

ASIA REGION FUNDS PASSPORT INDUSTRY SUMMIT

FSC CEO SALLY LOANE SPEECH

Welcome ASIC Chairman James Shipton and your colleagues from ASIC.

Welcome also to our FSC members, to the Australian Treasury representatives. And the warmest welcome to our overseas guests. Thank you for making the journey to Sydney to help put the final pieces of the jigsaw together for this vital initiative.

I want to make a few remarks about the opportunities the Passport will present for fund managers and service providers in each of the signatory nations. I will also outline some of the benefits the extra choice offered by the Passport will bring to consumers.

But first let me start with a little bit of background.

In September 2008, the Australian Government commissioned a report by Financial Sector experts, led by Mr Mark Johnson AO, to identify the key priority areas to position Australia as a leading financial services centre in the region. One of the recommendations in the Report, *Australia as Financial Centre: building on our strengths*, was for an Asia Region Funds Passport.

It's been a long time coming – it's extremely complex – that's why you're here today – the best regulatory brains in Asia – so we can fit the remaining pieces in place and work through any remaining barriers to ensure a successful regime.

As the Minister for Revenue and Financial Services Kelly O'Dwyer said last night, the Passport will present enormous opportunities, not just for Australia, but for the whole region.

The FSC has been a long-time supporter of the Passport. We are thrilled that the Asia Region Funds Passport is set to commence this year and will 'go live' when two economies have signalled they have completed implementation. Australia currently has legislation in Parliament and once this passes we will be able to get on with full implementation – this will be wholeheartedly welcomed by the FSC, our members in particular and the broader financial services industry.

As mentioned by James earlier, the Passport will provide an agreed framework to facilitate the cross border marketing of managed funds across participating economies in the Asia region. This program will rival UCITS – in fact some of us call it "the UCITS for Asia" - and it will ensure the economic benefits of funds management are kept in the Asian region.

Australian industry buzz has increased now we know this program is real, and it's coming.

This has manifest itself by strong interest in the Passport Pilot program. The Pilot program aims to provide fund managers and service providers with a run through of regulatory and other systems before the Passport goes live.

The pilot will test the regulatory, tax and operational aspects of the Passport framework in home economies and host economies.

We are very excited for the Pilot and I can say we have had considerable interest in Australia and I am pleased to announce today which firms have confirmed their participation.

FSC members including fund managers Yarra Capital Management and Perpetual Corporate Trust, Nikko Asset Management Australia; Equity Trustees; service providers including Morningstar, APIR, SWIFT and Calastone; and law firms including Norton Rose Fulbright, Allens, DLA Piper and King & Wood Mallesons have all committed to this initial stage.

I understand we also have commitments to the pilot from some Japanese and New Zealand firms, which is excellent. We really want to make this a success.

Benefits of Passport

The benefits of the Asia Region Funds Passport to the region are many.

- It will provide investors with more diverse range of investments
- deepen the region's capital markets,
- facilitate recycling of savings into investment in the region,
- improve competition and efficiency in Asian funds management,
- and strengthen capacity, expertise and competitiveness of the region's financial markets.

The Asia region is expected to be a significant driver for growth of the global funds management industry in the future. This is due to economic and demographic changes that are occurring in the region.

- Asia's middle class is growing quickly – this will drive demand for funds management as investors look for opportunities to invest and grow wealth
- Asia's population is ageing quickly – hence a need for pension and retirement savings products
- Many countries in the region do not yet have compulsory superannuation contribution systems for workers – again driving a need for individual savings plans

The Asia region is currently punching below its weight in terms of share of global funds management activity, there is significant potential for Asia to increase its share.

Funds under management (FUM) in the region is currently US\$6.5 trillion – this is only 13% of worldwide FUM, despite Asia's population sitting at 4.2 billion or 60% of the world's population.

There is much blue sky.

With many of Australia's superannuation funds looking to allocate a greater proportion of their investment offshore, knowledge of offshore markets is required to develop appropriately diversified investment options.

Further, the growing population of Australian retirees will be seeking investments to support their longer life expectancy and need for a predictable income through their retirement years. Despite our demographic trends, the Australian market does not yet offer a diverse array of 'post-retirement' products. The Passport will offer investors a greater array of products that will help meet their needs.

The Passport will bring other opportunities too. A wealth of back office, IT, legal and other advisory roles will be required to support product manufacturers and investors across the region. Innovative

players will already have undertaken research on target markets and will be identifying potential partners to assist with these roles.

Clearly there are opportunities for markets to learn from each other and develop innovative new products as a result of the interactions the Passport will encourage.

Distribution

Partnering with local distributors will be key to understanding customer risk and return preferences, along with the most appropriate distribution method for accessing investors.

Access to Australian investors is largely through the financial adviser network and supported by investment platforms. Finding a partner with a detailed understanding of how distribution operates in Australia under a fee-for-service model will be essential to succeed.

Convergence

The Passport won't be the first regime in the region but it will be the largest. The ASEAN collective investment scheme includes Singapore, Malaysia and the Philippines. The Hong Kong-China and Hong Kong-Australia mutual recognition agreements are also in place, however these structures differ from a true passport regime – they are bilateral arrangements rather than regional architecture.

There is potential for the ASEAN and Passport regimes to converge in the future to create a common market across all of Asia, as well as the addition of other countries in the region. This would provide a beneficial outcome for the region.

Economic modelling and research for the FSC by KPMG shows that the adoption of a single Passport regime in Asia leveraging the Passport framework would increase real GDP in Asia by an estimated US\$33 billion annually by 2030.

There is much to be gained by the region and each economy from participating in and growing the Passport.

Tax

Tax will be an essential component in getting the Passport right.

I understand the tax working group has been busy. The aim of the group is to harmonise to the extent practicable, tax laws affecting the Passport. Its guiding principle is to achieve tax neutrality between home and host country passport funds. This is welcomed and conclusion of its work may attract more countries to the Passport regime.

For Australia, tax remains the unfinished part of the Passport reforms. While other jurisdictions in Asia have taken bold steps to simplify or eliminate the withholding taxes on collective investments, Australia's withholding tax remains complex and difficult to explain.

Work by the FSC indicates the Australian government actually doesn't receive much revenue at all from non-resident withholding taxes on non-property income paid by collective investment vehicles. This is because Australia offers numerous exemptions and reduced rates on withholding taxes.

So the FSC has argued that we should cut through this complexity and completely eliminate the withholding tax for non-property income on Australian-domiciled Passport funds. This would replace the maze of exemptions with a simple to understand regime that will facilitate adoption of the Passport and help Australia's fund managers operate on a level playing field with other Passport countries.

The impending arrival of the Passport makes this one remaining reform more urgent for the Australian government to address.

Closing

We hope today will be a productive day for industry to discuss and solve some of the barriers in implementation and move forward with some practical solutions.

I look forward to hearing the discussions today about how the regulators will implement the Passport and what opportunities exist for participating fund managers and service providers.

But first I will hand over to Kathryn Davy from Treasury to tell us more about how the Passport will interact with the tax regime.