



## GATEWAY INSIGHTS

March 2010

### # 16 The Johnson Report - Australia as a financial centre?

***“The Australian financial sector has emerged from the global financial crisis strong, well regulated and highly regarded around the world. For the most part it is competitive, efficient and innovative in meeting the needs of Australian households and businesses. Somewhat surprisingly, given this solid domestic base and the enormous opportunities in offshore markets, its engagement in cross-border activities within the Asia-Pacific region and beyond is much less developed. This is reflected in low levels of imports and exports of financial services.”<sup>1</sup>***

#### Introduction

In November last year the Government released the Johnson Report which focuses on where Australia currently sits as a financial centre, particularly in the Asia-Pacific region and how to build this presence. The quote above summarises succinctly the reason the Johnson Report was commissioned. Indeed, the report itself focuses on how to improve import and export levels of financial services through a number of recommended Australian government policy changes.

Our insight piece this month explores the Johnson Report and looks at these possible policy changes the government is proposing to put forward. We cannot underestimate how

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<sup>1</sup> Australia as a Financial Centre – Report by the Australian Financial Centre Forum, Australian Government, November 2009, Letter to Minister Chris Bowen.

important we think this report is to the future of financial services in Australia and in the Asia-Pacific region. All financial services participants should be familiar with its contents.

### **The Johnson Report – key takeouts**

The following key points are made in the report.

1. There is a demonstrable link between financial sector development and economic growth. Therefore having a growing and competitive financial sector is of benefit to all Australians.
2. Countries with highly sophisticated financial sectors should be, and are, reaping the rewards of sophisticated and developed financial sectors through areas such as exporting. Australia should be amongst these countries.
3. The Australian funds management sector, one of the largest and most sophisticated in the world, manages only a small volume of funds sourced from offshore.
4. The Australian financial sector is perceived to be “inward focused” – this is mainly due to current policy which has in the past hindered cross-border activities coming through Australia. Large volumes of cross-border activities are naturally key features of major financial services centres such as New York, London or Hong Kong.
5. The main part of the report sets out a number of policy changes which have been designed and debated by the Financial Centre Forum, headed by Mark Johnson, and put forward so that they, if implemented, will attempt to increase the number of imports and exports of financial services in Australia.

### **Key recommendations from the Johnson Report**

The report outlines a number of key recommendations that have been made to Minister Chris Bowen and the Government. These are summarised below.

1. Investment Manager Regime – will make it easier for both local and international companies to use Australia as a regional base from which to manage offshore assets and this also includes the concept of “passporting” which has received some press recently in Australia.
2. Withholding tax and Islamic finance – changes to current policy will improve Australia’s access to offshore pools of savings and in turn provide more diversified and cheaper funding for Australia’s investment needs.
3. Offshore Banking Unit Recommendations – will increase the volume of offshore financial transactions that come through Australia.
4. “Online Gateway” – includes greater regulation of the insurance sector and increased competition on exchange traded markets and on corporate debt issuance. Following on from this recommendation is the proposed “Asian passport” which will increase the range of financial products available to business and consumers in Australia from Asian based product providers.

5. Regulatory Review Recommendations – these will ensure that Australia stays at the forefront of having a well regulated and first class framework, which will increase confidence of offshore investors that may be considering doing business in Australia.

### Policy initiatives put forward

The table below summarises the Policy Initiatives and its benefits that have been put forward in the Johnson Report.

Policy Initiatives	Benefits
<ol style="list-style-type: none"> <li>1. Increasing the size of the market               <ol style="list-style-type: none"> <li>a. Investment Manager Regime</li> <li>b. Offshore banking units</li> <li>c. Funds management vehicles</li> <li>d. Regional funds passport: managing offshore funds</li> </ol> </li> </ol>	Increased business in Australia and more opportunities offshore.
<ol style="list-style-type: none"> <li>2. Improving access to capital               <ol style="list-style-type: none"> <li>a. Remove withholding tax on offshore borrowing and remove LIBOR cap</li> <li>b. Remove impediments to Islamic finance</li> </ol> </li> </ol>	More diversified funding sources and lower borrowing costs for consumers and business.
<ol style="list-style-type: none"> <li>3. Enhancing competition and efficiency               <ol style="list-style-type: none"> <li>a. Remove state insurance taxes and rationalise regulations</li> <li>b. Increase competition in exchange traded markets</li> <li>c. Simplify retail debt issuance</li> <li>d. Regulatory online gateway</li> <li>e. Regional funds passport: domestic competition</li> </ol> </li> </ol>	Lower costs and wider choice for business and consumers.
<ol style="list-style-type: none"> <li>4. Maintaining best practice regulation               <ol style="list-style-type: none"> <li>a. Avoid unnecessary regulation</li> <li>b. Regulatory reviews</li> </ol> </li> </ol>	Maintain an efficient and effective regulatory system that protects consumers.
<ol style="list-style-type: none"> <li>5. Deepening regional engagement               <ol style="list-style-type: none"> <li>a. Government declaration of intent</li> <li>b. Financial missions</li> <li>c. Strengthening government – business partnership - Financial Centre Task Force</li> </ol> </li> </ol>	Promotion of Australia as a financial centre.  Support for effective and ongoing policy reform.

## **In summary**

Whilst there are a number of Government reviews underway at the moment, including the high profile Henry Tax Review, Gateway's opinion is that it is critical now for all financial sector participants to read and get behind the Johnson Report recommendations. Our financial system is the core of Australia's economic growth and future. A domestic focused financial sector can only be sustained for so long. A global financial sector, particularly focused on the Asia Pacific region is going to be much more beneficial for consumers, businesses and the Australian Government. The provision of greater competition and efficiency cannot be underestimated.

So how do we make this happen? A lot of the Australian industry bodies that you will be familiar with are working with the Government to demonstrate why the changes are so important. We urge you all to get behind them and write to the Minister, especially those of you from large organisations, to make sure the message gets through and that the recommendations and suggested policy changes aren't lost and become part of just "another review". At Gateway we continue to promote the Johnson Report and its importance for the Australian financial sector.

For a full soft copy of the report please contact Gateway Financial Marketing at [www.gatewayfinancial.com.au](http://www.gatewayfinancial.com.au).

### About Gateway

Gateway Financial Marketing (Gateway) was established in February 2004 by Amanda Rethus and Edwina Best for the purpose of offering fund managers, other product providers and international new entrants, expert advice, services and assistance in negotiating entry into the Australian Retail Financial Services market. Use of Gateway's services provides the opportunity for clients to overcome the hurdles that can often confront fund managers when transitioning from institutional to retail and hence improve participation in retail funds flow. Prior to Gateway, Amanda and Edwina spent over 30 years combined with major institutions in the Retail Financial Services market.

### Our qualifications

Amanda has over 20 years experience in the Financial Services industry and was formerly a Divisional Director in the Financial Services Group of Macquarie. Amanda managed investment portfolios for over 10 years, and has spent in excess of 10 years introducing investment products to the Australian Retail market.

Edwina has a Bachelor of Business from UTS majoring in Marketing and International Business. She has over 12 years experience in the financial services market, concentrating in relationship management, product management and marketing. They both have extensive contacts in the retail financial services market especially with key decision makers.

If you would like to confidentially discuss your current approach to the retail market or have any questions on the above please do not hesitate to contact us on – Edwina 0404 046 179 or Amanda or 0414 658 323.