

**Senate Select Committee on
Superannuation and Financial Services**

**Main Inquiry
Reference (b)**

Submission No. 6

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The Secretary
Senate Select Committee on Superannuation and Financial Services
Parliament House
Canberra ACT 2600
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Dear Sir/Madam

Re: FTA Submission on Superannuation and Financial Services

The Finance and Treasury Association (FTA) welcomes the opportunity to make a submission to the Senate Select Committee on Superannuation and Financial Services.

We will confine our discussion and suggestions to section (b) "the opportunities and constraints for Australia to become a centre for the provision of global financial services".

Our approach is to focus on turning Australia's natural and nurtured advantages into opportunities to promote Australia as a financial centre. Our discussion of constraints to a large extent focuses on how Australia can overcome negative perceptions in certain defined areas.

The key message is that the constraints for Australia are well understood but Australia's many strengths need to be actively supported and internationally promoted.

The Submission: Australia's opportunities and constraints

Australia's advantages are becoming increasingly well understood and have been well documented by the Australian Centre for Global Finance at its web-site, www.globalcentre.asn.au. The list and exposition found there forms the basis for the following discussion.

A strong economy

As a mature economy, notwithstanding structural change wrought by new technologies, Australia will not consistently outgrow its developing neighbours.

However, macroeconomic stability is a desirable platform for promoting financial services. The major threat to that stability is perhaps Australia's persistent current account deficit which is best

addressed by continued attention to building the savings of Australians, notably through the Government's superannuation policy.

The point should also be made that notwithstanding the size of our economy (a constraint) the Australian dollar, by some measures, is now the fifth most traded currency globally. In part, this is due to the advent of the Euro but this has created an opportunity for investments in A\$ denominated assets by global funds seeking to diversify their currency exposures.

An opportunity for Australia is to promote the benefits of this diversification of investments and ensure that as much as possible of that global money is managed out of Australia.

Liquid and innovative financial markets

These points are well made by the Global Centre.

A major breakthrough was the relaxation of interest withholding tax. It was a significant step in reducing Australia's competitive disadvantage. The benefits are already flowing with Australia's corporate bond market now more integrated into the global bond market. Another indicator is the rise of so-called "Kangaroo" issues where multinationals and supranationals issue debt in the Australian market to diversify their funding sources.

A secure business environment

In Australia, the rule of law is long established and consistently applied. There is no risk of government interference in business decision-making (except in clearly understood instances such as our foreign investment guidelines). There is no sovereign risk. This point needs to be made more strongly in promoting Australia abroad.

Australia also has a strong tradition of good corporate governance which has been enhanced by the Asian crisis.

However, one weakness in this argument is the uncertainty about the future of cross-vesting of State judicial authority to Federal Courts and particularly the impact on Corporations Law created by the *Wakim* decision. The Commonwealth Government's position on this issue needs to be more clearly stated.

Time zone advantages

We agree with the concept that Australia is well positioned to be a "time-zone centre". Australia's business day starts just as the United States' ends. Our business day ends just as the Europe's commences. However, the pattern is not consistent due to the variable adoption of daylight saving time, here and abroad.

The FTA agrees with the decision to promote Australia as a centre for global financial services rather than as a regional financial centre. Financial markets are increasingly global. The performance of Australian participants in these markets is benchmarked against global competitors. Their ability to grow their business and attract capital is directly related to their ability to compete.

Broadly, the time-zone argument rests on the belief that highly paid finance professionals will not work night shifts. Obviously, this is not entirely the case as many global banks run 24 hour trading desks out of one location such as London. Australia's goal of being a global financial centre, at least for core capital market activities, will be doomed if use of these desks after hours becomes more widespread.

World class infrastructure

The Global Centre's discussion of Australia's telecommunications capabilities is instructive. The advantages listed suggest an opportunity for Australia to overcome the greatest constraint of them all, the "tyranny of distance". With burgeoning demand for Internet services slowing down networks in North America and Europe, in the short term, our Asia-Pacific time-zone can be turned to our advantage.

An opportunity for Australia is that with fewer users in this region, companies using the Internet during the Australian business day should be less constrained by time wasted gaining access and transferring information.

However, Australia needs to take a lead in promoting a multilateral approach to the (probably inevitable) taxing of e-commerce activities. Australia cannot afford to introduce e-commerce taxes ahead of the rest of the world. A bigger issue in the absence of a global consensus on e-commerce taxation is that much of electronically-based global finance activity could be sourced from tax havens.

People skills to serve the region

Some of the key points in Australia's favour are the depth and diversity of language skills, a large pool of skilled managers and a high proportion of the workforce are tertiary-educated. However, it is not clear from much of this data how Australia compares with our regional competitors. (Anecdotally, we should have a language advantage over Hong Kong - and hence Shanghai - where teaching of English language skills to the local population is declining.)

Australia's traditional educational system receives some criticism, but at secondary level it is taking a lead in developing problem-solving skills which are critical in high value finance sector jobs. Moreover, at a tertiary level, business and finance courses have become much more vocational in the past decade.

Where there is an emerging gap is in the reduction of training provided by Australia's major employers as the training budgets are cut and fewer employees are required to do more work.

Increasingly, employees are required to look after their own training needs and one way is through professional associations and unions. The Government has recognised this to the limited extent that it has provided assistance in training for the implementation of GST. However, broader support of lifelong learning and professional development programmes, provided by groups such as the Finance and Treasury Association, is of paramount importance. The decision to levy GST on professional development activities was a mistake and should be overturned.

Training workshops from professional associations are developed by practitioners for practitioners and so are a practical and efficient way of building skills in rapidly growing evolving areas such as financial risk management.

Cost competitive

Points concerning low overall labour costs and the productivity of the workforce are well made. However, it would be worthwhile to directly link these to the Global Centre's final point, that is, that Australia has an **excellent quality of life** and moderate cost of living. The standard of living is the compensation for lower pay rates.

In terms of reducing business costs, the FTA broadly supports the thrust of "The New Taxation System". The FTA understands the political impediments to providing the kind of taxation relief that has been quite successful in other countries such as Ireland.

Recommendations and Conclusion

1. To ensure a practical and user-friendly response, the Senate Committee should commission the Centre for Global Finance to conduct surveys of expatriate professionals and representatives of their employers to determine their reasons for locating in Australia, and seek to build on those responses.
2. Funding should be made available for continuing practical professional education provided by professional and industry associations.
3. Australia should take a lead in developing a multilateral approach to the taxation of e-commerce.

Australia's opportunity is to sell the advantages listed above, address policy toward promoting them and reduce the constraints by ensuring they are seen to be unimportant overall.

Thank you for this opportunity to make comment.

Yours sincerely,



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Finance and Treasury Association

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