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Dear Ms Cvijanovic

### **REGULATORY IMPACT STATEMENT – FINAL ASSESSMENT SECOND PASS**

I am writing in relation to the attached Regulation Impact Statement (RIS) prepared for the major bank levy.

I believe the RIS meets best practice requirements and is consistent with the ten principles for Australian Government policy makers.

In particular, the RIS addresses the seven RIS questions:

- *What is the problem?* – Failing to place Australia on a sustainable fiscal path will put at risk future growth, reducing opportunities for better paying jobs, and burdening future generations with debt. Delaying action will make it more difficult to protect the essential services that Australians rely on. In developing possible options to meet this policy problem, the Government has also sought to address a range of long term policy objectives that the Government is working towards in the banking sector.
- *Why is government action needed?* – As the problems include budget repair and revenue generation, government action is required.
- *What policy options are you considering?* – The RIS has considered three policy options:
  - Option 1: no major bank levy.
  - Option 2: major bank levy (as outlined in the 2017-18 Budget measure).
  - Option 3: major bank levy (with amendments identified in post-Budget consultation).
- *What is the likely net benefit of each option?* – Option 1 fails to address the identified problems. In contrast both Option 2 and 3 would raise \$6.2 billion, net of interactions with other taxes (principally corporate tax), over the forward estimates period. They also support Government policy objectives in the banking sector. The levy in Option 2, while having lower compliance costs than Option 3, could have unintended impacts on segments of Australia's financial markets. Option 3 addresses these issues, while the estimated regulatory cost remains modest at a total cost for all affected banks of \$15 million, or \$1.5 million per annum, across the major banks over a ten year period.

- *Who will you consult and how will you consult them?* – A targeted consultation approach has been adopted following the announcement of the levy in the 2017-18 Budget to reflect the small number of directly affected stakeholders. This targeted consultation has been effective in identifying issues in levy design, reflected in the changes between Options 2 and 3, even though the ordinary practice of a 30 day consultation period has not been possible because of the Government's intention to introduce the legislation ahead of the commencement date of 1 July 2017.
- *What is the best option from those you have considered?* – Based on the analysis undertaken, option 3 is the best option. Option 3 balances the objectives of the levy while retaining a low rate and wide base for the levy. It also remains relatively simple to administer with low compliance costs while guarding against any financial market disruption risks.
- *How will you implement and evaluate your chosen option?* – The levy will be introduced via the Major Bank Levy Bill 2017 and the *Treasury Laws Amendment (Major Bank Levy) Bill 2017*, to be introduced in the Winter 2017 sittings of Parliament. Treasury will monitor the impact of the levy on the financial system more broadly as part of its general monitoring activities. The Australian Competition and Consumer Commission will also undertake a residential mortgage pricing inquiry until 30 June 2018.

I note the comments raised in your letter of 22 May 2017 and I am satisfied that the RIS addresses the concerns that you raised, in particular specifying the likely impacts of each option in the RIS have been provided as an estimate rather than a range.

Accordingly, I am satisfied that the RIS now meets best practice consistent with the Australian Government Guide to Regulation.

I submit the RIS to the Office of Best Practice Regulation for formal assessment.

Yours sincerely



John Lonsdale  
Deputy Secretary  
Markets Group