Regulation impact statement – Major bank levy

Contents

1. The problem 1
2. Case for government action/objective of reform 1
3. Policy options 2
4. Cost benefit analysis of each option/Impact analysis 5
5. Consultation 12
6. Option selection/Conclusion 13
7. Implementation and evaluation/review 13
8. References 14

1. The problem

1. Failing to ensure Australia is on a sustainable fiscal path will put at risk future growth, reducing opportunities for better paying jobs, and burdening future generations with debt.

2. Delaying action will make it more difficult to guarantee the essential services that Australians rely on. An improved structural fiscal position will place Australia in a better position to withstand any future economic downturns, including dealing with shocks such as those seen in the global financial crisis.

3. In developing possible policy 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:

   - ensuring the banking sector makes a fair contribution to the economy given its unique role in Australia's economy and the associated systemic risk that it imposes;
   - improving competition and accountability; and
   - complementing prudential reforms.

2. Case for government action/objective of reform

4. The Government is taking action, as part of the 2017 18 Budget, to charge a levy on authorised deposit-taking institutions (ADIs) with liabilities greater than $100 billion. Reflecting the current structure of the banking industry, this levy can be expected to apply to just five ADIs: ANZ, Commonwealth Bank of Australia, National Australia Bank, Westpac and Macquarie bank (hereon referred to as 'the major banks').

5. The levy will raise around $1.5 billion per year over the next four years and will be contribute to budget repair over the forward estimates period. The levy will also contribute to strengthening the structural position of the budget for the long term — providing greater fiscal capacity to deal with shocks such as those seen in the global financial crisis.

6. The revenue estimates are based on data sourced from APRA, uplifted for credit growth over the forward estimates. They take account of interactions with other taxes - most notably corporate income tax - and the timing of payments associated with those taxes, as well as dividend and franking credit interactions and other relevant factors.

7. Repairing the budget and maintaining the Australian Government's AAA credit rating will also benefit the largest banks, as their credit ratings, and hence funding costs, are more closely linked to the Government's credit rating.

8. In addition to the bank levy contributing in the shorter term to budget repair and to strengthening the structural fiscal position for the long term, it will have a number of other beneficial impacts related to ongoing stability and competition settings, notably:

   - ensuring a fair contribution from major banks to the economy given risks to the economy arising from large leveraged banks;
   - providing a more level playing field for smaller banks and non-bank competitors; and

- complementing broader prudential reforms being implemented by APRA and the Government.

9. The levy will also bring Australia's taxation arrangements for ADIs into alignment with other advanced countries.

A fair contribution from major banks to the community

10. The major Australian banks are amongst the most profitable banks in the advanced world. Rates of return on equity of Australia's largest banks have averaged around 15 per cent over the past five years, far exceeding those in the United States, Europe and Japan, and matched only by Canadian banks.

11. Over the past year, the five banks that will be affected by the levy have collectively earned more than $30 billion in profit after tax.

12. The global financial crisis demonstrated that large, leveraged banks are a major source of systemic risk. If one or more of Australia's major banks became distressed or was seen to be at risk of failing, there would be significant contagion to other financial institutions.

13. This would impose large costs on Australia's financial system and economy. The cost of borrowing would rise, with significant flow-on effects to mortgage holders, businesses and government finances. Credit supply could also be disrupted, starving the economy of the capital needed for it to grow and create jobs. In essence, the levy represents a fair additional contribution from the largest banks for the risks they pose to the financial system and economy.

Provide a more level playing field for smaller banks and non-bank competitors

14. The major banks represent 80 per cent of the bank deposit market, 80 per cent of all credit provided by banks and around three-quarters of the credit card market.

15. The House of Representatives Committee on Economics’ Review of the four major banks (the Coleman Report) found these major banks’ size and market dominance affords them significant funding cost advantages and pricing power at the expense of their customers. This contributes to their ongoing dominance of the market for consumer and business lending.

16. The imposition of the levy will reduce the largest banks’ funding cost advantage and contribute to a more level playing field. This will enhance the ability of smaller banks and non-bank lenders to compete more aggressively with the largest banks. Several smaller banks have expressed their support for the levy.

Complement prudential reforms being implemented by APRA and the Government

17. Consistent with its response to the Financial System Inquiry, the Government and APRA remain committed to a range of reforms to strengthen the resilience of the Australian financial system.

18. These reforms include:

    - setting bank capital levels such that they are ‘unquestionably strong’;
    - strengthening APRA's crisis management powers; and
    - ensuring our banks have appropriate loss absorbing capacity.

19. The design of the levy complements the 'unquestionably strong' direction of prudential policy. The levy will not apply to common equity and Additional Tier 1 (AT1) capital (capital instruments that can be converted to equity or be written off in the event of distress). APRA has confirmed that the payment of the levy will not have a material impact on the resilience of the banking system and that the levy regime does not harm its prudential policy objectives.

20. As the levy excludes deposits protected by the Financial Claims Scheme (FCS), it also creates an additional incentive for affected banks to move towards more stable, deposit-based funding. In doing so, it complements prudential measures aimed at making banks more resilient to market disruptions of the sort seen in the global financial crisis.

3. Policy options

21. Three policy options have been identified.

- 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).

Option 1: no major bank levy

22. The first option is to not impose a major bank levy.

Option 2: major bank levy (as outlined in the 2017-18 Budget measure)

23. In the 2017-18 Budget, the Government announced the introduction of a levy on ADIs with liabilities of at least $100 billion (the major bank levy), raising approximately $1.5 billion per year and assisting with Budget repair.

24. The key design features of this option are outlined in Table 1.

Table 1: Key design features of Option 2

Application	• ADIs with liabilities greater than $100 billion.
Levy rate	• The levy would be calculated quarterly as 0.015 per cent of the levy base at the end of each quarter (six basis points on an annual basis).
Levy base	• Liabilities subject to the levy would, for example comprise non FCS protected deposits, wholesale funding liabilities (for example: senior debt (corporate bonds); commercial paper; certificates of deposit; and Tier 2 capital instruments) and other liabilities. • The following liabilities would be excluded: – AT1 capital and deposits protected by the FCS. – Together these exclusions would account for around 25 per cent of an ADI's liabilities on average.

	• Applying the levy to around 75 per cent of major bank's liabilities has three advantages: it ensures that the levy is simple; reduces integrity risks; and minimises Australian Tax Office (ATO) administration and ADI compliance costs by relying on data already reported to APRA.
Administered	• ATO
Non-banking business	• Liabilities of a bank's overseas and non-bank subsidiaries would not be included with the bank's licensed entity liabilities to which the levy would apply. • Therefore a banking group's non-bank businesses —insurance and superannuation — would not be subject to the levy. But its offshore bank branches (that are not a separate legal entity and are typically used to raise offshore wholesale debt) would be.
Revenue raised	• The levy would raise $6.2 billion, net of interactions with other taxes (including corporate income tax), over the forward estimates period.

Option 3: Major bank levy (with amendments identified in post-Budget consultation)

25. Option 3 is to impose a major bank levy — where the broad parameters of the levy remain similar to Option 2 — but with amendments that address certain issues raised during the consultation process. The most important of these are highlighted in the key design features outlined in Table 2.

Table 2: Key design features of Option 3

Application	• As per Option 2.
Levy rate	• The levy rate remains as per Option 2, but some components of total liabilities are calculated on the basis of a quarterly average rather than the value at quarter-end. — While a single point of time calculation point is less complex, it risks market disruptions as it increases the incentives to minimise liabilities (especially short term liabilities) at the end of each quarter.
Levy base	• As per Option 2, but with the following changes. – In calculating the levy base, derivatives would be included on a net basis (that is derivative liabilities less derivative assets), with a minimum value of zero. — The quarterly average value of Exchange Settlement Account balances held with the RBA would be deducted. This would insulate the payments system and monetary policy from risks that balances will be reduced to lower

		levy payments. This deduction would only have a negligible effect on estimated revenue from the levy.
Administered	•	As per Option 2.
Non-banking business	•	As per Option 2.
Revenue raised	•	As per Option 2, with the following changes. – Each quarterly levy instalment would be payable in totality in the final month of each quarter, rather than in monthly instalments. This addresses administrative complexities raised during the consultation process. This would have no effect on the revenue forecasts. – The due date for payment of the first quarterly instalment of the levy would be delayed until March 2018, providing the banks with additional time to upgrade their systems for the purposes of the levy.

4. Cost benefit analysis of each option/Impact analysis

26. The key stakeholders impacted by the levy are the five major banks who currently have liabilities greater than $100 billion. The risk that the major banks may seek to pass on the costs of the levy to customers is discussed in the section on the economic impact of the levy.

27. Both Options 2 and 3 were developed in accordance with standard budget processes for revenue measures of this scope and scale. Consistent with the *Charter of Budget Honesty Act 1998* and the *Charter of Budget Honesty Policy Costings Guidelines* (as updated in 2016) second round or economy wide modelling was not included in the modelling of the major bank levy. In light of this and mindful of the limitations of modelling techniques, second round effects are rarely included in costings for a range of reasons, including uncertainty in estimating the magnitude and timing of the effects, and because second round effects are likely to be small relative to the direct financial impact of the measure. Where second round effects have been included in costings it is mainly for broad based packages such as the *2000 New Tax System* which introduced the goods and services tax.

28. In examining possible design options for the levy, consideration was given to different approaches, for example, a levy on assets. It was assessed however that the appropriate base for applying the levy was the liability side of the balance sheet. This aligns with the approach taken in the majority of countries that apply some form of bank levy (refer to Table 3). It is also in accordance with the International Monetary Fund's 2010 *A Fair and Substantial Contribution by the Financial Sector* report to the G-20 that a broad based levy on the liability side of the balance sheet (with appropriate exclusions, such as equity) is the preferred option. A broad based levy allows for a lower rate for any given amount of revenue, limiting the risk of unintended distortions.[1]

[1] International Monetary Fund, *A Fair and Substantial Contribution by the Financial Sector*, Final Report for the G-20, June 2010

Option 1: No major bank levy

29. This option would have zero regulatory cost, but would also not contribute to the policy goal of budget repair and would not provide greater fiscal capacity to deal with shocks such as seen in the global financial crisis.

Option 2: Major bank levy (as outlined in the 2017-18 Budget measure)

30. By taking advantage of existing reporting and payment processes, Option 2 would have limited regulatory costs. All data required to calculate the levy is already reported to APRA or otherwise generated for other reporting purposes such as annual reports.

31. It is estimated that the small regulatory adjustments required would have a total cost of $10,000 over a 10 year period.

32. While Option 2 is administratively simple and likely to have lower regulatory costs, it potentially has other costs based on its design features that may be significant but are difficult to quantify. These include:

- possible impacts on the functioning of Australia's capital markets, particularly short-term money and repo markets where many securities mature overnight and trade with limited margins. In designing Option 2 these risks had been identified and were a focus for consultation. Those consultations suggested that these risks could be more significant in Australia than the initial assessment.
  - Trade in these markets underpins the liquidity of Australia's financial system. The imposition of a 0.015 per cent levy on short-term funding securities that each major bank holds on a single day at quarter end would likely make a significant portion of these positions less profitable at that time. This could see major banks avoid entering into new liabilities and attempting to close out existing liabilities towards the end of each quarter.
  - Concerns were raised that if this happened it would have the potential to disrupt short term funding markets, impairing their functioning, and have adverse implications for the RBA's day-to-day operations and liquidity management.
- possible impacts of this option on the balances held by the major banks in the Exchange Settlement Account with the RBA. In particular, a levy on these balances would create an incentive for banks to reduce their balances as it would make holding them unprofitable. A reduction in Exchange Settlement Account balances could:
  - reduce liquidity in the inter-bank cash market, an important market for the purposes of conducting monetary policy; and
  - create risk of payment failure if a large transaction occurred overnight or on the weekend.

Option 3: major bank levy (with amendments identified in post-Budget consultation)

33. Option 3 includes a number of amendments that address some of the potential non-regulatory costs identified in relation to Option 2. This results in some increase in regulatory costs and complexity, although these remain modest.

34. Option 3 would involve APRA creating a new reporting form to collect the data required to calculate the levy. This form would require the major banks to report:

- some existing data provided to APRA; and
- some new data (for example, the quarterly average value of wholesale funding liabilities balances).

35. While this will impose some additional compliance costs compared to Option 2, banks already collect much of the additional data required for internal liquidity management and statutory reporting purposes as well as for APRA's liquidity forms, and it is not expected that these costs would be significant (although the APRA data are currently collected on a different consolidation basis). Compliance costs would also be reduced by delaying the collection of the data for the levy until January 2018, thereby giving the major banks additional time to build infrastructure to report this data.

36. While the number of new data items to be collected is small and relate to core banking data, it is expected that affected banks will need to undertake system upgrades to allow for new calculations to be performed on this data for the purposes of calculating the levy (that is, a quarterly average figure for wholesale funding liabilities).

37. While the scale and cost of these upgrades is likely to vary between the banks depending on their current systems - making it difficult to estimate the precise cost - industry feedback (based on certain assumptions) suggests the additional work required would, on average, cost in the order of $3 million per bank, and would cover:

- the development of enhanced automated reporting, including sourcing of data and testing;
- ensuring controls are in place for relevant inputs and outputs, such as cross-validations to other returns and reports and monthly analytical reviews;
- ensuring that intercompany balancing remains effective on a quarterly basis for regulatory reports (as they are used as the basis of calculation);
- the development of executive review and sign off protocols given the size and sensitivity of the payment; and
- extending current assurance processes (across the finance, risk, treasury and tax functions and external audit) to cover the review of inputs, calculation and payment.

38. The majority of these costs would be upfront and the ongoing compliance cost is expected to be manageable.

39. This would suggest a total cost of $15 million, or $1.5 million per annum, across the major banks over a ten year period. A regulatory offset has not been identified. However, Treasury would seek to pursue net reductions in compliance costs and would work with affected stakeholders and across Government to identify regulatory burden reductions where appropriate.

40. This appears broadly in line with previous experiences with new data collection requirements for APRA-regulated entities. Examples of previous, and more extensive, data collection changes include:

- introduction of new reporting standards applying to trustees of registrable superannuation entities (RSE licensees) as part of the 'Stronger Super reforms'. In the Regulation Impact Statement for this measure (OBPR ID: 14624), industry submissions on the cost to implement options (which envisaged up to 36 new reporting standards being applied to

RSE licensees) included estimates from $2 million up to $8 million per RSE licensee for the information technology setup costs; and

- on the proposal for the net stable funding ratio (NSFR) for the banking system, the Regulation Impact Statement (OBPR ID: 2015/19640) estimated costs associated with systems modifications (depending on existing internal information technology systems), staffing costs to perform tasks associated with the NSFR and the associated reporting costs through providing regular reports to APRA for NSFR purposes of approximately $24 million for 15 ADIs over 10 years, or $2.4 million per year in total.[2]

41. Option 3 also significantly reduces the non-quantifiable costs of the major bank levy that were raised in relation to the Option 2 levy. The most important of these relate to short-term liabilities and Exchange Settlement Account balances:

    - shifting to a quarterly average basis for calculating the levy on wholesale funding liabilities, thereby reducing incentives for banks to adjust liability holdings at specific points in time (such as towards the end of each quarter). Applying the levy across all wholesale funding liabilities held during the quarter will avoid creating incentives for the major banks to withdraw from their market making function at quarter end; and
    - deducting an amount equal to the quarterly average value of their Exchange Settlement Account balances for each quarter from the levy base broadly insulates the payments system and monetary policy from the impact of the levy, with only marginal expected effects on revenue and regulatory burden.

Considerations on the economic impact of the levy

42. The economic impact of the levy will depend upon the extent to which it affects bank borrowers, lenders, shareholders or some combination of these groups.

43. It is not possible to be unequivocal as to the ultimate incidence of the levy — it can be passed through to those the banks lend to (in respect of residential mortgages, business lending and personal credit), deal with or provide services to, or their non-equity funding sources (wholesale capital markets, depositors) or be borne by the banks themselves (through reduced profits, or via increased efficiency or other cost-cutting measures).

44. The degree of competition in different market segments will be a key determinant of the ability of the major banks to pass on the costs of the levy. Other regulatory and tax settings, major banks' perceptions of constraints on their pricing decisions, as well as the general domestic and global economic environment will also determine the incidence of the levy. Incidence is also likely to vary over time — in the long-run, competitive forces are likely to be more of a constraint than in the short run.

45. The Australian Competition and Consumer Commission has been given the role to monitor and report on interest rates and other charges imposed by affected banks in relation to residential mortgage products following the introduction of the levy, with the aim of ensuring that customers are not unduly impacted. This will provide customers with an independent source of information that will be helpful in informing any decision to switch to another ADI if they are dissatisfied with how their bank has responded to the introduction of the levy.

[2] This costing was for option 1, which was to only apply the Basel NSFR standard to larger ADIs.

46. In the extreme case that the costs of the levy were to be fully passed on to bank customers, lending rates faced by major bank borrowers would increase, although the major banks may be unable to pass the cost onto all assets — for example, banks may not be able to increase the yields of their high-quality liquid asset holdings. On this basis, and though the six basis point levy is applied to around 75 per cent of bank liabilities, the overall impact on major bank loan interest rates or fees would be around six basis points.

47. The economy-wide impact would however be smaller. The affected banks currently account for around 80 per cent of bank credit extended in the economy, but bank credit itself only accounts for about 80 per cent of economy-wide borrowing. As such, the economy-wide impact on borrowing costs overall would likely be closer to four basis points.

48. To the extent that affected banks did raise their lending rates, this could lead to some migration of lending to non-affected banks, which would also lessen the impact on economy-wide lending rates.

49. For completeness, Treasury modelled the economy-wide effects of the proposed bank levy. This required making various assumptions with respect to the incidence of the levy, though sensitivity analysis showed that overall the results were invariant to those assumptions. This affirmed our view that the impact is expected to be negligible.

50. Finally, when setting cash rates the RBA takes into account, among other things, the actual lending rates faced by households and businesses. When the RBA changes the cash rate it normally does so in 25 basis point increments, which typically flows through in full to borrowing rates. The impact of a single RBA 25 basis point rate increase would far outweigh any possible impact on borrowing costs of a six basis point levy.

51. Although there may be differences in the impact on the economy depending on whether the levy is passed on to other groups (such as depositors and shareholders) or there is a greater focus on internal efficiencies and improved productivity, or some combination of these, the absolute size of the levy is less than a tenth of a percentage point of GDP. This means it is unlikely to have an impact on the economy above usual material reporting thresholds.

Overseas bank levies

52. A number of foreign jurisdictions have introduced bank levies that are similar in design to the major bank levy (see Table 3).

Table 3: International Bank Levies

Jurisdiction (introduced)	Levy base	Levy rate	Exemptions & threshold
Australia (proposed 2017)	Liabilities	0.06% (annualised)	Deposits protected by the FCS, AT1 capital before deductions, derivatives Threshold: $100bn
Austria (2011)	Liabilities	<€20bn: 0.09% >€20bn: 0.11%	Insured deposits Threshold: €1bn
Belgium (2012)	Liabilities	0.13231% (2016)	Levied on ‘debt towards clients’
France (2011)	Minimum	0.5%	Threshold: €500m

Jurisdiction (introduced)	Levy base	Levy rate	Exemptions & threshold
	regulatory capital		
Germany (2011)	Liabilities Derivatives	Liabilities: >€300m: 0.02% progressively increasing to >€300bn: 0.06% Derivatives: 0.0003%	Retail deposits, certain reserves, certain profit participation rights Threshold: €300m Maximum: 20% of annual earnings Minimum: 5% of calculated annual contribution
Hungary (2010)	Assets	<HUF50bn: 0.15% >HUF50bn: 0.24%	Interbank loans
Iceland (2011)	Total liabilities	0.376%	Threshold: ISK50mn
Netherlands (2012)	Liabilities	Long-term: 0.022% Short-term: 0.044%	Protected deposits, regulatory capital, insurance liabilities Threshold: €20bn
Poland (2016)	Assets	0.44%	Equity capital and government securities Threshold: PLN4bn
Portugal (2011)	Liabilities	0.01-0.11%	Tier 1 and 2 capital, and protected deposits
Slovakia (2012)	Liabilities	0.2%	'Own funds' and subordinated debt
Sweden (2009)	Liabilities	0.09%	Protected deposits
United Kingdom (2011)	Liabilities	Long-term and equity: 0.09% (0.05% from 2021) Short-term: 0.18% (0.1% from 2021)	Protected deposits, Tier 1 capital, sovereign repos, other selected liabilities

53. These bank balance sheet levies commonly adopt a liabilities base rather than other options such as assets or regulatory capital. Consideration of their design, in particular that of the United Kingdom, has reinforced the value of adopting a broad base/low rate approach that limits exclusions from total liabilities in setting the base.

54. Given their recent introduction, there is limited empirical evidence on the incidence and impact of bank levies introduced in other countries (for a summary, see Table 4).

55. The incidence of bank levies may be passed on to customers (in the form of higher interest rates on loans) although the evidence suggests this is not universal and is likely to depend in part on country-specific factors. Given the relatively small increases in lending rates that may be associated with the introduction of a bank levy, very few studies have considered possible economic impacts — those that have conclude that the economic impacts are not likely to be material. Australia's levy has been designed to complement prudential reforms, and there is some evidence to suggest that bank levies can promote financial stability — levies introduced in Europe have been found to have induced large increases in bank capital levels, due to the levies increasing the cost of wholesale funding relative to equity.

Table 4: Existing evidence on the incidence and impact of bank levies

Study Countries studied	Impact on lending / deposit rates	Impact on economy	Impact on capital / leverage / risk	Notes
Devereux et al. (2013) **Cross-country study (EU levies)**	—	—	Banks reduced their leverage, but less well-capitalised banks also increased risk taking (on the asset side)	—
Kogler (2015) **Cross-country study (EU levies)**	Lending rates and net interest margins increased moderately, and by more in concentrated and poorly capitalised markets. Deposit rates unaffected.	Moderate increases in lending rates not suggestive of large economic impact	—	—
Deutsche Bundesbank (2014) **Germany**	Affected banks reduced their lending and increased deposit rates. No significant change in lending rates.	—	—	—
Buch et al (2016) **Germany**	Affected banks reduced lending and increased new deposit rates, particularly non-household deposits.	No significant impact on macro-economy*	—	This paper is a peer-reviewed extension of Bundesbank (2014)
Capelle-Blancard and Havrylchyk (2013) **Hungary**	Banks shift the tax burden to customers by raising interest and fee margins for borrowers with outstanding loans (rather than new loans).	—		—

5. Consultation

56. 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.

57. The levy was considered by the Expenditure Review Committee and Budget Cabinet as part of normal Budget processes and timelines, based on a submission from the Treasurer. In accordance with standard practice, the Department of Finance and the Department of the Prime Minister and Cabinet had the opportunity to comment on that submission.

58. While major banks were consulted in confidence some weeks before Budget on proposed changes to APRA's powers that were also announced in the 2017-18 Budget, the market sensitivity of the major bank levy precluded such consultation pre-Budget. As a matter of courtesy, the Chief Executive Officers of the five major banks were informed of the levy just prior to public release of the Budget, but after markets closed.

59. A number of issues were identified as part of the consultation process and have been taken into account in Option 3.

60. Prior to the announcement in the 2017-18 Budget, Treasury engaged in discussions with APRA, the ATO and the Australian Office of Financial Management on issues associated with the levy and the availability of data. The RBA was also informed and given the opportunity to comment. Discussions also took place with Her Majesty's Treasury in the United Kingdom to understand the design, operation and impact of the United Kingdom's bank levy.

61. Subsequent to the announcement of the levy in the 2017-18 Budget, Treasury consulted with the five major banks impacted by the levy and the Australian Bankers' Association. Treasury has received written submissions on the proposed levy from the five major banks and the Australian Bankers' Association as part of its consultation.

62. Further consultation was also undertaken with APRA, the Australian Government Solicitor, the RBA, the Australian Securities and Investments Commission, the ATO and the Australian Office of Financial Management.

63. Consultation with stakeholders has focused on testing the assumptions underlying the design of the levy to ensure that it meets its policy objectives, with appropriate consideration of compliance costs and impact on APRA's objectives for prudential regulation and the RBA's conduct of monetary policy.

64. This consultation process led to changes in the design features of the major bank levy that are reflected in Option 3.

65. Further, the major banks, as well as a number of smaller banks that are currently not expected to be impacted by the levy, were given the opportunity to comment in confidence on the draft legislation prior to its finalisation. Two banks also provided comments on additional regulatory compliance costs that may arise in providing additional data for the purposes of the calculation of the levy base under the revised design.

66. The comments received on the draft legislation have not required major changes to the design of the levy. This reflects the changes to design that were made between Option 2 and 3 to incorporate the concerns raised during the first round of consultation.

6. Option selection/Conclusion

67. The consultation process identified a number of areas that required refinement in relation to the imposition of a major bank levy. These, however, do not undermine the rationale for a levy.

68. On this basis, the imposition of a modified levy on the major banks as outlined in Option 3 is the preferred option. Option 3 balances the objectives of the levy, while retaining a low rate and broad base. It also remains relatively simple to administer with low compliance costs while guarding against any financial market disruption risks.

7. Implementation and evaluation/review

69. 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.

70. A general anti-avoidance rule is included in the legislation to deter the entering into of artificial arrangements with the sole or dominant purpose of reducing the amount of levy they pay. This rule is designed to target artificial arrangements, but would not stop banks from reducing their debt funding (the levy base) and increasing their equity funding.

71. Treasury will monitor the impact of the levy on the financial system more broadly as part of its general monitoring activities.

72. The Australian Competition and Consumer Commission will undertake a residential mortgage pricing inquiry until 30 June 2018. As part of this inquiry, the Australian Competition and Consumer Commission is able to require relevant ADIs to explain changes or proposed changes to residential mortgage pricing, including changes to fees, charges, or interest rates by those ADIs.

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