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Global investment choice hamstrung by red tape

The real prize is greater access to the Chinese market over the next decade. *David Rowe*

by **Stirling Larkin**

True wealth, said the Greek Stoic philosopher Epictetus, does not mean having great possessions, but having few wants.

For Stoics this could be achieved by using their minds to understand the world around them, working together and treating others fairly and justly. But for Australian investment communities, achieving such ideals has become an increasingly difficult challenge given the counterproductive layers of red tape and regulations which have left investors putting one want above all others – the right of investment choice.

After the September 2009 federal Treasury white paper Australia as a Financial Centre, Australian investors for the first time in a generation will soon have the opportunity to invest in a greater suite of investment choices through the newly-introduced Asia Region Funds Passport (ARFP) initiative. ASIC recently announced registration applications would open in September this year.

Designed to provide Australian self-managed superannuation funds, ultra-high-net-worth (UHNW) individuals and globally-minded investors a greater array of investment fund choices, the passport program also gave Australian-domiciled fund managers a new opportunity to expand their investor base regionally and work better with regional investment communities in Singapore, Hong Kong and Malaysia.

But unsurprisingly, like all things coddled in bureaucratic red tape, the ARFP initiative lacked the regulatory support to thrive and treat all passport participants fairly.

At the same time, Australian-licensed global private banks – which maintained their investment platforms out of Singapore and Hong Kong – continued to direct Australian UHNW and institutional super investors into competing European collective investment alternatives. These included the popular Undertakings for Collective Investment in Transferable Securities (UCITS) schemes and "liquid alternative investments" (liquid alts), which are mutual fund or ETF investments that aim to provide investors with diversification and downside protection through exposure to alternative investment strategies by providing daily liquidity.

For Australian globally-minded investors, it became a complex quagmire and global investing had less to do with possession and more to do with a need for fair and just appropriation.

To achieve this, Siew-Kee Chen, tax partner at Deloitte, says: "Consolidation of the existing passport schemes in Asia, and participation of further economies beyond Australia, Japan, South Korea, New Zealand and Thailand, is needed to ensure a successful Asia-wide fund passport regime."

Tax change

The Australian funds management industry has argued for a non-resident withholding tax rate of zero for Australian passport funds to better compete with non-Australian passport funds.

At this stage, it is difficult to see the Australian government supporting a zero non-resident withholding tax rate. But, says Chen, "the success of the regime will also turn on the ability of the Australian government to provide an appropriate tax regime vehicle (the Corporate Collective Investment Vehicle), and remove tax barriers to complement the ARFP template – achieving greater investment choices at a lower cost".

For Australian UHNW investors, fund managers and regulators, the real prize can be found in bringing the competing Mainland-Hong Kong Mutual Recognition of Funds (MRF) scheme into the fold.

This cross-border funds initiative is seen as a supplement to the successful Shanghai-Hong Kong Stock Connect cross-boundary investment channel, and a providential gift for Australian fund managers and investors alike.

This is because the real prize is greater access to the Chinese market over the next decade.

With the Trump presidency's trade war souring east-west Pacific Rim investing, the timing of consolidating passport schemes in Asia is opportune for Australian regulators.

Even though the direct impact of US tariffs to the Chinese economy affects only 2 per cent of total Chinese exports (0.4 per cent of China GDP) and the direct impact on the MSCI China's revenue exposure to the US amounts to only 1.3 per cent, China policymakers and regulators are more open than ever to financial progression that does not rely on the US investor.

With China wanting a pivot away from US financial reliance and a deeper cooperation with neighbours who understand the world around them, now is the moment Australians must focus on buttressing the ARFP.

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