31 January 2025

Assistant Treasurer and Minister for Financial Services
The Hon Stephen Jones MP
The Treasury
Langton Crescent
Parkes ACT 2600

Via email: prebudgetsubmissions@treasury.gov.au

AFMA 2025/26 Pre-Budget Submission

1. About AFMA and its members

The Australian Financial Markets Association (AFMA) is the peak industry body for Australia's financial markets industry – including the capital, credit, derivatives, foreign exchange, and other specialist markets. AFMA represents more than 130 industry participants from Australian and international banks, leading brokers, securities companies, government treasury corporations to asset managers, energy firms, carbon market participants, and industry service providers.

AFMA promotes efficiency, integrity, and professionalism in Australia's financial markets enabling the markets to continue to support the Australian economy, a high skilled job market and the energy transition.

2. AFMA's policy approach

AFMA members are principally participants in wholesale capital markets and do not, by and large, provide services or products to retail customers. Therefore, AFMA, as an organisation, applies a wholesale lens to the appropriateness of policy and regulatory settings which are, at times, designed with retail issues in mind. We continue to highlight areas where a retail-centric approach is not fit for purpose in a wholesale context, or issues in which the resulting impact on wholesale markets has not been duly considered.

AFMA understands that the 2025/26 Federal Budget will be handed down immediately prior to the proroguing of Parliament for the 2025 Federal Election. Accordingly, our approach to the submission is not to seek specific recommendations to be implemented imminently, but rather themes and broad perspectives that would facilitate greater utilisation of wholesale markets in supporting the economy and enhance the attractiveness of Australia as a destination for capital in the 48th Parliament.

Key Points

- **Foreign banks are a crucial element of the Australian economy that need to be more appropriately considered in policy formation.**
- **Australia's financial centre competitiveness has been in continuous decline since the Royal Commission and pandemic.**
- **Australia should prioritise initiatives to boost Australia's attractiveness as a place to do business.**

3. Role of financial markets and foreign banks in Australia

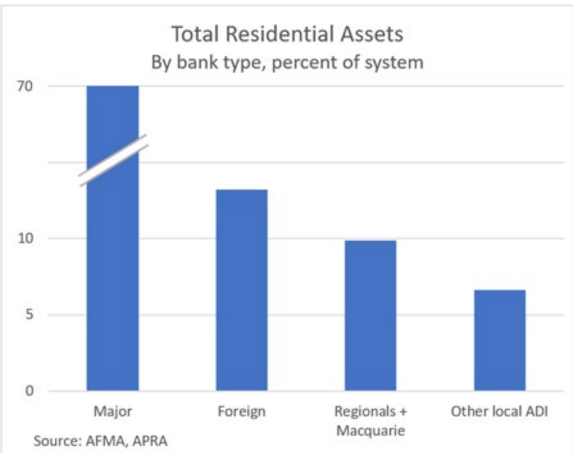
At their core, financial markets contribute to increased productivity and economic growth on a sustained basis through two primary means:

- providing high quality, innovative and cost-effective financial intermediation and risk management and investment services to Australian businesses; and
- enhancing the attractiveness of Australia as an international financial centre, by providing services to overseas clients, investment opportunities in Australia, and generating employment, income, and tax revenue in Australia.

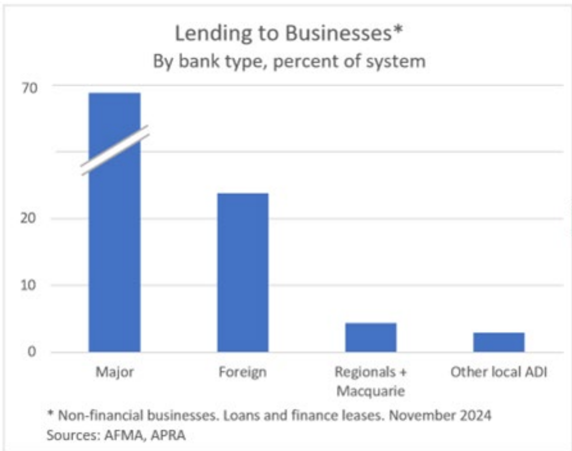
Australia's financial markets are considered efficient, professional and operate with integrity[1]. Both domestic and foreign banks contribute to the effective operation of Australia's financial markets. However, much of the national debate in Australia regarding banking concentrates on the role of the Australian major banks versus non-major and foreign banks. Viewing banking in Australia as a dichotomy of these two groups misses the important and significant role that foreign banks play in supporting the Australian economy and Australian businesses.

In Australia, foreign banks largely offer wholesale and institutional services[2] and are a significant part of the engine of the Australian economy. Foreign banks play a unique role in the Australian economy in that they help bring investors into Australia and assist Australian companies and investors access foreign markets and important financial products.

Currently, there are over 50 foreign banks operating in Australia[3] providing a wide range of supportive products and services. Despite their largely wholesale focus, foreign banks hold over 13% of the Australian banking system's residential assets – more than regional banks[4], who collectively hold less than 10%, with all other non-major banks holding 6.5% of total assets (Graph 1). Additionally, foreign banks are particularly important in supporting Australian businesses' financing needs, providing 24% of lending to non-financial businesses and 37% to financial institutions (Graph 2). By contrast, all other



Graph 1



Graph 2

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[1] For example, ASIC's report into equity markets concluded that "*Australia's equity markets continue to operate with a high level of integrity and remain consistently among the cleanest in the world*." ASIC (2024) [Australians can be confident in the integrity of our equity markets: ASIC report](), Media Release, 24-182 MR, 24 July

[2] A small number of foreign banks, who operate foreign subsidiaries in Australia, also able to offer retail products.

[3] According to APRA's Register of Authorised Deposit-taking Institutions.

[4] AMP Bank, Bank of Queensland, and Bendigo & Adelaide Bank.

non-major banks, including regional banks, provide approximately 7.0% of lending to non-financial businesses.

In addition to lending, foreign banks are particularly important in supporting financial markets and assisting business manage risks and operate across borders. For example, foreign banks are instrumental in facilitating Australian businesses' risk transfer and mitigation, such as through swaps and derivatives in cross-currency, interest rate and inflation products. Foreign banks also support functioning debt capital markets by acting as intermediaries between issuers of debt and market investors. They provide specialised services across the equity and bond issuance lifecycle, including structuring, timing, pricing, documentation drafting, execution and planning of equity and debt offerings.

Australia's funding and financial markets could not operate as effectively and efficiently as they do without the active participation and expertise of foreign banks. As such, it is critical that governments and their agencies actively consider the importance of foreign banks in the policy formulation process. Failure to consider or consult with foreign banks, or considering them as an afterthought, jeopardises the ability of Australian businesses to operate and the Australian economy to grow and flourish, as discussed in more detail below.

4. Australia as a financial centre

Australia has a goal to be a leading global and regional financial centre, as evidenced by the bipartisan support shown to the recommendations of the 2009 Johnson Report into Australia as a Financial Centre. However, notwithstanding stated support for Australia's financial centre capability at a government level, objective evidence is that the relative attractiveness of Australia as a financial centre has been in sharp decline.

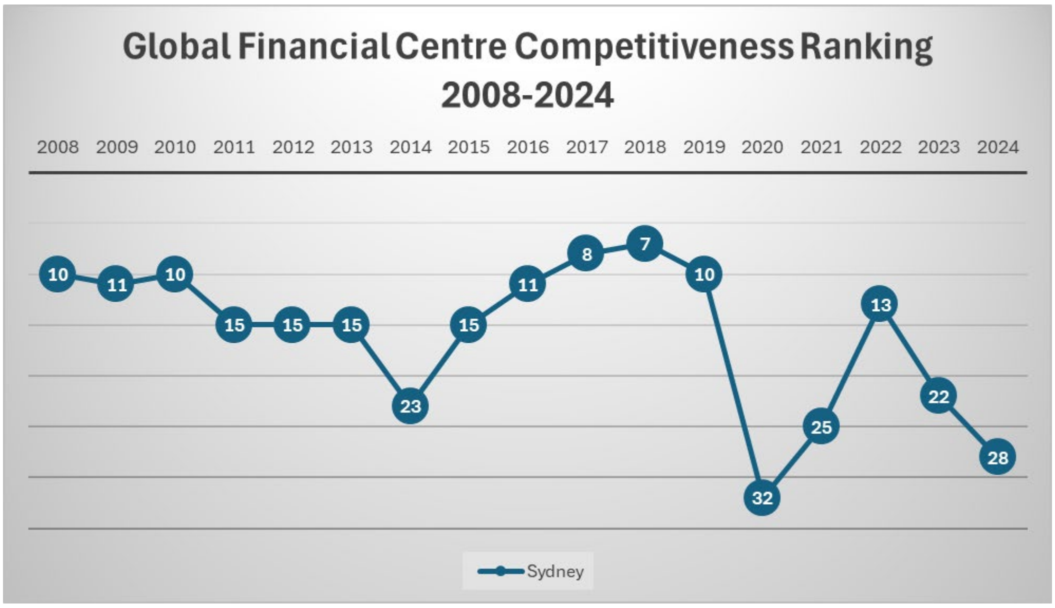
The Global Financial Centre Index (GFCI) assesses and ranks the competitiveness of every financial centre globally on a bi-annual basis. As shown in Graph 3, following the 2008 global financial crisis, Sydney consistently placed in the top 15 most competitive financial centres for around a ten-year period. As also shown in the graph, six years ago Sydney's was ranked as the 10th best in the world. As of the most recent September 2024 ranking, Sydney's financial centre only ranked 28th globally[5].

It is AFMA's view that this chart highlights two realities for the Australian economy and the financial industry more specifically:

1. Australia's financial centre competitiveness has not recovered from the pandemic. Markedly, rather than seizing the opportunity for economic growth through reinvigoration of the markets presented following the end of the pandemic (c. mid-2022), Australia's financial centre competitiveness has continued to decline, primarily due to positive steps being taken by other centres to enhance their attractiveness.

2. The perception of Australia as a place to conduct business dropped and has consistently remained lower since the Hayne Royal Commission. It is AFMA's assessment that in responding to the review and implementing its recommendations, adequate weight was not given as to the resulting impact on Australia as a place to do business and as a destination for capital. It has become harder and more costly to do business in Australia.

[5] Global Financial Centre Index



Rankings provided at each September issue of the GFCI only, March issue not included.

Graph 3

In AFMA's view, the lack of recovery in competition post-pandemic, compared to other competing jurisdictions can be attributed to a number of key lapses.

4.1. Level of innovation

The swiftly evolving nature of advanced economies, budget pressures and threat of climate change poses new and emerging threats but likewise opportunities for Australia to capitalise on.

Green finance is one the greatest opportunities available to governments in their efforts to combat climate change. Australia has already begun its efforts to match the initiatives being undertaken globally. However, Australia's unique ecosystem and natural resources offer an opportunity for Australia to be a green finance leader. Regionally, the October 2024 Global Green Finance Index places only Singapore in the top 20 jurisdictions of all the Asia-Pacific jurisdictions; with Sydney currently ranking 29th [6]. AFMA sees a real opportunity for Australia to utilise financial markets and green finance to propel investment in the transition and become a leading jurisdiction for sustainable debt issuance by utilising incentives and appropriate market signals.

Likewise, Australian Carbon Credit Units (ACCUs) are one of the most well-regarded carbon credits globally. With strong appetite, AFMA believes Australia should capitalise on such demand and harness its potential as an Australian asset class. ACCUs, like many Australian commodities, are often transacted from Singapore rather than Australia as the competitive business environment there outweighs Australia's offerings. If Government can boost incentives to help rival Singapore, AFMA sees great potential in uniquely Australian assets including ACCUs, sustainable products, and renewable energy assets.

The rise of digital assets globally presents both significant risks and opportunities. While many other jurisdictions have moved to provide guardrails around these emerging markets, through appropriate legislation, Australia continues to delay any such regulation which sends a global message that Australia is apathetic in terms of attracting and fostering innovation in digital financial markets.

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[6] October 2024 Global Green Finance Index

4.2. Comparative position with other centres

While post-pandemic economic recovery is not a uniquely Australian challenge, other advanced economies have sought to reinvigorate their financial markets through a calculated series of targeted initiatives to boost their financial centre competitiveness, driving business activity and innovation. Our greatest regional competitors outrank us as a place to do business. Singapore, Hong Kong, Seoul, and Shanghai are all in the world's top fifteen most competitive financial centres according to the Global Financial Centre Index.

Notable actions by governments offshore have bolstered their financial centre's dynamism and competition. Testimony from the Seoul Metropolitan Government, on Seoul's rise in the index explains "Seoul believes global financial companies are our true partners for growth. There are many incentives provided to global financial companies that enter into Seoul….".

AFMA also understands that the Korean Government opened the Seoul Financial Hub in 2021 to help foreign companies looking to start or resume businesses in the city to evaluate domestic market conditions, obtain necessary licenses, find top local talent and handle tax and accounting issues.

Further, the Hong Kong Financial Services Development Council submitted: "As of March 2020, 110 of the 137 policy recommendations had been adopted by the Government and relevant regulators since FSDC's inception in 2013." Likewise, in Singapore, the Government revised the Monetary Authority of Singapore's (MAS) mandate to specifically include regard for boosting competitiveness. MAS also issues an annual financial services industry transformation map which sets out its vision areas for the year and strategic areas for growth.

Similar action was taken in Europe by the UK Government with new remit letters issued to both the Prudential Regulation Authority and Financial Conduct Authority with clear, targeted recommendations on growth and international competitiveness. The City of London likewise has a dedicated Minister who aids the growth of London's financial centre, and the City of London Corporation has an ongoing campaign that showcases and promotes the UK's offer for financial and professional services. All of these initiatives send a signal that the jurisdiction is open for business and that the Government, and regulators will partner with businesses to enhance the opportunities for such businesses to flourish.

The absence of similar commitments from the Australian Government likewise sends a signal, one that infers that Australia is not as committed to attracting and retaining financial businesses to Australia.

4.3. Tax competitiveness

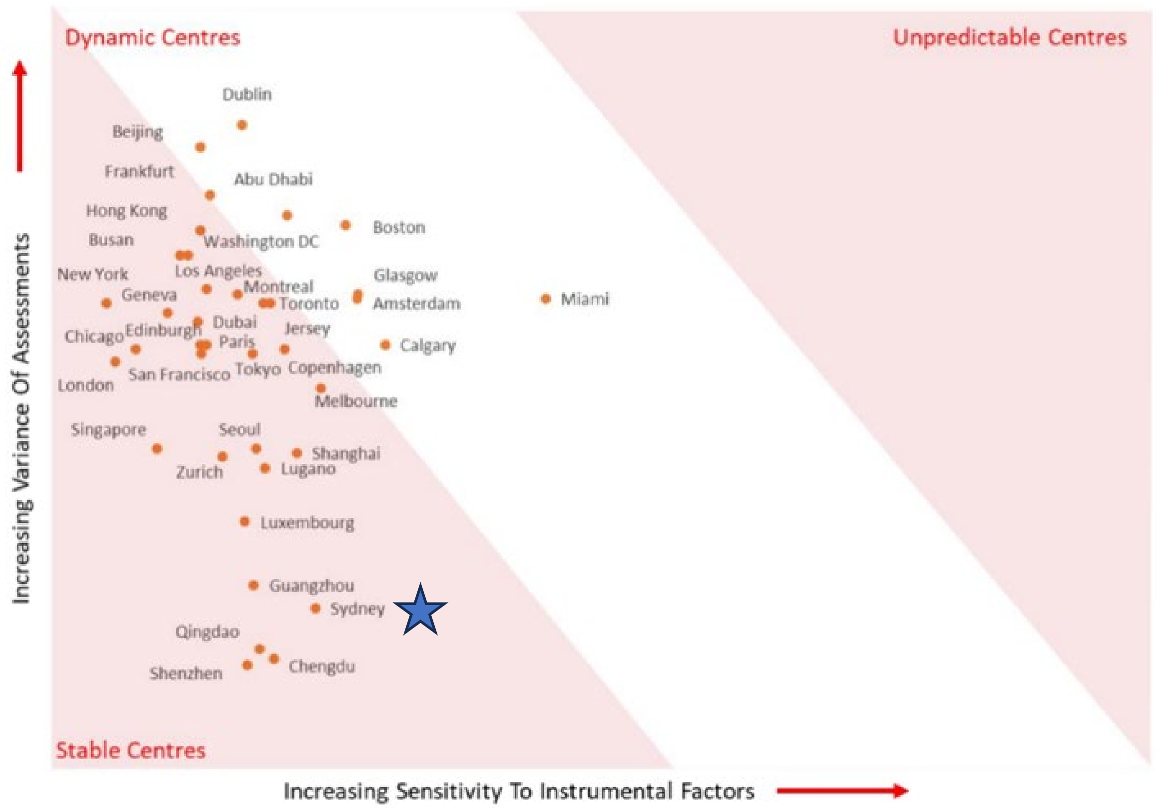
In AFMA's view, the competitiveness of a jurisdiction's taxation settings is a principal driver of where business is conducted and where capital is deployed. Australia's taxation settings are uncompetitive from a regional and international perspective, as evidenced by a headline corporate tax rate of 30% which is significantly higher than the OECD average. Additionally, Australia's taxation system includes frictions such as interest withholding tax which hinders the attraction of capital to Australia, which other jurisdictions either do not have or which operate in a more efficient and internationally consistent manner. The un-competitiveness of Australia's taxation settings and recommendations to enhance the competitiveness were articulated in the 2009 Johnson Report into Australia as a Financial Centre; however, the bulk of the recommendations of the report remain unimplemented, notwithstanding apparent bipartisan support.

A prime example of the negative impact that tax can have on a financial centre's competitiveness was the 2021 repeal of the Offshore Banking Unit (OBU) regime. At a time when other countries, both regionally and globally, were actively enhancing and promoting their attractiveness as financial centres, Australia's relative attractiveness was significantly diminished in 2021 by the repeal of the regime. The OBU regime was a key pillar of Australia's financial centre attractiveness and, the regime's repeal ought to have been the catalyst for the Government to articulate the activities that it wishes to incentivise to retain and attract business to Australia and implement a regime that would do so. In the absence of incentives, participants operating in Australia that are competing for global business will face a tax rate of double their regional competitors. However, the Government has not implemented any regimes that seek to restore the competitiveness lost from the repeal of the OBU regime, leaving a hole in policy.

More generally, AFMA agrees with other stakeholders as to the need for holistic tax reform and would urge the Government of the 48th Parliament to commit to a broad, evidenced-based review of the tax and transfer system. Such a review should not only address the taxation system from a policy perspective but also the complexity and idiosyncratic nature of Australia's taxation system, which dissuades foreign investment and capital through exacerbating compliance costs.

5. Settings and international approaches

As shown below the September 2024 Global Financial Centre Index graph (Graph 4), Sydney's long-standing reputation as a stable environment remains. However, our dynamism is significantly out of pace with other stable centres. It is AFMA's view that the current operational, legislative, and regulatory environment are barriers to enhancing our economic dynamism.



Graph 4

AFMA therefore urges government to explore initiatives that safeguard our standing as a stable business environment but look to improve our dynamism, as other competing jurisdictions have successfully done. AFMA sees a number of structures that we believe would help with better policy design, implementation and regulatory approaches. In an Australian context, we assess this should include:

- The establishment of an independent expert body that can provide advice and recommendations to the Minister about matters relating to corporations and financial services law, regulation, administration, and practice. This could operate in similar effect to the previous Corporations and Markets Advisory Committee (CAMAC). We believe such a body would be well placed to appropriately consider relevant issues, differentiate where appropriate between wholesale and retail, and oversee industry wide simplification and sophistication of financial services law and regulation. A properly constituted body of this type could act as a key conduit between business and Government;

- Financial Regulator Assessment Authority (FRAA) reviews of both APRA and ASIC are essential in ensuring the effectiveness and capability of our financial regulators. AFMA was concerned by the 2023-24 Budget decision to reduce the FRAA review cycle from a biennial basis, as mandated as part of the Hayne Royal Commission, to a five yearly cycle. With the ever-growing regulatory priorities of regulators and changing nature of finance globally, we believe a five yearly review cycle is out of pace with the rate of change within the sector and poses both threats to consumers and the efficient function of industry. Such a cycle would also effectively dismantle the FRAA structure, as FRAA panellists would have little incentive to remain for many years given the time between reviews – this has borne out in practice through the resignation of each FRAA panellist since the Government announcement. It likewise poses the risk that by the time FRAA recommendations are addressed by government, an appropriate response or action is no longer possible. AFMA supports the re-instatement of the biennial review cycle; and
- Reform of the Corporations Act 2001 is necessary. AFMA strongly supported the work of the Australian Law Reform Commission (ALRC) and its subsequent recommendations. Over a year on from the ALRC's report to Government, we are yet to see a pathway for reform, including in the recently published regulatory initiatives grid. The current state of the Corporations Act makes business operations complex, costly, and challenging for both industry and regulators alike. AFMA supports the ALRC's recommendations to establish a taskforce to carry forward the recommended reforms.
- Many competing jurisdictions are OECD members, and respective regulators share Memorandums of Understanding. Therefore, we believe due deference should be given to offshore jurisdictions, particularly in relation to comparable licensing regimes in offshore jurisdictions. Divergences from globally recognised standards or duplication of reporting creates unnecessary regulatory burden and adds significant compliance costs. Australia has sought to deviate from global practices with minimal supporting rationale. The 2021 Australia as a Financial & Technology Centre Advisory Group report highlights:

> *"A fund, or other financial business, that moves from Hong Kong, Singapore or London would, under current ASIC policies, need to apply for a standard AFS licence as a new entity or apply for a foreign AFS licence. In the Committee's view, it would be preferable to encourage suitable entities to obtain a full standard AFS licence and this is best done by making this process quick and easy for the right entities. The regulatory frameworks in these three markets are reasonably comparable to Australia and have a shared history and common law basis. While the precise rules diverge, the overall standard of supervision is considered to be comparable. This Recommendation would reduce the regulatory obligations and the compliance costs for businesses to receive a licence to be able to operate in Australia, especially where they may wish to relocate activities currently being conducted in Hong Kong, London or Singapore. In addition, it would promote organic business growth and employment, by providing more certainty and an expedited process for foreign businesses that are looking to expand their operations and activities to Australia.[7]"*

[7] January 2021, Australia as a Financial & Technology Centre Advisory Group (AFTCAG) Report

6. Recommendations

Diagram 1 denotes the key areas of competitiveness that financial centres are scored against in the competitive index and are broadly in line with issues an institution considers when setting up operations or conducting business in a jurisdiction. Sydney generally receives high marks across human capital, infrastructure, market liquidity, political stability, rule of law, attractiveness, and cultural diversity. These are the natural benefits that drive businesses to operate from Australia and are the factors that AFMA believes should be supported, and not undermined, by overly complex regulatory and uncompetitive taxation policy settings.

Accordingly, AFMA sees the greatest need for initiatives aimed at Australia's:

- Institutional and regulatory environment;
- Tax and cost competitiveness;
- Level of innovation; and
- Comparative positioning with other centres.

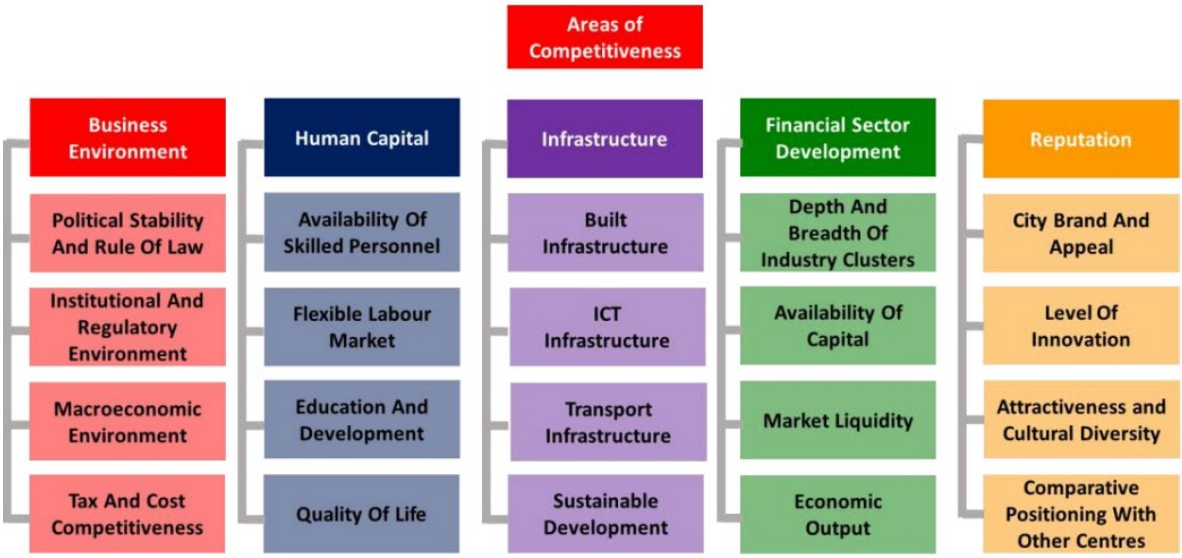


Diagram 1

Specifically, AFMA recommends the Government taking the following steps to rectify issues and take hold of opportunities, as addressed above:

- Regulation is vital to the sector, but AFMA believes that it needs to be refined, efficient, consistent, and evolved — if regulation is not simple, comprehensible, and fit for the current economy, it risks becoming a bureaucratic burden that creates barriers and economic drag. Simplification of existing legislation should receive priority;

- The current Parliament gave rise to considerations of regulatory oversight and responsibility. AFMA believes due consideration as to clear the role, objectives, effectiveness, duties and functions of regulators should be assessed;

- The current Parliament likewise saw many instances of unintended consequences and missed opportunities that could have been rectified or avoided by greater co-ordination between government, authorities and industry. AFMA believes that higher quality collaboration will aid greater policy and regulatory outcomes for all;

- Australia's taxation settings should incentivise businesses to choose Australia as a location from which to do business and retain existing businesses in Australia; and
- As addressed throughout this submission, AFMA sees a number of opportunities to enhance attractiveness of Australia as a place to do business and how we can more greatly utilise markets to solve domestic and monetary challenges. AFMA stands ready to work with Government on materialising these initiatives.

AFMA would welcome the opportunity to discuss this submission further and would be pleased to provide further information or clarity as required. Please contact Brett Harper at bharper@afma.com.au or 02 9776 7977.

Yours sincerely,

Brett Harper

Chief Executive Officer