For a concentrated banking system a surcharge on the largest banks could be a significant extra cost to intermediation.

Think there is more mileage in improving the quality of supervision.

