



MEDIA RELEASE

Promoting Competition in the Australian Banking Sector

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The Australian Financial Markets Association (AFMA) agrees with the conclusion of the Senate Economics References Committee in its report *Competition within the Australian banking sector* that competition rather than regulation will generate improved outcomes for customers.

The task now is to move ahead without delay on the measures that will deliver these outcomes. In this regard, AFMA welcomes the recommendation of the Committee that interest withholding tax should be abolished, which is a measure that would boost competition in the banking system.

The Government already announced reforms to reduce interest withholding tax including:

- For local subsidiaries of overseas banks, the interest withholding tax rate will be reduced on such borrowings from 10 to 7.5% in 2013-14 and to 5% in 2014-15;
- The interest withholding tax rate applying to borrowings by any bank branch from its overseas head office will be reduced from 5 to 2.5% in 2013-14 and to zero in 2014-15; and
- The interest withholding tax rate applying to any financial institution that borrows from offshore retail deposits which they on-lend in Australia will be cut from 10 to 7.5% in July 2013-14 and then to 5% in July 2014-15.

AFMA believes that recent trends in banking markets present a strong case to accelerate the introduction of these measures to enhance banking competition, as they will not have the desired impact until they are legislated. The Committee's report is a further spur to Government action.

The Senate Committee has identified the LIBOR cap on borrowing by foreign bank branches from their parent as an issue that requires attention. The cap has the effect of increasing borrowing costs and reducing bank competition, and is an archaic tax measure with no foundation in sensible tax policy or practice. AFMA has recently written to the Assistant Treasurer asking for the ongoing Treasury review into the LIBOR cap to be completed without further delay, so it can take action to abolish the cap in keeping with the 'Johnson' Report recommendation in November 2009.

The Committee's proposal for a broad ranging inquiry into the financial system is one for consideration in the longer term. AFMA believes energies over the near term should be focussed on implementing the current heavy reform program including the measures to promote competition in equities markets, the Basel banking reforms and the tax reforms recommended by the Committee.

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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, state government treasury corporations, fund managers, traders in electricity and other specialised markets and industry service providers.