

International Financial Services Development Group

Craig Stobo

Chairman – Elevation Capital Management Limited

**Presentation to Workplace Savings Conference
26 August 2010**

Group Members Introduction

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

- Report presented to the Job Summit by Craig Stobo
- Proposed 0% Tax for non-residents investing in a New Zealand PIE
- Work has been progressed by IRD who have recently released the discussion document “Allowing a zero Percent tax rate for non-residents investing in a PIE”

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

International Financial Services Development Group Established

- The International Funds Services Development Group was established by Cabinet 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

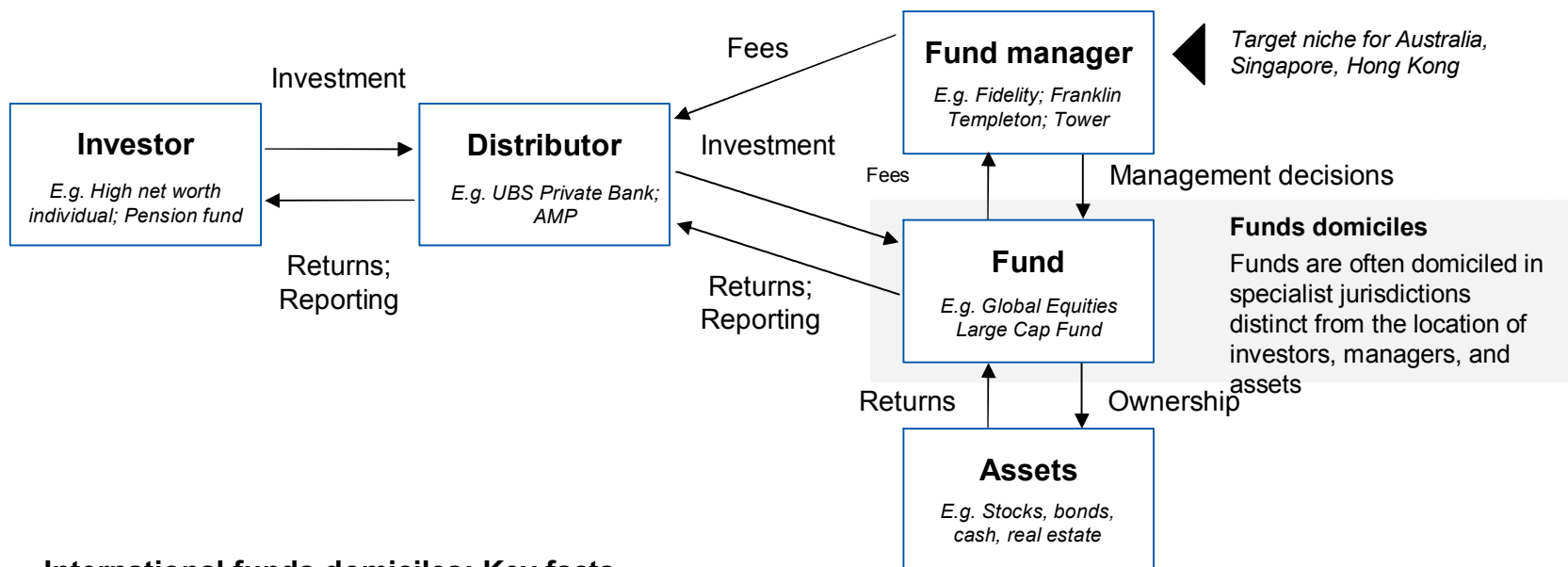
Timeline

- 5 March – International Financial Services Development Group Established
- 8 March – Oliver Wyman contracted
- 13 April – OW report finished and distributed.
- 29 April – Industry Workshops in Auckland and Wellington
- 30 April – IFD Group draft report
- 14 May – IFD Group Interim Report finished
- 17 May – Brief Ministers for feedback
- 17-28 May – IFD Final Report finished

Oliver Wyman Domicile Analysis

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

Roles key participants in international funds management industry



International funds domiciles: Key facts

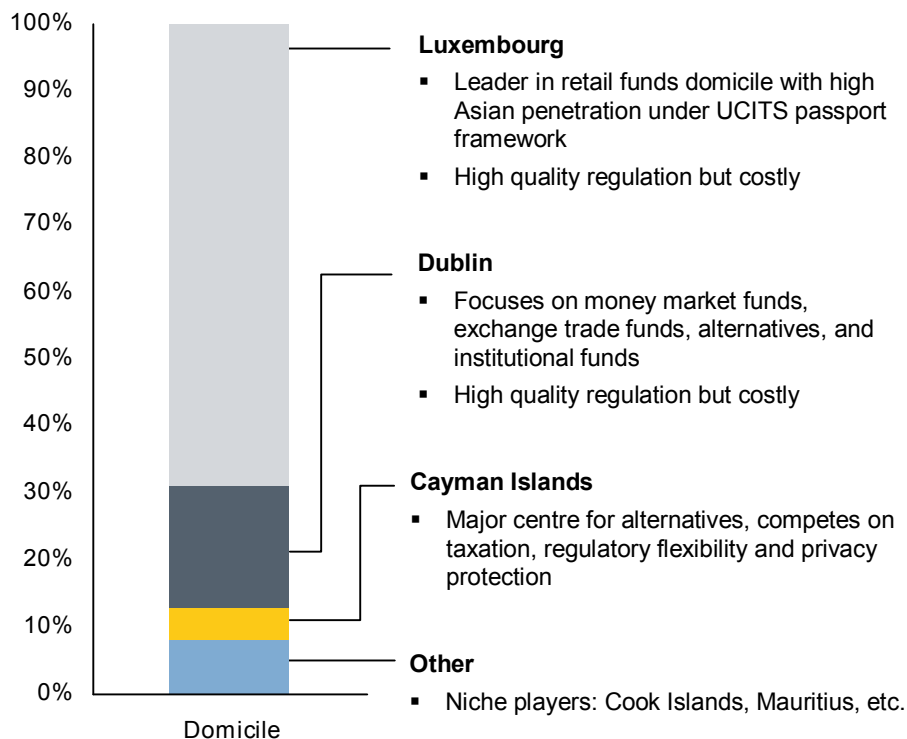
Role	Requirements	Benefits	Examples
<ul style="list-style-type: none"> • Legal “home” for a fund and centre for fund account and administration • Impacts tax and regulatory treatment 	<ul style="list-style-type: none"> • Non-residents not subject to local taxation • Financial infrastructure • High-quality regulation and transparency increasingly important • Regulatory recognition 	<ul style="list-style-type: none"> • Fund administration activities performed locally (20 bps) • Legal and accounting business • 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 an 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

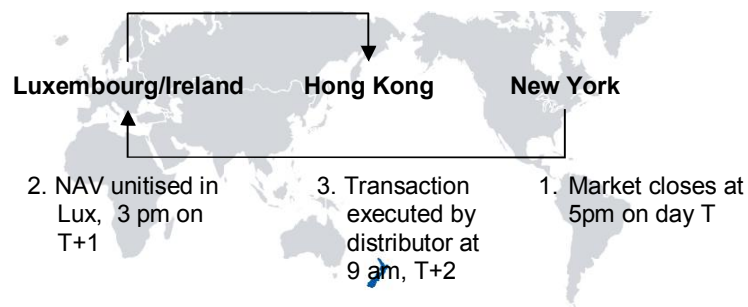
- Concerns over regulatory quality following Madoff affair and other scandals
- Funds rethinking their choice of domicile, creating opportunities for new entrants



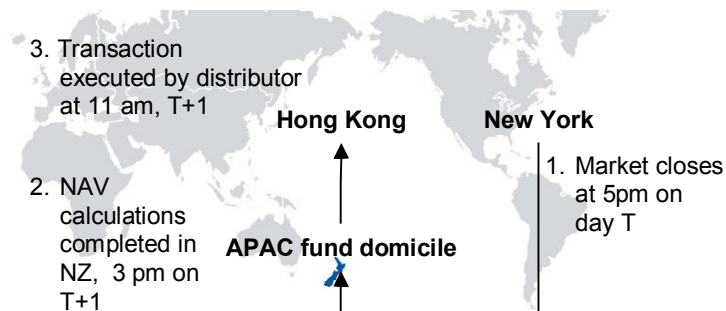
Drill-down: An NZ domicile can speed up fund transactions by one business day

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

Current information flow



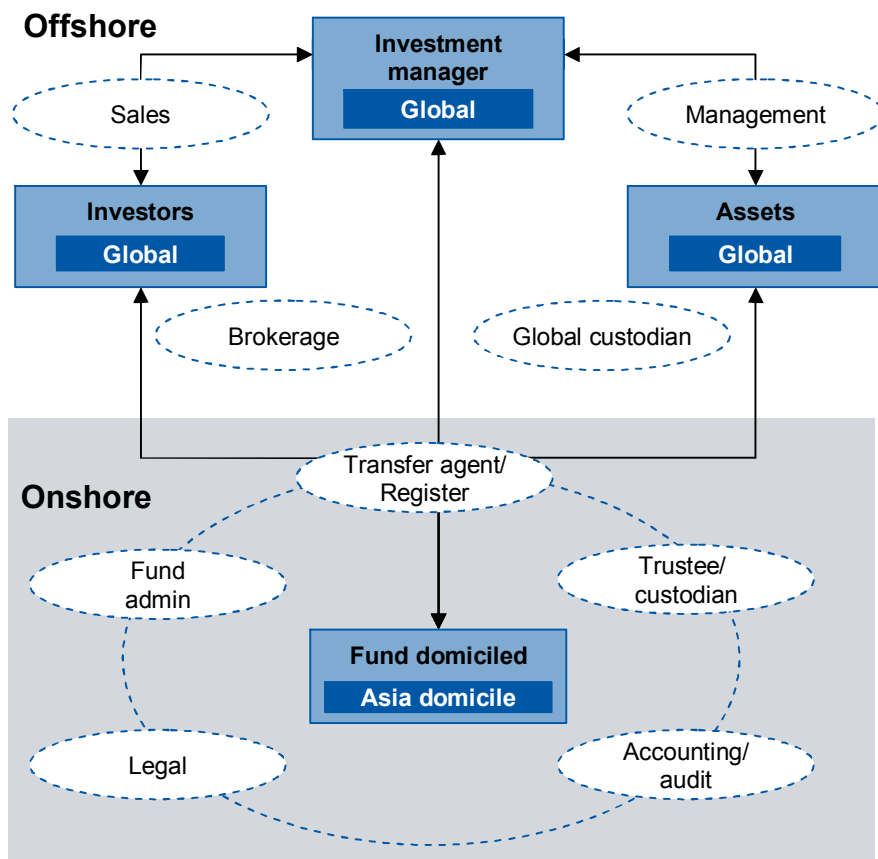
Proposed information flow



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 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
2 Tax	<ul style="list-style-type: none">• Tax-exempt treatment of funds is seen as important driver of where to domicile funds
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 to service international funds incl. CSD with global links, payment networks, global standards for fund accounting
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

Issues on Our Minds

1

Regulation



- Domicile requires higher standards for New Zealand
- Gap between current regulatory review and international standard
- NZ Securities Act Review addresses adoption of UCITS

2

Tax



- Very encouraging changes for non-residents in PIEs – IRD consultation paper 4 June
- Are the eligible vehicles extensive enough for domicile success

3

Local service providers



- Service providers are currently very focused on the domestic industry
- Do we have the capability for international expansion

4

Political environment



- Strong Prime Ministerial sponsorship
- Strong financial service industry support
- Form of public private partnership to drive this initiative forward

Associated Activities

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

Questions