



Australian regulatory intelligence: Collective Investment Vehicles (CIVs)

Australia's 2016 federal budget included a commitment to introduce two CIVs into the Australian investment market. The products and the dates they will be accessible to investors are as follows:



1 July
2017

Corporate Collective
Investment Vehicles (CCIV)



1 July
2018

Limited Partnership Collective
Investment Vehicles (LPCIV)

At a recent RBC Investor & Treasury Services (RBC I&TS) forum, two industry experts from EY Australia, Antoinette Elias, Oceania Wealth & Asset Management Sector Leader, and Jennifer Kwok, Tax Director, discussed the potential structure and regulatory approaches for CIVs in Australia.

Australia as a global financial centre

The concept of introducing CIVs in Australia was first put forward in the Australian Financial Centre Forum's November 2009 report, *Australia as a Financial Centre: Building on our Strengths*, also known as the Johnson Report.

The report explored opportunities to position Australia as a global financial services hub and CIVs were proposed at that time as a vehicle to achieve this aim.

Currently, unit trusts are the typical vehicle used to hold passive assets in Australia. However, there have been challenges in developing interest in unit trusts with international investors, particularly investors across Asia that are less familiar with the unit trust structure. An additional barrier for foreign investors relates to withholding tax; for example a foreign investors in Managed Investment Trusts (MIT) are subject to a 15% tax rate. This is rather high in comparison to other markets such as Luxembourg where the withholding tax rate for foreign investors can be as low as 0%.

The report also cited complexities associated with the way tax treaties apply to unit trusts acting as a further barrier to foreign investors interested in buying Australian assets.

“Reducing ‘red tape’ for global investors is important in helping to facilitate Australia’s access to global capital”

The existing rules have prompted some Australian fund managers to use offshore CIVs rather than local structures, resulting in jobs and skills being moved offshore, which also serves to erode local tax revenues.

Tax rules aside, reducing ‘red tape’ for global investors is important in helping to facilitate Australia’s access to global capital, and there is growing offshore interest in Australian assets. For example, in 2015, overseas funds coming into Australia grew by 8% to reach AUD 3,024.4 billion. The prior year foreign investment grew 10% to reach AUD 2,784.5 billion.

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Against this backdrop, the Asia Region Funds Passport will soon make it easier for offshore investors to offer investment products in Australia, increasing competition for local funds management businesses. The introduction of the more universally understood CIV structure will help local fund managers compete in this environment.

Defining the Rules

Since the release of the 2016 budget papers, there has been ongoing industry consultation and discussion on both the regulation and structure of CIVs. It is widely expected that the rules will be broadly based on the attribution managed investment trust regime (AMIT) that came into force in Australia in May 2016.

Further, it is anticipated that existing overseas corporate vehicles, such as the UK Open Ended Investment Company (OEIC), and the Luxembourg SICAV will be instructive and taken into consideration by Australian regulators. Similar to the Australian experience, OEICs were introduced in the UK to attract foreign investors that were not familiar with the unit trust structure. OEICs have since become one of the most popular vehicles for foreign investors to hold UK assets with many of the unit trust participants switching into the OEIC framework.

“The UK Open Ended Investment Company (OEIC), and the Luxembourg SICAV will be instructive and taken into consideration by Australian regulators”

Several key operational decisions regarding CIVs remain outstanding, including the transition rules and tax implications for assets that are moved by managers converting existing MITs/AMITs into CIV structures. From a withholding tax perspective, opacity in the existing rules poses an unnecessary risk for offshore investors. Addressing this in the lead-up to the 1 July 2017 implementation date may serve to drive additional interest from foreign investors.

Further details from the government are expected shortly. RBC I&TS will continue to monitor market developments and provide further information as it becomes available.

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1. Australian Bureau of Statistics, 2015 5352.0 - International Investment Position, Australia: Supplementary Statistics 2. Australian Bureau of Statistics, 2014, 5352.0 - International Investment Position, Australia: Supplementary Statistics. The views expressed in this article are the views of the presenters and not RBC Investor & Treasury Services. The content of this material is of summary matter (and subject to change without notice), and for general information only. Terms and conditions apply. Professional advice should be sought prior to any action being taken in reliance on any of the information. RBC Investor & Treasury Services make no representation or advice to the legal, regulatory or tax implications of the matters referred to. RBC Investor & Treasury Services™ is a global brand name and is part of Royal Bank of Canada. RBC Investor & Treasury Services is a specialist provider of asset services, custody, payments and treasury services for financial and other institutional investors worldwide. RBC Investor & Treasury Services operates primarily through the following companies: Royal Bank of Canada, RBC Investor Services Trust and RBC Investor Services Bank S.A., and their branches and affiliates. RBC IS Bank S.A. is supervised in Luxembourg by the CSSF and the European Central Bank. In the UK, RBC I&TS operates through RBC Investor Services Trust, London Branch & Royal Bank of Canada, London Branch, authorised and regulated by the Office of the Superintendent of Financial Institutions of Canada. Authorised by the Prudential Regulation Authority. Subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. Additionally, RBC I&TS UK operates through RBC Europe Limited, authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. RBC Investor Services Trust (Australian Branch), the Australian branch of a trust company incorporated under the laws of Canada with its Australian address at Level 47, 2 Park Street, Sydney, New South Wales, Australia. In Australia, RBC Investor Services Trust is authorised to carry on financial services business by the Australian Securities and Investments Commission under AFSL (Australian Financial Services Licence) number 295018. ABN 75 116 809 824. This document is distributed only to persons who satisfy the definition of wholesale client for the purposes of the Corporations Act 2001 and not intended for distribution to retail clients. No part of this document may be disclosed in any manner to a third party without the prior written consent of RBC Investor & Treasury Services. In Singapore, RBC Investor Services Trust Singapore Limited (RISTS) is licensed by the Monetary Authority of Singapore (MAS) as a Licensed Trust Company under the Trust Companies Act and was approved by the MAS to act as a trustee of collective investment schemes authorized under S 286 of the Securities and Futures Act (SFA). RISTS is also a Capital Markets Services Licence Holder issued by the MAS in connection with its activities of acting as a custodian. In Guernsey, RBC Offshore Fund Managers Limited is regulated by the Guernsey Financial Services Commission in the conduct of investment business. Registered Office: PO Box 246, Canada Court, St Peter Port, Guernsey, Channel Islands, GY1 3QE, registered company number 8494. In Jersey, RBC Fund Administration (CI) Limited is regulated by the Jersey Financial Services Commission in the conduct of fund services and trust company business in Jersey. Registered office: 19-21 Broad Street, St Helier, Jersey, Channel Islands, JE1 3PB. Registered company number 52624. In Hong Kong, RBC Investor Services Bank S.A. is a restricted license bank and is authorized to carry on certain banking business in Hong Kong by the Hong Kong Monetary Authority. RBC Investor Services Trust Hong Kong Limited is regulated by the Mandatory Provident Fund Schemes Authority as an approved trustee. © / ™ Trademarks of Royal Bank of Canada. Used under licence. 03/17