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THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

HOUSE OF REPRESENTATIVES

COMMONWEALTH BANKS AMENDMENT BILL 1993

EXPLANATORY MEMORANDUM

(Circulated by the Authority of the Treasurer, the Honourable John Dawkins, MP)

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COMMONWEALTH BANKS AMENDMENT BILL 1993

OUTLINE

This Bill facilitates the Government's decision, announced in the *Investing in the Nation* statement, to reduce the Commonwealth's equity in the Commonwealth Bank of Australia. The Commonwealth's shareholding in the Commonwealth Bank is to be reduced from around 70 per cent to 50.1 per cent. The provisions of the Bill waive the payment of State and Territory taxes (namely stamp duty and other taxes) on transactions related to the sale of its shares in the Commonwealth Bank.

This Bill also facilitates the decision announced in the *Investing in the Nation* statement to expand the role of the Commonwealth Development Bank by providing it with a capital injection and a continuing subsidy, and by relaxing the legislative constraints on its lending activity. It enables a capital injection of \$30 million and a subsidy of \$20 million per annum to be provided to the Commonwealth Development Bank.

The Bill also enables the expansion of the Commonwealth Development Bank's charter to allow it to meet the full finance requirements of its borrowers (mainly small to medium businesses) and not just part of those finance requirements.

FINANCIAL IMPACT

On current share values, the Commonwealth's sale of a 19.9 per cent shareholding in the Commonwealth Bank will raise approximately \$1500 million for the 1993-94 Budget. The capital injection for the Commonwealth Development Bank represents a cost to revenue of \$30 million in the 1993-94 Budget and the subsidy represents a cost to revenue of \$20 million in the 1993-94 Budget and a cost of \$20 million in each of the 1994-95 and the 1995-96 Budgets.

Clause 1 - Short Title

1. Provides for the Act to be called the Commonwealth Banks Amendment Act 1993.

Clause 2 - Commencement

2. The provisions of this legislation will commence upon receipt of Royal Assent.

Clause 3 - Object of Part

3. This clause is self explanatory.

Clause 4 - Commonwealth to retain ownership and control of the Commonwealth Bank

4. This clause amends the Principal Act to ensure that the Commonwealth:
 - not transfer any of its shares in the Commonwealth Bank that would breach the 50.1 per cent level set below; and
 - holds majority ownership of the Commonwealth Bank by holding continuously shares with voting rights that represent at least 50.1 per cent of the voting rights in the Commonwealth Bank.

Clause 5 - Transitional - exemption from stamp duty - transfers by the Commonwealth of its shares in the Commonwealth Bank

5. Clause 5 exempts for the purposes of this sale, the payment of stamp duty or other taxes under the law of a State or Territory in respect of, the transfer by the Commonwealth of its shares in the Commonwealth Bank, or, anything related to the transfer of its shares.

Clause 6 - Object of Part

6. This clause explains that the charter of the Commonwealth Development Bank is to be broadened. This is so that the Commonwealth Development Bank may be able to meet the full finance requirements of its borrowers and not just part of their finance requirements.

Clause 7 - Functions of the Development Bank

7. This clause alters the Commonwealth Development Bank's charter so that it can provide the full finance requirements of its customers. In particular, this clause enables the Commonwealth Development Bank to continue to provide funds to businesses which would not otherwise be able to obtain funding from other sources. However, in contrast to the existing legislation this clause allows the Commonwealth Development Bank to provide the full financing requirement rather than only the part of that requirement that other financial institutions are not prepared to provide. The Commonwealth Development Bank will therefore remain focused on providing loans to businesses where finance is not normally available but will now be able to fund all, as well as part, of the borrowers needs, conditional on that financing not being available from other sources.

Clause 8 - Object of Part

8. This clause is self explanatory.

Clause 9 - Share capital

9. This clause allows the capital injection of \$30 million to the Commonwealth Development Bank to be implemented. Specifically, it allows the Treasurer to direct that the Commonwealth be issued with shares in the capital of the Commonwealth Development Bank, in return for providing the capital injection. The value of the shares will be determined by agreement between the Treasurer and the Board. This amendment is facilitated by further changes that allow the Commonwealth, as well as the Commonwealth Bank, to hold shares in the Commonwealth Development Bank.

Clause 10 - Profits of Development Bank

10 This clause enables the payment of dividends by the Commonwealth Development Bank to the Commonwealth and ensures that the Commonwealth will receive dividend payments in relation to its equity holdings.

Clause 11 - Object of Part

11. This clause is self explanatory.

Clause 12 - Insertion of new section

12. This clause inserts a new section, 85A, which will empower the Commonwealth Development Bank to accept the financial assistance grant from the Commonwealth. This clause enables the payment of the continuing subsidy of \$20 million to the Commonwealth Development Bank. The clause also allows that the financial assistance grant may be unconditional or subject to terms and conditions agreed to by the Treasurer and the Commonwealth Bank Board. The grant will be made out of money appropriated by the Parliament for the purpose.