

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

29 May – 31 May 2012

Question: BET 146

Topic: Implementation of Johnson Report Recommendations

Hansard Page: Thursday 31 May 2012, page 69-70

Senator CORMANN asked:

Senator CORMANN: That is right. Can you give us an update on where things are at with implementing the recommendations out of the Johnson report?

Mr Murphy: All things said and done, in terms of recommendations, it largely took the policy position that it felt that overall Australia had a pretty good regulatory framework and it was a reasonably attractive place for investment and business to operate out of. Where there were some recommendations in the tax area, the government thought to move on those, especially in relation to investment management regime, and they are consulting on that. Where did we get up to on that?

Ms Vroombout: The first phase has been—

Mr Murphy: The first place has been legislated, but let me just check.

Ms Vroombout: I do not have the detail with me. We could take it on notice and come back to you with the stage of implementation of each of the recommendations. There were 19.

Senator CORMANN: Would you be able to do that? That would be great. If you could give us a status update on where implementation of each one of the 19 recommendations is at, that would be exceptionally helpful, thank you.

Mr Murphy: The task force continues to meet but, as I said, they looked at the tax side. Other than that there were not many recommendations in terms of changes in policy that currently apply to the financial services industry.

Senator CORMANN: As Ms Vroombout said, there are 19 recommendations, and quite a few of them did have policy implications. There is such a thing as tax policy and there were some announcements made, for example, in terms of the investment manager regime.

Mr Murphy: Yes, that is right.

Senator CORMANN: I think the announcements were made in early January 2011 that it was to be implemented, but we have not seen any progress on that.

Mr Murphy: Yes, well, we have.

Senator CORMANN: So, what progress have we seen on the investment manager regime?

Ms Vroombout: As I said, I have to take that on notice and get back to you. There were other recommendations around corporate bonds and disclosure for retail corporate bonds. A discussion paper has been put out on the disclosure requirements and the liability requirements in respect of retail corporate bonds.

Senator CORMANN: But specifically in terms of the investment manager regime, Minister Shorten announced in January 2011 that that was going to happen, but it still has not happened. So where is that at?

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Ms Vroombout: We will have to take that on notice. It is more a matter for our Revenue Group colleagues. Our role in Markets Group is to monitor the implementation of those recommendations, but those that relate to tax matters are dealt with in detail by our Revenue Group colleagues. So, as I have said, I will take it on notice and get back to you.

Senator CORMANN: Have there been any changes to the secretariat support of the task force?

Mr Murphy: No. They have their own secretariat.

Senator CORMANN: The personnel is still the same as what it was when it got underway?

Mr Murphy: Yes.

Senator CORMANN: Has the Markets Group of Treasury received any feedback from stakeholders on how the delay in implementing the investment manager regime is impacting the industry?

Mr Murphy: No. We attend these task force meetings and, as we say, the investment manager regime is being worked on and certain steps are being taken, but there has been no major feedback from industry about that.

Senator CORMANN: Who is responsible for this area within Treasury?

Mr Murphy: It is a taxation matter, so—

Senator CORMANN: Mr Potts; was he in your area or was he in somebody else's area?

Ms Vroombout: No, he is in Revenue Group.

Senator CORMANN: He has left, but he was in Revenue Group?

Ms Vroombout: Yes, the International Tax and Treaties Division of Revenue Group.

Senator CORMANN: So, is there an issue here where there is a lack of continuity and things are sort of dropping off the table a bit?

Mr Murphy: No, I do not think so. I think it just falls into the fact that with some of the taxation matters, when you are disapplying tax and it has revenue implications, it moves away from just being a narrow regulatory matter into whole-of-government revenue. I think that is why we will take it on notice and we will give you an update on where it is at.

Senator CORMANN: I just look at Minister Shorten's announcement on 19 January 2011. He said:

Australian fund managers will welcome the Federal Government's announcement today of changes to the income tax treatment of investment income of foreign funds, which will make it more likely foreign-based funds will use Australian-based fund managers.

And then he says:

Under the change, income from relevant investments of a foreign fund, that is taken to have a 'permanent establishment' in Australia, will be exempt from income tax.

Mr Murphy: I apologise; I cannot be certain on that. I thought it had, but let me get back to you.

CHAIR: I think, as Mr Murphy has indicated, it is the Revenue Group.

Mr Murphy: I have not looked at this for awhile.

Senator CORMANN: I just thought that, given the Markets Group's interest in the implementation of the Johnson report recommendations—

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Senator Wong: They are very interested in that and I am sure they doing a very good job in that, but the point is that some of the policy measures are not the responsibility of Mr Murphy's group.

Answer:

The following summarises the status of key Johnson Report recommendations.

Investment Manager Regime

- This has three elements that are being implemented in a staged approach. Legislation enacting the first two elements received Royal Assent on 13 September 2012. For Element 3, exposure draft legislation is expected to be released early next year for public consultation.

Withholding tax

- The Government has announced that it will phase down the interest withholding tax paid by financial institutions in Australia on certain offshore borrowings from 2014-15.

Financial Centre Task Force

- The Taskforce has had its appointment extended until 30 June 2014 and the Executive Director of the Secretariat is contracted until 30 June 2013.

Increased competition on exchange traded markets

- On 4 May 2011, Minister Shorten granted Chi X an Australian market licence (subject to certain pre-conditions, including industry readiness). Chi-X commenced full operations on 9 November 2011.

Online regulatory gateway

- The Gateway was completed and operational by 1 July 2011. It is hosted by Austrade.

Regulatory requirements on corporate debt issuance

- On 13 December 2011, the Deputy Prime Minister and Treasurer released a discussion paper regarding proposals aimed at developing the Australian retail corporate bond market by streamlining disclosure and liability requirements under the *Corporations Act 2001*. Exposure draft legislation required to implement the reforms is expected to be released for public consultation in the near future.

Asia Region Funds Passport

- Work is progressing on developing the technical aspects of the Passport. This work is being led by Australia with input from other economies. Work will continue on achieving a pilot program of the Passport.

LIBOR cap on deductibility of interest paid on branch parent funding

- The Board of Taxation will report to the Assistant Treasurer on this matter by 30 April 2013.

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

29 May – 31 May 2012

Other Board of Taxation reviews

- The Board of Taxation has completed reviews into the tax arrangements applying to collective investment vehicles and to Islamic finance products. The Government is considering the reports.