

Submission

to the

Australian and New Zealand Productivity Commissions

on

Strengthening economic relations between Australia and New Zealand

31 May 2012

Submission by the New Zealand Bankers' Association to the Australian and New Zealand Productivity Commissions on "Strengthening economic relations between Australia and New Zealand"

Executive Summary

1. The New Zealand Bankers' Association (NZBA) welcomes the opportunity to provide feedback on the Australian and New Zealand Productivity Commissions' Issues Paper "Strengthening economic relations between Australia and New Zealand" (Issues Paper).
2. NZBA supports efforts to identify reforms which will boost productivity, increase competitiveness and drive deeper economic integration between Australia and New Zealand. NZBA is a strong advocate of the single economic market approach between Australia and New Zealand where it provides net benefits to both countries.
3. In particular, NZBA requests in this submission that the Australian and New Zealand Productivity Commissions consider the need for:
 - a timetable for introducing measures to ensure mutual recognition of imputation and franking credits between Australia and New Zealand, and
 - a sector review of banking which would include a focus on areas in which increased coordination of prudential regulation requirements between the Australian Prudential Regulation Authority (APRA) and the Reserve Bank of New Zealand (RBNZ) is needed.
4. We would be happy to answer any questions on our submission or to expand on the matters we have raised. Should you seek further information, please contact:

Karen Scott-Howman
Regulatory Director
New Zealand Bankers' Association
PO Box 3043
Wellington 6140, New Zealand
telephone: +64 4 802 3351
email: karen.scott-howman@nzba.org.nz

About NZBA

5. NZBA works on behalf of the New Zealand banking industry in conjunction with its member banks. NZBA develops and promotes policy outcomes which contribute to a safe and successful banking system that benefits New Zealanders and the New Zealand economy.
6. The following thirteen registered banks in New Zealand are members of NZBA:
 - ANZ National Bank Limited

- ASB Bank Limited
- Bank of New Zealand
- Bank of Tokyo-Mitsubishi, UFJ
- Citibank, N.A.
- The Co-operative Bank Limited
- The Hongkong and Shanghai Banking Corporation Limited
- JPMorgan Chase Bank, N.A.
- Kiwibank Limited
- Rabobank New Zealand Limited
- SBS Bank
- TSB Bank Limited
- Westpac New Zealand Limited.

Mutual recognition of imputation and franking credits

7. It is noted in the Issues Paper that a number of restrictions remain in relation to the free flow of capital. These restrictions include those which are caused by a lack of mutual recognition of imputation credits.
8. The costs and benefits of mutual recognition have been well traversed for more than a decade. In summary:
 - In a single economic market, capital should be able to flow between New Zealand and Australia seamlessly without barriers.
 - Allowing mutual recognition would allow shareholders resident in one country to use credits for company tax paid in the other country to offset domestic taxes. This would prevent their dividends being taxed twice.
 - Business NZ, the leading national organisation representing the interests of New Zealand's business, estimates that introducing mutual recognition of imputation and franking credits would increase post-tax dividend returns by up to 38.9 per cent for Australian investment in New Zealand and 42.9 per cent for New Zealand investment in Australia. This would expand the number of trans-Tasman investors from which to source capital, increase the efficiency and flexibility of trans-Tasman investment and generally increase growth capacity for Australasian companies.
 - While there will be a short term fiscal cost to the proposal, a free and open trans-Tasman capital market will provide a substantial net benefit to the overall trans-Tasman economy and outweigh short term fiscal costs.
9. This issue has been the subject of consideration by regulators and governments of both countries, including ministerial statements in New Zealand and bilateral discussions dating back to at least 1991. For example, in a July 1991 report "Taxing Income Across International Borders - A Policy Framework" released by the New Zealand Ministers of Finance and Revenue it was stated in the context of possible reforms of the taxation of equity supplied by non-residents that:

One option is bilateral recognition of imputation credits. Australia and the United Kingdom are the two countries with imputation systems that provide the bulk of investment into New Zealand at present. Australia is by far the major destination for New Zealand outward investment and is one of the chief sources of investment into New Zealand. New Zealand will be exploring the possibility of mutual recognition of imputation credits in forthcoming bilateral discussions.

10. The Australian Government's 2010 Report on "Australia's Future Tax System Review" also noted that consideration of mutual recognition of imputation credits between Australia and New Zealand should be considered in the context of further work on the appropriate degree of harmonisation of business income tax arrangements between the two countries.
11. In NZBA's view, progress needs to be made on this issue and a timetable should be set for implementing reform in this area. We would welcome any initiative of the Australian and New Zealand Productivity Commissions to encourage this outcome.

Prudential Regulation

12. It is noted in the Issues Paper that integration of banking services is an area which has received some past attention. Notably, the Trans-Tasman Council of Banking Supervision has been established to promote a joint approach on banking supervision. This initiative is welcomed by NZBA. Nevertheless, there are a number of areas where prudential regulation of Australian and New Zealand financial institutions by APRA and RBNZ could be better aligned. NZBA does not consider that harmonisation should be pursued for its own sake and recognises that local regulators need to regulate for local issues. However, given that over 90% of the New Zealand banking system is provided by subsidiaries of Australian banks, appropriate alignment (particularly for entities operating in both jurisdictions) is crucial.
13. In particular we note as examples the desirability of appropriate alignment in relation to:
 - Basel III reforms:
While RBNZ has recently indicated that it intends largely to align its implementation of Basel III reforms with APRA, there are still significant differences in current APRA and RBNZ proposals. These relate to RBNZ's intention not to impose a 'one size fits all' leverage ratio and early implementation of the proposed conservation and countercyclical buffers.
 - Resolution regimes for systemically important financial institutions:
The open bank resolution policy which RBNZ has adopted for New Zealand banks is not consistent with APRA's approach. This merits consideration by both prudential regulators to ensure that unforeseen consequences are not created by the differences in approach.
 - Related party exposure limits:
NZBA notes that proposed changes by one prudential regulator will, in the context of

the interconnected Australasian banking system, have implications that have extra-territorial reach. For example, if APRA were to reduce related party exposure limits under APS 222, this could have unintended adverse consequences for the New Zealand banking system, including ratings adjustments and the need for additional reliance on volatile wholesale funding markets.

14. NZBA considers an assessment of the need for greater trans-Tasman alignment in relation to prudential regulation could be usefully considered as one important element of a sector review of the banking sector by the Australian and New Zealand Productivity Commissions. If the Commissions are minded to consider exploring this option, NZBA would be happy to meet to discuss options and parameters.