

Updated Information for Westpac Instalments and Westpac Self-Funding Instalments



As indicated in the Product Disclosure Statements (PDS) for the Westpac 5 year Self-Funding Instalments, the Westpac 10 year Self-Funding Instalments and the Westpac Instalments with an annual reset feature (together, the **Westpac Instalments**), where information in the PDS changes and that information is not materially adverse, Westpac will provide the information on this website. A paper copy will be supplied to you without charge on request by contacting Westpac's Information Line on 1800 990 107.

The information for the Westpac Instalments is updated as follows. Investors should note however that this is not tax advice. Each investor should seek their own independent professional tax advice relevant to their own particular circumstances.

Benchmark Rate

The Supplementary PDSs for the Westpac Instalments dated 8 August 2008 provided a broad outline of the Treasurer's 2008/09 Federal Budget announcement, that the legislation dealing with the capital protected borrowing provisions would be amended and that the 'benchmark rate' would be changed from the Reserve Bank of Australia's Indicator Rate for Personal Unsecured Loans Variable Rate to the (lower) Reserve Bank of Australia's Indicator Variable Rate for Standard Housing Loans for capital protected borrowing arrangements entered into on or after 7.30pm (AEST) on 13 May 2008. That change has never been legislated.

On 11 May 2010 the Assistant Treasurer announced changes to the 2008/09 Federal Budget announcement, specifically that the benchmark rate would instead be changed to the Reserve Bank of Australia's Indicator Variable Rate for Standard Housing Loans plus 100 basis points. Investors can view the relevant Reserve Bank of Australia rates at www.rba.gov.au/statistics/tables/index.html. Treasury have released an exposure draft of the legislation to amend Division 247, which reflects this updated benchmark rate.

Based on the exposure draft, the amendments to Division 247 would apply to investors who hold Westpac Instalments as follows:

(a) Primary Market Applicants

Investors who acquired their Westpac Instalments on or after 7.30pm on 13 May 2008 should use the Reserve Bank of Australia's Indicator Variable Rate for Standard Housing Loans plus 100 basis points as the relevant benchmark rate. The excess of their total borrowing expenses (excluding the explicit put option price paid upon the issue of Westpac Instalments which was non-deductible) for an income year over the amount calculated using that benchmark rate will not be deductible.

The proposed amendments to Division 247 should not apply to:

- investors who acquired their Westpac Instalments between 1 July 2007 and 13 May 2008 (and have not rolled over their investment or otherwise extended the term of their loan after this time). Such investors should continue to apply the Reserve Bank of Australia's Indicator Rate for Personal Unsecured Loans Variable Rate when determining the deductibility of interest on their loan; and
- investors who acquired their Westpac Instalments prior to 30 June 2007 (and have not rolled over their investment or otherwise extended the term of their loan after this time) should continue to apply the interim methodology, as outlined in the relevant PDS.

(b) Rollover Applicants

For investors who obtained a new loan by rolling over their existing series of Instalments into a series of Westpac Instalments on or after 13 May 2008, the relevant benchmark rate from the time of the rollover would be the Reserve Bank of Australia's Indicator Variable Rate for Standard Housing Loans plus 100 basis points.

The proposed amendments to Division 247 should not apply:

- if an investor rolled into their Westpac Instalments and as a result obtained a new loan between 1 July 2007 and 13 May 2008, because the applicable benchmark rate would continue to be the Reserve Bank of Australia's Indicator Rate for Personal Unsecured Loans; or
- if an investor rolled into their Westpac Instalments and as a result obtained a new loan prior to 30 June 2007, because those investors should continue to apply the interim methodology.

(c) Secondary Market Purchasers

The Prepaid Interest allocated to a secondary market purchaser upon acquisition of their Westpac Instalments and the expenses incurred in each subsequent income year would be deductible to the investor, to the extent that such expenses do not exceed the amount calculated using the relevant benchmark rate.

Investors should be aware however that until the exact form of the amending legislation has been released, the scope of the proposed amendments is not certain. Therefore, before taking any action in respect of their Westpac Instalments, investors should consider the risks inherent in the uncertainty over the application of the new rules and seek their own professional advice.

Investors should also note that the Australian Taxation Office (ATO) released on 28 May 2010 an information update about the change to the benchmark rate. The update stated that the ATO would apply the existing law, as it stood prior to the 2008/09 Federal Budget announcement until the enactment of the proposed legislation, and that no specific compliance activity would be undertaken to enforce the existing law during that time.

Assistant Treasurer's Media Release of 10 March 2010

Investors should also be aware that in a media release on 10 March 2010 the Assistant Treasurer announced a proposed amendment to the tax legislation to confirm the practice of treating the investor in an instalment warrant over a single exchange traded security as the owner of the listed security for income tax purposes. These amendments are intended to preserve the treatment that has generally been accepted to apply, being that a CGT event would not occur when the holder of an instalment warrant pays the final instalment and receives legal title to the underlying securities. Investors should acquaint themselves with this media release and seek their own independent professional tax advice on the consequences of paying a final instalment. Investors can refer to the following link on the Treasury's website for further information: <http://www.treasury.gov.au/contentitem.asp?NavId=037&ContentID=1724>