



MEDIA RELEASE

FEDERAL BUDGET – CAREFUL IMPLEMENTATION AND ENGAGEMENT REQUIRED

14 May 2013

The Australian Financial Markets Association (AFMA) expressed caution about a number of measures announced in the 2013-14 Federal Budget.

Offshore Banking Unit (OBU) Regime

The objective of the OBU regime is to enable Australian banks to compete for international business with regional financial centres, like Singapore and Hong Kong. Success brings both income and employment to Australians, as eligible OB transactions are not intrinsic to a particular economy and can be conducted elsewhere. Australia has important attributes as a financial centre but our tax system is not fully competitive and, as the Johnson Report on Australia as a Financial Centre recommended, the OBU regime should be improved.

AFMA is concerned that the changes announced in the Budget may risk harming the international competitiveness of the OBU regime, rather than delivering the necessary improvements. One impact would be to significantly reduce the number of eligible counterparties for OBUs. This may impact existing *bona fide* business arrangements, thereby requiring remedial action to occur in an extremely short time-frame in order for continued compliance with the regime.

AFMA is also concerned regarding the statement that the Government proposes to “tighten” the current list of eligible OB activity. The Johnson Report recommended the modernisation of the list of eligible OB activities and AFMA will seek to ensure that any “tightening” is consistent with the Report’s recommendations.

Accordingly, AFMA will ask the Government to ensure that engagement with industry regarding commencement, grandfathering and transition of the announced changes is both quick and effective.

Thin Capitalisation

AFMA calls on the Government to implement the announced thin capitalisation measures for banks and non-bank financial institutions as part of an integrated package of measures to address the full consequences of global regulatory reforms and the impact of the global financial crisis (GFC).

There has been substantial regulatory change since the GFC, of which the higher bank capital requirement under Basel III is just one aspect. Additional measures that need to be implemented as part of an effective package include the phase down of interest withholding tax on borrowings by financial institutions, the elimination of withholding tax on interest related to centrally cleared OTC derivatives and abolition of the “LIBOR Cap” that limits the deductibility on interest for foreign bank branches on funds borrowed from their head office. This would help to address issues like the 40% reduction in the share of foreign banks in the Australian market following the GFC.

Australia requires capital investment from abroad to fund Australian business and maintain economic growth. The increase in financial intermediation costs because of regulatory reform bolsters the case for the abolition of interest withholding tax, as recommended by the Johnson Report and the Henry tax review. Interest withholding tax distorts the free flow of overseas funds to Australian business, places an additional cost on financial intermediaries and impedes their overseas funding.

The proposed changes to the thin capitalisation ratios, particularly the increase in the requirement for banks to hold capital equal to 6% of risk-weighted assets (an increase from 4%) will require careful implementation and industry engagement to ensure that the changes are competitively neutral and consistent with the needs of the economy.

Tax System Advisory Board

AFMA welcomes the announcement of the establishment of a Tax System Advisory Board, to operate within the ATO and advise the Commissioner and the ATO Executive Committee on matters such as strategic direction, culture, organisation, management and information technology. AFMA has long advocated the establishment of such a Board and the announcement is a welcome development.

Notes for Editors:

The Australian Financial Markets Association (AFMA) is the leading industry association promoting efficiency, integrity and professionalism in Australia’s financial markets and provides leadership in advancing the interests of all market participants. These markets are an integral feature of the economy and perform the vital function of facilitating the efficient use of capital and management of risk. Market participants perform a range of important roles within these markets, including financial intermediation and market making.

AFMA represents over 130 members, including Australian and international banks, leading brokers, securities companies, fund managers, traders in electricity and other specialised markets and industry service providers.

Contact details for further information:

David Lynch
Executive Director
+61 2 9776 7991
dlynch@afma.com.au