

Senate Select Committee on Superannuation and Financial Services

Main Inquiry Reference (b)

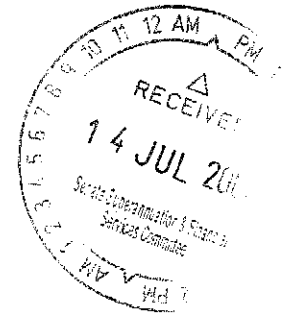
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No. 12)

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14 July 2000

Ms Sue Morton
Secretary
Select Committee on Superannuation
and Financial Services
Parliament House
CANBERRA ACT 2600



SENATE SELECT COMMITTEE ON SUPERANNUATION AND FINANCIAL SERVICES

Dear Ms Morton

I refer to your letter dated 26 May 2000 seeking additional information in relation to some aspects surrounding the development of Australia as a global financial centre. These issues are addressed below.

Company Movements To and From Australia

Axiss Australia seeks to maintain listings of companies within the financial sector moving operations to and from Australia. The attachment to this letter provides information compiled by Axiss Australia, based on media reports, on company movements to and from Australia over the past two years or so. It should be noted that this list does not pretend to be a full and comprehensive list of all company movements. Not least for the reason that, at times, some financial service providers may choose to keep information on movements of staff confidential for a number of reasons.

Education, Research and Training Initiatives

Education, research and training are key elements of the strategy to develop Australia as a centre for global finance. High quality education and training services and cutting edge research in the financial services sector will not only enhance Australia's international profile, particularly in the region, but is essential to the continued development of a highly professional and competitive financial sector workforce.

In December 1999 Axiss Australia employed a consultant to research, develop and articulate a set of education, research and training initiatives as a key strategy in the achievement of the objective of establishing Australia as a Centre for Excellence in Education, Research and Training for the Financial Services.

The consultant has undertaken an extensive consultation program with industry, the education and training sector and Governments around Australia. Various initiatives are now in the process of being developed.

One initiative in this sphere has been the Axiss Australia Scholarships which provide students completing their honours year with the opportunity to work in one of several Commonwealth agencies including Treasury, the RBA, APRA, ASIC, ABS and ACCC.

In June, Axiss Australia announced that it had organised the formation of a training alliance between 13 major financial training organisations designed to further Australia's role as a regional centre for financial services. A focus on developing joint programs and joint marketing activity between the 13 bodies and Axiss should result in increased global exporting of training services and products.

Other initiatives are currently in their planning stages and will be announced as they progress beyond the proposal/development stage.

Benchmarks for Measuring Success/failure of Axiss' 2 Year Operation

The key objective of Axiss Australia is to position Australia as a global financial centre with particular emphasis on its potential importance in the Asia Pacific time zone. It does so through initiatives aimed at promoting awareness and a better understanding of the Australian financial markets and the competitive advantages Australia offers, and by providing policy advice on issues affecting the financial services sector.

A number of factors make finding "useful" measures of Axiss' success in achieving its objective difficult. Global trends such as convergence and consolidation may work to reduce the overall number of players even while the size of the financial services sector expands. Inevitably, there will be long and variable lead times between the activities of Axiss Australia and evidence of their end result. Moreover, measures of success rely on the ability to observe or determine a counterfactual outcome or successfully isolate the role played by Axiss Australia in determining an end result – neither of which will generally be the case. In other cases, a decision as to location of operations may depend on factors ultimately beyond the control of Axiss.

In this regard, Axiss believes that if its strategy results in increased awareness and consideration of Australia and its being added to the deliberation process, it will have been successful in achieving its mandate.

As a result, Axiss' efforts have focussed on increasing awareness of Australia as a global financial centre. Axiss has also put considerable effort into developing a dialogue with the private sector aimed at better understanding the issues affecting their decision making processes (re location of operations) and providing the private sector with a better understanding of Australia's strengths. These are the types of activities around which Axiss will measure the success of its strategy.

As a result, Axiss intends to focus on the quality of outputs emerging from its strategy of compiling and disseminating data and information, providing sound policy advice to the Government; and the use of promotion and other marketing initiatives both generally and in specific areas such as education and training.

Information on the Policies and Incentives of Ireland

The Committee may wish to access Ireland's International Financial Services Centre website at www.ifsc.ie.

How does Axiss Australia view developments in reporting and accounting standards and data and information processing as impacting on Australia's financial centre goal? Notwithstanding recent developments in global harmonisation of some accounting arrangements, how do the remaining plethora of different accounting requirements impact on Australia' ambitions as a global centre?

Axiss Australia supports changes introduced as part of the Corporate Law Economic Reform Programme, including in the areas of disclosure, accountability and accounting standards. These reforms are in keeping with the promotion of Australia as a global financial centre.

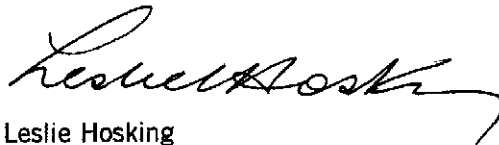
Global harmonisation of the infrastructure underpinning trade and commerce, such as convergence to internationally accepted accounting standards, creates an environment facilitative of increased international capital flows, in turn necessary to enabling Australia to pursue its aim of increasing its share of world financial services' business. It does so by providing investors and creditors with greater reliability and comparability of financial information and delivering efficiency gains and a lower cost of capital to companies as well as contributing to greater international financial stability.

IOSCO's decision in May 2000 to move towards global harmonisation of accounting standards recognises the important role that a single set of high quality, internationally accepted accounting standards can play in facilitating international capital flows.

In practice, the IOSCO announcement will mean little for foreign entities wanting to list in Australia, as the Australian Stock Exchange already allows them to use IASC standards, or the requirements of their home jurisdiction, without reconciliation, disclosure or interpretation. However, Australian companies looking to raise funds offshore will benefit from being able to use IASC standards which, given Australia's harmonisation program (in CLERP), should involve few reconciliations.

I trust this information is of assistance to you.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Leslie Hosking', with a long, sweeping underline that extends to the right.

Leslie Hosking
Chief Executive Officer
Axiss Australia

COMPANY MOVEMENTS TO AUSTRALIA

Financial Services

- **Nicholas-Applegate** will open an Australian office in July 2000 as part of its Asia-Pacific investment activities. The Office in Melbourne will be used to grow local operations and manage its Asian business. Nicholas-Applegate managed in excess of A\$300 million for its clients and is planning to launch a global equities trust soon. (AFR, 26/6/00, p.37)
- At least three US card specialists-- **Capital One, MBNA and First USA** --plan to launch local operations in Australia in the next 12 months. The *AFR* reports that most Australian banks already have contingency plans to ensure their card operations stay viable in the face of discount competition from the US companies. (AFR, 9/6/00, p.68)
- **Moody's Investor Service** has moved part of its global mining and metals, oil and gas portfolio to Sydney. The new "outpost" will be headed by former Westpac analyst, Terry Fanous, who will cover 20-30 companies, including some Asian names and report to the New York office. (AFR, 29/5/00, p. 54)
- The *AFR* reports that executives from **PFPC**, a subsidiary of Pittsburgh-based PNC Bank (largest administrator of mutual funds transfers in the US, and the second-largest provider of accounting services to fund managers) will be arriving in Sydney to begin a scoping study of the Australian market. PFPC is considering using Australia as a base for the Asian market, and is seeking meetings with government officials. (AFR, 10/5/00, p.41)
- **UBS** moved its Australian credit derivatives trading book from Singapore to Sydney. (AFR, 8/5/00, p.46)
- **Royal Bank of Canada** moved its financial exchange headquarters from Singapore to Sydney. RBC's Sydney branch will lead trading in the euro, yen and other G7 currencies. The bank will relocate about 15 people to Sydney over the next few months. (Dow Jones Newswires 21/1/00, Asian Wall Street Journal, 24/1/00)
- **Charles Schwab** will open a new company in Australia. Due to open in early- 2000, Charles Schwab Australia will offer the Australian marketplace full broking service, as well as on-line trading in both US and domestic securities. (AFR, 21/12/99, p.21)
- **St. Paul Companies**, one of America's largest property-casualty insurers, has selected Australia as the regional platform for its Asia-Pacific business. The group chose Australia, as it only enters markets where the regulatory structure is transparent, and there is a total premium base of A\$6 million, a strong broker distribution network, and no barriers to foreign capital investments. In December 1999, St. Paul Insurance Australia received approval to sell liability insurance. The group will use its platform in Australia to offer liability insurance products for the technology, finance, marine, surety and marine sectors throughout the Asia-Pacific region. (*Australian Financial Review*, 8/12/99, p.37)
- Australia will be the first country outside of the US, where Merrill Lynch will expand its new online stockbroking service. **Merrill Lynch** plans to launch similar online trading businesses in the UK and Japan by the end of 2000. The firm said that they chose Australia, because its regulatory environment is conducive to good business. (*Financial Times*, 1/12/99, p.19)

- In September 1999, **Merrill Lynch** announced the move by 11 of its biggest international funds into Australia. This was in response to the Australian Government's tax reform legislation. (*Australian Associated Press*, 21/09/99, via Reuters Business Briefing)
- On 25 November 1999, **Goldman Sachs** announced that it plans to double its Australian investment banking and equities business in the next year. The Australian market is a primary target for the firm's activities in the region. (*Australian Business Review*, 25/11/99, p.28).
- In August 1999, **Goldman Sachs** established a full services equities business in Australia. (*Australian Banking and Finance*, 16/08/99, via Reuters Business Briefing)
- **SSB Citigroup Asset Management**, part of Citigroup, will base its global research group in Melbourne. SSB Citigroup is confident that Australia will emerge as a fund management hub, saying that "the Australian market will be one of the top five or six markets globally in terms of total available assets under management." (*Australian Financial Review*, 24/11/99, p.47)
- **Morgan Capital**, one of the world's biggest private equity businesses, moved its Asia-Pacific headquarters from New York to Melbourne in November 1999. Morgan Capital will invest up to \$US 150 million a year in emerging operations in the Asia-Pacific region. (*Australian Financial Review*, 22/11/99, p8)
- **Western Union Financial Services** located its regional headquarters in Sydney in mid-November 1999, basing its 24-hour Asia-Pacific Regional Operations Centre there. Mr. Ed Fuhrman, the President of Western Union Financial Services said that Australian-based business grew by 60 per cent in 1998, and that he expects the growth rate to continue to increase. (*Australian Financial Review*, 19/11/99, p64)
- In the week of 15 November 1999, **Alliance Capital Management**, the largest publicly traded investment manager in the United States, launched 17 mutual funds onto the Australia retail market. The company has been operating in Australia since 1991 and has A\$4 billion under management here. (*Australian Financial Review*, 17/11/99, p.48)
- In October 1999, **HSBC** announced that Melbourne would be the regional headquarters for its \$102 billion asset management arm. (*Australian Financial Review*, 20/10/99, p. 49)
- In October 1999, **MasterCard International** announced that it would relocate its regional headquarters of credit and risk management to Sydney from Singapore. (*Australian Financial Review*, 07/10/99, p. 40)
- In October 1999, Deutsche Bank announced the relocation of its Deutsche Asset Management regional headquarters from Tokyo to Sydney, with the Sydney office responsible for the bank's asset management businesses in Australia, South East Asia and Japan. (*Australian Financial Review*, 20/10/99, p. 49)
- In October 1999, **Rabobank** announced that it will launch into commodity risk management and will further expand into transactional banking in 2000 in an effort to maintain the growth it has achieved since moving into the Australian marketplace in 1994. (*Australian Financial Review*, 12/10/99, p. 27)
- In August 1999, the **Asia Pacific Loan Market Association (APLMA)**, an association of 105 international financial institutions announced it would establish their regional

financial operations in Sydney. (*Economist Intelligence Unit*, 18/08/99, via Reuters Business Briefing)

- In August 1999 the **Royal Bank of Scotland** announced that it would establish a project financing team in Sydney. (*Business Review Weekly*, 06/08/99, p61, via Dow Jones Interactive)
- In mid-1999, it was announced that **Morgan Stanley Dean Witter** would expand their operations in Australia. (*Herald Sun*, 16/07/99, p34; via Dow Jones Interactive)
- In December 1998, it was reported that **Deutsche Bank** had decided to relocate its Euro short-term money market from Singapore to Sydney. (*Australian Business Intelligence, The Australian Financial Review*, 15/12/98, p42, via Reuters Business Briefing)
- In October 1998, **Citibank** chose Sydney as the site for its Asia Pacific regional processing centre. (*The Australian Financial Review*, 08/10/98, p61, via Reuters Business Briefing)
- In 1998, **Chase Manhattan Corporation**, transferred its Asian custody functions to Sydney from Hong Kong. Sydney will become Chase Manhattan's third largest custody operation centre after New York and London. (*Dow Jones International News*, 09/02/98. See Dow Jones Interactive). Chase had centralized its bullion operations in Australia in 1994.
- In early 1998, **Banque Transatlantique**, part of the CIC Group, opened a representative office in Australia. The company targets high net worth individuals, and provides a range of personal and family asset management services. (*European Business Review*, 01/04/98, p. 73 via Dow Jones Interactive)
- **Vanguard Investments**, the second-largest fund manager in the world, launched into the Australian superannuation and master funds market with the release of three indexes. (*Australian Financial Review*, 18/12/96, p.30, via Reuters Business Briefing)
- In 1995, **State Street Bank** located its regional operations in Sydney with this office becoming State Street's largest outside Boston. (*Business Review Weekly*, 19/06/95, p.30, via Dow Jones Interactive).

Related Financial Services

- The **World Bank** will relocate its office covering operations in East Timor, Papua New Guinea and the Pacific islands from Washington to Sydney. (Reuters)

COMPANY MOVEMENTS FROM AUSTRALIA

- **GE Capital** moves part of its call centre function to India. (Sun-Herald, 21/11/99, p3)
- **CBA** will pass control of its a\$1.8 billion global funds management business to Legal & General. (The Australian, 8/12/99, p. 26)
- **Rothschild Australia Asset Management (RAAM)** will outsource its a\$800 million international equities portfolio to US based pension manager Putnam Investments in Boston. (*Investor Weekly*, 17-23/1/00, p. 23).
- **Invesco Asset Management** has shifted responsibility for the management of its AUD 80 million in Australian investments from Sydney to Hong Kong. (AFR, 29/2/00, p.39)

- **HSBC Australia** has downsized its "full-service" brokerage business and has axed 33 jobs, most of them in research. (*AFR*, 3/5/00, p.50 Street Talk)
- US Investment company, **Massachusetts Financial Services** will depart Australia at the end of May 2000. The firm had two employees. (*AFR*, 3/5/00, p. 46)
- **HSBC Institutional Stockbroking** closed down its Australian institutional stockbroking operations. *Via Reuters Business Briefs 7/6/00.*