Date Introduced: 2 May 1984
House: House of Representatives
Presented by: Hon. C.R. Hurford, M.P., Minister for Housing and Construction and Acting Treasurer

Short Digest of Bill

Purpose

To change the name of the Commonwealth Trading Bank (CTB) to the Commonwealth Bank of Australia (CBA) and to restructure the Commonwealth Banking Corporation (CBC) by: making the Commonwealth Savings Bank (CSB) a wholly-owned subsidiary of the CBA; increasing the capital of the CBA by an injection of $15m and by a transfer of $75m from the reserves of the Commonwealth Development Bank (CDB); by altering the dividend arrangements applying to the CBA and the CSB; by making the CBC, the CSB and the CDB subject to company tax; and by altering the management structure of the banks.

Background

The CBC was established by the Commonwealth Banks Act 1959. It comprises three banks, the CTB, the CSB and the CDB. The CSB has been in existence since 1911, and the CTB since 1945. The CDB was established by the 1959 legislation.[1]

The role and functions of the CBC, especially of the CDB, in financial markets have been investigated by the Committee of Inquiry into the Australian Financial System (the Campbell Committee) and the Review Group of the Australian Financial System (the Martin Group). Both reports recommended significant changes to the operations of the CBC, especially of the CDB.[2]

The Bill increases the reserves of the CBA by $90m, including $75m to be transferred from the reserves of the CDB. The reserve funds of the CDB reached $179m at 30 June 1983, up from $156m a year earlier. Of some $667m in loans, approximately $436m were loans for primary production, with $112m for business purposes and $107m in equipment finance.[3] Total reserve funds of the CTB as at 30 June 1983 were $200m, up from $173m a year previously.[4] The
Bill further provides for a capital injection of $15m by the Commonwealth government into the CBA.

Existing legislation requires that the CTB pays half of its after-tax profits and the CSB, which is now exempt from company tax, half of its net profits to the Commonwealth government. The Bill proposes that the proportion of net profits to be paid to the Commonwealth government will be determined by the Treasurer subject to a maximum payment of 45 per cent of the sum of the net profits of the CBA (where net profits exclude dividends paid by the CSB to the CBA), and the net profits of the CSB. The dividend amounts paid by the CSB to the CBA will be determined by the Corporation board. The CDB will continue to be exempt from the payment of dividends. The Bill also contains phasing-in provisions for the financial year 1983-84.

Under existing legislation, the CTB is subject to company tax, but the CBC, the CSB and the CDB are exempt from company tax. The Bill proposes to remove this exemption. However, special provision is made for the CSB because of its profit sharing arrangements made under the State Savings Banks Amalgamation Agreements.

Proposed alterations to the management structure include removing the statutory manager positions of the CTB, the CSB and the CDB, and the statutory committees of these banks. The Bill also lifts a number of restrictions relating to age limits and number of graduates who can be employed.

Main Provisions

The Bill amends the Commonwealth Banks Act 1959 to rename the Commonwealth Trading Bank as the Commonwealth Bank of Australia (clause 8, substituting section 27), with a number of consequential amendments in Schedule 1 to the Bill. Section 27 ensures the continuity of the renamed Bank's legal identity.

The capital of the Commonwealth Bank of Australia comprises, in addition to the capital of the Commonwealth Trading Bank, the sum of $75m to be paid from the Commonwealth Development Bank Reserve Fund by 30 June 1984, and any further sums appropriated by Parliament for that purpose. Sub-section 31(2) itself appropriates $15m for this purpose (clause 11, substituting ss.30, 31).

Clause 16 establishes the Commonwealth Savings Bank as a wholly-owned subsidiary of the Commonwealth Bank of Australia by creating share capital as at 1 July 1984 equal
to the contingencies and capital reserves of the Savings Bank, plus the excess over $20m of the Commonwealth Savings Bank Reserve Fund. New section 42A makes specific provision for share ownership of the Commonwealth Savings Bank with the Commonwealth Bank of Australia as the only legitimate issuee or owner of Savings Bank shares.

The management of the banks is amended by termination of Executive Committees through repeal of sections 10, 20 and 21 (clause 5) and provision for appointment of management personnel in each of the three banks by the Managing Director of the Commonwealth Banking Corporation (clauses 13, 18 and 20). Existing General Manager positions are vacated (clause 26).

Provision is made for the Secretary to the Treasury to nominate a Deputy Secretary to attend a Board meeting in his place (clause 6, substituting section 23). Section 24 is amended for members of the Corporation Board to not take part in discussions involving their direct or indirect pecuniary interests, unless other Board members determine otherwise.

A new section 95 removes the annual intake limit for persons holding tertiary qualifications appointed to the Commonwealth Banking Corporation Service without completion of an examination (clause 21).

The Commonwealth Bank of Australia is empowered to promote or establish bodies corporate which would qualify as subsidiaries under Companies Act tests (clause 12). The Savings Bank is given investment powers similar to private savings banks (clause 15).

Profits of the Savings Bank may be directed to its Reserve Fund, or paid to the Commonwealth Bank of Australia, as determined by the Corporation Board. In 1983/84, up to 45 per cent is to be paid to the Commonwealth government (clause 17). In each year a percentage, determined by the Treasurer, to a limit of 45 per cent, of the Commonwealth Bank's net profits and the Savings Bank's net profits, is to be paid to the Commonwealth government. Other profits may be paid to the Commonwealth government or to the Reserve Fund.

The taxation position is altered by removing the "public authority" exemption of the Commonwealth Banking Corporation and the Savings and Development Banks. Amendments in Part III of the Bill to the Income Tax Assessment Act 1936 grant a rebate to the Savings Bank in respect of payments which it is required to make under certain provisions of the 1931 NSW or 1966 Queensland State
Bank agreements, or later substituted agreements to similar effect.

For further information, if required, contact:

9 October 1984

Economics and Commerce Group
LEGISLATIVE RESEARCH SERVICE

References


2. See especially chapters 27 and 28 of the Campbell report and chapter 12 of the Martin report.


4. Ibid., p.48.