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**Addressing the Tax Challenges of the Digitisation of the Economy – Public Consultation Secretariat Proposal for a "Unified Approach" under Pillar 1**

Dear Sir/Madam

We refer to The OECD's recent public consultation document *Secretariat Proposal for a "Unified Approach" under Pillar One* and the request for comments outlined in that document, herein referred to as the "Consultation Document" and we are pleased to respond to it.

We further refer to meetings held between our representatives and the OECD on 9 October 2019. The purpose of this letter is to provide supplementary information relevant to the position set out in our previous correspondence with the OECD, and to restate specifically why we believe that regulated banks should be excluded from proposals addressing Pillar 1. We appreciate your consideration of the concerns raised by our members and efforts to address these as part of the ongoing Programme of Work. We have summarised our position in the paragraphs below and supporting appendices.

We understand from the Consultation Document that the "Unified Approach" should be focused on large consumer-facing business and there is consideration as to whether financial services, together with other sectors, should be carved out altogether. Notwithstanding that certain activities of banks such as institutional and investment banking activities[1] appear to fall out of scope, consumer-facing banking services should be specifically excluded.

**We would like to reiterate our position that all regulated banking services should be specifically excluded from proposals.**

There are three main arguments why regulated banks should be carved out of the Pillar 1 proposals. These can be divided into three broad categories:

i. **Policy based**
ii. **Technical**
iii. **Practical**

Each of these is considered below

[1] As outlined in our previous letters, these types are banking activities comprise business to business services.

## i. Policy based arguments

Consumer banks provide various retail products and are located where their customers are located. While banks utilize technology to serve retail customers, it is not a business differentiator that generates abnormal profits that can be moved to low-tax jurisdictions. The unique tax challenges arising from the digitalization of the economy do not apply to the taxation of banks.

Banks do not remotely sell products or services into market jurisdictions where they are not regulated or licensed to do business. In addition, banks do not monetise data from customers in the way that some other industries do.

***Marketing intangibles***

It is our view that consumer facing banks do not develop and utilise marketing intangibles in a cross-border context in a comparable manner to other multinationals (e.g. consumer goods companies).

Most retail banks limit their operations to a single market jurisdiction. It would be highly unusual for a bank to actively develop marketing intangibles (e.g. by having strong brand recognition through promotion and marketing) in a jurisdiction in which they are not also licenced to operate (and where they do not already have a taxable presence through a branch or subsidiary). You would not therefore expect to see a bank “reach in” to a jurisdiction either remotely or otherwise to develop marketing intangibles, where they do not have a local presence.

Please refer to extracts from our letters to the OECD dated 5 March and 3 May 2019, attached in Appendix A. These extracts provide commentary in relation to the use of marketing intangibles by banks.

***Limited risk distribution models***

We refer to our letter to the OECD dated 22 June 2019. In that letter, we noted the heightened focus by tax authorities in relation to multinational groups operating on an inbound basis into their markets through limited risk distributor models. In such instances the distributor may derive a lower profit margin than their related party suppliers offshore based on the functions undertaken and assets / risks assumed in the distributor’s jurisdiction. We reiterate that consumer facing banks do not operate under this type of model.

In our letter of 22 June 2019, we provided a table summarising a number of key banking functions that may be provided cross-border by a global bank. Our comments provided in the table were generic in nature and are consistent with accepted transfer pricing methodologies applied by global banks, usually under the OECD report on the attribution of profits to permanent establishments dated 2010. Whilst the functions of global banks are largely consistent, their global operations and structures can differ. Furthermore, the functions in the table show core banking services and do not include other financial services such as funds management or insurance businesses.

We have attached the table again in Appendix B.

## ii. Technical arguments

The regulatory framework naturally constrains banking business. Banks have their own strict regulatory regime which limits both the activities and locations for the provision of banking services together with strict funding and capital rules. Banks have a regulated presence, and this in turn results in a taxable presence and profits recognised in the locations where they face their customers.

***Banks differ from other industries***

Banks are different to other industries, as set out in our paper dated 1 April 2016 (entitled "Why international banks are different") and attached at Appendix E. This was written in response to the BEPS initiatives at the time, and provides background to the regulatory and commercial environment impacting banks.

The regulatory environment that banks need to operate under is also discussed further below.

***Understanding the regulatory framework***

Banks are restricted by domestic non-tax legislation in the activities they can carry out, and the services they can provide to consumers. Each jurisdiction provides limitations on the types of financial services that can be provided, and the regulations that must be met to provide those services. Core banking activities such as providing credit to and taking deposits from customers located in a particular country require that banks obtain a banking licence from the regulator in that country. This necessitates that banks have a local presence, with appropriate capital, funding and staff in place in that jurisdiction.

Almost without exception, local regulators will implement banking rules based on the Basel II & III framework with amendments to suit its local environment.

Due to the necessity for consumer facing banks to have local approval and a local licence, banks do not reach-in cross border to provide customers with services. They set up a regulated presence, and this in turn results in a taxable presence in the locations where they face their customers. Given the implicit dependence of an economy on the financial sector, the majority of developing countries have additionally implemented regulations such as exchange controls which specifically govern cross-border foreign exchange payments by the relevant Central Bank of such country. Such exchange control regimes serve to demonstrate the existing compliance burden placed on the banking sector for purposes of conducting any cross-border financial transaction. Furthermore, banks in many countries are the primary transmission mechanism for monetary policy through their borrowing and depository transactions with their respective Central Bank, and must abide by certain requirements of the Central Bank.

We appreciate that being a regulated industry may not be a reason by itself for a potential exclusion. In our industry, the regulation results in at least the following tax consequences that align with what we understand are the overall objectives of this tax policy initiative:

- As noted above, defined banking activities must be licensed and regulated in countries where they are conducted. This licensing and regulation will result in identification of taxpayers doing business and in meeting tax filing requirements.

- Regulation requires careful attention to the formation of legal entities and/or branches in jurisdictions where business is being conducted. This results in organizational structures in line with legal requirements and again, should promote accurate tax reporting.
- Generally, regulation will result in traditional measures of nexus such as employees and premises.
- Although we believe banks are already complying with arms-length transfer pricing requirements for tax purposes, there are concurrent regulatory standards in place to ensure that legal entities and business units in jurisdictions have accurate separate financial results.
- Regulations require that legal entities and business units have appropriate capital allocations to the jurisdiction of operation. This, in connection with other transfer pricing, is conducive to accurate financial results for the calculation of income tax liabilities.

In our most recent meeting at the OECD, a concern was raised about the implications of a regulated banking carve-out in relation to Fintech companies or other future banking activities conducted through new technology. We are suggesting that a carve-out would apply to any type of entity that is conducting regulated banking activities, regardless of whether the taxpayer was a traditional bank or a new or different business model. We would suggest that it is highly likely that banking activities will continue to be regulated in the future given the critical nature of banking services to economies.

Appendix C provides for jurisdiction specific commentary on regulation of banking activities in jurisdictions around the world. We believe this information provides important evidence that banking activities are required to be licensed and regulated. This in turn should provide tax policy makers a reasonable level of assurance that banking activities are and will be captured for tax purposes in jurisdictions where they are conducted under existing tax rules

### iii. Practical considerations

There are practical complexities with applying Pillar 1 proposals to the banking industry as discussed below. Additionally, banking profits when measured against other industries are not abnormal and are not able to be shifted to low tax jurisdictions.

***Profit from consumer-facing banking activities***

Consumer and retail banking do not earn abnormal profits in comparison to other industries. It is important to recognise that profit comparisons and measures applied between different industries are not always informative. Due to the highly leveraged nature of banking and the core business activity of deriving a net interest margin, certain measures used to determine operating profit margin produce very different results for financial services than, for example, for consumer goods & manufacturing industries. Significant additional work would be required to establish alternative measures.

Return on equity and return on assets may be a more informative measure to determine profitability for banks. Under these measures, banks are not observed to earn excess or abnormal profit margins, comparative to other industries and indeed underscore the case for the exclusion of financial services.

For additional background on our consumer facing banking business including profitability (level and origin) refer to Appendix D.

***Complex compliance burden***

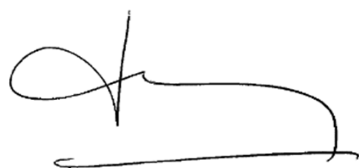
The use of formulae to determine profit subject to re-attribution to a market jurisdiction risks the use of measures of profitability that fail to take into account specific considerations for banks. This could cause distortive results that make financial services entities liable to considerable additional tax payable not because of the use of cross-border, “reach in” business models, but because of the inappropriate metrics used to measure profitability.

The inclusion of banks within the scope of the unified approach proposals, particularly approaches that prioritise simplicity, could present an unintended compliance burden on an industry sector that is already subject to significant non-tax regulations. Banks are often large institutions with multiple business lines that operate across multiple jurisdictions. Fundamental questions like how much of bank’s revenue is attributable to a deposit account holder versus someone to whom a loan is made can be difficult to determine. If that exercise must be done across many jurisdictions and many business lines – some of which are in scope, while others are not – it would be an extraordinarily difficult and burdensome exercise.

***The current system works***

Banks operate with certainty over their tax operations and the laws are updated or supplemented as required from time to time, most recently with the implementation of BEPS action items. Overall the tax system works effectively, and consumer facing banks return profits in the right locations and pay appropriate levels of taxation on their profits in the jurisdictions where those customers are located.

Many jurisdictions have applied the OECD’s Report on the Attribution of Profits to Permanent Establishments (2010), which is well accepted guidance for banks on the attribution of profit between their head office and offshore branch operations, within their tax and transfer pricing laws. We note for completeness that this report has greater relevance to institutional and investment banking activities, which we understand are outside of the ambit of the OECD’s proposals as they do not face consumers.



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Chair of the IBFed Tax WG

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[2] *The International Banking Federation (IBFed) was formed in 2004 to represent the combined views of our national banking associations. The IBFed collectively represents more than 18,000 banks, including more than two thirds of the largest 1000 banks in the world. IBFed member banks play a crucial role in supporting and promoting economic growth by managing worldwide assets of over 75 trillion Euros, by extending consumer and business credit of over 40 trillion Euros across the globe, and by collectively employing over 6 million people. The IBFed represents every major financial centre and*

## Appendix A – Extracts of submission in relation to marketing intangibles

### Extracts from IBFed letter to OECD dated 5 March 2019

***Marketing intangibles***

Section 2.2.2 sets out the "marketing intangibles" proposal. Banks do use intangible assets in their business, although the intangibles differ to those used by highly digitalised companies and consumer goods companies.

In relation to marketing intangibles, retail or consumer banking services are more likely to benefit from their brand than wholesale banking services. Through their interactions with customers, history, reputation and goodwill, a bank can develop its marketing intangibles, primarily in the form of brand and customer data and insights. However, it would be unusual for a bank to develop marketing intangibles (e.g. by having strong brand recognition) in a jurisdiction where they are not also licensed to operate (and where they do not already have a taxable presence). The location of intangible assets related to brand for a bank would typically align with the location of the head company, and not artificially in another jurisdiction.

Banks also generate trade intangibles that do not possess "an intrinsic functional link with market jurisdictions". These may include IT product systems, software and apps for internal and external customers, trading, data security, automation, and credit approvals etc. Typically, these assets would be located in the jurisdiction where they are developed, which is where a bank would already have a substantive economic and taxable presence. The current profit allocation and nexus rules operate to determine the taxation treatment related to such intangibles and should continue to do so.

Banks traditionally do not fall within the three key fact patterns outlined in para 40 to para 42 of the Consultation Document. This means that banks generally do not directly or indirectly generate revenue from the types of sales or marketing activities specified in para 40 (e.g. the operation of a free search service, free email, free digital storage) in jurisdictions where they do not have a taxable presence. The same applies to para 41 and 42 because banks generally do not operate in countries using a limited risk distribution model and are dissimilar to consumer product businesses (e.g. luxury goods) in the manner they use intangible assets.

We would therefore argue that banks do not derive non-routine income from marketing intangibles, and that banking business largely comprises routine activities whereby related party transactions are adequately covered under the existing transfer pricing framework including the arm's length principle. This is due to the nature of the intangible assets that banks develop as part of their business and the fact that these are located in jurisdictions where they generally have a substantive (economic and taxable) presence. Accordingly, banks should be specifically excluded from proposed new rules in relation to marketing intangibles. We would be pleased to have further consultation with the OECD on this issue.

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*members' activities take place globally. This worldwide reach enables the IBFed to function as a key international forum for considering regulatory and other issues of interest to the global banking industry.*

**Extract from IBFed letter to OECD dated 3 May 2019**

**2. Marketing intangibles**

We refer to the marketing intangibles proposal in section 2.2.2 of the Consultation Document.

As set out in footnote 4 to the Consultation Document, the term "marketing intangibles" has the same meaning as is set out in the OECD Transfer Pricing Guidelines:

*"an intangible . . . that relates to marketing activities, aids in the commercial exploitation of a product or service and/or has an important promotional value for the product concerned. Depending on the context, marketing intangibles may include, for example, trademarks, trade names, customer lists, customer relationships, and proprietary market and customer data that is used or aids in marketing and selling goods or services to customers." (OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations 2017 (OECD TPG), p. 27).*

We discuss the aspects of the definition below. As a general point, however, we would like to emphasize initially that the banking industry substantially remains a traditional business, even though it is undergoing a profound digitalisation process. The core value creating factors of the banking industry keep being rather "traditional" factors such as entrepreneurial risk, economic substance, product development and innovation. These factors are closely associated with the jurisdictions where a bank is regulated and taxed. Therefore, the value creation of a financial institution generally takes place in the same location where the regulator oversees the banking operations.

**Trade names and brand**

It is our view that banks do not develop and utilise marketing intangibles in a cross-border context in a comparable manner to other multinationals (e.g. consumer goods companies).

As discussed in our letter of 5 March 2019, the primary users of brand and trade name would be retail and consumer banks, many of which limit their operations to a single market jurisdiction. A bank's brand and trade name can be important for individual customers and small businesses who partner with a financial institution (often through a personalised manager) to manage their banking affairs and fund their business/investments. Individual and small business customers are perceived to be more sensitive to positive (and negative) sentiment toward banks based on their brand. Of the banks that have global operations, it is commonplace for each of their retail banking operations to service a single jurisdiction, whilst at the same time providing wholesale banking services to other offshore locations. It would be highly unusual for a bank to actively develop marketing intangibles (e.g. by having strong brand recognition through promotion and marketing) in a jurisdiction in which they are not also licenced to operate (and where they do not already have a taxable presence through a branch or subsidiary). You would not therefore expect to see a bank "reach in" to a jurisdiction either remotely or otherwise to develop marketing intangibles, where they do not have a local presence.

Where a bank is not licenced to provide services to a customer in another jurisdiction, there is little benefit from developing or using marketing intangibles in such other locations. Typically, local regulations prevent banks from freely accessing a foreign market. Consequently, if a bank is not

allowed to be active in a certain market, no valuable marketing intangibles can be actively developed in or attributed to this market. The location of intangible assets related to brand for a bank should therefore align with the location of the head company or home jurisdiction of the bank or its foreign subsidiaries or permanent establishments, and not artificially in another jurisdiction.

Wholesale banking operations such as financial market trading, clearing, broker/dealer and trade finance services are largely based on market capabilities and margins rather than brand or marketing. In the sphere of institution or investment banking advisory, corporate decisions are less influenced by advertising and marketing than established relationships and expertise/capabilities. Accordingly, marketing intangibles have little if any relevance to banks providing business to business products and services in the wholesale and institutional markets.

**Customer lists, customer relationships, and proprietary market and customer data**

Similar to other industries, banking is undergoing a digital transformation both in the way they interact with their customers and the way they internally conduct their operations. This has led to progression, and future anticipated development of technologies including (but not limited to):

- Advanced analytic tools and products for customers and internal use;
- Artificial intelligence, machine learning and digital interfaces;
- Open application programming interfaces (APIs);
- Process automation and robotics;
- Mobile devices and wearable technology;
- Platforms; and
- Utilisation of cloud-based technology.

As technology develops, it is important to consider to what extent, if any, they could result in marketing intangibles that are the focus of the Consultation Document.

The second group of marketing intangibles in the Consultation Document (customer data, customer relationship and customer lists) are described as being derived from activities targeted at customers and users in the market jurisdiction and support the treatment of such intangibles as being created in the market jurisdiction. As mentioned above, domestic regulation often restricts market access for foreign banks and prevents them from remotely creating marketing intangibles through activities directed at this market.

Some of the technologies listed above will result in retention and analytics or development of customer data that is obtained. However, these are generally relevant for marketing to customers in the jurisdictions in which they are licensed to operate, and already have a taxable presence. This analysis is typically conducted to enhance product offerings and services to customers or to identify opportunities for further growth in locations where banks are licensed to operate.

Banks are not in the business of collecting customer data for on-sale to third parties for a profit as they are bound by privacy and data laws. Data may only be shared under mandatory legal requirements, such as tax reporting or anti-money laundering rules, or, via an established (mandatory) open-banking interface and with the permission of customers. In such cases it is not the analytics that are shared, rather the raw data.

## Appendix B – Extract of submission in relation to distribution functions – IBFed letter to the OECD dated 22 June 2019

**Banking Activities**

| **Cross-border activities** | **Types of revenue** | **Description** | **Key Functions** | **Transfer pricing and profit allocation** (as guided by the OECD 2010 Report on the Attribution of Profits to Permanent Establishments) | **Distribution Activities?** |
|---|---|---|---|---|---|
| | | | | | |
| Loans – retail and private clients | Fee income<br>Net interest margin | Providing loans to customers.<br>NOTE: generally these will be provided to a customer located in the same jurisdiction that a bank operates in and is regulated within. | Origination - targeting and sourcing customers, maintaining contact with customers, negotiating contracts, on boarding, and helping customers.<br><br>Credit approval – credit analysis is done on the client for suitability to repay the loan done by dedicated officers within the bank.<br><br>Credit management –actively monitoring the underlying exposure and undertaking any corrective actions to maximise recovery.<br><br>Funding- centralising the risk that arises from the day-to-day banking activities of the Group, including interest rate and structural FX risk, and managing those risks, using instruments such as swaps, futures and forwards, within an approved risk appetite. | Setting of interest rates by reference to:<br>Terms and conditions of the loans (tenure, seniority, collateral), credit risk of the borrower (by reference to a credit rating) and interest rates offered by other lenders in comparable circumstances (benchmarking).<br><br>Dependent on the functions performed in the origination, the location of key personnel/relationship managers in marketing and arranging the funding. | Not a limited risk distribution activity.<br><br>Loans are advanced to clients in jurisdictions where banks are licenced to operated and hold appropriate levels of capital at risk.<br><br>Generally restrictions apply in-market which relate to retail lending.<br><br>Online providers are required to be regulated and licenced to operate in that jurisdiction, therefore have a taxable presence. |
| Loans – institutional/wholesale banking | Fee income<br>Net interest margin | Providing loans to customers, and arranging loan syndicates of participant lenders. | As above for loans to retail banking.<br><br>Local and global relationship managers may service multinational corporate groups facilitating lending within different markets.<br><br>Loan origination and syndication – negotiations between issuer and underwriting syndicate or selling group. | As above for retail banking, however corporate credit ratings are important. Value of value of risks associated with implicit guarantees or group support may need to be factored into credit analysis.<br><br>A profit allocation of fees may be based on key entrepreneurial risk taking (KERT) principles (ie taking into account where each of the following took place – customer relationship, sales function, origination, credit, documentation/execution, funding, supervision, loan servicing, managing loan risk and location of booking (loss of default)).<br><br>Participants will typically earn interest on principal loaned and other functions e.g. Relationship Managers contribution recognised through transfer pricing. | Not a limited risk distribution activity.<br><br>Relationship management functions can facilitate the accessing of funding offshore however the lender located offshore will be the risk taking entity. |
| | | | | | |
| Trade finance services – institutional/wholesale banking<br><br>Custody services, clearing, foreign exchange | Fee income ,<br>net interest margin | Facilitating trade finance and other services to clients in relation to transactions entered into offshore or by offshore clients. For example, providing letters of credit, guarantees. | Origination - targeting and sourcing customers, maintaining contact with customers, negotiating contracts, on boarding, and helping customers.<br><br>Access to support services for processing transactions.<br><br>Relationship managers may service multinational corporate groups facilitating transactions within different markets. | Fees and margins will be dependent on whether the risk associated with providing the credit or services arises.<br><br>A profit allocation of fees may be based on KERT principles (i.e. taking into account where each of the following took place – customer relationship, sales function, origination, credit, documentation/execution, funding, supervision, loan servicing, managing risk and location of booking (loss of default)).<br><br>Depending on the function performed in the origination the located of key personnel in marketing and arranging the funding. | Not a limited risk distribution activity.<br><br>Relationship management functions can facilitate the accessing of services/funding offshore.<br><br>Provisions of services offshore would generally require a banking licence to operate in that offshore jurisdiction. |
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| Investment banking advisory services | Fee income<br>Net interest margin | Advisory services both ongoing and in relation to specific deals or transactions. | Front office advisory services such as:<br>Deal advisory, execution and negotiations with underwriters.<br><br>Structuring of issuances for various debt and equity products. | Method adopted will depend on the structure of the bank, and be heavily focused on location of key personnel advising on the transaction/deal. Investment banking personnel are key value drivers in deriving income.<br><br>Deal teams are generally located in where the bank's operations are located and service clients in those locations. In some cases deal teams could comprise staff based in various locations. | Not a limited risk distribution activity.<br><br>Income is determined from office where the advice is being provided.<br><br>Fees will be earned by the teams who are advising on the deal based on their contribution. |
| | | | | | |
| Global Trading | Gains/losses on trading and derivative positions<br>Fee income<br>Net interest margin | Banks global markets risks for its trading books is managed by reference to trading and risk management activities. | Origination - targeting and sourcing customers, maintaining contact with customers, negotiating contracts, on boarding, and helping customers.<br><br>Product development – responsible for reviewing and approving all new products and transactions within the market trading, derivative and bond business.<br><br>Market risk trading – market risk traders take currency, commodity and interest rate risk positions and manage them on a global basis with the market often in more than one jurisdiction. | Will depend based on the functions performed in the various locations, and the model adopted (e.g. integrated trading (multiple locations managing same book), centralised product management (market risk and hedging separately managed) or separate enterprise (standalone books for each locations managed separately).<br><br>Place of location of management by key personnel undertaking KERT functions, e.g. location of traders and key management, including active day-to-day operational risk management activities rather than strategic policy settings.<br><br>Location of capital within the jurisdictions and the level of risk that the capital is exposed to is also taken into account.<br><br>Fee income from general sales and marketing function should reward those functions on arm's length terms. | Not a limited risk distribution activity.<br><br>Profit arising in jurisdiction where the positions are actively managed.<br><br>Where online platforms are provided to customers in a jurisdiction where the bank does not have operations, the amount of profit attributable to the market where the customer is based will need to be determined under arm's length pricing. |
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| Treasury | Gains/losses on managing trading and derivative positions<br>Net interest margin | | Funding for the bank<br>Balance sheet management<br>Cash and liquidity management<br>Support functions | Place of location of management by key personnel undertaking KERT functions.<br>e.g. location of traders and key management that make decisions and execute balance sheet management, debt and equity capital raisings.<br>Support functions recharged on arm's length basis. | Not a limited risk distribution activity.<br><br>Treasury functions not expected to give rise to distribution activities. |

**Appendix C – summary of regulatory framework**[3]

| Country | Key regulations impacting retail banking activities | Level of local taxation |
|---|---|---|
| Australia | The Australian Securities and Investment Commission (ASIC) is responsible for issuing Australian financial services licences (AFSL). Any person carrying on a financial services business in Australia must hold a licence, unless exempted. An entity wishing to exercise banking business in Australia requires authorisation to operate as an authorised deposit-taking institution (ADI).<br><br>The Australian Prudential regulatory Authority (APRA) is responsible for the licensing and prudential supervision of ADIs, life and general insurance companies and superannuation funds operating in Australia. The Banking Act 1959 restricts an entity from conducting banking business in Australia without authorisation from APRA.<br>APRA generally takes the position that foreign banks soliciting and operating an active business in Australia should be subject to Australian prudential regulation and supervision. Australia does not have a passporting regime.<br><br>APRA issues capital adequacy guidelines for banks which are consistent with the Basel II guidelines. The implementation date for Basel III is set at 1 January 2022 with an agreed phase-in over a period of five years, with many banks already adopting aspects of the Basel III regime. APRA has an unquestionably strong benchmark for Common Equity Tier 1 capital ratio of at least 10.5% of RWA for banks, commencing 1 January 2020.<br><br>The operation of financial markets and clearing and settlement facilities in Australia or targeted at Australian users is subject to a separate licensing regime through the Australian Securities Exchange (ASX). | Regulated banks in Australia make a significant contribution to the tax revenue in Australia. Overall, the 8 Australian listed banks in Australia contribute approximately AU$14 billion in income tax to the economy, through corporate tax and various levies. This represents over 40% of the ASX200 companies combined tax paid.[4]<br><br>Example of tax measures impacting banks:<br>• Australia, together with most jurisdictions, prescribes minimum levels of capital that must be retained in that jurisdiction to avoid a portion of the interest costs incurred in the jurisdiction ceasing to be tax deductible (thin capitalisation).<br>• Repatriation of retained earnings (and capital) may result in tax being payable in either the jurisdiction from which the repatriation occurs or Australia on receipt of the relevant amounts.<br>• The major banks in Australia are subject to a separate bank levy calculated on their liabilities.<br>• Hybrid mismatch provisions implemented |

[3] https://uk.practicallaw.thomsonreuters.com/Browse/Home/International/BankingRegulationGlobalGuide?transitionType=Default&contextData=(sc.Default)&firstPage=true&bhcp=1

[4] https://www.ausbanking.org.au/about-us/banks-in-australia/

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|---|---|---|
| | | in response to BEPS Action 2. |
| Canada | Banking in Canada falls under federal jurisdiction, with the *Bank Act* and its regulations being the primary piece of legislation governing the sector. Banks are only permitted to carry on the "business of banking" which includes activities such as providing financial services, acting as a financial agent, providing investment counselling, issuing payment, credit, or charge cards, etc.<br><br>Ultimate responsibility for the regulation of banks and bank branches resides with the Department of Finance, which is headed by the Minister of Finance. The Office of the Superintendent of Financial Institutions (OSFI) is responsible for administering the *Bank Act*. OSFI assesses applications for incorporation and makes recommendations for approving the incorporation of a bank to the Minister of Finance, who has the ultimate responsibility for approving the incorporation of a bank. The application process is comprised of three phases (Pre-Application, Letters Patent by the Minister of Finance, and an Order by the Superintendent of Financial Institutions) and consideration is given to a wide variety of matters including the: nature and sufficiency of the financial resources; the business record and experience; character and integrity of the applicant among others. OSFI also regularly examines banks to determine that they are in sound financial condition (such as implementing appropriate capital and liquidity requirements) and complying with the requirements of the *Bank Act*. Furthermore, banks headquartered in other jurisdictions must obtain permission to operate in Canada.<br><br>The Financial Consumer Agency of Canada (FCAC) administers the consumer provisions of the *Bank Act*. These provisions include disclosure requirements respecting borrowing costs and deposit account terms. The Canada Deposit Insurance Corporation (CDIC) provides deposit insurance for the banks' depositors up to $100,000. Furthermore, all banks must fulfil specific obligations under the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA)* and associated regulations to help combat money laundering and terrorist financing in Canada. The Bank of Canada acts as a lender of last resort to solvent but illiquid institutions as well as monitors the stability and health of the financial system and oversees systemic elements of the payments system. All chartered banks operating | Regulated banks in Canada make a significant contribution to the tax revenue both domestically and internationally.<br>Domestically, Canadian banks pay federal and provincial income tax, as well as Goods and Services Tax (GST), Capital Tax, Sales Tax, and Payroll Tax among others, amounting to $12.2 billion (CAD) for D-SIBs in 2017. This is in addition to fees such as *ex ante* deposit insurance premiums.<br><br>Internationally, Canadian D-SIBs paid $6 billion (CAD) in taxes in 2017, in addition to fees such as ex ante deposit insurance premiums.<br><br>Example of tax measures impacting banks:<br>• Canada, together with most jurisdictions, prescribes minimum levels of capital that must be retained in that jurisdiction to avoid a portion of the interest costs incurred in the jurisdiction ceasing to be tax deductible (thin capitalisation).<br>• Repatriation of retained earnings (and capital) may result in tax being payable in either the jurisdiction from which the repatriation occurs or Canada on receipt of the relevant amounts.<br>• Several provinces charge capital taxes on financial institutions including banks.<br>• Suppliers of financial services such as banks are generally not entitled to claim input tax credits for GST/HST incurred on |

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| | in Canada must be members of Payments Canada. | their inputs |
| France | The European Union has introduced a specific supervisory architecture, consisting of three European supervisory authorities and a board to monitor systemic risks as well as the Member States' competent supervisory authorities.<br><br>In France, Autorité de contrôle prudentiel et de resolution (ACPR) is charged with preserving the stability of the financial system and protecting the customers, insurance policyholders, members and beneficiaries of the persons that it supervises.<br><br>In France, and more generally in European Union, a bank is authorized to operate in a specific jurisdiction provided banking regulation requirements are satisfied, such as:<br>• Obtaining a license to provide banking and other financial services. Banks are supervised by the Central Bank of the country of implementation or The European Central Bank;<br>• Keeping a minimum regulatory capital issued for loss absorbing is required by regulatory requirements, including their international activities (see Basel regulations). Banks must meet capital requirements taking risks incurred (credit risks, operational risks or market risks) into consideration (*see Appendix B bis below*);<br>• Meeting prudential limits for intragroup exposures between group entities;<br>• Keeping high quality and liquid asset reserves to handle instability or liquidity shortages;<br>• A certain level of stability of the funding ratios;<br>• Meeting specific surveillance requirements imposed by local regulators;<br>• Meeting specific tax rules, as targeted anti-avoidance rules, thin- | By requiring minimum equity capital and liquidity in jurisdictions where banks are established, taxable profits are automatically wholly or partly localised in these jurisdictions and cannot be artificially localised in foreign jurisdictions.<br><br>Moreover, banking activities, and more specifically retail banking activities, cannot be driven in jurisdictions where banks are not supervised by a local regulator and regulated by specific local requirements. For example, a French bank is not allowed to provide a credit directly to an Indian consumer that lives in India, regardless the level of digitalisation of the bank. In this case, the French bank will have to be physically localised, regulated and supervised in India[5], through a subsidiary or a branch.<br><br>Besides, although each jurisdiction has specific local rules, both developed and emerging countries impose a certain level of requirements for regulation and supervision purposes in order to provide banking services[6] from their territory and/or to local clients.<br><br>As a result, banking activities are generally taxed |

[5] From the European Union perspective, European banks benefit from a passport that allows regulated banks located in a Member State to sell financial services in other Member States. European Union should be considered as a one and unique jurisdiction as the banking regulation and supervision is managed by a European regulator, monitored by local regulators

[6] For members of the Basel Committee on Banking Supervision, see https://www.bis.org/bcbs/implementation/rcap_jurisdictional.htm?m=3%7C14%7C656%7C60 ; For non-members of the Basel Committee on Banking Supervision, see https://www.bis.org/fsi/publ/insights11.htm

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| | capitalization rules and specific contribution to cover a risk of bankruptcy;<br>• Meeting tax reporting requirements for transparency purposes and specific requirements to fight the financing of terrorism or money laundering;<br>• Cooperating with the tax authorities for the transmission of clients' data | where banks are established, and these circumstances explain why OECD issued special transfer pricing rules for by banks (i.e. OECD Report on the Attribution of Profits to Permanent Establishment dated 2010). |
| South Africa | An entity cannot conduct the business of a bank unless it is a public company registered as a bank under the Banks Act (section 11(1), Banks Act). To register: Firstly, the relevant entity must apply to the Prudential Authority (PA) for authorisation to establish a bank; Secondly, it must apply for registration as a bank. A bank must also obtain an annual licence.<br><br>Once an entity has been registered and licensed as a bank under the Banks Act, it can carry out "the business of a bank" as defined in section 1 of the Banks Act, in particular to conduct deposit taking business in South Africa.<br><br>A public company cannot be formed under the Companies Act to conduct the business of a bank without the PA's approval (section 15(1), Banks Act). The PA will grant approval if he/she believes that the company will probably be eligible for registration as a bank (section 15(2)).<br><br>The Companies and Intellectual Property Commission (Commission) cannot register a company's memorandum of incorporation unless the application for registration is accompanied by the PA's approval (section 15(3)).<br><br>Banks headquartered in other jurisdictions can operate in South Africa through a representative office or a branch of that foreign bank. Each is subject to the Banks Act and the regulatory oversight of the South African Reserve Bank (SARB).<br><br>Banks or subsidiaries/branches of foreign banks must have a minimum capital of R250 million. All banks are required to maintain, at all times, a prudential capital adequacy ratio (CAR) as set by the PA, in accordance with the applicable regulations. A bank's CAR is prescribed in Banks Act Directive 6 of 2017 and the minimum total capital requirement would be at least 11.5%. Furthermore, the minimum leverage | Regulated banks in South Africa contribute significantly to the tax revenue in SA. The Corporate Income Tax (CIT) revenue, paid by banks during 2016/2017 financial year was R21.990 million which equates to 10.6% of the total CIT revenue collected. (Reference: SARS annual report 2016-2017)<br><br>Examples of tax measures impacting on banks:<br>• IFRS 9 (increasing balance sheet impairments) and IFRS 15 (reducing loyalty costs no longer being expensed) accounting standards were implemented for reporting periods from 1 January 2018<br>• Carbon taxes implemented in July 2020<br>• Hybrid mismatch provisions implemented in response to BEPS Action 2.<br>• Compliance with Basel III |

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| | ratio would be at least 4%. Banks will, at all times, be required to maintain a risk-based capital ratio in excess of its CAR.<br><br>Significant ownership of banks is governed by the Financial Sector Regulation Act 9 of 2017 (FSRA), read with section 37 of the Banks Act, which limits the shareholding of an individual shareholder or group of associated shareholders in a bank to 15% of the bank's voting shares. A higher percentage limit may be approved by either the PA or the Minister of Finance, whichever may be applicable.<br><br>The Financial Sector Regulation Act, 2017 (FSR Act) was signed into law on 21 August 2017, giving effect to the implementation of the "Twin Peaks" model of regulation in the South African financial sector.<br><br>Other than the legislations mentioned above, the key legislations applicable to retail banks are:<br>• The South Africa Reserve Bank Act, 1989, which regulates the SARS and the monetary system;<br>• The National Payments Systems Act, 1998, which provide for the regulation and supervision of payment, clearing and settlement systems in South Africa;<br>• The Inspection of Financial Institutions Act, 1998, providing for the inspection of the affairs of financial institutions (such as banks) and of unregistered entities conducting the business of financial institutions;<br>• The Currency and Exchanges Act, 1933, which regulates legal tender, currency exchange and banking. Exchange control Regulations issued in terms of that Act impose exchange controls that restrict the export of capital from South Africa;<br>• The Financial Intelligence Centre Act, 2001, which regulates the combating of money laundering and the financing of terrorist activities;<br>• The Financial Advisory and Intermediary Services Act, 2002, which regulates the rendering of financial advisory and intermediary services to clients;<br>• The Prevention of Organised Crime Act, 1998, introducing measures to combat organised crime, money laundering and criminal gang activities, and | |

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| | prohibiting certain activities relating to racketeering activities;<br>• the Home Loan and Mortgage Disclosure Act, 2000, promoting fair lending practices, which requires disclosure by financial institutions of information regarding the provision of home loans;<br>• The Electronic Communications and Transactions Act 25 of 2002, providing for the facilitation and regulation of electronic communications and transactions;<br>• The National Credit Act, 2005, which regulates the provision of goods and services (including financial services) to consumers;<br>• The Financial Markets Act, 2012, which provides, *inter alia*, for the regulation of financial markets, the custody and administration of securities and insider trading; and<br>The Protection of Personal Information Act, 2013, which regulates the manner in which personal information may be processed aby established conditions, in harmony with international standards. | |
| UK | No person can carry on "regulated activities" by way of business in the UK unless authorised or exempt (section 19, FSMA). The regulated activities are specified in the FSMA (Regulated Activities) Order 2001 (RAO).<br><br>The UK regime regulates accepting deposits as the core regulated banking activity. This is consistent with the EU regulatory framework, in which only deposit-takers are "credit institutions" under EU law, although CRD IV also applies to investment banks and some asset managers.<br>Accepting deposits is a regulated activity if money received by way of deposit is lent to others or any other activity of the person accepting the deposit is financed out of the capital of or interest on money received by way of deposit (Article 5, RAO), subject to certain exclusions.<br>Other regulated activities include, among others:<br>• Issuing electronic money.<br>• Investment-related activities including dealing (as principal or agent) in, arranging deals in, managing, safeguarding and administering and advising on certain investments.<br>• Consumer lending and certain related actives. | The 2019 Total Tax Contribution (TTC) of the banking industry in the UK is £39.7bn made up of £21.1bn in taxes borne and £18.5 in taxes collected. The breakdown of taxes borne is as follows:<br><br>• Corporation Tax £4.7bn<br>• Corporation Tax Bank Surcharge £1.9bn<br>• Bank Levy £2.6bn<br>• Employment Taxes Borne £5.7bn<br>• Irrecoverable VAT £4.9bn<br>• Other taxes borne (Business rates, stamp duty land tax, stamp duty and stamp duty reserve tax, insurance premium tax, air passenger duty, vehicle excise duty, customs duty, fuel duty, carbon reduction commitment, climate change levy) £1.3bn |

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| | • Lending secured by a mortgage over UK residential property and other home finance activity.<br>• Insurance mediation.<br>• Certain related activities and administering or providing information in relation to a specified benchmark (currently LIBOR, ICE Swap Rate, Sterling Overnight Index Average, Repurchase Overnight Index Average, WM/Reuters London 4pm Closing Spot Rate, LBMA Gold Price, LBMA Silver Price and ICE Brent Index, although the Treasury has power to specify other benchmarks).<br><br>A bank that is authorised to accept deposits under the FSMA is generally also licensed to provide payment services under the PSRs and to issue e-money under the EMRs.<br>The relevant licence for banking in the UK is a Part 4A Permission under the FSMA to carry on deposit-taking (and any other relevant regulated activities).<br>Applications are made to the PRA, and include a number of detailed application forms, including a permission table that sets out Part 4A Permissions by function and (in certain cases) by client type. Although the PRA manages a single administrative process, the FCA also assesses the applicant firm from a conduct perspective and authorisation is granted only if both regulators are satisfied. | HMRC's analysis of bank taxation can be found here: PAYE and Corporate Tax receipts from the banking sector |
| United States | Banking activities in the U.S. are regulated at the federal and state level. A charter (license) is required by either a state or federal authority to engage in a banking business. The span of banking business authorized for banks is dependent on the type of bank charter granted. Certain banking activities may be conducted by state chartered non-banks, (lending without deposit taking, money transmission, etc.), but only with a license from the state or states in which the activity is conducted.<br><br>All banks operate under either a state or a federal charter. State chartered banks are regulated by their chartering state and federally chartered banks are regulated by the Comptroller of the Currency (OCC). Banks that choose to be members of the Federal Reserve system are regulated by the Federal Reserve. All insured banks (nearly all banks) are also regulated by the Federal Deposit Insurance Corporation | Regulated banks in the U.S. pay significant federal, state and local taxes. In addition to actual taxes paid to government jurisdictions, banks are significant participants in programs that encourage investment in selected social initiatives through the use of tax credits. These initiatives include low income housing, historic building rehabilitation, energy incentives, etc.<br>In a recent survey of 2018 financial results, it was estimated that approximately 10% of all federal corporate tax receipts in the U.S. were paid by the top 32 banks ranked by asset size. |

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| | (FDIC), either directly, if not members of the Federal Reserve, or through back-up authority. All bank holding companies are regulated by the Federal Reserve. As discussed further below, the activities of banks and bank holding companies are carefully circumscribed; banks by their charters and by state and federal law; and bank holding companies by federal law. These limitations on the activities of banks and bank holding companies are enforced by their regulators, including through examinations on a regular basis.<br><br>Banks and bank holding companies are regulated entities with significant capital, employees, technology, premises, processes, etc. that represent an integrated business.<br><br>Banks and bank holding companies may only engage in activities that are considered permissible under banking law. Examples of such activities include making loans, taking deposits, trust and fiduciary services, insurance brokerage, originating and selling mortgages, assisting customers in retirement planning, safe deposit and safe-keeping of customer assets, and other related financial service activities. These activities may be performed in a bank holding company, a bank, or in one of more subsidiaries.<br><br>In addition to the banking regulators noted above, additional agencies provide supervisory guidance in various capacities. A sample listing of the agencies includes:<br>• Securities Exchange Commission (SEC)<br>• Consumer Financial Protection Board (CFPB)<br>• Financial Crimes Enforcement Network (FINCEN)<br>• States' attorney generals | In addition to federal income taxes, most of the individual states in the U.S. have income tax regimes that apply to banks. A material portion (est. 20-25%) of banks' effective tax rates are from these taxes |
| Japan | Banking Act stipulates the scope of banking services, Stated Capital and other regulations for banking services in Japan. And the Financial Services Agency (Japan FSA), under the commission of the Prime Minister, conducts a review for bank approval.<br>• Scope of banking services – for example, acceptance of deposits, lending of | According to the data published by NTA (National Tax Authority), Finance and insurance sector's calculated tax amount (fiscal year from April 2017 to March 2018) is below:<br>• calculated tax amount – 1,645 billion |

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| | funds, fund transfer transactions, guaranteeing obligations, lending securities<br>• Stated Capital – more than one billion Japanese yen (approximately USD 9 million)<br>• Trade name – a bank must use the characters "bank" in its trade name (only licensed banks can use "bank" in its trade name)<br>• Establishment of business offices – a bank must file to establish a branch<br><br>Japan FSA publishes lists of licensed financial institutions – banks, foreign bank's agent banks, financial instruments business operators, insurance companies, trust companies, financial market infrastructures, foreign audit firms, etc. | Japanese yen (10.6% of all industries total amount)<br>• capital range – Finance and insurance sector accounts for 18.2% of the companies with a capital over 1billion Japanese yen<br><br>Fiscal year 2019 Tax Reform for international taxation (main points)<br>• Response based on the BEPS project<br>• With respect to Japan's rules on interest deductibility, stricter restrictions on deduction of interest expenses will be introduced depending on the risk of base erosion through such measures as review of the method of calculating the maximum limit of the deductible amount of interest expenses.<br>• With respect to TP rules, the discounted cash flow method will be allowed as a method for calculating arm's length prices. |
| Italy | The Italian banking industry is governed by two main legislative acts: Legislative Decree No. 385/1993 (Italian Banking Act) (TUB) and Legislative Decree No. 58/1998 (Italian Financial Act) (TUF).<br>In the national framework, a pivotal role is played by the Bank of Italy, primarily responsible for supervisory and regulatory functions through a range of administrative, regulatory, and control powers.<br>In particular, as supervisory authority, it is primarily in charge of supervising banks, financial intermediaries and other players in the financial sector. It does this by:<br>• issuing ad hoc regulations governing the banking sector;<br>• exercising in-depth informative and inspection supervisory powers; | Regulated banks in Italy make a significant contribution to the tax revenue both domestically and internationally.<br>Domestically, the standard rate of Italy corporate tax (IRES) in 2019 is 24%. In addition, local tax (IRAP) is imposed at a rate of generally 3.9%, bringing the nominal tax rate to 27.9%.<br><br>Banks and financial companies pay 27.5% (24% corporate tax + 3,5% additional for the banking |

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| | • conducting economic, financial and legal research.<br><br>However, as part of the Eurozone, Italy witnessed the creation of a centralised regime for banking policy (i.e. the European Banking Union), based upon the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM).<br>Since the Single Supervisory Mechanism (SSM) entered into force, the competent authority to grant prior authorisation for exercising banking activities is the European Central Bank (ECB). Therefore, any EU bank is authorized to operate in a specific jurisdiction provided banking regulation requirements (I.e. CRR/CRD) are satisfied.<br><br>Duly authorised banks are registered in the publicly available register held by the Bank of Italy and can carry out the following activities:<br>• Banking activity<br>• Any other financial activity, including ancillary and related activities.<br>• Investment services and activities, in accordance with the principles set out in the Financial Consolidated Act | industry) corporate tax and 5.57% local tax (IRAP), with a comprehensive nominal tax rate of 33.07%.<br><br>The effective tax rate (tax burden compared to taxable income) is estimated by the Bank of Italy at around 32% |
| Belgium | The European Union has introduced a specific supervisory architecture, consisting of three European supervisory authorities and to monitor systemic risks as well as the Member States' competent supervisory authorities.<br><br>In Belgium, the National Bank of Belgium (NBB) is charged with preserving the stability of the financial system and supervision of the banks (directly for smaller Belgian Banks, and indirectly for larger banks who fall under the direct supervision of the European Central Bank).<br>The Financial Services and Markets Authority (FSMA) is charged with market conduct, including customer protection.<br><br>In the European Union, a bank is authorized to operate in a specific jurisdiction provided banking regulation requirements are satisfied. These requirements are for the largest part identical between member states (See the French example above). For certain macroprudential concerns, however, like the overheating of the housing market, national authorities (the NBB in the case of Belgium) can impose specific | Regulated banks and Financial companies in Belgium contribute significantly to the tax revenue in Belgium. They pay the standard Belgian corporate tax rate of 29.58%.<br>The Corporate Income Tax revenue paid by banks for 2018 was €886 million.<br><br>Besides the Corporate Income taxes, the banking industry also paid the bank levy and the contribution to the Single Resolution Fund (SRF) and the Deposit Guarantee Schemes (DGS) for a total amount of €1,378 billion for 2019.<br><br>Other taxes borne by banks are: indirect taxes (and the irrecoverable VAT), local taxes, employment taxes, … |

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| | capital and/or liquidity buffers on banks to remediate them. In Belgium, banks are currently obliged to hold additional capital buffers for all of their mortgage loans to Belgian households.<br><br>Other key legislations which are applicable to banks are:<br>- Investor protection and financial markets transparency rules (application of the MiFID II directive and regulation)<br>- Requirements to fight money laundering and the financing of terrorism (application of the fourth and fifth EU anti-Money Laundering directive)<br>- CRS (Common Reporting Standard) | |

**Appendix D – Profitability of consumer facing banks**

Although the banking sector may be identified as generating large profits, banks' profitability has significantly declined in many banking systems over the last years mainly due to strengthening of regulatory provisions that aim to increase capital requirements to hold and manage various risks.

Banking activities are a low-margin sector that generally do not generate "deemed residual profit" compared to other industries

Operating profit margin (operating earnings/revenue) is not an appropriate basis for comparing banks with other industries because:

i. interest expense, which is effectively COGS for Banks, is not included in the definition of operating income; and
ii. Banks report trading revenue net of trading costs and interest revenue net of interest expense

These differences artificially distort bank operating margins by increasing the numerator and decreasing the denominator in the calculation.

In addition, calculations of profitability based on cost to income ratios do not reflect the significant costs of a bank holding capital. More useful measures include:

- Return on assets (ROA) = net income/total assets, and
- Return on equity (ROE) = net income/shareholder equity.

ROA and ROE for banks (on both the retail and institutional side) is generally less than other industries. In addition to ROE and ROA, other measures of comparison such as book value to market value may be informative.

Globally, the ROE for banks is approximately 9% (McKinsey, 2017).

| ***Jurisdiction / Country*** | ***Commentary on profitability of banking sector*** |
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| Australia | The "big 4" major banks in Australia dominate the local consumer/retail banking market. At the March 2019 half year, their (combined) financial results show:<br>• Return on Equity of 12%<br>• Net interest margin of 1.96%<br>• Common equity tier 1 capital ratio of 10.8% (banks have retained higher levels of capital faced with the 'unquestionably strong' target of 10.5% set by APRA). Total Capital (including Tier 2 capital) is approximately 15%. |
| Canada | The six domestic systemically important banks (D-SIBs) in Canada represent an important component of the consumer/retail banking market. As at October 2018, the combined financial year-end results show for the D-SIBs are:<br>• Return on Assets of 0.86%<br>• Return on Equity of 14.1%<br>• Net interest margin of 1.77%<br>• Common equity tier 1 capital ratio of 11.5% (the OSFI |

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| | minimum requirement for D-SIBs is 9.5%)<br>• Total capital ratio of 15.1% (the OSFI minimum requirement for D-SIBs is 13%). |
| EU analysis (all banks) | The ROE of European banks was 6.1% in 2018 for EU 28, up from 5.8% in 2017. While this is still far from the 10.6% registered in the burst of the financial crisis, it is the highest since 2007.<br><br>Capital has continued increasing, with the core equity Tier 1 ratio of EU banks on a fully loaded basis, which includes only capital of the highest quality, at 14.2% in June 2018, 40 basis points more than the previous year and more than double the same ratio in December 2011.[7]<br><br>In Europe, for significant supervised entities by the European Central Bank (Single Supervisory Mechanism), the minimum capital requirements for such banks is on average 11.5% at the end of 2018[8]. |
| France | In 2018, ROE of French banks which is 6.7% is slightly over the European one, 6.1%.<br><br>Extended to a sample of major international banks, the average ROE, for 2017, rises to 7.1%[9].<br><br>For 2017, the average Common Equity Tier 1 (CET1) solvency ratio of the six French banking groups improved to 13.8%.<br><br>Such low profitability has been reflected in Banks valuations provided by stock markets for many months, if not years. |
| South Africa | The "big 4" major banks in South Africa dominate the local consumer/retail banking market. At the June 2019 half year, their (combined) financial results show:<br>• Return on Equity of 18.55%<br>• Net interest margin of 4.06% |
| United States | For the four largest U.S. banks with significant consumer activities, through the end of the second quarter, key weighted average financial indicators include:<br>• Return on Equity of 14.04%<br>• Return on assets of 1.47%<br>• Net interest margin of 3.16% |
| Japan | Japanese banking financial results (non-consolidated base / fiscal year from April 2018 to March 2019):<br>• Return on Equity of 3.9%<br>• Net interest margin of 0.11%<br><br>Japanese major bank's financial results published by Japan FSA shows |

7 https://www.ebf.eu/facts-and-figures/banking-sector-performance/

8 https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.srep_methodology_booklet_2018~b0e30ced94.en.pdf

9 https://acpr.banque-france.fr/node/109464

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| | internationally active 4 banking group's Common equity tier 1 capital ratio is 13.31% |
| Italy | In 2018, ROE of Italian banks was 5.7%.<br>The *EBA Risk Dashboard* published on 8 January 2019 shows, for example, that the average ROE of European banks is equal, at the same date (30 September 2018) to 7.2%, with the Italian groups positioned in the fifth position in Europe.<br><br>Regarding the level of capitalization, the *Economic Bulletin* reports the following observations: "In the third quarter of last year the level of capitalization of significant banks remained stable. In September, the best quality capital (common equity tier 1, CET1) was equal 12.7 percent of risk-weighted assets (risk weighted assets, RWA), as in June: the effect of the reduction in reserves on government securities valued at fair value, due to the fall in their prices, was offset from the downturn of the RWAs". The semi-annual trend of the CET1, reported in the Statistical Appendix of the Bulletin, was, starting from June 2016, the following: 11.7%, 10.4%, 11.8%, 13.3% (December 2017) and 12.8%. |
| Belgium | Banks in Belgium employ some 52,000 wage-earners, with 117,200 in the wider financial sector. That is calculated without the independent agents (2,851 end of 2018) and their staff.<br><br>At the end of 2018, the Belgian banks' total assets (on a consolidated basis) amounted to €993 billion.<br><br>The Return on assets was 0.55 % in 2018.<br><br>The return on average equity (ROE) was 8.0% in 2018. The Liquidity Coverage Ratio and CET I ratio also remained very robust in 2018, at 144.6% and 15.6% respectively. Finally, the credit quality is solid, with an impaired claims' percentage of 2.3% at the end of 2018. |

**Appendix E– IBFed paper "Why International Banks are Different", dated 1 April 2016**