



7 January 2022

Submission to the Senate Economics Legislation Committee

Corporate Collective Investment Vehicle Framework and Other Measures Bill 2021 [Provisions]

The Australian Services Roundtable (ASR) is Australia’s only dedicated whole-of-services industry organisation. We are a core member of the Global Services Coalition and co-lead of the Asia Pacific Services Coalition. ASR President James Angus Bond is a member of the Ministerial Advisory Committee on Free Trade Agreements. ASR represents the broadest possible range of services sectors, including the financial and professional services sectors.

ASR advocates for implementation of a national services competitiveness strategy, as Australia continues to shift from a resources-focused economy. In 2020, the services industries employed **87%** of Australians and generated **80%** of Australia’s GDP and more than **50%** of Australia’s total exported value-added, attracting over **60%** of Australia’s inward FDI¹. With up to 1.5 billion people moving into Asia’s middle class over the next 15 years, Australia must ensure it is in the best position to take advantage of the business opportunities at its doorstep.

In line with this objective, ASR strongly supports the passage of the *Corporate Collective Investment Vehicle Framework and Other Measures Bill 2021* (the Bill), which will implement the Corporate Collective Investment Vehicle Framework (CCIV). The CCIV is a necessary and complementary next step after the Asia Region Funds Passport, which was recommended, with strong ASR support, by the 2009 Johnson Report - *Australia as a financial centre: Building on our strengths* - and legislated by the Commonwealth Government in 2018. The underlying policy rationale for the CCIV is to increase the appeal of Australian funds to foreign investors, making Australia’s financial services sector more competitive in the region and globally, and in turn bolstering the demand for associated Australian based professional services providers.

The basic premise of an investment fund is that it allows multiple investors to pool their funds to invest into a bundle of assets or securities and to share the income earned – a collective investment. That income is then taxed in the hands of the end investor according to their personal tax rate, rather than that of the fund (the concept known as “tax neutrality” means an investor will receive the same outcome based on a bundle of identical assets, regardless of

¹ See *ASR Statistical Showcase – Australia’s Services Industry 2020*, available at [http://australianservicesroundtable.com.au/wp-content/uploads/2020/12/225-001-Statistical-Showcase-Australia s-Services-Industry-2020-v4_HR.pdf](http://australianservicesroundtable.com.au/wp-content/uploads/2020/12/225-001-Statistical-Showcase-Australia-s-Services-Industry-2020-v4_HR.pdf)

where the fund is domiciled, and two funds with identical assets will yield the same gross income to two different investors, regardless of where they are resident).

In the case of funds that invest into securities (as opposed to real property which has a set location), fund managers must be globally competitive. A global equities fund can be managed from anywhere in the world, but it can only be domiciled in a country which provides an efficient fund structure, both from a management and tax perspective. Australian fund managers must compete to manage money from investors located all over the world, not just the domestic market, and the underlying fund structure needs to allow investment into foreign assets as well as Australian assets.

Currently Australia's unit trust structure is a unique, bespoke structure designed exclusively for Australian investors to invest into Australian securities and real property. The current structure worked well in its initial stages for Australian fund managers who were seeking to attract domestic investors into funds that invested into Australian assets. However, as global markets and services trade has developed, Australian fund managers are seeking to offer a broader range of securities and to attract investment from foreign investors, i.e. to become more globally competitive.

The complexity and unfamiliarity of Australia's unit trust structure cannot be underestimated. Foreign investors do not understand how the structure operates and therefore the associated risks of investment. Unsurprisingly, this significantly impacts investor confidence. The current structure has its origins in English trust law and there are no formal or consistent rules that govern how investors will be treated in different scenarios. A prescribed structure governed by a clear set of rules is crucial for investor protection and therefore confidence, to attract foreign investors into Australian domiciled funds.

Another important benefit for a country from having a fund structure that allows both investment by foreign investors and investment into foreign securities, which is what the CCIV would achieve, is that it encourages fund managers to domicile their funds in that location. ASR expects the CCIV regime to result in broader economic benefits to Australia from more investment funds being domiciled here, giving domestic investors more product choice, and from other Australia-based services industries, such as legal, accounting, and tax advisory services, being engaged to support these funds. KPMG has estimated, for example, that the UK Exchequer loses GBP1 million *per annum* for every GBP1 billion of funds domiciled offshore, which could have been domiciled in the UK instead.²

In summary, the CCIV regime should:

- create a more internationally familiar, simpler, and more certain structure for collective investment into Australian domiciled funds;
- allow tax flow-through to the end investor, i.e. be tax neutral;

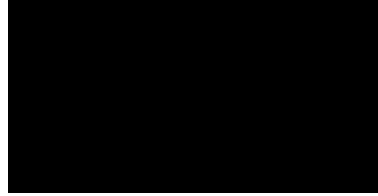
² See UK HMRC KPMG Analysis which examined the economic benefits of having funds domiciled in the UK when they established their corporate collective investment vehicle. [Microsoft Word - 071130 IMA report.doc \(theia.org\)](#). Indeed the UK is now reviewing their Funds Regime to make it more attractive [UK Funds Regime – Government call for input - KPMG United Kingdom \(home.kpmg\)](#) and [Review of the UK funds regime: a call for input - GOV.UK \(www.gov.uk\)](#)

- improve efficiency by allowing multiple sub funds to be managed by one corporate fund manager, as opposed to each sub fund requiring its own trustee;
- facilitate separate, but appropriate, structures for funds invested in securities and real property respectively; and
- maintain strong investor protections.

ASR submits that the Bill achieves the above key objectives, makes an important contribution to a more cohesive and globally competitive financial services industry, and will be beneficial to the broader Australian economy over time. Importantly, ASR welcomes the Bill as representing significant concrete progress in implementing Australia's Services Exports Action Plan (SEAP), consistent with long standing ASR recommendations³.

ASR encourages all members of Parliament to support the passage of the Bill through the Australian Parliament at the earliest opportunity.

On behalf of the ASR Board



Eve Brown
Director
Australian Services Roundtable

³ The Services Exports Action Plan (SEAP) was released by the Minister for Trade, Tourism and Investment in April 2021 (<https://www.services-exports.gov.au/>) to provide a strategic framework to boost the competitiveness of Australia's services industries. The Plan includes addressing a number of specific ASR recommendations on financial services calling for action in directions consistent with the provisions of this bill. These industry recommendations, published in 2019 at <https://www.dfat.gov.au/sites/default/files/industrys-recommendations-an-action-plan-to-boost-australian-services-exports.pdf>, specifically called for prioritising passage of the CCIV Bill, as a recognised investment vehicle that can be marketed under the Asia Region Funds Passport. ASR welcomes and supports the progress to finalise development of the legislation as reported to date at <https://www.services-exports.gov.au/progress/asia-region-funds-passport>).