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ASIA SECURITIES FORUM, AUSTRALIAN FINANCIAL MARKETS ASSOCIATION

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Good evening and thank you Steve.

I'm delighted to be with you tonight as part of the Asia Securities Forum.

Tonight, I would like to talk about our ambition for Australia to become a financial hub in the Asia-Pacific region, an ambition we are working to make a reality. And, given the diversity of guests here tonight from so many countries around the region, I also want to touch on the importance to Australia of regional engagement and co-operation on financial sector issues.

Engagement

The Rudd Government continues a proud tradition of engagement with Asia that has been pursued by successive Australian governments at least since the 1970s. I know that the Prime Minister is particularly committed to this cause.

The financial services sector is at the forefront of the broader policy of economic engagement.

Engagement presents opportunities for improved regional co-operation, simultaneously improving access to regional domestic markets for Australian financial services businesses.

Financial Services Hub

The financial services sector is an area of particular strength in the Australian economy.

Last Wednesday, I was pleased to launch Austrade's Financial Services Benchmark Report and AFMA's Australian Financial Markets Report.

The reports confirm that the Australian financial sector's international standing continues to improve and that we are on course to consolidate our position as a centre for financial services in the region.

The following night, the World Economic Forum released its annual financial development report and gave a significant endorsement of the maturity of Australia's financial markets.

The report ranked Australia second in the world – ahead of the United States, Hong Kong and Singapore, and behind only the United Kingdom – for the strength of our financial systems and capital markets.

In a tumultuous year for financial markets, Australia was the only country in the top 10 to actually *improve* our overall financial development score.

It was such a remarkable result that even the official Chinese news agency, Xinhua, picked up the story. And it reported not on the UK's top position or Hong Kong's fifth position but, rather, on Australia's strong performance.

To have ranked ahead of Hong Kong in the financial development list, and to have had the official Chinese news agency note that it is a boost for Australia's push to become a financial services hub, is recognition that we have a lot going for us.

Australia's equity market is the eighth largest in the world. And, on that equity market, our financial services sector has a larger market capitalisation than that of France and is of equivalent size to that of Hong Kong.

Meanwhile, on the debt side, Australia ranks first in the Asia-Pacific for international debt securities currently on issue.

What that means is that, within the Asia-Pacific region, we have become a preferred location for bond issuance by high credit quality, non-resident issuers – generally referred to as "kangaroo bonds" when they are denominated in Australian dollars.

In addition to those issued in Australia by non-residents, "international debt securities" encompasses bonds issued here in currencies other than Australian dollars, all of which demonstrates the growing international flavour of our financial services sector.

Perhaps most importantly, though, Australia's real economy has been one of the world's best performers throughout the financial crisis and, as the dust settles, Australia is clearly emerging as one of the most resilient of the developed economies.

Our economy has so far managed to avoid technical recession. While all about us plunged into at least two consecutive quarters of negative growth,

the government's temporary and targeted economic stimulus measures have worked to keep our economy ticking over and to keep unemployment relatively low while confidence returns both businesses and consumers.

Admirable workplace flexibility, shown by both employers and employees during a time of economic uncertainty, has also been partly responsible for unemployment remaining below forecast levels.

And we have, of course, also benefitted from our trade links with China, the world's fastest growing economy, which has ensured continuing demand for our exports.

So our economic strength is a clear advantage, as a strong economy provides confidence to underpin dynamic financial markets.

The strength and liquidity of Australia's financial sector was reinforced by our move – exactly one year ago today – to provide enhanced depositor protection arrangements and a temporary guarantee of banks' debt funding, a measure which helped ensure the Australian financial sector's stability and liquidity at the height of the market turbulence.

Another reason for Australia's resilience throughout this financial crisis is our world's best prudential regulation.

I've always had the view that our prudential regulation was a great asset. This has been proven, I think, even more so over the last two years.

Another great national asset that has helped us through this crisis is our set of strong and solid financial institutions – solid because of good management and also solid because of that prudential regulation and because of the four pillars policy.

Of the largest 100 banking groups in the world, only 9 are rated AA or above, 4 of which are Australian. One quarter of the banks rated AA or above in September last year have since lost that status – but the major Australian banks have retained theirs and so now make up nearly half the world's banks with a rating of AA or higher.

On average, 8.5 per cent of the capital held by our major banks is Tier 1, high-quality, capital, well above the minimum requirement of 4 per cent.

In so many other nations the financial services sector has been a drag on economies throughout this crisis but it's certainly not something we would

say of ours. We see our financial services sector as a great asset, not a drain.

So, in terms of making Australia into a financial services hub, we see this financial crisis as an opportunity. As I said earlier, for years to come, the world's investors will be looking to see who got through this crisis the best: which system of prudential regulation worked? Which financial institutions got through this crisis the best? Which nation survived the global financial crisis?

And, in Australia, we are in a very strong position place to argue that it's us – that our real economy, our financial sector have withstood the shocks of the last two years better than any other.

Another advantage we have is our skills. Australia has built up a great skills base from the experience of managing the enormous pool of funds accumulated primarily through superannuation.

Australia now has the fourth largest pool of funds under management in the world – that's not per capita, but overall. It is the largest pool of funds under management anywhere in the Asia-Pacific region. And, since 1994, the sector has experienced a compound annual growth rate of 10 per cent.

This is perhaps Paul Keating's greatest political legacy, the skills that we have built up over the last 20 years as we manage our national savings.

Yet, for a nation that has built up such experience and expertise in managing capital, it is extraordinary that around only 3 per cent of all those funds under management come from overseas.

This is one area where we have so much scope for improvement. We need to be leveraging off our experience and spruiking our financial management skills to the world. Australia should have funds flowing in from all over the world for investment both locally and throughout the region.

We have, after all, several other natural advantages conducive to becoming a centre for financial transactions.

We have English as a native tongue – and our foreign language skills are good, though we would like them to be very much better. Improving such skills underlies so much of the Government's focus on education – at all levels.

Our language skills currently arise from our migration program primarily. We'd like them to arise from our education system just as much.

Our time zone is also beneficial, strategically located, as we are, between the close of markets in the United States and Europe and the opening of markets in Asia.

In terms of attracting talent we, of course, shouldn't forget our great quality of life. Sydney and Melbourne, for starters, are unquestionably two of the world's greatest places to live and work, their liveability and cosmopolitanism complemented by their natural beauty.

We have, as I say, enormous advantages – but there is still an enormous amount of work for us as a nation to do. While the WEF and others may rate us highly, we haven't done enough to capitalise on our advantages in the past and, as I have said, we need to make sure that we do so as the world economy recovers and investors start looking for the markets that best withstood the stress test of the global financial crisis.

So, while clearly Australia is an attractive destination for financial services businesses, I am not going to tell you that nothing more needs to be done. On the contrary, the Rudd Government came to power on commitments that included action to improve Australia's international competitiveness and we are continuing to work towards seeing the realisation of that goal.

In releasing the Austrade report I noted some of the Rudd Government's achievements to date towards the goal of establishing Australia as a financial services hub in our region. These include:

- cutting the withholding tax on certain foreign distributions from managed investment trusts from 30 per cent to a final rate of 7.5 per cent, from the highest rate in the world to close to the lowest;
- changing the attribution rules and the deemed capital account treatment of the sale of shares, units and property from Managed Investment Trusts;
- repealing and replacing the Foreign Investment Fund provisions with a narrowly-defined anti-avoidance rule and modernising and re-writing the Controlled Foreign Company rules; and
- transferring supervision of financial markets from the ASX to ASIC, the corporate regulator, a long overdue reform that will allow us to

consider opening our financial markets to genuine and meaningful competition.

Importantly, last year I announced the establishment the Australian Financial Centre Forum to progress the Government's initiative to position Australia as a leading financial services centre in the Asia-Pacific region.

One area I know is being considered by the Forum, and one that I've spoken about in the past, is Islamic finance. This is of particular relevance for Asian financial centres. Malaysia for example, is positioning itself as an Islamic financial services centre, and Singapore has ambitions in this regard.

Whilst it may be unrealistic to expect that Australia, at least in the near term, could compete with centres such as Malaysia for the status of regional Islamic financial centre, we can nevertheless seek to take advantage of this emergent area in order to diversify our sources of capital and broaden the range of products available to our financial services consumers.

I look forward to receiving the final report from Mark Johnson and the Australian Financial Centre Forum in the near future.

In addition, the Government expects that further work being done by the Henry Review and the Board of Taxation will also help it to get the policy settings right to achieve our goals in this area.

Regional Engagement

Turning to the second of the matters I identified at the outset, the Government is looking at ways not only to promote itself as a financial centre within the region, but also to develop stronger relationships with other jurisdictions that also have very well developed financial markets.

Obviously there is some competition between various countries of the region for financial services centre status. It is that side of things to which we direct our efforts at improving our competitiveness. But there is also much to gain by working towards co-operation between the countries of the region on financial services issues.

It is in all our interests to promote a stronger Asian financial presence throughout the world.

Greater co-operation with other Asian financial centres has the potential to realise significant mutual benefits.

Australia will benefit directly from this co-operation.

Firstly, an increase in the number of foreign financial services providers operating in Australia will result in greater competition and choice for consumers and investors, driving down prices and driving up service quality.

Secondly, Australian financial service providers wishing to expand their businesses within the region will benefit from greater access and decreased regulatory costs.

And, thirdly, stronger relationships between the relevant regulatory bodies in the region will lead to more effective enforcement outcomes.

Such work is already being progressed by the Australian Securities and Investments Commission as part of its objective of promoting greater cross-border capital flows through the development of mutual recognition arrangements.

For example, in 2008, ASIC and the Hong Kong Securities and Futures Commission entered into a mutual recognition arrangement in relation to the offerings of managed investment products in each jurisdiction. This allows domestic issuers to offer their products in the foreign jurisdiction without having to also comply with all the regulatory requirements in that jurisdiction.

ASIC is currently in discussions with the Monetary Authority of Singapore with a view to establishing a similar arrangement with Singapore. ASIC aims to enter into these arrangements with jurisdictions whose regulatory regimes are sufficiently equivalent to those in Australia.

The Government will continue to promote greater cooperation within the region as a means of promoting the Australian financial services sector and achieving better outcomes for the Australian economy and the Australian financial services sector.

Conclusion

Last week's World Economic Forum's report, which ranked Australia second in the world for the strength of our financial systems and capital markets was a welcome encouragement of what the Government is trying to achieve.

We are committed to doing whatever we can to promote Australia as a financial services hub in Asia.

We have many advantages and we are working hard to build on those strengths. But we also have a lot of work to do, a lot of reforms to undertake, many of which you will see unfolding over the coming months.

So, while we are conscious of the challenges and work that remains to be done before we can say with confidence that we deserve our position as Asia's regional financial services hub, the Government is striving to ensure we capitalise on our skills and existing strengths.

Thank you.