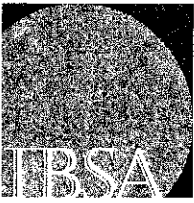


Senate Select Committee on Superannuation and Financial Services

Main Inquiry Reference (b)

Submission No. 2

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INTERNATIONAL
BANKS AND SECURITIES
ASSOCIATION OF AUSTRALIA



18 February 2000

The Secretary
Senate Superannuation and Financial Services Select Committee
Parliament House
Canberra ACT 2600

Dear Sir/Madam

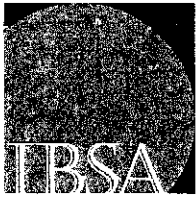
Please find enclosed the submission for *Australia – A Global Financial Centre*.

We appreciate the opportunity to make this submission after the 11 February 2000.

Yours faithfully

A handwritten signature in black ink that reads 'Robert Webster'.

Robert Webster
Executive Director



INTERNATIONAL
BANKS AND SECURITIES
ASSOCIATION OF AUSTRALIA

AUSTRALIA - A GLOBAL FINANCIAL CENTRE

Submission to the Senate Select Committee on Superannuation and Financial Services by the International Banks and Securities Association of Australia (IBSA) on "The opportunities and constraints for Australia to become a centre for the provision of global financial services"

1. Introduction

For many years IBSA has been at the forefront in promoting the development of Australia as a global financial centre. Member banks, in competition with other operations in the region, have individually made the case to their parent banks for the placement of additional business activities in Australia. The Association has supported the efforts of Federal and State Governments of both political persuasions, to improve the operation of our financial markets by simplifying regulation, changing the tax regime and selling Australia's advantages to potential investors.

There has already been tangible progress towards our goal of a vibrant global financial services centre, but we are still a long way from reaching our full potential in this regard. This submission provides our perspective on the initiatives taken so far, what needs to be done, especially in the area of tax reform. It begins by considering what the various components of a global financial centre are.

In summary, our view is that the Government should aim to have Australia, as a matter of practice, placed on the short-list of locations considered by all financial institutions for conducting their business in the Asia/Pacific region. This requires an upsurge of confidence in Australia to deliver and maintain a tax and regulatory regime that would support a truly competitive and open financial sector. Our competitive advantages should then ensure that we capture a fair share of global financial business and the associated employment.

IBSA and its members are committed to the further development of Australia as a global financial centre. International banks have already delivered a substantial stimulus to competition in the domestic financial markets, to the benefit of retail and wholesale consumers. In the right climate, they have the potential to deliver even more to the economy, by increasing financial service exports.

2. What is a Global Financial Centre?

There are many dimensions to a Global Financial Centre, with various factors integrating to provide the necessary infrastructure to support international financial business. Characteristics of a global centre include:

- A centre from which international financial business can be conducted profitably, easily and efficiently;
- A centre with skilled management and intellectual talent covering finance and interdependent services, such as legal and accounting, to provide multi-disciplined teams that facilitate large cross-border transactions in the shortest possible time-frames;
- A centre with deep, liquid and sophisticated capital markets (both Australian dollar and foreign currency) and world competitive tax and regulatory regimes which attracts foreign investment and offshore business flows;
- A centre that can add significant value to financial services provided from it, through a workforce that can respond in an innovative manner to evolving business conditions;
- A centre where business can be done both onshore and offshore in all areas of financial services; banking, insurance, superannuation and funds management, capital and equities markets;
- A centre with the World's best telecommunications and IT capacity and a plentiful, well-educated, multilingual workforce;
- A centre that compliments other Global Financial Centres in the era of 24 hour trading;
- A centre where all facets of financial services: CEOs and senior traders, regional headquarters, treasury operations, data processing, support functions and call centres, can be located efficiently;
- A centre with the requisite Government commitment and bureaucratic culture to support and manage the necessary tax and regulatory infrastructure for an efficient and open financial sector;
- A centre that is forward looking with on-going strategic planning for the future.

3. Competitors in the Asia/Pacific Region

The nature of the global financial services market is now such that Australia's competitors for this business are spread throughout the world. For example, a bank may have a choice between Dublin and Sydney as a location for its international business. More typically, the competition for Australia is from centres in the Asia-Pacific region.

Singapore and Hong Kong are recognised regional financial centres that have a strong tradition as crossroads in international business. India has developed a recognised capacity to provide information technology that is vital to the delivery of many

financial services. Japan is a significant part of the world economy in its own right, with associated large domestic financial markets that are currently being deregulated, and could absorb more international financial business in the future.

Each jurisdiction has specific advantages and disadvantages as a location from which to conduct international financial business. However, there is a widespread push amongst Australia's competitors to improve their competitiveness as an international financial centre.

4. Australia's Advantages as a Global Financial Centre

Australia has many advantages as a Global Financial Centre, reflecting our advanced financial development and innovative financial culture. Our challenge is to maximise the economic benefits that should flow from these. Our advantages include:

- A multilingual professional financial services workforce that can flexibly respond to changing business conditions and independently add value to services provided through Australia;
- A time zone location that spans New York, London and Tokyo;
- A strong, stable and transparent legal and regulatory system;
- Low cost and efficient communications and information systems;
- Political and economic stability;
- The most sophisticated and deregulated domestic banking system in the region;
- Leading international stock exchange, futures exchange and clearing houses;
- Competitive costs, including general living expenses, commercial rents and a high quality social infrastructure;
- World's best practice regulatory system following the Wallis Report induced financial sector reforms;
- Regional leadership in finance education and training;
- Stated strong commitment by Federal and State Governments to promoting Australia as a Global Financial Centre;
- Tax reform includes a commitment to the staged abolition of FID, BAD and Stamp Duty on securities and new rules that potentially improve the efficiency of financial arrangements taxation;
- A commitment to business tax reform, with cuts in the corporate tax rate to 30% and capital gains tax initiatives;
- The establishment of an Australian Centre for Global Finance to implement the Government's commitment to create a Global Financial Centre.

5. Australia's Disadvantages as a Global Financial Centre

To maximise our potential as a Global Financial Centre, we must address our disadvantages. It is important to note that though there are many tax problems, resolving them would not involve a significant cost to revenue, if a fair balance were struck. Disadvantages include;

- Australia does not have a “can do” image as manager of a competitive tax climate for international financial operations – there is a weakness in the connection between the Government's stated aspirations and the delivery of associated policy measures;
- There is a real battle just to maintain the existing tax and regulatory competitive position of foreign banks without trying to achieve needed improvements;
- Follow through on financial tax policy must be more decisive and consistent to enhance credibility amongst other things. For example, the foreign investment fund (FIF) initiative, enacted in 1999, to increase competition in the funds management market, by improving access by US funds, is under threat from Review of Business Tax reforms. Should this threat materialise, the effective reversal of policy (particularly as it occurred within a short time-span and without prior consultation) could do significant harm to Australia's reputation as a location from which to conduct financial business;
- Expatriate tax issues have to be addressed efficiently and sympathetically, if constraints to our international competitiveness are to be removed and highly-paid individuals and their business are to be attracted to Australia – the poor management of the Superannuation Guarantee in respect of expatriates is a good example in this regard.
- The design framework for the GST treatment of international financial services is not competitive with that afforded elsewhere in the region;
- The legislation and regulations for the GST taxation of financial services contain deficiencies and uncertainties that must be resolved - for example, in relation to exports, brokerage and reverse charges;
- The offshore banking (OBU) regime is neither easy to administer or understand;
- The GST rules are not Global Financial Centre receptive – for example, OBU-to-OBU transactions are not GST-free, expatriate salaries are subject to GST in some circumstances and foreign banks are generally disadvantaged by GST;
- The emerging Review of Business Taxation thin capitalisation rules for financial institutions give cause for concern in that they harm the domestic and international competitiveness of foreign bank operations in Australia;
- The Review of Business Taxation reforms for foreign banks and international financial transactions are uncertain and potentially quite harmful;
- The interest withholding tax regime disadvantages foreign branch banks relative to banks incorporated in Australia;

- Foreign banks, especially branches, are significantly disadvantaged by the APRA levy arrangements, compared to the treatment of the major banks;
- The taxation approach to innovative financial products is too unreceptive; Government agencies including the Department of Treasury, APRA, ASIC, ACCC and ATO need to share a whole of government approach to facilitate a harmonious and internationally competitive tax and regulatory regime.

6. Recommendations to Enhance Global Financial Centre Prospects

An important tool in the Government's armoury is the shared commitment with industry to the Global Financial Centre. This should be built upon to the maximum degree possible going forward, as an effective partnership with industry is critical to the success of the policy.

From the perspective of foreign institutions critically reviewing Australia, it is also important to demonstrate cross-party political support for the policy, so continuity is assured into the future – apart from which existing problems can be more easily dealt with. Recommendations to enhance our Global Financial Centre prospects include:

- The Government must crystallise its commitment to a Global Financial Centre into concrete results, by unifying its agencies in the pursuit of this policy and delivering progressive change, including existing commitments like the FIFs changes referred to above;
- The Government must place itself in a position to respond quickly and flexibly to emerging opportunities and threats;
- There must be a dynamic interaction between the Government, its agencies and the global financial services industry, built around a structured, formal liaison process – established both at the most senior level and at operational levels;
- A log of Global Financial Centre action items should be maintained, with regular updates on progress in dealing with them and on new initiatives that are needed;
- Existing problems would be included in an initial log and warrant immediate attention on the basis proposed here – for example, expatriate tax anomalies (like non-recognition of overseas health funds for the purpose of assessing expatriates' liability to the Medicare levy surcharge) should be removed, the GST problems addressed and the APRA levy corrected so that it is equitable for foreign banks;
- The Government and industry should jointly develop, and then regularly update, the global finance centre strategy, drawing on their goodwill and shared objectives in policy innovation and promotion;
- Focus on Australia's strengths when marketing, especially our world leadership in information technology and telecommunications;

- Identify 5-10 target companies, build an understanding of their business decision making processes (regionally and globally) and concentrate initial efforts on them to achieve early success;
- A continuous marketing effort by Ministers, the Chief Executive Officer of the Australian Centre for Global Finance and industry;
- Quality statistical and other information should be available to illustrate our advantages and ensure that the marketing strategy maximises the positive perception of Australia;
- Australia should not try to confront Singapore and Hong Kong head-on with tax concessions, but outflank them with our better information technology and telecommunications capability, superior workforce and capacity to respond more quickly to changing markets;
- Target regional management and financial market functions, as well as back office, data processing and call centres, to ensure critical mass and a more sustainable presence in Australia;
- The Government needs to make certain that its tertiary education policies ensure a continuing supply of appropriately qualified graduates for the financial services sector at a time when their policies are stimulating demand.