

## Chapter 13

# AUSTRALIA AS A REGIONAL FINANCIAL SERVICES CENTRE<sup>1</sup>

## 13.1 Introduction

The globalisation of economies, markets and ideas is no longer an emerging trend but is a fact of life. Communication and technological innovations, and the diminishing costs associated with them, have fostered globalisation and in future will only serve to reinforce it. The globalisation trend is particularly important for Australia as the well-being of the domestic economy is significantly influenced by developments in international economies. The future prospects of the manufacturing, service and commodity sectors, for example, are dependent on their abilities to tap into and exploit trade opportunities. In addition, Australia's financial markets are inextricably interwoven with international markets and the country's borrowing requirements (public and private) would be difficult to meet without access to international capital markets.

In this context, proposals to promote and develop Australia as a regional financial services centre should be pursued with vigour. Developing Sydney, or one of the other capital cities, as an international financial centre would have large positive flow-on effects to the economy as whole. An international financial centre with critical mass would, in turn, attract more institutions and regional corporate treasuries to the city, with significant trickle down effects on local employment and growth in revenues.

## 13.2 Australia's Comparative Advantages

Australia's advantages include: its English language base; a strong legal system; democratic institutions; excellent and low cost telecommunications; an extensive, well-qualified and experienced professional services sector (one particularly well-versed in servicing the needs of parties involved in a broad range of often complex financial transactions); low cost office rental; relatively low wage structure for technical and managerial personnel; good health, education and cultural facilities; a good climate; and a relatively multicultural/multilingual population.

Australia has well-developed and sophisticated exchange-traded securities, equities and derivatives markets, including a liquid and mature foreign exchange market. It has the custodial, clearing and settlement systems required to ensure the smooth and stable operation of the trading activities and the integrity of the markets.

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<sup>1</sup> Much has been written on this topic, including lengthy submissions to Parliamentary Inquiries. This chapter is intended only as a brief reminder that the issue is an important one and requires Federal and State regulatory changes.

Finally, Australia also has considerable exportable financial expertise, an activity that goes hand in hand with establishing a regional financial services centre in the country. For example, Australia has developed sophisticated infrastructure financing and funds management skills which it is now exporting to South East Asia. The more financial service providers are headquartered in the country, the greater the skill base to draw on, the more local dissemination and development of advanced skills and the more the country will have to export.

## 13.3 Required Regulatory Environment

### *13.3.1 Regulation of financial institutions*

Australia needs an environment in which the regulatory framework and prudential controls are consistent with international standards and practice. This particularly includes the payments system and the rules which assure its ongoing integrity and stability, and the means by which diversified financial service organisations are regulated. This latter point will become increasingly important if more international organisations were to establish a presence in this market.

Many of the views and recommendations in this submission will, if accepted and implemented, contribute to making Australia a more significant force in financial services in the Asian region. These include:

- a regulatory framework which balances efficiency and stability considerations and adapts quickly to changes in financial markets so that Australian financial institutions can be effective competitors at all times;
- a prudential supervisory framework which relies less on prescriptive requirements and more on the responsibilities of management and directors for the prudent operation of their financial institutions; and
- an application of competition policy in a way which takes account of evolving changes in financial markets.

Another key issue is that, with global integration, the rules which govern Australia's markets, such as the accounting practices and the disclosure requirements, all need to be reasonably consistent with those in other markets. Australian financial markets for debt, equities and derivatives are now closely integrated with those of Asia, London and New York. In a global market place, Australia cannot invent its own rules. It has to adapt its own to those of the international market or Australian markets will become a global backwater.

Australia also needs a low cost regulatory regime for its financial institutions to be internationally competitive. The removal of the NCD and PAR requirements, as recommended in Chapter 7, in association with the introduction of a user pays system for prudential supervision should go some way to ensure such international competitiveness.

### **13.3.2 Taxes on financial transactions**

It is not feasible to use the financial system as a mechanism for revenue raising via financial transaction taxes if Australia wants to competitively operate in a borderless electronic banking environment. The cost of undertaking the transaction in the taxed regime will instantly ensure that the transaction is implemented elsewhere in order to avoid the additional costs. Australian business opposition to financial transaction taxes for their distorting and inequitable effects is already well-known. However, a regional financial services centre is only feasible if the taxes are abolished in total. The exemptions granted by some State Governments from FID and BAD tax for Regional Headquarters and Offshore Banking Units is a step in the right direction but one which needs to be taken further<sup>2</sup>. Subjecting their Australian competitors to these highly inefficient taxes is not sustainable.

A recent Coopers & Lybrand survey revealed that “61% of Australian businesses considered that FID and Debits Tax were major or decisive factors limiting Australia’s ability to develop as a regional financial centre”. The report concluded that financial transactions taxes are a factor “limiting Australia’s ability to attract international investment capital and a factor impeding Australia’s development as a regional financial centre”<sup>3</sup>.

### **13.3.3 Some other outstanding regulatory issues**

While taxation policies are not included in the Inquiry’s Terms of Reference, it is nevertheless useful to list some of the taxation issues which need to be considered if Australia is to compete with Singapore or Hong Kong as a major regional financial services centre. They include:

- reform of existing withholding tax law including removal of withholding tax on interest payments by a regional corporate treasury operation to foreign affiliates;
- introduction of a low tax regime for offshore corporate treasury operations based in Australia;
- exemption from withholding tax on dividends paid out of regional corporate treasury income; and
- amendment of the Australian tax rules to make it easier for regional headquarters to claim foreign tax credits.

***Recommendation 13.1:* The Inquiry should strongly recommend to the Government that the removal of financial transaction taxes and the overhaul of other taxation measures are urgently required if Australia is not to lose the opportunity to establish itself as a regional financial services centre.**

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<sup>2</sup> Various State Governments have also provided exemptions to encourage the location and development of new businesses by domestic companies in their states.

<sup>3</sup> *Financial Institutions Duty and Debits Tax: Constraints on Australia’s Future in a Global Financial Market*, Coopers & Lybrand, page 25