

17 June, 2013

The Manager,
Corporate Tax Unit
The Treasury
Langton Crescent
PARKES ACT 2600

By email: dividendwashing@treasury.gov.au

Dear Sir/Madam

**TREASURY DISCUSSION PAPER – PREVENTING DIVIDEND WASHING
COMMENTS BY STOCKBROKERS ASSOCIATION OF AUSTRALIA**

The Stockbrokers Association of Australia Limited (“the Stockbrokers Association”) appreciates the opportunity to provide these comments to Treasury on the Discussion Paper “Preventing Dividend Washing”.

Preliminary Comments

The Stockbrokers Association acknowledges the Government’s concern at the potential for any mechanisms which could cause abuse of the dividend imputation system.

The introduction of the dividend imputation system has been one of the biggest contributors to the strength of Australia’s equity markets and the fostering of investment in Australian business enterprises in recent times. Its importance should never be underestimated. For this reason, the Stockbrokers Association is strongly supportive of maintaining the current system, and supportive of moves to deal with any conduct that could undermine or jeopardize the continuation of dividend imputation.

The Association notes the increased trading volumes in the cum dividend market for certain stocks in recent times. We are not aware of any analysis that definitely attributes this to the practice of dividend washing, as opposed to other causes, however the trend is such that there is a likelihood that dividend washing is a major contributing

factor. To the extent that this has reached the stage that this trend is causing an undue impact on Government revenue, then the Association acknowledges the Government's objective in taking appropriate measures to stem this impact.

Proposals

The Stockbrokers Association stresses the continued importance to the market in maintaining the continued existence of the cum dividend market where this is requested. The cum dividend market plays a vital role in enabling the settlement of transactions in the options market. It was established for good reason to provide an efficient means to deal with the settlement issue, and that reason remains valid.

Whilst it might be open to deal with the settlement issues by looking at means of altering settlement arrangements financial adjustments and making financial adjustment, this would be potentially very costly in terms of system changes for both Market Operators and Market Participants, and costly in terms of increased back office costs. This would not be a desirable outcome, particularly in the current economic climate.

For these reasons, we believe that Treasury has correctly identified that adjusting the taxation arrangements is the correct way to address concerns in this area.

Preference for Option1

The first option proposed in the Discussion Paper, namely, modification of the holding rules in the manner outlined, represents the cleanest option, in our opinion. Members have not identified any unintended consequences with this approach.

The other two Options introduce an element of uncertainty, and hence, whilst they also could be effective to deal with the issue, the uncertainty is less desirable. For that reason, our preference would be for Option 1.

We would be happy to discuss any issues arising from our submissions on this issue. Should you require any further information, please contact Peter Stepek, Policy Executive, on (02) 8080 3200 or email pstepek@stockbrokers.org.au

Yours sincerely,



David W Horsfield
Managing Director/CEO