

Exporting Financial Services

**Craig Stobo
Chair**

**International Financial Services Development Group
May 2011**

International Financial Services Development Group

Chair

– Craig Stobo

Members

- Troy Bowker
- Mark Fitz-Gerald
- Hugh Stevens
- Sam Stubbs

Secretariat

– Ministry of Economic Development

Genesis and Work to Date

Creating Wealth For New Zealand

- Proposed 0% Tax for non-residents investing in a New Zealand PIE in 2008
- Craig Stobo presented the initiative to the Job Summit in 2009

Capital Markets Development Taskforce (CMDT)

- Commissioned study from Oliver Wyman in July 2009 to identify areas of opportunity for New Zealand in international capital markets
- Study identified an opportunity for New Zealand to position as a funds domicile

0% PIR Tax for Non-Residents

- IR and Treasury consultation with Industry since 2009.
- Two methodologies agreed
- SOP now in Select Committee.
- Expect effective date after Royal Assent in 2011.

International Fund Services Development Group Established

- The International Funds Services Development (IFSD) Group was established by Cabinet in 2010 to report to Cabinet on “how can NZ successfully position itself as an international funds domicile, and other associated financial activities”

Oliver Wyman Report

- Oliver Wyman were contracted to provide the IFSD group with analytical support on the issue of establishing New Zealand as a funds domicile

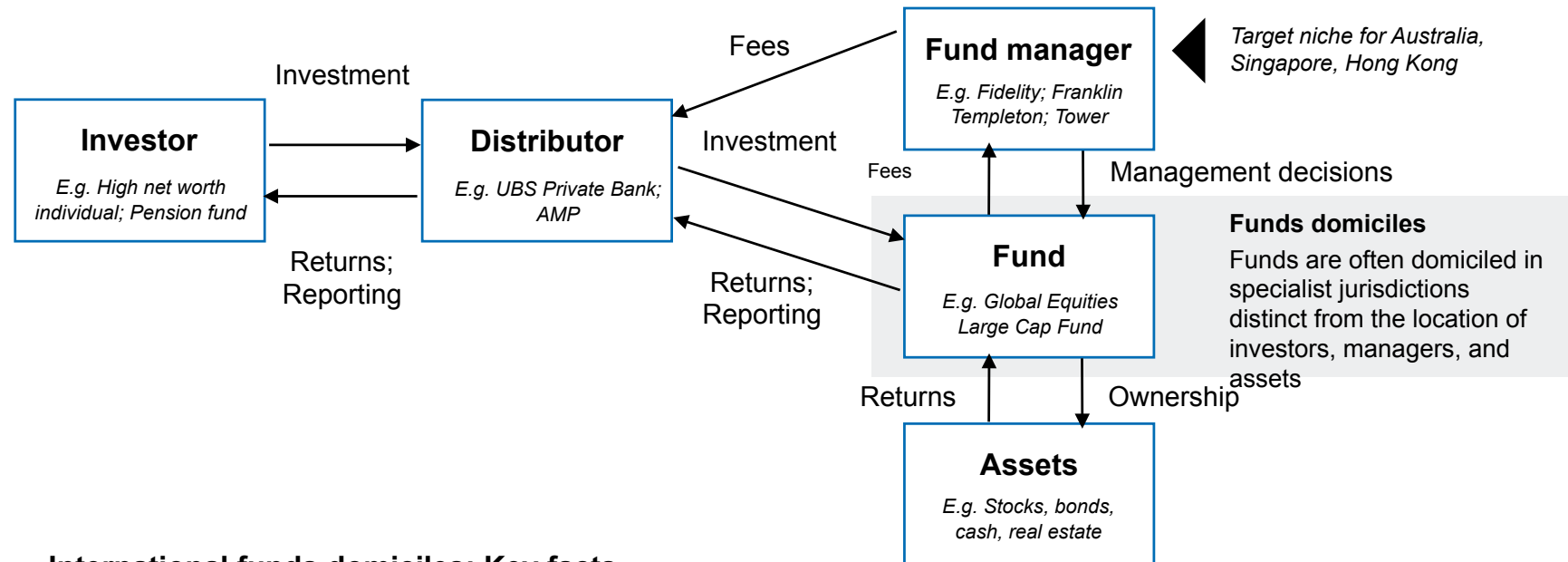
Exporting Financial Services

- IFSD Group completed their Report. Released by Government on 3 May 2011

Oliver Wyman Domicile Analysis

Funds domiciles play a critical role in the international funds management infrastructure and generate local economic activity in funds administration

Key participants in international funds management industry



International funds domiciles: Key facts

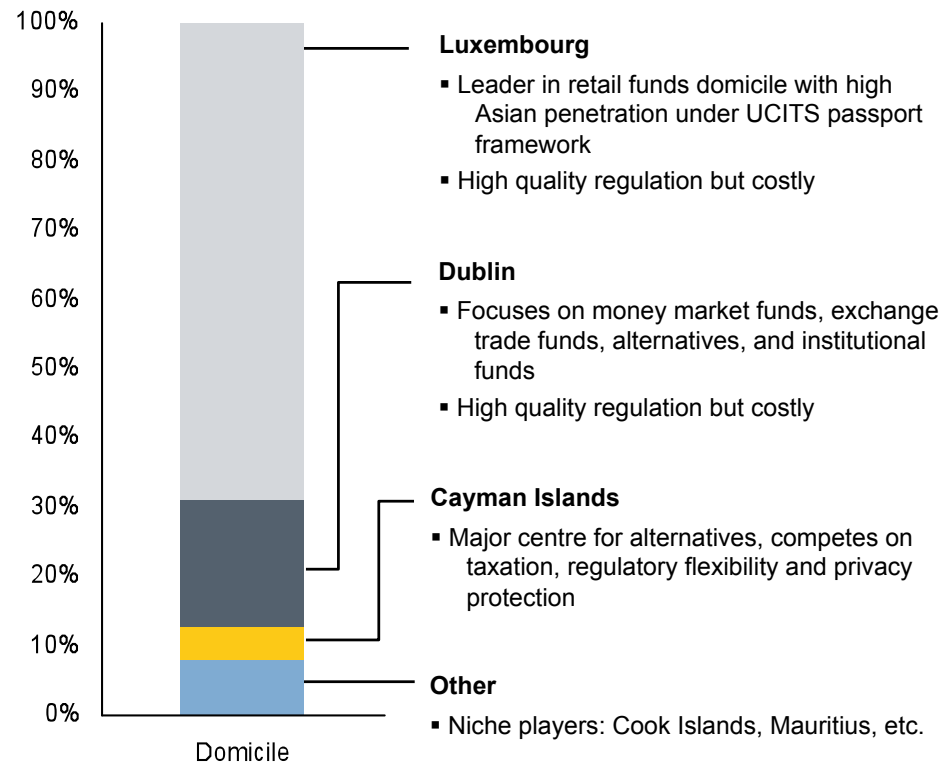
Role	Requirements	Benefits	Examples
<ul style="list-style-type: none"> Legal “home” for a fund and centre for fund accounting and administration Impacts tax and regulatory treatment 	<ul style="list-style-type: none"> Non-residents not subject to local taxation Financial infrastructure High-quality regulation and transparency increasingly important Regulatory recognition 	<ul style="list-style-type: none"> Fund administration activities performed locally (e.g. 20 bps) Legal and accounting requirements Capital markets spin-offs 	<ul style="list-style-type: none"> Dublin (Money Market) Luxembourg (Retail) Cayman Islands (Hedge)

Oliver Wyman Domicile Analysis

There is currently no funds domicile in the Asia Pacific...

Key offshore domiciles for cross-border retail funds distributed in Asia-Pacific

No. of funds in Asia Pacific, 2008



No regional Asia Pacific domicile exists at present

- The majority of international funds in the Asia Pacific region are domiciled in Luxembourg, Dublin, or the Cayman Islands
- Asia Pacific unique among major economic blocks in not housing a mature offshore funds domicile
 - Mauritius and the Cook Islands play limited niche roles
 - Hong Kong and Singapore traditionally enjoyed large local funds businesses without emphasising domicile strategies
 - Australia has the most developed funds management market in the region, but its focus has been on the domestic market
- The need for a regional domicile has been limited until now as the industry has only hit 'critical mass' in most markets very recently

Oliver Wyman Domicile Analysis

...but several factors are driving an increase in opportunities for a domicile in the Asia Pacific region

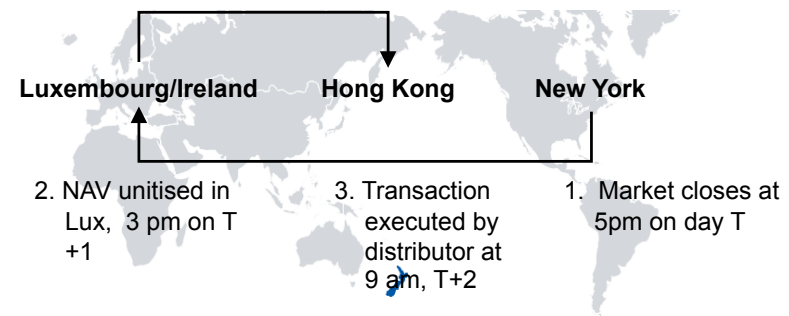
Drivers of demand for an Asia Pacific domicile

- A** **Ease of doing business with domicile in same time-zone**
 - More overlap during the working day
 - Can increase speed of pan-regional transactions (see box to the right) reducing costs and counterparty risk exposures
- B** **Frustrations in dealing with Dublin and Luxembourg**
 - Costly
 - Highly Euro-centric business practices and regulations
 - UCITS III allowance of derivatives in funds seen as a negative by Asian regulators
- C** **Withdrawal of funds from the Cayman Islands and similar domiciles**
 - Concerns over regulatory quality following Madoff affair and other scandals
 - Funds rethinking their choice of domicile, creating opportunities for new entrants

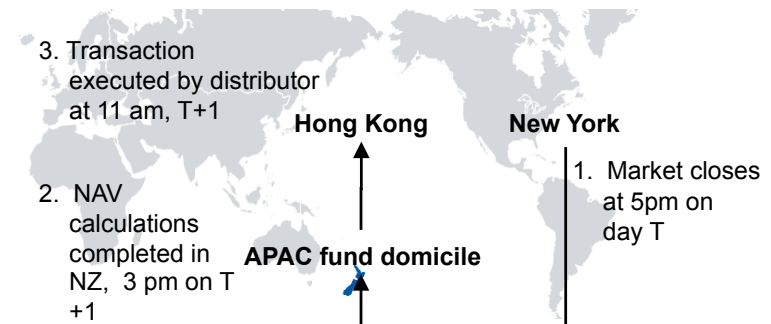
Drill-down: A NZ domicile can speed up fund transactions by one business day

Asian investor investing in US assets via Luxembourg/Ireland domiciled fund

Current information flow



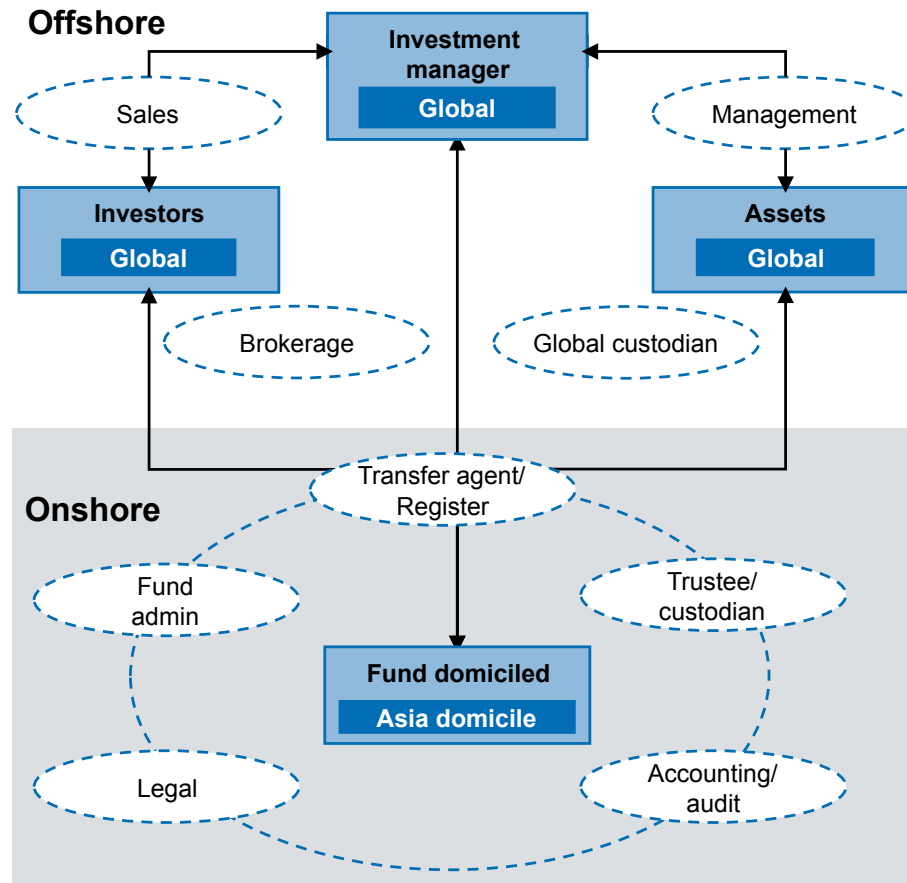
Proposed information flow



Oliver Wyman Domicile Analysis

Legislative requirements around offshore domiciles would further develop the local fund administration industry

Market participant map



- Fund domiciles require that certain services for the domiciled funds be performed onshore:
 - Transfer agency providing registry of investors in funds
 - Trustee/depository performing a caretaking role with respect to the investments
 - Fund administration function calculating daily pricing and related accounting of the funds
 - Legal, and advisory services.
- Onshore activity requirement protects the integrity and reputation of the domicile while also fostering local job creation.
- Ireland and Luxembourg have both built large administration industries by imposing similar rules.

Oliver Wyman Domicile Analysis

There are six key success factors that New Zealand must address:

Success Factor	Description
1 Tax	<ul style="list-style-type: none">• Tax-exempt treatment of funds is seen as important driver of where to domicile funds
2 Regulation	<ul style="list-style-type: none">• Regulatory environment suited to requirements of the funds industry• Reputation for transparency and integrity; emphasis on investor protection
3 Local service providers	<ul style="list-style-type: none">• Sufficient local industry capacity needed to support investment management needs, e.g. fund administrators and global custodians
4 Financial infrastructure	<ul style="list-style-type: none">• Efficient infrastructure incl. mobile data transmission with global links, payment networks, global standards for fund accounting, security, etc
5 Geographic location	<ul style="list-style-type: none">• Funds need to meet substance requirements by conducting part of servicing activities in the domicile – easier if domicile is in the same time-zone
6 Political environment	<ul style="list-style-type: none">• Stable and politically neutral• Active government marketing and encouragement

IFSD Group Report Recommendations

Stage One

A. Taxation of Non-Residents in Portfolio Investment Entities (PIEs) - Methodologies

Category I: Both resident and non-resident investors and only foreign-sourced income, subject to a 5 percent minimum threshold for New Zealand-sourced interest income and a 1 percent minimum threshold for New Zealand-sourced income from equities. Non-residents in these PIEs will be taxed at zero percent.

Category II: both resident and non-resident investors, and both foreign-sourced income and New Zealand-sourced income, with variable rates applying, reflecting the rates that would apply if the investment was direct:

- (i) 0% on foreign-sourced income;
- (ii) 0% on dividends derived from New Zealand companies that are fully-imputed;
- (iii) 15% on dividends derived from New Zealand companies that are unimputed where the investor is from a country with which New Zealand has a double tax agreement (DTA);
- (iv) 30% on dividends derived from New Zealand companies that are unimputed when the investor is from a country with which New Zealand does not have a DTA;
- (v) 1.44% on New Zealand-sourced financial arrangement income (being the deductible approved issuer levy (AIL) rate); and
- (vi) 28% on other New Zealand-sourced income.

IFSD Group Report Recommendations

Stage One – Continued

B. Regulation

Domestic securities law reform to consider replication of global best practice including the European Union's Undertakings for Collective Investments in Transferable Securities (UCITS) Regime

C. Government Support

- Public/Private Sector Partnership
- Jurisdiction relationship building
- Developing labour market capability
- Obtain broader domestic support

IFSD Group Report Recommendations

Stage Two

A. Establish a Funds Servicing Agency

B. Gain Mutual Recognition from major Asia-Pacific Regulators

C. Consider expanded regulatory initiatives

D. Marketing effort

E. Attracting business to New Zealand

Associated Activities

- **Foreign Trusts**
- **Global Pensions**
- **Captive Insurance**
- **NZ Director Residency**
- **Financial Services Outsourcing Opportunities in New Zealand**

Benefits from Domicile Opportunity

- **Become preferred Asia/Pacific Domicile**
- **If gain 17% market share (i.e. NZ\$444 billion of FuM) at 15-20 bps, then, by 2020/2030:**
 - \$0.5-\$1.3 billion in new industry revenue
 - \$150-\$360 million pa in tax revenue
 - 2000-5000 high quality jobs.
- **Economies of scale for resident investors**



Questions