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*** Speech ***

**Speech to IFSA Conference 'Innovate 08'
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Thank you for the invitation to be back at IFSA.

I want to talk to you today about our drive to make Australia a financial services hub of Asia.

I'm not going to run through the facts and figures about how this industry does well domestically, but doesn't do so well internationally. You know the figures, and I have spoken to you about them before.

What I do want to talk to you today about is the relentless drive that's necessary to drive our financial services exports further.

To create a financial services hub of Asia.

To create interesting and well paying jobs for the next generation of young people.

This is a key reform of our new Government. A key area of our economic agenda.

Everyone in the room has a key performance indicator, or KPIs. I have KPI's – 'Kevin's Performance Indicators'.

I can assure you that one of my KPI's is what I'm doing to promote Australia as a Financial services hub. He asks me about it regularly.

It will take a relentless drive from us and from you to achieve it. It will take more than one policy.

As proud as I am of the fact that we will go from having the highest withholding tax rate in the world to, effectively, the lowest in the space at 3 years, I am the first to say it is simply a first step.

It's not the end of reform, it's the beginning.

Last year, at this conference I announced the next steps, to build on our withholding tax cut.

I announced that a Labor Government's first reference to the Board of Taxation would be the development of a specifically designed Managed Investment Tax Regime.

Since the last IFSA conference, there has been an election and I've managed to drop the Shadow from my title. This means talking to you about what we are doing not what we would like to do.

Since I announced that our first reference to the Board of Tax would be the development of a Managed Investment Tax Regime.

I can now remind you that our first reference to the Board of Tax was the development of a Managed Investment Tax Regime.

I've had a number of discussions with the Chairman and deputy Chair of the Board of Tax about it.

I can tell you they are finding it a very interesting task and they are approaching it with some relish.

They will soon be in a position to call for submissions on a discussion paper. I know you will need no encouragement to be involved.

I also announced at this conference last year that we would move to deal with the more obvious and annoying anomalies in Division 6C of the Act.

At an IFSA lunch earlier this year, I issued a discussion paper on the scope of those changes.

IFSA and other organisations and individuals have been involved in discussions with myself and Treasury about those changes.

The legislation I will introduce later in the year will go further than the changes we flagged in the consultation paper.

They include:

- providing a further 2 per cent safe harbour allowance at the whole of trust level for non-trading income;
- clarifying the scope and meaning of investment in land for the purpose of deriving rent;
- introducing a 25% safe harbour allowance for non-rental, non-trading income from investments in land; and
- expanding the range of financial instruments that a managed fund may invest in or trade in.

Some people would like me to go even further, but I did say that this was this is an interim step and further reforms are properly considered by the Board of Tax managed investment review.

But once again, as important as these reforms will be, they are just the beginning.

As we reform, others reform.

As we improve our competitiveness, our competitors attempt to stay in front of us.

That was the thinking behind the Financial Services Summit convened by the NSW and Commonwealth Governments last week.

The idea behind the summit was very simple, to get all the ideas on the table.

To make sure that we are aware as a Government of everything that we can be doing to knock down the barriers to our competitiveness. To ensure that this sector is living up to its potential.

A range of issues were identified at the summit – covering the fields of tax, skills, regulation.

It was genuinely a worthwhile process which I got a lot out of.

We will pursue the issues identified at the Summit. Some are being referred to the Henry Review of Taxation, others can be considered more quickly - but all are being pursued.

At the summit, the Prime Minister announced that a dedicated unit in Treasury would be established to drive the implementations of those recommendations from the Summit that the Government accepts, under the oversight of the FSAC, the Financial Services Advisory Council.

One view, expressed strongly at the summit, quite strongly, was that, as good as this, as good as a dedicated unit is, as good as FSAC is, it would be good to go one better.

The view expressed at the Summit was that we need a permanent team – an Olympic style bid, to form the liaison between Government and the industry to drive the push for more foreign funds to come into Australia to be managed.

I must say this is an idea that I think has quite a bit of merit.

I'll be working with Treasury and FSAC as well as with IFSA and other industry bodies to develop structure and personnel which will go around this permanent Olympic style bid team.

Having a high profile individual to work with Government and industry to drive the reforms necessary internally, and to drive the marketing necessary externally.

I've said before that as a Government, we see our role as being to knocking down the barriers to your competitiveness. Knocking down the things that are stopping

you competing on a level playing field with your competitors overseas, whether they be in Singapore, Hong Kong, Dublin, New York or London.

Then letting you get on with your job, doing what you do best, going out and winning business.

That does not mean, however, that we don't need to work together to identify those competitive barriers and how we can best knock them down, and how we can work better together to promote our natural advantages as a financial services hub.

Of course, in some respects, the moves that we embrace to improve our competitiveness overall, will benefit our financial sector particularly.

A key focus of the Henry Inquiry will be ensuring that we have a tax system which is an internationally competitive as it can be.

The paper yesterday by Ken Henry and the Treasurer outlines a number of areas for potential improvement in our taxation competitiveness. They apply across the economy, they apply in this sector no less than any other.

Of course we have the ongoing Board of Taxation Inquiry into arbitration regimes.

I am expecting the report soon. I think it has the potential to be a landmark report.

Again, I have discussed it at length with the Chairman of the Board of Tax. I don't get the impression that they are taking this task lightly. I don't get the impression that they are thinking about tinkering around the edges.

I think the attributions report has the potential to have substantial benefits going forward.

In addition, we announced in the Budget as part of our commitment to ensure that we clear about where we are going in relation to taxation legislation that we would be proceeding with TOFA which will streamline tax accounting and administration for financial institutions.

Consultation on the interaction of TOFA and consolidation wound up recently. Another round of consultation will occur before I introduce the legislation in the Spring sittings.

I will be calling for submissions on the latest draft of the legislation, I would encourage those of you with an interest to become involved.

I do want to provide you with one warning, this is the last round of consultation. TOFA has been in the pipeline for 15 years, it will be introduced into parliament this year. There comes a time to draw a line and get on with the job. Soon the time for consultation will be over, and the legislation will be introduced.

In recent months I have consulted with the sector about the start date for TOFA, and I have accepted some of the arguments for flexibility in its administration and implementation.

Accordingly, I am announcing today that I have agreed to a soft start date of 1 July 2009 and a hard start date of 1 July 2010.

I believe this will provide the necessary flexibility while giving a clear indication of the Government's determination to process in a timely fashion.

In all the issues, IFSA has played a valuable role and is a key sounding board for myself and the Government. IFSA have played a key role in the development of the Government's financial services policy. IFSA was involved in the Prime Minister's tour of China, and will be involved in the Prime Minister's future tours of Asia.

I would like to this opportunity to thank Richard and the entire IFSA team for their assistance and leadership over the last six months.

Thanks again for having me again at IFSA, it is always a pleasure to be at an IFSA function, it's always a pleasure to be involved in an industry that adds so much value to the Australian economy, but importantly, has so much potential to do more in the future.

Thank you.