

## APPENDIX 3

### Questions on notice from Senator Andrew Murray

At the PJSC hearing Senator Andrew Murray advised the Commonwealth Bank representatives that he would provide a list of written questions for the Bank's consideration. The questions and answers are set out below.

**Q1** A debt that is written off may be deducted as a tax liability but can still be kept alive for the purpose of perhaps recovering the debt in due course, but a cancelled debt is dead and finished. What are the possible effects on the Bank and its customers if tax deductions were allowed only if debts were cancelled and not written off?

**A1** The Bank would not ordinarily cancel a debt unless it is satisfied that the amount recoverable from the realisation of securities, less the cost of recovery, is less than the amount to be received under a compromise arrangement. Therefore, the likely effects would be an acceleration by the Bank of enforcement action and subsequent realisation of all amounts available under its securities. This would occur because this would be the only way that the Bank would be able to obtain a tax deduction for the amount which it expects to lose on the debt. To the extent to which a revised procedure increases its costs, the Bank may need to pass on the higher costs to its other customers who meet all their contractual obligations.

### Q2

- Does the Bank operate a system of regular advice to business customers of the customer's actual liability and any contingent liabilities?
- Does the Bank provide an estimation for business customers of future liabilities for at least the following financial year?
- What are the full taxation consequences of the Bank operating the shadow ledger system?
- How does the second set of books affect the Bank's taxable income compared with the ways in which taxable income is affected by its standard set of books?

**A2** When a loan is approved the customer is provided with documentation of all facilities, including contingent liabilities, that the Bank has approved. Any variation to these terms and conditions will be evidenced by appropriate documentation, which is acknowledged by all parties to the loan.

In the normal course the Bank will regularly review the facilities provided to an individual business customer and, subject to its assessment of the ongoing viability of the business and its capacity to honour its obligations proving satisfactory, the Bank will confirm continuation of those facilities for a further period. The Bank also provided the borrower, at a minimum, with account statements or letters on either a quarterly or half-yearly basis depending upon the type of facility provided. From this

information the customer could estimate his or her future liability to the Bank. In accordance with the undertaking given to the PJSC customers who are having difficulty repaying their loan or who are in dispute with the Bank will also be given statements in line with the regular statement cycle, until there is either a court judgement or agreement between the parties. These statements will record the continuing accrual of interest on the debt due, together with any other costs associated with recovery of the debt that may be charged to the customer. These arrangements would be effective from 1 January 2001, although in the interim such statements would be available on request.

The shadow ledger merely records the defaulting borrower's continuing legal obligation where the Bank has written off all or part of a debt. It does not alter the Bank's taxation liability.

**Q3** How many complaints or disputes in the nature of those made by Mr Ford and Mr Madigan did the Bank receive in the last financial year?

**A3** The Bank is aware only of a very small number of customers, approximately four, who have raised similar complaints and who have not in fact received statements.