



FSC BT Political Series Breakfast with the Hon Chris Bowen MP

Q&A with Sally Loane, CEO, Financial Services Council

Sally Loane: Here he is, right on cue, please welcome the Shadow Treasurer, Chris Bowen. Thanks Chris. Good to see you. How was that traffic?

Chris Bowen: We should have done this in Canberra, I would got there more quickly.

Sally Loane: So, you've been on the road for two-

Chris Bowen: Three hours. My apologies.

Sally Loane: It's very good to have you here.

Chris Bowen: Normally takes an hour. I normally leave an hour and a half. I was in the car for three hours today.

Sally Loane: Oh, we feel your pain.

Chris Bowen: What a star Kristina is for filling in for me.

Sally Loane: Fantastic. We're so glad she was here, otherwise it would've been one of your staffers reading your speech, which would not have had the same flair. We were very pleased to hear ... I was just talking about the big levers that you laid out in that speech, Chris. Very comprehensive. I suppose the big daddy of all, the Henry Review, and Ken Henry came out the other day and of course Ken Henry did that review for Labor Government. Would you ever go back to the Henry Review and look at the big, big tax reforms?

Chris Bowen: I think it's a resource, which should be trawled, and reconsidered every so often. Now, people sometimes say to me, "Yeah, all this tax stuff you're doing, that's good, but we need a big picture. We need a big white paper." I reject that view, because it doesn't work. It's been tried. And if you try and do everything at once and rewrite the whole tax system at once, you'll fail. The Henry process was probably more successful than most people realise, there's actually more implemented than is most commonly accepted in the political debate, but then we had, without being political, Tony Abbott try that whole tax white paper, which we never even saw, it didn't get that far.

Chris Bowen: If you try and boil the ocean and say, "We're not going to make any changes at all unless we do it everything at once," you're going to be taking on, frankly, too many vested interests, too many difficult fights, and you'll end up achieving very

little. The better approach is, I think, I would submit, our approach, which is identify shortfalls, identify problems, think about it carefully, design it properly, deal with it, tackle it, tackle the argument, I would say in most cases win the argument, and then move on to the next one.

Chris Bowen: Always with a view, of course, as to the big picture as you're doing it. You're not doing these changes in isolation, change family trust without thinking about imputation et cetera, et cetera. It's always coming together, but if we waited and said we're not going to do one little thing until we have a map of everything, then I'd tell you what would happen, nothing, that, by and large, has happened, which is very little.

Sally Loane: Cause of course, if you do win government, at the next election, you'd probably have an obstructive senate as well. You can't know-

Chris Bowen: Well, we won't have a majority in senate in our own right. The Labor Party hasn't had a majority in the senate since 1949, but we've done a few things in those years, the Labor Party government. I think our track record of getting things through the senate is pretty good. Obviously, we haven't had a majority in the senate for one day since 1949, and in those times we've had Hawke-Keating and Rudd-Gillard, and obviously Whitlam, so we've got a fair bit through. I do except, of course, the senate cross-bench is now more disparate than it was. In the old days you'd have bigger moving blocks, you'd have Labor Party, the Democrats, the Greens, and now it's more dispersed.

Chris Bowen: Now, at the next election will be the first actual election where this government senate reforms will be effective, because last time in a rather significant miscalculation, Malcolm Turnbull reformed the senate voting system and then called double dissolution election, which made his reforms meaningless. This time, actually, the reforms will work, cause we have senate election, so it will have some impact. We'll see what it does, but I have a high degree of confidence in dealing with the senate. I'm not suggesting everything is going to be smooth or easy, but we'll be treating them with respect. We'll have the moral authority of a mandate, which Kristina would've spoken about, in her-stroke-my speech, and by and large, that's it. There are two reasons why, I think, our approach gives us a better opportunity to set up. One is the moral authority of the mandate, and two because you see a bit percolating through the community for so long now.

Chris Bowen: Negative gearing reform, for example, was announced two years ago. The debates been had, the issues are understood. If you go to the Senate and say, "Well, we've got this great idea, we're going to vote for it, you're going to scare the horses." When you've actually shown that you've been able to have the public debate, and win the arguments, you're in a much better position with the Senate.



- Sally Loane: Okay. I do want to ask you about ... Your speech had this ... You've got two policies still on your website under your Fairer Super Plan plan, one's tax on income retirement over a certain threshold, the other one is a 30% tax on contributions for those incomes over \$250,000 dollars. I think a lot of people would say, "The coalition has delivered those changes to make that system fairer, the taxation of super fairer." So they've sort of delivered that ... You're also introducing your input tax credit charges or changes. Are you saying that you will still leave your original two super changes there as well as the dividend imputation changes?
- Chris Bowen: Yes, and just step it through, we announced our original super renovation policy in February, I think it was, in 2015. Government, of course, was up against it so they wouldn't touch it. Then, in their budget, there were adopted elements that were done, but they also did other things which we wouldn't have done. But, we do acknowledge that they came a long way toward our position. We at that point announced those other two policies and said what we think these are legitimate and appropriate thresholds, and that they are our policy. To just go that little touch further, I think would be a fair characterisation. I recognise the Government's got a long way there but, and our imputation policy was in the speech, vital for budget repair and vital for improving the progression of taxes, but it doesn't mean those other things aren't either.
- Sally Loane: Okay so those are the two changes that old policies will stay. So that does mean a fair bit of tinkering to super, when you get in.
- Chris Bowen: There will be changes, yes, absolutely, and necessary changes in our view. We've reached the end of what I would call our taxation changes, in superannuation. As we said, we're thinking about gender equity and some other issues, and we feel that the Government will delay their next increment increase in the superannuation guarantee, and we won't be agreeing to that. But, I regard them as separate superannuation tax changes, these positive changes, that we are continuing to work on. Then, of course, what we'll do is establish the council of superannuation custodians, which the FSC has informed my thinking about. Not so much the council of superannuation custodians, which has been a clear policy for some time, but the five year-
- Sally Loane: Reset ...
- Chris Bowen: ... Linked to the time of the degeneration report was an FSC idea, which I thought was a good one. And so we've adopted that as our policy.
- Sally Loane: Excellent. Thank you.

- Sally Loane: In terms of the dividend imputation changes, you walk back a bit from your original stance on that ... Were you surprised at the backlash, and also, the criticism that you targeted SMSFs deliberately?
- Chris Bowen: Wasn't surprised by the size of the backlash. We always knew that we were walking into a firefight doing this this. We know this is on all our policies, and in fairness, if there's a criticism, I thought we were walking into a fire fight and a backlash on discretionary family trusts, as well, and that didn't eventuate. That's policy-
- Sally Loane: That's to come, is it?
- Chris Bowen: Well no. It's been adopted, it's been out there, it's been out for six months, and the Government has not laid a finger on it, frankly. And it hasn't been absolute. It's pretty hard to justify incomes looking for tax minimisation purposes, but still I thought going into a fire fight ... Sometimes these things are difficult to judge, if it was a fire fight, which didn't eventuate ... I'm not saying that there won't be more pushback but, you can't turn up two years later and say "That policy that the Labor Party announced two years ago has an existential threat to your existence." That doesn't work.
- Chris Bowen: Now on Imputation, the size of the pushback didn't surprise me in the slightest. On the changes, we always knew that the vast majority of the revenue was coming from the top 20% and self-managed super in particular, very large self-managed super funds, we always knew that a very small amount of money was coming from the low end. But that became the political issue, frankly. And we reattributed...
- Chris Bowen: When you could exempt 25% of the recipients, which the pension is part pension, but save 94% of the revenue, and then concentrate the argument on what you're actually doing, rather than a scare campaign about pensions, because the political problem we face is, the vast majority of pensions were unaffected, 90% of pensions were unaffected, but because of the scare campaign, many thought they were affected. And that means you're not getting through with your argument. And it's an important argument for us to win, and so it made sense for us just to, sometimes leadership is about listening as well, just to recalibrate that slightly, but importantly, save 94% of the revenue that we had identified through that measure.
- Sally Loane: Do you think you've got it right? Do you think you'll win this argument? Or do you think there are more unintended consequences to come?
- Chris Bowen: No, no. We don't do these things lightly. We're the only country in the world that doesn't. It's an anomaly-

- Sally Loane: It was Paul Keating's invention.
- Chris Bowen: No, no. No, no, no. I'm glad he's not here, he wouldn't have liked that comment.
- Chris Bowen: He invented dividend imputation, absolutely. But only in 2000 was it made refundable. So this was a Howard/Costello change, which completely changed dividend imputation, and removed it from the principle of double taxation. It would be wrong to get rid of dividend imputations; Some people suggest it from time to time. It would be-
- Sally Loane: It helps a lot of charities and a lot of institutions.
- Chris Bowen: Yeah.
- Sally Loane: Charitable bodies and-
- Chris Bowen: Well, and they're exemplary changes, but dividend imputation in itself, in the 1987-2000 model, avoids double taxation, and double taxation should be avoided. That's the right model. It's transformed the way capital is formed in Australia. The refund ability element is not integral to capital formation, and is not integral to the dividend imputation model that Keating set up. And obviously, I spoke to him more than advanced in making this decision, as the father of imputation, and he said well of course returning to that model is a perfectly sensible thing to do in this budget arbitrary environment.
- Chris Bowen: At 8 billion dollars a year, which is what it's growing to, it's simply unaffordable, and not just from policy terms. If you had the situation where all shares were held by a retiree, in a tax-free phase, we'd just be giving back all the corporate taxes collected. We'd take zero tax out of corporate Australia, which is not sustainable in the slightest, and someone's got to call it out.
- Sally Loane: Mm-hmm. It's a hard argument. Look I know ... you don't want to prosecute it now 'cause that will come in the election campaign, I'm sure. I do want to ask you though, about the Royal Commission. And I know you can't pass running commentary on it, but would Lighter have done it any ... I know you would have done it sooner. Are you interested/pleased with how it's going? Do you think it will achieve its purpose?
- Chris Bowen: We would have had different terms of reference, but I'm not going to quibble about that; we're glad it's underway. The Royal Commission is showing every sign of a very thorough job. And while I'm not going to provide a running commentary on every day's worth of evidence, obviously, I don't think there's been any indication, thus far, that the Royal Commission is unwarranted, and indeed quite contrary. I think even in the early days, the early stages, the

evidence has been disconcerting, and has supported the need for the Royal Commission in the beginning.

Sally Loane: I know when we spoke last time about this you said you would have liked to have sent the regulators, and APRA and ASIC inside that Royal Commission as well, under examination do you-

Chris Bowen: In terms of the financial regulation architecture because one of the strength of our financial regulatory system since Wallace has been clear responsibilities for each regulator. Everybody knowing what their responsibilities are, you knowing what the responsibilities are, nothing falling through the cracks and very few grey areas. I don't think that's the case here at all, through ad-hockery; things being added to each regulator. APRA, having responsibility for BEAR. Macro prudential regulation being more macro than prudential. I'm not saying it's a bad thing but it is more about macro economic management than the health of one institution, which was APRA's core responsibility.

Chris Bowen: So its all become, I think, more blurred and I think there needs to be an opportunity to step back and say "Well, all these changes have occurred, do we have every element of it right?" I'm not suggesting ... far from am I suggesting big sweeping regulatory architectural changes. I'm not suggesting we'd move away from the Twin Peaks model or abolish or create new organisations. But the sharing of responsibility between the regulators is now more confused than I think it has been. And that's a bad thing. And as a result of that, the council of financial regulators is now much more important. The fact that they interact with each other through the council is much more important- and we don't know what happens there, it's an opaque group. People like the Reserved Bank was prior to 2004 reforms where everything was done in a black box, and they didn't announce the interest restitution until the day later. And you never saw-

Sally Loane: Now they put minutes out ...

Chris Bowen: But now the council of financial regulators is much more important, and that's a good thing. They're fin-regulators and they should be interacting with each other, but we don't know what's going on there. So, all I'm saying is that all these things have changed, and I wouldn't want to see more add-hockery. Just dealing with the regulators on issues that come up, I would be looking towards a process to step back and say, "Do we have all this distribution and responsibilities correct?" I do not know why APRA has BEAR, it makes little sense. ASIC would be the natural home for BEAR. APRA is now a prudential regulator and a supervisor. That's definitely a significant change. Now we didn't move the amendments in the house, or-

Sally Loane: But you'll correct that?

- Chris Bowen: Well, what I'm saying is that these are issues that need to be considered in a very careful and methodical way.
- Sally Loane: We've only got a couple more minutes and I know I'm holding people over, but it's really important that we ask you questions. The BEAR, you did mention, you obviously like it. Would you extend it to other sectors? The PJC said they want it on life insurers, which we said, "That's not right, that shouldn't be on life insurers" What would you do with BEAR?
- Chris Bowen: One amendment we did move was a delay for smaller institutions, because it was just simply unacceptable to expect them to comply with it on such a short time table. I have no plans to extend it. I didn't design it, it wasn't my idea. It was, frankly, a diversionary tactic tranced at the Royal Commission. Now that's not such a bad thing, but that's what it was designed to do. And as a result now, frankly, as I said, we've got the worst of all worlds. You've got the Royal Commission, you've got the BEAR, and you've got the bank tax, all these things which are designed to avoid the Royal Commission, and you still got the. But having said that, it's a change to the regulatory framework. We supported it, but that doesn't mean that necessarily we should flow through to other parts of the sector.
- Sally Loane: Okay. You mentioned extending the superannuation guarantee perhaps to women on parental leave. Your-
- Chris Bowen: We're looking at all sorts of options. The gender ... the retirement income gap really annoys me. It really drives me as a policy agenda. The income gap through the working life compounds, for reasons we all understand gets worse, leads to far too many women retiring to poverty. And, we shouldn't accept that. That's not okay.
- Sally Loane: Absolutely.
- Chris Bowen: Now there are all sorts of policy mechanisms, which are floating around, none of which in and of themselves will fix the problem, but all that which could make a contribution, we got to find the best valuable way of doing that. We've been working through that. What we don't do is come out one day and say "Well we got a solution to this problem, which we haven't told you about before." In all these things we've talked about the problem as well as the solution. And that means ideas come forward. You'll have ideas; your members will have ideas. And all ideas are gratefully received. But I make no apologies for saying the retirement income gap is unacceptable in Australia in 2018.
- Sally Loane: Absolutely.

Chris Bowen: And government should be doing something about it.

Sally Loane: Well, I know. I think people have got to start engaging with super from their very first job, and that's job for superannuation trustees.

Chris Bowen: All that's true. But, we've been saying that for a long time. And-

Sally Loane: Technology is going to help us though.

Chris Bowen: Sure, with the best schools in the world though, we are not going to get an 18 year-old to focus on their retirement income. Male or female.

Sally Loane: Call it something different.

Chris Bowen: We could try. And I'm not saying we shouldn't try. And all those things are very important. But we've also got to get to policy leaders so that even for those disengaged people ... For the people whom have no choice, you know ... More and more people are working multiple jobs now, as you know. Casualisation has led to actually more people in more jobs that were lower paying.

Sally Loane: And we're seeing products now for those people too. It's innovation, a great thing.

Chris Bowen: Sure, sure. But we're going to make sure the regulatory setting are right as well. Women, by definition, take more career breaks, by large ... all these things have to be weighed up. But, it is pretty high in our thinking and policy development.

Sally Loane: Very quickly Chris, I know you want to ... You probably do want to hit the greens out of the park with idea for the RBA to become a Peoples bank.

Chris Bowen: I don't think it's particularly well considered. One of the problems with it ... in no particular order-

Sally Loane: It terribly ill considered, isn't it?

Chris Bowen: Ill considered.

Sally Loane: Ill considered.

Chris Bowen: I said not ... terribly well considered-

Sally Loane: Yes. Exactly. Bad idea.

- Chris Bowen: Yeah, in no particular order- 1. As we know, if you just provide people with more capital, you're just going to drive up prices...point one. Point two, of all the problems facing the Australian economy and purchases at the moment, high interest rates isn't one of them, so making interest rates slightly lower. And then what I think would be slight lower is hardly a solution to our problem. Particularly, if it's not part of broader package of reforms, like negative gearing, investors, etc. And finally, from my point of view, it exposes the commonwealth ballot sheet to the housing market, directly, which should be avoided. So, it is not a plan that will be adopted.
- Sally Loane: Okay, very restrained. Very quickly ... Withholding tax, which is going to be very very difficult, if we don't, it will be difficult for the Asia Region Funds Passport to get off the ground if we don't fix this. Would you look at that as a priority?
- Chris Bowen: As you know, we did things in office, particularly when I was financial services administrator in this space, I would have an open mind going forward and would be happy to engage with you about what options are. And, to be honest, it's been a little while since I've looked at the competitiveness in this space. So if there are issues, which we should be considering, we'll consider them, and happy to receive feedback as we're doing so. The whole agent funds management passport is very important to us. We are pleased with the progress ... Well, we are pleased with some progress. We would have liked it to have been quicker, but we're not going to quibble. But, the entire Johnson regime will be something that we would want to refresh and turbocharge in office. And, if we called in taxes as part of that conversation, happy to have that conversation.
- Sally Loane: Thanks Chris. On that note, I do want to thank you. It's been terrific of you to get here finally. It's a labour of love.
- Chris Bowen: I can only apologise. But I only realised when I got in the car, that the Harbour Bridge was shut, otherwise-
- Sally Loane: ... You would've been on the train ...
- Chris Bowen: It was all too late.
- Sally Loane: Yeah, no Chris, thank you. We really appreciate it. We know how far you travelled, and how hard it was to get here; we really appreciate you making the time. And it was fantastic for Senator Keneally to be here to deliver your words.
- Chris Bowen: Well, you could see why we put her in the Senate. She was able to step up at the last minute, so...
- Sally Loane: Thank you very much, Chris. Thank you.



Sally Loane:

And just finally, before you go off to your meetings, which are probably running a little bit late, because Sydney is running late, I want to thank you all for coming. And my final thanks, of course, go to Melinda Howes and the BT team. We could not do this engagement without you, we really appreciate it. Thank you all for supporting the FSC BT Political Series. Thanks very much. Thank You.

END