

28 April 1999

Dear Mr McMahon,

Employee Share Ownership in Australian Enterprises

The Commonwealth Bank would like to take this opportunity to have its views on this issue tabled before the committee.

Experience of Employee Share Ownership in the Commonwealth Bank

The Bank encourages employee share ownership and has had some form of share ownership arrangements in place since 1991 (when the Bank was privatised).

The current generation of share plans was approved by the Bank's shareholders at the 1996 Annual General Meeting. At this meeting shareholders approved the introduction of two general employee share plans as well as an executive option plan for a period of three years. Shareholder approval for the continuation of these plans for another three years was granted at the 1998 Annual General Meeting.

The first of the general employee share plans, the Employee Share Acquisition Plan (ESAP) is designed to operate within the Federal taxation legislation providing for a special tax exemption for employees. The plan allows for a free grant of up to \$1,000 worth of shares to be provided to all employees with at least 2 years service, subject to the Bank achieving a performance target of the greater of 5% growth in annual profit or CPI plus 2% growth in annual profit. Over 30,000 employees have received shares in the Bank under this plan.

The Bank's other general employee share plan, the Employee Share Subscription Plan (ESSP) is designed as a complementary plan to the ESAP to further encourage employees to build on their shareholding. It provides staff with at least 12 months service the opportunity to acquire shares at a 5% discount subject to a 12 month restriction on disposal. At Board discretion up to 300 shares per annum may be acquired by employees under this plan. No loans are provided. Over 3,100 employees have taken the opportunity to participate in this plan.

The Bank believes that these plans:

- increase employee motivation and create a stronger link between increasing shareholder value and employee reward;
- assist employees to better understand the shareholder perspective and to enhance shareholder value; and
- encourage retention of employees over time through the creation of a valuable asset, which is added to on a regular basis.

In a broader sense, through the achievement of such objectives the plans can have a positive impact on productivity and flow through benefits on the community

as a whole. Employee share plans also support the Government's policy of encouraging wider shareholding in this country.

Other Issues

The introduction of the Federal Government's taxation legislation (new Division 13A) in 1995 was a positive step forward towards strengthening the relationship between shareholders, employers and employees. However, we mention the following issues of concern:

Executive Option Plans

Under current taxation legislation, a taxation liability for option plan participants crystallises when they cease employment.

The use of performance hurdles in the context of executive option plans is only relatively new. Some plans allow discretion in certain circumstances for participants to continue holding options after cessation of employment. In these circumstances it is in the shareholders interests that they do not exercise until the performance hurdle applicable to all participants has been met.

It would, therefore, seem logical for any taxation liability to crystallise at the point that the options become exercisable and not at the cessation of employment. This is especially so given that the performance hurdle may never be reached.

Payroll Tax Liability in Western Australia

In Western Australia employers such as ourselves now incur a payroll tax liability on employee share schemes. To date, no other state or territory has yet adopted such an impost.

We believe that applying payroll tax on employee share schemes is clearly in conflict with the objectives of the Federal taxation legislation.

Yours Sincerely

D V Murray