

6 July 1999

Ms Lexia Bain
Inquiry Secretary
House of Representatives
Standing Committee on Employment, Education
and Workplace Relations
Parliament House
Canberra ACT 2600

Dear Ms Bain

Employee Share Ownership Inquiry

Thank you for your 15 June 1999 letter to the Chief Executive Officer in which you provided the opportunity to make comment on the views expressed to the Committee in the submission by the Finance Sector Union of Australia (FSU). Mr McFarlane has asked that I respond on his behalf.

The comments provided below do not seek to respond to the FSU submission in its entirety, but more particularly to:

- the 12 month service requirement for eligibility to participate in the employee share scheme;
- the requirement that a person must be an employee at the date of share allocation; and
- the allocation of (employee) shares to part-time employees.

To provide specific context to the issues raised, our comments commence with a summary of the ANZ Employee Share Allocation Plan as introduced in 1998 together with a brief comparison of the current Plan with the Employee Share Purchase Plan which preceded it.

Yours sincerely

Christopher C Baker
Head of Workplace Strategy

1. ANZ EMPLOYEE SHARE ACQUISITION PLAN

1.1 Introduction

ANZ provides eligible employees with up to \$1,000 worth of ANZ shares at no cost on an annual basis, subject to business performance. There are no brokerage fees or transaction taxes for the employees concerned. The shares are held by a trustee on the employee's behalf and must be retained for a period of three years before the shares may be disposed or sold. At the end of the 3 year period the shares are automatically transferred to the employees by the Trustee.

During the 3 year period, employees are entitled to any dividends payable on the shares as well as bonus shares and rights issues.

The shares allocated under this Plan are not subject to forfeiture. If an employee leaves ANZ before the 3 year period has ended, the shares are released to the employee to deal with as they wish.

1.2 Eligible Employees

Eligible employees are those who are below executive level and who :

- are a permanent full time or part time employee of ANZ or one of its fully owned subsidiaries
- have a minimum of one year's service as at the announcement of the full year results
- are employed as at the date of issue; and
- are residents of Australia.

1.3 Allocation

A pro- rated amount of shares is allocated for part time employees. This is pro-rated in favour of the employees as follows:

Contracted Hours per fortnight	Pro-rated Share Allocation Offer
0-19	25%
20-38	50%
39-49	75%
50 and over	100% (same as FTE)

1.4 Comparison against Previous Share Scheme

The previous ANZ Group Employee Share Purchase Scheme offered eligible employees ANZ shares at a discount to market and funds for the purchase through a loan. The number of shares able to be acquired was expressed as a career entitlement ranging from 500 to 5,000 shares depending upon the level of the employee's position. The loan funds attracted a concessional interest

rate and was payable over 5 years. The discount on the purchase price of the shares was a taxable benefit to the employee.

The Scheme was unsuccessful in securing employees as long term shareholders. Participation was low, with only 8% of eligible employees participating in 1997, which was the last year the scheme was on offer. In addition a high proportion of those employees who participated sold their shares very quickly, with 46% of shares issued in the 1997 allocations being sold by the end of July 1997.

The twelve month service requirement is consistent with the eligibility requirement of the preceding Employee Share Purchase Scheme.

2. COMMENTS IN RELATION TO ELIGIBILITY AND TIMING

2.1 Minimum Service Requirement

As outlined in 1.2 above, it is an eligibility requirement of the ANZ Employee Share Acquisition Plan that individuals have a minimum of 12 months service at the announcement of full year financial results. The legislation dealing with the taxation of employee share schemes in Australia (Section 139 GB (1) of the Income Tax Assessment Act 1936) defines a “permanent employee” as a full-time, or permanent part-time employee “with at least 36 months service”. ANZ has determined however that the one year qualifying period ensures that all those who have sustained employment with the company will be eligible to participate in the Plan while excluding those individuals whose employment with ANZ may be of a more transitory nature.

The incentive based share scheme available to Executives at ANZ does have a differing qualifying period but unlike the general Employee Plan, the shares are revocable and subject to forfeiture on resignation.

2.2 Timing

The rules of the Plan require that any individual allocated shares under the Employee Share Acquisition Plan be an employee at time of allocation. When the Plan was introduced in 1998 there was a process of offer and acceptance prior to allocation. ANZ will continue to act to ensure that any period involved is kept to a practical minimum.

2.3 Part-time Employees

To qualify for the taxation exemption available under Division 13A of the Income Tax Assessment Act 1936, an Employee Share Plan (like that at ANZ) must offer at least 75% of permanent employees the same entitlement. This provision enables a company to cover three quarters or more of its employees in the same way, but then to be able to differentiate appropriately such as by

way of an alternate and contingent incentive based scheme for executive level employees.

As indicated in the summary of the Plan at Section 1.3 above, eligible part-time employees receive a pro-rata number of shares based on the number of hours they are contracted to work per fortnight. In each case the rounding is upwards, in favour of the employee. As such, a part-time employee contracted to work anything from 50 hours and up per fortnight will receive the same allocation offer as a full-time employee and the minimum possible offer is 25% of that available to a full-time employee. The pro-rated approach to the participation of part-time employees in the Plan recognises the relative difference in their employment while still enabling their active and meaningful involvement in the Plan.

SUMMARY

The eligibility requirements for the ANZ Employee Share Acquisition Plan are both practical and equitable. The acceptance rate for offers made under the Plan at the end of 1998 was in excess of 98%.