PROFILE
FINANCIAL SERVICES

FEDERAL BUDGET ANALYSIS

MAY 2017

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THE ECONOMY AND MARKETS

The Budget presented last night covered a lot of ground and was designed to appeal to a wide audience, from Generation Rent through to pensioners. It looks like a politically careful set of measures and should find support in the Senate.

Whilst reactions have been mixed, consensus opinion seems broadly positive, including from the credit rating agencies, which should help maintain Australia's AAA rating.

We expect the short-term impact on the economy and markets to be positive - with the exception of the banks, which have suffered losses yesterday and today on news of a new tax and greater oversight and accountability for senior executives.

On the forecasts presented, we are not as optimistic as the Government over the medium term. The Bank levy and the higher education costs on university students may be less supportive of growth in the long run. We also question some of the assumptions underpinning the revenue forecasts, which are highly sensitive to shocks and volatility.

Key points

- The commitment to getting the budget deficit under control and into surplus by 2021 remains, with next year's projected deficit of $29.4 billion returning to a projected surplus of $7.4 billion in 2020-21. This is an improvement on mid-year Treasury forecasts.
- New revenue measures total $20.8bn. The key ones include raising the Medicare levy by 0.5% to 2.5% in 2019 (to fund the National Disability Insurance Scheme), and a new levy on the liabilities of the top 5 banks, aimed at extracting $6.2bn over 4 years.
- Infrastructure spending on airports, railways and roads ("good debt") will be ramped up by $75bn over 10 years. This pro-growth spend has been re-classified, which makes the bottom line look a lot better.
- Several housing affordability initiatives have been introduced to take some of the pressure off first home owners and families.
- Tougher tax measures targeting multinational tax avoidance and the black economy are being introduced.
- Many of the expenditure cuts from the 2014 budget that were blocked by the Senate have been dropped.

Key Treasury forecasts

There is some evidence of creative accounting in this Budget, particularly with the re-classification of debt. And some of the projections, particularly on the revenue side, do involve a leap of faith. However, the Treasurer has resisted the urge to base forecasts on completely unrealistic assumptions, making this Budget more credible.

Deficit

The underlying cash deficit is expected to be $29.4 billion in 2017-18 and improve over the forward estimates to a projected surplus of $7.4 billion in 2020-21.

The average annual pace of fiscal consolidation of 0.6 per cent of GDP is a slight improvement over the 2016-17 mid year economic and fiscal outlook.

The net operating balance is also expected to improve from $19.8 billion (1.1% of GDP) in 2017-18 to reach a projected surplus of $17.5 billion (0.8% of GDP) by 2020-21.

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Underlying cash balance	-39.6	-37.6	-29.4	-21.4	-2.5	7.4
% of GDP	*-2.4*	*-2.1*	*-1.6*	*-1.1*	*-0.1*	*0.4*
Net operating balance	-33.6	-38.7	-19.8	-10.8	7.6	17.5
% of GDP	*-2.0*	*-2.2*	*-1.1*	*-0.6*	*0.4*	*0.8*

Major economic parameters relied on by the Budget (year average growth rates)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Real GDP	2.6	1.75	2.75	3.0	3.0	3.0
Employment	1.9	1.0	1.5	1.5	1.5	1.5
Unemployment rate	5.7	5.75	5.75	5.5	5.5	5.25
CPI	1.0	2.0	2.0	2.25	2.5	2.5
Wage price index	2.1	2	2.5	3.0	3.5	3.75
Nominal GDP	2.3	6.0	4.0	4.0	4.5	4.75

Key measures in this Budget (over 4 years)

	$BILLIONS
Increase in the Medicare levy	+8.2
Bank levy	+6.2
Higher education reform	+3.8
Funding the Jobs for Families Package	+2.0
Family Tax Benefit Part A rate increase – not proceeding	+1.9
Budget repair measures (Zombie measures) – not proceeding	-14.7
Needs based funding for schools	-1.8
Skilling Australians Fund	-1.5
PBS amendments	-1.2
Medicare indexation	-1.0

Asset class impacts

Overall we think the markets will take the news of the Budget in its stride and may even get a small boost. Other than the Bank levy, there were no major surprises.

Cash and Term Deposits

These are likely to remain at current low levels for a while yet. The RBA continues to be nervous about the high level of personal debt the average Australian holds. An increase in rates, coupled with falling house values, would undoubtedly create mortgage stress and threaten financial stability. The RBA won't want to rock the boat.

Bonds

We foresee minimal impact on this asset class.

Property

The Government introduced several initiatives which are aimed at boosting the supply of housing and reducing upward cost pressures. However, we are sceptical the measures will have a meaningful impact so we feel this budget will do very little to bring residential housing prices down, particularly in the Sydney and Melbourne markets. See the individual impact sections of this paper for detailed discussion.

Equities

The new bank levy, to be charged on deposits above $250,000 held by the top 5 banks, appears modest at 0.06%. However, it equates to a sizeable $6.2 billion in revenue to the government over 4 years. It could reduce the top 5 banks' earnings potential by an estimated 5%. Bank share prices were sharply affected on rumours of the levy yesterday, although they had recovered somewhat at time of writing.

There is much talk about how those banks are going to respond, and the sharemarket seems uncertain at this stage whether shareholders or customers (or both) will take the pain. Given the top 4 banks are also the largest listed companies on our sharemarket, this is concerning.

On the plus side, companies involved in construction may benefit from new infrastructure projects. Infrastructure is a key focus of the Budget with a series of announcements to stimulate investment and deliver $75 billion in funding and financing over 10 years. This is considered a pro-growth measure which should also support jobs and stimulate growth in general, so long as effective projects are selected.

SUPERANNUATION

Home downsizing proceeds into superannuation

Date of effect: 1 July 2018 **Who's affected: Over 65's downsizing their home**

People over 65 selling their home will be able to contribute an additional $300,000 to their superannuation without the normal eligibility requirements and caps applying. (Each member of a couple owning a property can use the concession if both are over 65, meaning a couple can contribute $600,000 of sale proceeds to super.)

The property must have been the principal place of residence, and have been held for at least 10 years. All released funds become assessable for social security purposes (as is the current treatment).

- Existing contribution eligibility requirements (such as meeting the work test or being under 75) will not apply.
- The new requirement (from 1 July 2017) to have a total superannuation balance of less than $1.6 million per individual will also not apply.
- The contribution will not count towards an individual's non-concessional cap. (However it **will** count towards the $1.6 million balance transfer cap, if used to start an income stream.)

Profile's view: This policy has been touted as an incentive to downsize, increase supply and hence improve housing affordability. However, we think it is unlikely to have any significant impact on this issue, and may actually have the reverse effect. Since there is no upper age limit to the concession, it is unlikely to bring forward a decision to sell, and individuals who are not yet 65 may delay a downsize until they turn 65. And it appears that nothing would stop that individual from buying another home just as large, or even larger, if they have other investments!

However, it is a great benefit for over 65's who do decide to sell their home, as they can now access the tax effective environment of superannuation with a larger amount than before.

Super First Home Saving Scheme

Date of effect: 1 July 2017 **Who's affected: First home buyers**

Individuals will be able to make voluntary contributions to their superannuation account, of up to $15,000 per year (and a total of $30,000), which can be withdrawn from 1 July 2018 onwards to buy their first home.

- The contributions can be made as either concessional or non-concessional contributions, and will count towards the relevant caps. (For next financial year, these are $25,000 concessional and $100,000 non- concessional.) The normal tax treatment of contributions will apply – ie concessional contributions are made from pre-tax salary, but 15% tax is deducted on entry to the fund.
- A deemed earning rate will apply for calculating an allowable withdrawal amount. The rate will be the 90-day Bank Bill rate plus 3% (currently 4.78%).
- When withdrawals are made, amounts sourced from concessional contributions will be taxed at an individual's marginal tax rate less 30%. Amounts sourced from non-concessional contributions will not be taxed.
- The concessions are available to both members of a couple when buying a property together.

Profile's view: This measure will assist first home buyers by providing both upfront and ongoing tax concessions. It also does it in a user-friendly way, by using existing superannuation accounts rather than requiring a separate account (such as the old First Home Saver Accounts – which were abolished back in 2015 after a dismal uptake).

When the potential benefits are put in the context of Sydney's median house price ($1,123,991 – *Domain Rental & House Price Report December Quarter 2016*) there is still plenty of heavy lifting to do. Based on government estimates, the typical benefit to an individual of using this scheme, rather than saving in a normal bank account, is around $8,000 – which is certainly something, but would quickly be offset by a median price rise of just 0.8%.

Limited Recourse Borrowing Arrangement (LRBA) Integrity

Date of effect: 1 July 2017 **Who's affected: Existing and new users of LRBAs**

The loan balance included in any limited recourse borrowing arrangements (LRBA) will now be included in a member's total superannuation balance and transfer balance cap.

Repayments made from the SMSFs accumulation balance will also count towards the member's transfer balance cap, if the borrowing supports a pension account.

If the total superannuation balance now exceeds $1.6m, the member will no longer be able to:

- make non-concessional contributions, or
- qualify for Government co-contributions or a spouse contribution tax offset.

If the total super balance now exceeds $500,000, the member will not be able to make catch-up concessional contributions above the annual caps from 1 July 2018.

Profile's view: This measure has been introduced to curb LRBAs being used to circumvent contribution and balance transfer caps. It strengthens draft legislation proposed on 27 April 2017 that only applied the rules to new borrowings from 1 July 2017 – the rules will now apply to both existing and new borrowings. While it could be argued that this measure is unfair as it is being applied retrospectively, it effectively closes a loophole that encouraged (arguably) excessive borrowing by SMSFs.

TAXATION

Business tax

Accelerated depreciation for small business extended

Date of effect:1 July 2017 **Who's affected: Businesses up to $10M turnover**

Businesses with turnover up to $2m can already write off eligible business assets acquired during the current financial year, up to $20,000. This concession has been extended to next financial year as well, for those businesses.

In addition, businesses with turnover up to $10m will also be able to take advantage of the immediate write-off for eligible business assets up to $20,000 acquired between 1 July 2017 and 30 June 2018.

From 1 July 2018, the immediate deductibility threshold will revert to $1,000.

Profile's view: Budget papers indicate that this may be the final year that this concession will be offered. Bringing forward the acquisition of qualifying assets into the 2017/18 financial year to take advantage of the higher write-off may be a tax-effective decision for business owners (provided the asset expenditure will make a valid improvement for the business).

Banking Levy

Date of effect:1 July 2017 **Who's affected: Big 5 banks (liabilities of at least $100B)**

The Federal Government will levy a 6 basis point (0.06%) levy on the liabilities of our five biggest banks (customer's deposits below $250,000 will be exempt).

Profile's view: This reflects the ongoing scrutiny of the banking system and the public's lack of trust in the big five banks. The security of deposits and solvency of our banks remain unchanged, however there is greater uncertainty over bank share valuations. This may impact the ASX, given that bank stocks comprise a substantial portion of the index. A cynical view could also be that it is the government's attempt to stave off calls for a Royal Commission into the Financial Services sector.

Personal tax

Medicare Levy increase

Date of effect: 1 July 2019 **Who's affected: Those earning above the Medicare Levy threshold**

The Medicare levy will be increased from 2.0% to 2.5% of taxable income, to help fund the National Disability Insurance Scheme (NDIS). As a result, many taxes with Medicare Levy attached will also see an increase including:

- Fringe Benefit tax rate and gross up rate
- Excess non-concessional contributions tax
- Lump sum super benefits for people under preservation age
- Lump sum super benefit for people over preservation age but under 60 (in excess of the low rate cap)
- Lump sum super death benefits paid to non-dependants

Profile's view: Because of the expiration of the Temporary Budget Repair Levy from 1 July 2017, those on the top marginal tax rate will see an overall tax reduction of 1.5% from 1 July 2019, while all other tax payers will have a tax increase of 0.5%.

If you are considering any significant asset sales, you may wish to consider exchanging after 1 July 2017 but before 30 June 2019. It is also interesting to note that the proposed increase of 0.5% is on taxable income and so has a higher impact on taxpayers than a mere increase in the marginal tax rate.

Medicare Levy low-income threshold

Date of effect: 1 July 2016 **Who's affected: Low income earners**

From the 2016/17 income year, the maximum level of taxable income that can be earned by a single or family without having to pay the Medicare Levy is increasing slightly. The new and old thresholds are:

	Pre-budget	Post-budget
Singles	$21,335	$21,655
Families (combined income)	$36,001*	$36,541^
Single eligible of Seniors and Pensioners Tax Offset (SAPTO)	$33,738	$34,244
Families eligible of Seniors and Pensioners Tax Offset (SAPTO)	$46,966*	$47,670^

* plus $3,306 for each dependent child or student

^ plus $3,356 for each dependent child or student

Profile's view: There are savings for low income earners but they are fairly small – around $32 per year for singles with no dependents previously paying a partial Medicare Levy who are no longer required to. With the increase in the Medicare Levy from 1 July 2019, the savings for those falling within the threshold allowing for a Medicare Levy reduction will be greater.

Disallowing rental property owners' deductions for travel

Date of effect: 1 July 2017 **Who's affected: Residential rental property owners**

Deductions for travel expenses relating to inspecting, maintaining or collecting rent for a residential rental property will be disallowed.

Profile's view: This was a generous deduction previously allowed, especially for those who owned properties interstate or overseas. As other expenses (such as real estate agent fees for these services) will remain deductible, we do not see this having a large effect on the benefits of holding a residential rental property.

Rental depreciation deductions for plant and equipment

Date of effect: 1 July 2017 **Who's affected: Residential rental property owners**

Deductions relating to the depreciation for plant and equipment in residential properties will be limited to investors who actually incur the expense - not for plant and equipment purchased by a previous owner.

Instead, the acquisition of the existing plant and equipment will be reflected in the cost base for capital gains purposes.

There are grandfathering provisions for those with plant and equipment acquired by 9 May 2017 allowing these to be claimed as a deduction, but they will not be applied to cost base.

Profile's view: The change from an income expense to a capital expense will mean a loss of an immediate benefit for residential rental property owners, with the benefit being delayed until the property is actually sold.

HELP debt repayments increased

Date of effect: 1 July 2018 **Who's affected: HELP debt holders**

The Government has proposed to reduce the level of taxable income at which an individual must start paying off their HELP debt. The repayment rate has decreased for lower income earners, and increased for higher income earners. This is summarised in the table below:

Year	Lower Threshold	Repayment Rate	Maximum Threshold	Repayment Rate
2017/18	$55,874	4%	$103,766	8%
2018/19 onwards	$42,000	1%	$119,882	10%

Profile's view: HELP Debt remains the "cheapest debt you'll ever have", and the incentives to pay the student fees upfront or repay the debt early ceased from 1 January 2017. Therefore, this is still an interest free loan (index with CPI) that will remain popular for those engaging in further education after school. Most taxable income is unavoidable but when there is discretion as to where taxable income is to be allocated, for example via a family trust, consideration should given to whether the distribution causes an individual with HELP Debt to earn above the lower threshold.

Extra 10% capital gains tax discount for direct investment in affordable housing

Date of effect: 1 January 2018 **Who's affected: Individual property investors**

The CGT discount is proposed to increase from 50% to 60% for residents investing in qualifying affordable housing (either new or existing properties). The additional discount will be pro-rated for periods where the property is not used for affordable housing purposes.

To qualify for the higher CGT discount the following conditions must be met:

- the housing must be provided to low to moderate income tenants (this will be based on household income thresholds and composition);
- rent charged must be at a discount to the private rental market rate;
- the affordable housing must be managed through a registered community housing provider; and
- the investment must be held and used for affordable housing for a minimum period of three years from 1 July 2018.

Individuals can access the same benefits by investing indirectly via a Managed Investment Trust (MIT) that derives at least 80% of its assessable income from affordable housing.

Profile's view: Overall a move in the right direction to grow the stock of affordable housing. For this proposal to be attractive the extra saving in capital gains tax over the 3-year period must more than compensate the investor for the reduction in rental income relative to market rates. We support the requirement to hold the property for a minimum of 3 years to avoid 'flipping' of properties for a quick profit, and the proposed consultation process.

Purchaser (rather than developer) to pay GST on new residential premises

Date of effect: 1 July 2018 **Who's affected: purchasers of newly-constructed residential property**

Buyers of new residential premises (or new subdivisions) will be required to remit the GST amount directly to the ATO as part of the settlement process. This is a significant change from the current system, with GST embedded in the purchase price, and the developer being responsible for paying GST. However, some developers are failing to remit the GST (despite having claimed GST credits on their construction costs).

Profile's view: The extra administrative burden is most likely to be carried by conveyancers. It improves the integrity of the GST collection process ensuring the Government receives the full GST amount directly from the purchaser rather than via the 'middle person' (i.e. the property developer).

Personal foreign tax

Main residence CGT exemption……gone for some

Date of effect: 9 May 2017 **Who's affected: Foreign & temporary tax residents**

Foreign and temporary **tax** residents of Australia will no longer be eligible for the CGT main residence exemption on properties purchased after 7.30pm (AEST) on 9 May 2017. Existing properties held prior to this date will be grandfathered and can continue to claim the exemption until 30 June 2019.

Profile's view: This is a significant change for tax non-residents of Australia, and temporary tax residents residing here. A temporary resident for tax purposes is broadly a holder of a temporary visa (as defined) distinguished from a permanent visa and their spouse (if applicable), is not a person who resides in Australia and is either an Australian citizen or holds a permanent resident visa. For example, an Australian citizen that has broken Australian tax residency whilst on assignment overseas, and who intends to sell their Australian main residence after 30 June 2019, could lose the main residence CGT exemption. Therefore, if you were intending to sell your main residence it would be advisable to do so once you resume Australian Tax Residency.

Foreign resident capital gains withholding regime tightened

Date of effect: 1 July 2017 **Who's affected: Foreign residents selling Australian property worth $750K or more**

This is a relatively recent measure that has affected anyone buying property (both residential and commercial) from a foreign seller post 1 July 2016. It requires the purchaser to pay the ATO a withholding tax of 10% of the purchase price. It's intended to reduce the risk that a foreign resident seller would skip paying a CGT liability they might owe in Australia.

The withholding rate that applies to foreign tax resident sellers will increase by 2.5%, to 12.5%, from 1 July 2017. More sale transactions will also be caught, with the exemption threshold being reduced significantly from $2 m to $750,000 from 1 July 2017.

Profile's view: With the large reduction in the exemption threshold, many more Australian residents selling property will be required to apply to the ATO to obtain a valid clearance certificate to provide to the purchaser before settlement, to avoid the withholding of 12.5% tax. This is because the rules deem a seller to be a relevant foreign resident (even if this is not the case) if the value of the property exceeds the $750,000 threshold.

Annual $5K levy on foreign owners of 'ghost houses'

Date of effect:9 May 2017 **Who's affected: Foreign owners of vacant residential property**

Foreign owners of residential property where the property is not occupied or genuinely available on the rental market for at least six months per year will pay an annual vacancy charge of at least $5,000.

This measure will apply to foreign persons who make a foreign investment application for residential property from budget night. The annual levy is equivalent to the relevant foreign investment application fee (minimum fee is $5,000) imposed on the property when it was acquired.

Profile's view: A step in the right direction to increase the number of houses available for Australians to live in. Yet the financial impact for most wealthy foreign owners is rather immaterial. Most will probably just pay the levy and accept it as a sunk cost.

SOCIAL SECURITY

Restoring the Pensioner Concession Card

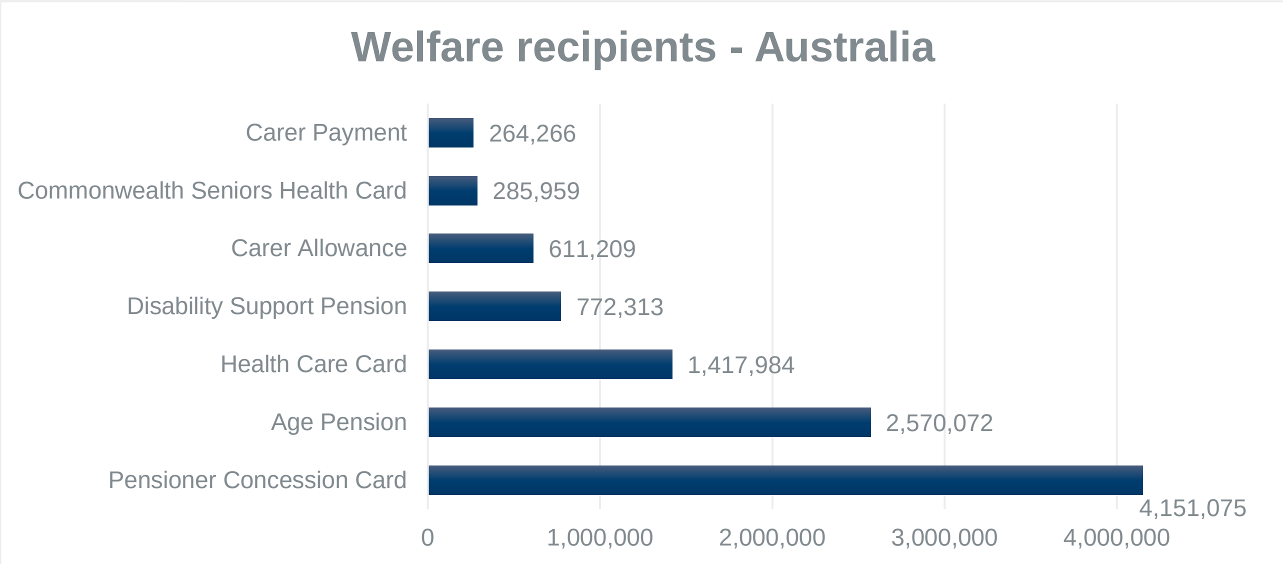
Date of effect: 1 July 2017

Who's affected: Retirees who lost eligibility for the Age Pension & Pensioner Concession Card on 1 Jan 2017

The Pensioner Concession Card will be reinstated for those who lost their Age Pension entitlement due to the asset test changes on 1 January 2017.

However, people who reach age pension age after 31 December 2016 and who have assets above the new asset test thresholds will not receive the card.

Profile's view: This card was the single most used welfare benefit as at December 2016. We welcome this change to reinstate important benefits to many older Australians who had come to rely on the concessions and discounts that come with the card.



DSS Demographics December 2016

Tighter residency restrictions for the Age Pension

Date of effect: 1 July 2018

Who's affected: Retirees living or working abroad for extended periods

Under the budget proposal, a person will need to have 15 (previously 10) years' residency in Australia, unless there is:

- 10 years of continuous Australian residence, with 5 of those years during their working life (ie. from age 16 years to the Age Pension eligibility age), OR
- 10 years of continuous residence and have not been receiving an activity tested income support payment for cumulative periods greater than five years.

Existing exemptions to residency requirements will be maintained for Humanitarian entrants and for those whose inability to work occurred while they were an Australian resident.

Profile's view: The Government is continuing to make tighten up eligibility for the Age Pension. The additional residency requirements should make the welfare system more equitable based on an individual's contribution (with tax or otherwise) to the Australian economy and community. For people who have worked or lived overseas for significant periods of time, they will have to wait (and live in Australia) for longer to receive the Age Pension entitlement.

Extended Liquid Assets Waiting Period (LAWP)

Date of effect: 20 September 2018 **Who's affected: Unemployed Young Australians**

The LAWP is the time an individual is required to wait before an allowance is paid (such as Newstart, Sickness and Youth Allowance or Austudy), if they have funds available above a certain level.

The maximum LAWP will increase from 13 weeks to 26 weeks, for singles (with no dependants) with liquid assets exceeding $18,000 or couples (or singles with dependants) with liquid assets of more than $36,000.

Profile's view: The changes extend the requirement for those with assets available to use those assets first, before relying on the welfare system. They enable better targeting of limited available welfare spend to those who need it most.

Working age payments consolidation

Date of effect: 20 March 2020 **Who's affected: Recipients of Newstart, Sickness, Partner, Bereavement, and Widow Allowances, and Wife and Widow B Pensions**

The proposal is for these seven working age payments and allowances to be consolidated into a new single "JobSeeker" payment.

Profile's view: For those seeking government assistance, the process has become increasingly complex and this change should simplify the system somewhat.

New income support recipient obligations

Date of effect: 1-9-2017 and 20-9-2018 **Who's affected: Recipients of working age income support payments**

Starting from 1 September 2017, three Department of Human Services (DHS) centres will require drug testing for welfare recipients. The DHS will apply a three strikes system to curb the behaviour and encourage drug users to seek help. Drug abusers will also no longer be able to qualify for the disability support pension on the basis of their addiction problems.

Furthermore, tighter activity tests starting 20 September 2018 are intended to get more job seekers back into the workforce. The new activity test requirements are:

- Age 30 to 49: 50 hours per fortnight (up from 30 hours per fortnight)
- Age 55 to 59: the 30 hours per fortnight requirement will no longer be able to be met through volunteer work alone. At least 15 hours must be used to look for a new job.
- Age 60 to Age Pension age: There will be a new activity requirement of 10 hours per fortnight (which can be met through volunteering).

Profile's view: The changes should encourage income support recipients to increase their efforts to obtain employment and reduce welfare dependency. The proposals are likely to receive broader political support than the 2014 budget proposals.

Tax changes for families

Date of effect: 1-7-2018 and 1-7-2019 **Who's affected: Families on Family Tax Benefit Part A**

Family Tax Benefit Part A: The government has announced an increase in the test taper for families with a household income above the Higher Income Free Area (currently $94,316). It will increase to 30 cents per $1.00 income (currently 20 cents per $1.00 income), from 1 July 2018.

Family Tax Benefit payment rates: These will be maintained for two years at their current levels, from 1 July 2017. Indexation will resume on 1 July 2019.

'No Jab, No Pay' policy: this will come into effect from 1 July 2018. Family Tax Benefit recipients will have their payments reduced by up to $726.35 per year for each child not meeting immunisation or health check requirements.

Profile's view: The changes are consistent with the government's focus on reducing welfare spending in targeted and politically less controversial ways.

Energy assistance payment

Date of effect: 20 June 2017

Who's affected: Age and Disability Support pensioners, single parent payment recipients, veterans & partners

The Government will make a one-off Energy Assistance Payment before the end of the current financial year to these welfare recipients, of $75 for singles and $125 per couple. Recipients must be resident in Australia and eligible for the relevant payment on 20 June 2017.

Profile's view: It's intended to help offset higher winter energy costs for vulnerable Australians, and likely to be popular.

OTHER MEASURES

Banking Executive Accountability Regime

Date of effect: Not yet known

Who's affected: Senior Executives & Directors of ADIs (Banks)

The Government has signalled its intent to legislate measures aimed at increasing the accountability of senior executives and directors of Authorised Deposit-Taking Institutions (ADIs). "Senior executives" are the CEO, direct reports to the CEO, and those who oversee major business areas.

It proposes, for these staff:

- They must be registered with APRA
- APRA to be notified before an appointment is made
- At least 40% of remuneration (60% for CEOs) to be deferred for at least 4 years
- APRA to have the power to remove and disqualify them, and withhold bonuses

There will be penalties of up to $200m for larger ADIs for non-compliance with the regime.

This measure appears to be somewhat based on the recently-enacted "Senior Manager Regime" (SMR) in Britain.

Profile's view: Details are sketchy at this stage. For clients who are personally affected, it introduces a range of financial and career planning considerations in terms of the structure and timing of their remuneration, the risks of certain roles, and ensuring that areas of responsibility align with new obligations and accountabilities. As investors, we must consider the likely distraction and change in risk appetite at senior level in the 4 largest companies in our share market – all (currently) banks. It may slow growth in the long-term for these institutions and therefore the broader sharemarket.

Open data

Date of effect: Not yet known

Who's affected: Bank customers

The government intends to enforce an 'open data' regime on banks, which would allow customers open access to and control of their data. It's intended to make more innovative financial products and business models available to customers, and reduce switching costs.

Profile's view: Constrained access to data has been a major barrier to innovation in financial services. Applications which attempt to show a 'consolidated' financial picture to clients can be blocked by banks not providing data in a convenient format, or treating such access as invalidating terms of service so that fraud protection might not be available. We see this move as a potential big positive for clients and look forward to more detail.

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