

24 August 2007



The Board of Taxation
C/- The Treasury
Langton Crescent
CANBERRA ACT 2600

Dear Sirs

Review of the Taxation Treatment of Off-Market Share Buybacks

Thank you for the opportunity to provide a submission to the Board of Taxation as part of your review of the taxation treatment of off-market share buybacks.

The Retail Employees' Superannuation Trust (REST) was established in 1988 and is Australia's largest superannuation fund by membership, with more than 1.6 million members. REST has in excess of \$14 billion in assets invested across Australian and global equities, property, bonds, cash and a range of unlisted and alternative investment strategies. Our investments in listed Australian equities account for approximately \$4.6 billion of REST's total assets.

REST is supportive of the retention of current arrangements for off-market share buybacks for the reasons set out in this submission.

Flexibility of Capital Management

REST believes that off-market share buybacks increase the flexibility of Australian companies in the management of their capital base and the funding cost between equity and debt. Off-market share buybacks permit companies to restructure balance sheets through the distribution of excess cash to investors in a market efficient way.

The greater the flexibility that companies hold in the management of their balance sheets and funding mix, the easier it is for them to attain an optimal cost of capital and to maximise profits from their operations. The greater flexibility in this regard afforded by off-market share buybacks would be expected to have a positive contribution on returns for shareholders.

The higher the returns to shareholders, the more likely institutional investors such as ourselves are likely to invest in the Australian share market from the wide universe of potential investments open to us.

It is worthy of note that the growth of superannuation savings has provided a substantial source of equity capital for Australian businesses, facilitating the growth of Australian companies, the Australian economy and employment. Given almost all Australian workers are members of a superannuation fund, investment by the funds

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in Australian businesses has created a strong effect of mutual benefit between businesses and workers.

In our view, the operation of off-market share buybacks has increased the potential returns from investing in Australian companies and has therefore made investing in Australian businesses even more attractive for investors, magnifying the positive effects on employment and growth.

Increase in Earnings Per Share

As noted in the Board's Discussion Paper, the reduction in the number of shares on issue that results from a company undertaking an off-market share buyback results in an increase in earnings per share.

This process results in higher returns for remaining shareholders, encouraging investment in the shares of that company. The more companies that undertake off-market share buybacks, the higher the returns produced from the entire Australian share market over time, and the more likely that institutional investors such as REST shall allocate a substantial proportion of our portfolios to the market. As discussed above, the more investors invest in the Australian share market, the more equity capital is available for Australian businesses, facilitating the growth of Australian companies, the Australian economy and employment.

More Efficient Investment of Excess Capital

As discussed in the Discussion Paper, off-market share buybacks are utilised by companies as a means of distributing excess cash and franking credits to shareholders, and in moving towards efficient capital structures generally. REST believes that off-market share buybacks contribute to overall economic efficiency by returning cash to shareholders to reinvest in other investments. Over the long term, other investments have achieved higher returns than cash, and in our view it is more efficient for shareholders to reinvest cash in other parts of their portfolio rather than for companies to hold surplus funds in cash.

In the case of REST and almost all other Australian superannuation funds, our portfolio is invested across a number of asset classes, markets and securities, and cash received from participation in off-market share buybacks can be reinvested elsewhere in our portfolio based on our assessment of the long-term expected return and risk characteristics of the investments available. We believe that the distribution of surplus cash to shareholders via participation in off-market share buybacks is efficient because it is returned to shareholders to be reinvested in a manner that is considered will maximise the risk-adjusted returns of their total portfolio.

Broad Coverage of Superannuation

Australia's compulsory superannuation system, combined with Government incentives to encourage voluntary contributions, means that superannuation has become a substantial pool of assets and the key component of our national savings policy. Over 90% of Australian workers are covered by superannuation.

It is argued by some parties that off-market share buybacks are more beneficial to some shareholders, especially those on lower tax rates, than others. In our view, the

broad coverage of superannuation means that any benefits from participation in off-market share buybacks that may accrue are spread broadly across the Australian community, and it is unreasonable to argue that participation by superannuation funds gives rise to inequities of any consequence.

Summary

We believe it is important that the current structure and operation of off-market share buybacks is maintained because it has:

- increased the flexibility of Australian companies in the management of their capital base and the funding cost between equity and debt;
- increased earnings per share of the companies that have participated, producing higher returns from the Australian share market, encouraging investors to provide equity capital to Australian companies; and
- worked effectively and efficiently to distribute surplus cash from Australian companies to end investors.

In particular, REST believes that the beneficial impact of off-market share buybacks on the returns from investing in the Australian share market have had wide benefit to the Australian community given the broad coverage of superannuation.

Thank you for considering our submission to the Board's review.

Yours sincerely

A handwritten signature in black ink that reads "Damian Hill". The signature is written in a cursive style with a prominent underline.

Damian Hill
Chief Executive Officer