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Committee Secretary
Senate Standing Committee on Economics
Department of the Senate
PO Box 6100
Parliament House
CANBERRA ACT 2600
AUSTRALIA

Dear Committee Secretary,

Re: *Currency (Restrictions on the Use of Cash) Bill 2019*

I am writing to provide the committee with additional evidence to my strong opposition to the *Currency (Restrictions on the Use of Cash) Bill 2019* and the associated legislative instrument, the *Currency (Restrictions on the Use of Cash – Excepted Transactions) Instrument 2019.*

This document is a supplementary submission to my original submission of 12 November 2019 which highlighted my concerns with the Australian Government's proposed Cash Transaction Ban (CTB).

The Australian Government is not serious about eliminating tax leakage

In my original submission, I made the point that the Australian Government does not have robust empirical evidence that their proposed CTB will have any material beneficial impact on reducing tax evasion in Australia and that the Government is unable to indicate how much additional taxation revenue could be generated from implementing the proposed CTB.

In addition to these points, I would point out that if the loss of tax revenue (i.e. tax leakage) was a pressing problem for the Australian Government, other richer sources of tax revenue are available to the Government beyond what may be captured by the CTB.

For example, according to data from the Australian Taxation Office[1], approximately one third of large companies legally registered in Australia (710 companies out of 2,214 companies) pay no tax due in part to the ability of companies to:

- use prior-year losses to deduct against taxable income;
- report an accounting loss;
- offset an accounting profit with reconciliation items such as tax deductions to report a tax loss; and
- offset an accounting profit using offsets (such as research and development tax incentive) equivalent to tax payable.

In several instances, these companies have been able to use transfer-pricing strategies as well as use interest servicing cost deductions to shift profits outside of Australia (especially in the case of foreign-owned multinational companies).

[1] https://www.abc.net.au/news/2019-12-12/ato-corporate-tax-transparency-data-companies-no-tax-paid/11789048

Hence, given that the Australian Government is unable to indicate how much tax revenue could be generated from the introduction of the CTB, a more significant and certain amount of tax revenue could be generated from addressing tax loop holes or tax minimisation strategies for those large companies not paying any tax to the Australian Government.

The Australian Government is not serious about eliminating money laundering

With respect to the risk of money laundering and whether the CTB is an effective mechanism to addressing this risk, I indicated in my original submission that the greatest source of money laundering risk in Australia is the real estate sector as indicated by the Organisation for Economic Co-Operation and Development (or OECD) and that the Australian Government and the Federal Parliament has failed to address this risk through the existing anti-money laundering regulatory framework.

I would also point out that since mid-November 2019 a new money laundering scandal has emerged in Australia with allegations by AUSTRAC that Westpac breached Australia's anti-money laundering laws on at least 23 million occasions as reported by the Sydney Morning Herald on 20 November 2019[2].

These allegations are extremely serious and suggest that there are potentially significant gaps in the existing anti-money laundering regulatory framework from either a design or enforcement perspective.

While legal action initiated by AUSTRAC against Westpac remains pending before this courts, the scale of the allegations by AUSTRAC suggest that the Australian Government should seek to address shortcomings in the existing regulatory regime as a means to addressing the risk of money laundering in Australia before seeking to impose new regulation through the introduction of the CTB.

Imposition of Negative Nominal Interest Rates

With respect to the prospect of negative nominal interest rates (NNIRs) being introduced in Australia, I noted in my original submission of 12 November 2019 that:

> *"Given that the Australia's official cash rate currently sits at 0.75%, there is an increasing likelihood that the RBA may be motivated to implement negative nominal official interest rates, among a suite of other unconventional monetary policies, if the Australian economy were to fall into recession or if a global economic shock were to eventuate."*

It is important to note that this point was confirmed on 26 November 2019, when the Reserve Bank of Australia (RBA) Governor, Dr Philip Lowe, addressed the Australian Business Economists annual dinner in Sydney on the topic of so-called unconventional monetary policy (which included a discussion of NNIRs).

During his formal remarks, the RBA Governor indicated that the introduction of NNIRs in Australia was *'extraordinarily unlikely'*, however, during the question and answer session, the RBA Governor stated:

> *"but if the unemployment rate was rising materially and inflation was moving away from target, then all options would need to be on table".*[3]

As I noted in my original submission, Australians should have the fundamental economic and civil right to protect their private wealth independent of the commercial banking sector that would strip them of their wealth from the imposition of NNIRs. Protecting this right is important especially given that retail commercial banks in Germany and Denmark are now imposing NNIRs on retail bank deposits.

[2] https://www.smh.com.au/business/companies/westpac-accused-of-large-scale-breaches-by-money-laundering-watchdog-20191120-p53c8o.html
[3] https://www.rba.gov.au/speeches/2019/sp-gov-2019-11-26.html

It is important to note that in this context, depositors with only small account balances are starting to be impacted by NNIRs in Europe compared to high net worth clients (with balances over one million Euros) who have historically been the target of NNIRs.

For example, Volksbank Raiffeisenbank Fürstenfeldbruck (VRF)[4] (in Northern Bavaria, Germany) started charging a NNIR of -0.5% on deposits as little as 1 euro, a revision to the previous rule which stated that adverse interest rates would only affect deposits above 100,000 euros. The new ruling has affected all money market accounts that were created since 1 October 2019.

Australia's Banks are Preparing for Negative Nominal Interest Rates

Any discussion of NNIRs and their likely introduction in Australia needs to also consider the recent testimony of the Chief Executive Officers (CEOs) of Australia's largest four banks to the House of Representatives (HoR) Standing Committee on Economics.

On 8 and 15 November 2019, the HoR Standing Committee on Economics took testimony from the CEOs of Westpac, CBA, ANZ and NAB as part of its '*Review of the Four Major Banks and Other Financial Institutions'* inquiry[5]. During these hearings, the Committee Chairman, the Member for Goldstein, Mr Tim Wilson MP asked each CEO directly whether their institution was preparing their bank to implement NNIRs.

All four CEOs testified that their respective bank was undertaking detailed analysis to determine whether their organisation's information technology systems could handle NNIRs.

Three of the four CEOs indicated that their organisation can either already handle NNIRs or that they would be implementing additional actions to ensure that their institution has the capacity to implement NNIRs into the future.

The testimony of the four bank CEOs are provided in Table 1.

Table 1: Bank CEO testimony to the HoR regarding plans to impose nominal negative interest rates

Institution	CEO	Quote
Westpac	Mr Brian Hartzer	*"We have been looking at that, and it certainly raises a bunch of new challenges. We're still working through the systems question. It depends a bit on exactly what that means. Even overseas, where we've had notionally negative interest rates for a long time, we haven't actually seen customer rates or formal depositor rates go negative.… We think it's pretty unlikely. Certainly, we're preparing for the possibility."*
CBA	Mr Matt Comyn	*"Yes. We are doing that work to determine if there are any limitations with a number of our systems from being able to accept negative rates. We would say we think it's extremely unlikely. I think that's consistent with the Governor of the Reserve Bank, but we thought it would be prudent to ensure that if those extremely unlikely circumstances ever did eventuate, we need to understand what the impacts of that change would be. My current understanding is that many of the systems would not have a problem but we have not completed the analysis."*

[4] https://www.tronweekly.com/german-banks-begin-introducing-negative-interest-rates-as-holders-contemplate-turning-to-bitcoin/

[5] Note that Westpac and CBA testified on Friday, 8 November 2019 and NAB and ANZ testified on Friday, 15 November 2019.

Institution	CEO	Quote
ANZ	Mr Shane Elliot	*"Banks have complex systems, so it's not quite as simple as it may otherwise sound. We've done some initial testing in both New Zealand and Australia to assure ourselves that, if we ended up having to offer negative interest rates on deposits, or if some of the bonds that we owned were negative yielding, our systems would cope. That work is ongoing. We have a high degree of confidence but not a perfect degree of confidence. I would imagine, based on my experience and looking at this, that we probably will have to make some changes to our systems."*
NAB	Mr Philip Chronican	*"We've done high-level analysis, which has shown that we have many systems that cannot handle negative interest rates. There's just no scope for it. Generally speaking, the idea of negative interest rates was never contemplated when some of our core systems were developed. The answer to your question is: we've done some high-level analysis of it, but we are not going through trying to build for it either at this stage."*

Given the testimony of the bank CEOs as outlined in Table 1, the likelihood that NNIRs may be introduced in Australia is higher than what most Australians would anticipate or what the Australian Government would admit to publicly and hence this adds further weight to the concerns that the proposed CTB may entrap Australians into the banking system if NNIRs are introduced.

Reducing or Eliminating Cash Assists with implementing NNIRs

It is important to note that the Black Economy Taskforce made reference in their final report that eliminating or reducing cash throughout the Australian economy may deliver benefits to implementing NNIRs. For example, Page 48 of the Black Economy Taskforce Final Report[6] stated:

> *"The reduced use of cash brings other possible benefits, including potentially lowering financing costs for banks and other financial institutions (from higher deposit rates than might otherwise be the case). As the trend away from cash continues banks should be monitored to ensure they pass on the benefits they receive from this change to consumers.*
>
> *Some economists, including Ken Rogoff (former Chief Economist of the International Monetary Fund (IMF), argue that financial stability and the effectiveness of monetary policy may also benefit."*

The benefit that enhances *'the effectiveness of monetary policy'* directly refers to NNIRs given that Ken Rogoff has written and spoken at length about this subject in the context of needing to reduce or eliminate cash as demonstrated by the following Wall Street Journal article of 17 September 2017 entitled, *"Should We Move to a Mostly Cashless Society?"*[7]

In this piece Rogoff states:

> *"Another advantage of eliminating large bills would be the effect on monetary policy. The Federal Reserve should be able to implement negative nominal interest rates vastly more effectively in the absence of large bills, which could prove quite important as a stimulative tool in the next financial crisis."*

[6] https://treasury.gov.au/sites/default/files/2019-03/Black-Economy-Taskforce_Final-Report.pdf
[7] https://scholar.harvard.edu/files/rogoff/files/should_we_move.pdf

While the CTB is a different policy mechanism to eliminating bank bill notes of large denominations, the overall intention of these initiatives is to give central banks, such as the RBA, greater abilities to implement NNIRs during the next economic recession or financial crisis.

Specific Concerns with the Proposed Law

In addition to the specific concerns which I highlighted in my original submission I also would like to highlight the following concern that:

- The $10,000 threshold is not indexed to an inflation measure such as the Consumer Price Index (as published by the Australian Bureau of Statistics) meaning that the real value of the proposed law will decrease over time impacting more Australians compared to when the law maybe first enacted by Parliament.

  Assuming a constant annual rate of inflation of 2.5% (which is the mid-point of the RBA's 2% - 3% inflation target), the real value of the CTB threshold after 10 years reduces to only $AUD 7811.98.

Conclusions

In conclusion, I would point out via this supplementary submission that:

- the lack of willingness by the Australian Government to address the tax leakage which is occurring among large companies legally registered in Australia representing billions of dollars in potential taxation revenue demonstrates that the Australian Government is not authentic and genuinely committed to improving the integrity of the taxation system;

- the recent allegations by AUSTRAC of major breaches of the existing AML regulatory framework suggests that the risk of money laundering can be better addressed by fixing existing design or enforcement problems in the existing regulatory regime rather than introduce new laws which have limited value in addressing the risk of money laundering;

- recent comments by the RBA Governor and the testimony of Australia's big four bank CEOs suggests that the risk that NNIRs may be introduced in Australia, especially during the next recession or financial crisis, is higher than what the Australian Government is officially willing to acknowledge; and

- the $10,000 threshold is a fixed dollar threshold and is not linked to an inflation measure such as the Consumer Price Index meaning that the real value of the threshold decreases over time, hence entrapping more Australians under the CTB legislation.

I hope this supplementary submission assists the Senate inquiry in adequately assessing the *Currency (Restrictions on the Use of Cash) Bill 2019* and the other associated policy issues.

Yours sincerely,

John Adams