



MEDIA RELEASE

Abolition of the LIBOR Cap and Better Branch Tax Rules a Step Nearer

25 May 2012

AFMA welcomes the decision by the Assistant Treasurer to ask the Board of Taxation to examine the continued appropriateness of the LIBOR cap and the suitability of any other such tax benchmark for internal funding by foreign bank branches operating in the Australian market.

AFMA is hopeful that the Board of Taxation will be able to recommend abolition of the LIBOR cap well before its broader work on the separate entity approach to branch taxation is completed.

The policy analysis on the LIBOR cap is substantially complete and the Johnson Report, *Australia as a financial centre: Building on our strengths*, recommended abolition of the cap.

Abolition of the LIBOR cap would be unambiguously good for banking competition in Australia – If the increased competition generates a reduction in loan margins of 5 basis points, this alone would provide an annual benefit to Australian business of at least \$200 million.

Abolition of the LIBOR cap would improve our international competitiveness – Branches are the favoured vehicle for international operations and the cost of doing business in Australia would be reduced. This is especially important at a time when Australia is under pressure to finance jobs.

Abolition of the LIBOR cap would help contain the rise in financial intermediation costs due to regulatory reform. LIBOR systematically underestimates the cost of long term bank funding, so the cost to the economy of the LIBOR cap will increase as the Basel III liquidity reforms are implemented

The LIBOR cap is an antiquated and penal piece of tax law that discriminates against foreign bank branches. The market share of foreign bank branches has fallen by over 40% since the onset of the GFC, so it is important for the Government to act now to remove unnecessary impediments to their business. The Board of Taxation's review is a step in the right direction

AFMA also supports the Government's broader request for the Board of Taxation to report on the merits of Australia adopting the functionally separate entity approach to the determination of the profits attributable to a permanent establishment. AFMA has argued that the separate entity approach should apply to domestic banks with offshore branch operations, as well as foreign banks with branch operations in Australia.

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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.