Chapter 3

The delegation's views and recommendations

3.1 As the previous two chapters of this report have emphasised, the delegation visited China at an important time for China's financial and economic reforms. China's 12th Five-Year Plan (2011–2015) identified liberalising the capital account and developing a sophisticated financial services sector as key priorities. There are emerging opportunities for Australian banks and financial services companies to benefit from these reforms. The recent Australian White Paper *Australia in the Asian Century* identified the importance of continuing to advocate open financial markets in Asia and promoting complementarity of financial market regulations within the region.[1]

3.2 It is fitting, therefore, that the delegation's visit to China in May 2013 and the Financial and Economic Committee of the National People's Congress' (NPC) visit to Australia in June 2013 were the first parliamentary committee visits to Australia and China since the 12th Five-Year Plan was signed in October last year.

3.3 This chapter presents the delegation's position on how it believes the Australia–China dialogue on financial services should be advanced. The focus is on how Australian banks and financial services companies can gain greater market access in China and operate within a more efficient regulatory system. The delegation's recommendations respond to the following inter-related questions:

(a) How can the regulatory concerns of Australia's banks and financial services companies operating in China be addressed most effectively?

(b) What can Australian banks and financial services companies offer China's financial sector if the goals of greater market access and a streamlined regulatory system are realised?

(c) What are the key messages and forums in which the Australian government and Australian companies must engage to ensure that:

(i) these regulatory concerns are addressed; and

(ii) China realises the benefits from greater Australian involvement in China's financial services sector?

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1 Australian Government, *Australia in the Asian Century*, October 2012, p. 21. http://asiancentury.dpmc.gov.au/sites/default/files/white-paper/australia-in-the-asian-century-white-paper.pdf (accessed 24 June 2013).

Setting out the issues, and the problems

3.4 Fundamental to efforts to gain greater access to China's financial services market is to clearly set out the barriers that currently exist. The delegation believes that to this end, the 2012 AustCham Beijing and Shanghai Financial Services Working Group's White Paper is an important document. It identifies several challenges for Australian financial institutions in China which can, and should, form the basis for discussions with Chinese policy makers.

3.5 However, the delegation believes that subsequent versions of this document should contain more detail. As this report has discussed, China is progressing with its economic and financial reforms on a number of fronts. A future AustCham financial services document should devote more attention to these efforts and the progress made. The document should also have a more substantive discussion of developments in the Australia–China financial services bilateral relationship and identify potential and evolving areas of investment opportunity for Australian banks and financial services companies in China.

3.6 The delegation urges AustCham to elaborate on the nature of the problems that it identifies in its 2012 White Paper. For example:

- 'observation 2' identifies the banks' difficulties with 'very short' implementation timelines for new regulations, but no examples are given. Examples would help to show not only the difficulty in meeting these tight timeframes but the benefits of longer lead-in times for both compliance and a better quality of service to customers;
- 'observation 4' notes the lack of uniformity in the taxation code across various cities and regions in China. The paper would benefit from some examples of this inconsistency and how it inconveniences Australian financial institutions with operations in multiple regions of China;
- 'observation 5' states that 'the trained talent pool is limited' and 'for some specialist roles, it is increasingly difficult to recruit and train staff'. It would be useful to have examples of the areas in which the Working Group believes there is limited talent in China's banking and financial services sector, and possible reasons for this, such as a lack of relevant education and on-the-job training opportunities; and
- 'observation 6' notes that most foreign banks operating in China are unable to access the RMB settlements system directly. It notes that the China National Advance Payments System Framework is causing settlement delays and price impacts. Again, more detail is needed on the nature and extent of the problem.

Recommendation 1

3.7 The delegation recommends that the AustCham Beijing and Shanghai Financial Services Working Group develop a document that provides detailed examples based on the observations in its 2012 White Paper. The purpose of

these examples should be to illustrate the nature of the problem and, in particular, how current regulatory settings affect the ability of a foreign financial institution to deliver a reliable and competitive service for Chinese companies and investors.

Identifying the solutions and the benefits

3.8 An obvious strength of the AustCham White Paper is that it sets out possible solutions to these problems, and the likely benefits from these solutions. Indeed, the paper contains 35 recommendations: six new recommendations relating to the banks; a further six bank-related recommendations from previous AustCham documents; seven 'other banking recommendations'; nine recommendations relating to the funds management sector; two each relating to trust companies, private equity companies and insurance firms; and one recommendation relating to advisory services for the financial sector. This represents a substantial future work plan for AustCham's Financial Services Working Group.

3.9 The delegation emphasises that Australian stakeholders should discuss with Chinese regulators and policy makers solutions to problems that are principles-based and that emphasise the complementarity of objectives. AustCham's White Paper provides recommendations that make frequent reference to the principles of clarity, consistency and efficiency in making regulations. However, these principles should frame the discussion around the paper itself.

3.10 The AustCham Financial Services Working Group should also emphasise that Australia's interest in holding discussions with China's regulators is not to gain preferential treatment, but to operate under the same rules as other foreign financial institutions and Chinese banks and financial services providers. The broader point must be that competitive advantage in China's financial services market should not be based on preferential treatment or regulatory arbitrage, but on providing competitive and innovative services to customers through a sound corporate governance framework.

Recommendation 2

3.11 The delegation recommends that Austrade work closely with AustCham Beijing and Shanghai Financial Services Working Group to deliver a focused message to China's policy makers that is based on:

- **the overarching importance of the principles of clarity, consistency and efficiency in guiding regulatory reforms to China's financial services framework; and**
- **the complementarity of Australian and Chinese objectives in this reform process. It must be emphasised that reforms that serve these principles will assist Australian institutions to make a greater contribution to the growth, knowledge and sophistication of China's financial services sector.**

3.12 Indeed, this point of the complementarity of Chinese and Australian interests in a more efficient financial services framework in China is emphasised throughout the AustCham White Paper. The Working Group envisaged several mutual benefits from regulatory reform in China:

- Streamlining the bank licence application process would result in an increased willingness of foreign banks to invest in China, and increased opportunity for Chinese banks and regulators to access first-hand international financial market knowledge. Chinese banks would accelerate their understanding of international standards on derivative products which might positively impact their international expansion goals. Chinese financial institutions would benefit from greater customer satisfaction, as well as being able to provide greater flexibility for customers when choosing financial products and services.[2]
- Increasing the uniformity of the tax regimes across regions in China will encourage greater investment by foreign-funded banks in diverse areas, as well as increasing the operational cost effectiveness of the Chinese banking sector, thereby encouraging additional foreign participants to enter the Chinese financial services market.[3]
- Providing direct access to the China National Advance Payments System will benefit the Chinese customer by obtaining the best settlement price at the right time, without market disadvantage. This will also drive further efficiency and contribute to a more balanced, equitable financial system.[4]
- Opening up the funds management sector to an equal level of participation by Chinese state-owned institutions and other Qualified Foreign Institutional Investors (QFIIs) and Qualified Domestic Institutional Investors (QDIIs) will result in a more competitive, liquid and high-growth sector, with the added benefit of flow-on impact to the overall Chinese financial sector.[5]
- Clear protocols around the administration of the QDII scheme would encourage further growth in the funds management sector, encouraging greater participation by Chinese investors, Chinese fund managers and Australian fund managers. Building the capability of Chinese participants through engagement with their Australian counterparts will boost the development of the sector.[6]

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2 Australian Chamber of Commerce, Beijing and Shanghai, Financial Services Working Group, *Australian Financial Services Business in China*, 2012 White Paper, p. 7.

3 *Australian Financial Services Business in China*, 2012 White Paper, p. 9.

4 *Australian Financial Services Business in China*, 2012 White Paper, p. 10.

5 *Australian Financial Services Business in China*, 2012 White Paper, p. 12.

6 *Australian Financial Services Business in China*, 2012 White Paper, p. 14.

- Australian fund managers can share their expertise in fund distribution business with the Chinese market and offer Chinese investors a wider range of investment options. Additionally, foreign fund managers will be encouraged to stabilise their holdings in the Chinese investment management industry.[7]
- With the support of the mature Australian funds management sector, China's transition to these more sophisticated financial instruments can be managed in a smooth, planned manner, minimising risk and applying the controls and incentives to instigate growth.[8]
- By engaging with foreign private equity participants on reform, China's private equity sector would benefit from greater internationalisation of investment processes and financial reporting standards. The open dialogue of expertise and know-how between Chinese, Australian and foreign private equity fund managers would accelerate the overall development plan for the sector, and would increase expansion opportunities for Chinese and foreign private equity investors.[9]

3.13 These comments make clear that the Working Group foresees several qualitative benefits from greater engagement of Australian financial institutions in the Chinese market. The delegation strongly agrees. China's broad goal of deeper bond and equity markets and a more sophisticated financial services sector is consistent with a range of regulatory reforms that would allow Australian financial services providers to deepen and broaden their participation in China.

3.14 It is important that the Working Group explains the case for these wide-ranging regulatory reforms which would enable Australian financial institutions to make these qualitative contributions to China's financial services sector. As reforms occur, Chinese policy makers and regulators must be made aware of examples where greater clarity and consistency in regulations has benefitted both Australian financial institutions operating in China and Chinese institutions and investors. This link is crucial, as it will encourage a more liberal regime for foreign firms and build trust between Australian and Chinese financial institutions and regulators. To this end, the delegation believes that Austrade has an important role in assisting AustCham.

Recommendation 3

3.15 The delegation recommends that Austrade assist the AustCham Beijing and Shanghai Financial Services Working Group to collate and publicise examples of where regulatory reform in China has enabled Australian financial services providers operating in China to:

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7 *Australian Financial Services Business in China*, 2012 White Paper, p. 14.

8 Australian Chamber of Commerce, Beijing and Shanghai, Financial Services Working Group, *Australian Financial Services Business in China*, 2012 White Paper, p. 15.

9 Australian Chamber of Commerce, Beijing and Shanghai, Financial Services Working Group, *Australian Financial Services Business in China*, 2012 White Paper, p. 18.

- **transfer knowledge to local financial institutions in the banking, private equity, insurance, funds management, financial advice, trusts and bond markets;**
- **invest in China in these markets;**
- **streamline processes, which in turn benefits Chinese investors and consumers; and**
- **bring foreign liquidity into China.**

3.16 As they arise, these examples should frame the ongoing dialogue between the Australian Working Group and China's policy-makers and financial regulators. The discussions should explain, as clearly as possible, the change in behaviour allowed by the regulatory reform and the direct benefit to Chinese institutions, investors and consumers.

3.17 To this end, it will be important for the Working Group to be continually aware of the Chinese Government's challenges and priorities in developing and managing its banking and financial services sectors. For example, in an environment of tightening liquidity and less lending between China's domestic banks, the benefit of reforms that increase foreign liquidity must be emphasised.

3.18 It was noted during the visit to China that Australian financial services account for only a small percentage of the (roughly) two per cent market share held by foreign financial institutions in the Chinese market. Australia's influence and contribution should not in any way be viewed as a threat to the overwhelming dominance of China's local providers. As chapter 1 noted, this did not even happen when foreign banks entered the small Australian market.

3.19 Rather, the contribution of Australian financial services firms in China should be seen as a way to provide high-quality and sophisticated knowledge, expertise and technology in niche areas. The delegation spoke with several Australian financial sector representatives in China who understood their contribution to the local market in terms of applying best-practice technology and standards of corporate governance. In this context, they argued, Australian financial services providers could play an important role in the development of Shanghai as an international financial centre.[10]

Selling the message in the right forum(s)

3.20 In addition to articulating current problems and selling the benefits of financial services regulatory reform in China, these messages need the right platform. One Australian banking representative told the delegation that the imperative of greater market access in China would only be realised if at every opportunity, foreign financial services providers gave China's decision-makers a clear and consistent

10 Discussion with Australian banks and Macquarie Wealth at the Australian Consulate in Shanghai, 9 May 2013.

message.[11] While this is important, it is also necessary to have a strategic approach where this message is given.

3.21 The delegation believes that the G20 Leaders' Summit in Brisbane in November next year is an important opportunity for Australia and the international community to impress on China the benefits of an open and competitive financial system. Australia has already played an influential role in financial services reform through the G20 process. The Department of Foreign Affairs and Trade has noted that Australia's 'effective system of financial regulation' has allowed it to make a 'useful contribution to discussions in G20 forums aimed at improving international financial standards'.[12] As Chair of the G20 in 2014, Australia will have no better opportunity to shape and advance the debate on financial services reform.

Recommendation 4

3.22 The delegation recommends that the Australian Government establish financial sector reform as one of the key priority areas of its G20 Presidency. The focus must be on:

- **improving market access in banking and financial services; and**
- **promoting complementarity of financial market regulations within the region, particularly in the area of corporate governance.**

Concluding comment

3.23 Australian banks and financial services companies seeking to establish and expand their operations in China will support the growth and development of China's financial services sector and its economy. It is not a zero-sum game: the participation of Australian banks and financial services providers in China will not reduce opportunities for Chinese financiers. Rather, Australian involvement can provide China with best practice in technology, process and regulation, and insights on how to improve systems of corporate governance, risk management and internal control.

3.24 As China's banking and financial services sectors continue to develop and progressively open to foreign competition, there will be important opportunities for Australia's financial services sector. Australia should not sit back and wait for this to happen. While the delegation commends the AustCham Beijing and Shanghai Financial Services Working Group for its initiatives to date, the Group must continue to identify and communicate the harm of current regulatory restrictions in China, and sell the mutual benefits of future reforms. Multilateral reform efforts will also be

11 Discussion with Australian banks and Macquarie Wealth at the Australian Consulate in Shanghai, 9 May 2013.

12 Department of Foreign Affairs and Trade, *The G20*, http://www.dfat.gov.au/trade/g20/ (accessed 24 June 2013).

important, and Australia is well placed through the G20 process to make strong representations to China and other G20 members.

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