



Media Release

Australia as a Financial Centre – How to Achieve Our Potential

15 January 2010

The Australian Financial Markets Association (AFMA) agrees with the Australian Financial Centre Forum's recommendations in its Report released today, "Australia as a Financial Centre", and strongly encourages the Government to accept the recommendations and to implement them in a timely manner.

A competitive, resilient and efficient financial system is central to a successful economy. Australia is well served in this regard but more needs to be done to achieve our full potential. In particular, Australia does not earn the level of export income that AFMA believes is commensurate with the capability of our financial institutions and markets.

The Report recognises many of the problems encountered by financial services providers and presents a set of measured actions to deliver the international business, quality employment and positive client service outcomes we should reasonably expect from a competitive financial system.

AFMA welcomes the practical focus of the Forum's recommendations. For instance, from our experience, the proposed Regulatory Online Gateway will help new market entrants to deal with regulatory issues in a systematic and efficient manner.

The proposals to remove the withholding tax impost on banks' foreign funding would improve their access to cost effective funding from several overseas sources. We consider this to be especially important given the emergence of upward pressure on the cost of financial intermediation from a variety of sources consequent to the global financial crisis (GFC). The deficiencies in the current withholding tax arrangements were apparent during the GFC, especially in respect of foreign banks in Australia which had greater reliance on parent funding. Together with removing the LIBOR cap on deductibility of interest paid on branch-parent funding, this is an area where the Government should act now, within the framework of its current budget planning.

The Report recommends improvements to the Investment Manager Regime that would build on the domestic strength of the industry through sensible measures that should help to attract business from overseas investors.

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AFMA firmly supports the proposed measures to streamline the Offshore Banking Unit (OBU) tax regime, as the uncertainties and inefficiencies in current law limit the value of an OBU to potential users.

The Forum supports the Government's action to increase competition between exchange and market operators. The Report is helpful in giving further impetus to work already underway to make the necessary regulatory changes to facilitate fair competition. AFMA is actively involved in this process.

The Report also makes a series of sound recommendations to improve emerging market segments, including the retail corporate bond market and Islamic finance. Initiatives in these areas have the potential to provide new financing options for business and to facilitate portfolio diversification by investors. They will also assist financial system development with flow-on stability benefits.

The Forum highlights both the benefits from an effective regulatory system and the importance of rigorous assessment of proposed new regulation to ensure it is efficient. AFMA believes this disciplined approach is especially important at a time of great global regulatory change and is working with regulators across a range of issues to help achieve these outcomes.

The recommendations include a proposal to establish a Financial Centre Taskforce. AFMA considers the Taskforce is a necessary step in providing continuity and consistency to the Government's initiatives in this area. It will assist with implementation of policy measures and ensure our competitive position remains strong. Establishment of the Taskforce would clearly signal the Government's commitment to promote the international competitiveness of our financial sector.

Notes for Editors:

Australian Financial Markets Association (AFMA):

The Australian Financial Markets Association is the peak industry association for Australia's wholesale banking and financial markets. These markets play a pivotal role in the Australian economy by making it possible for Australian financial institutions and companies to conduct business with each other and with their counterparts overseas.

AFMA represents industry participants in the wholesale banking and financial markets, including Australian and foreign banks, securities companies, state government treasury corporations, fund managers, traders in electricity and other specialised markets and industry service providers.

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