

**Competition among Financial Centres**  
**A comparative study of the Visions, Strategies,**  
**Roadmap and Progress of Tokyo and Sydney**

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# Introduction

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# 1. What makes a 'Financial Centre?'

A "financial centre" is a city that acts as a clearinghouse for international financial transactions that are both voluminous and varied.



## 2. Background

Financial services is an attractive business sector for cities seeking to develop because it has been a successful, high growth, sector for the past quarter of the century, and also because it is a highly mobile sector, which can be influenced by policy and planning.

### 3. Competitive Factors among Financial Centers

The competitive factors among financial Centers. The five key areas –

- ◆ 1. People,
- ◆ 2. business environment,
- ◆ 3. market access,
- ◆ 4. infrastructure and
- ◆ 5. critical mass arising from the synergistic interplay of the first 4 factors.

# 1. People

## ✦ Tokyo

- ✦ No strategies in place specifically to improve the quality of the work force in the financial industry.

## ✦ Sydney

✦ Through Axiss Australia:

✦ Two initiatives are in place

✦ 1. work closely with Australian university and training institutions.

✦ 2. offers scholarships to groom outstanding individuals for a career in the finance industry.

## 2. Business Environment

### ◆ Tokyo

- ◆ In 2005, conform its accounting practices to IASB, with a goal of ultimately attaining full convergence.
- ◆ In June 2006, the Financial Instruments and Exchange Law, an equivalent of J-Sox, was passed. The government felt
- ◆ It is important to increase the transparency.
- ◆ To improve Japan's attractiveness as a global financial hub.

### ◆ Sydney

- ◆ In June 2007, the Australian passed law exempting both local and foreign partners of venture capital firms from paying income and capital gain taxes.
- ◆ A\$80 million is also allocated to 4 venture capital funds through the Innovation Investment Fund.
- ◆ Purpose: To provide an added boost to the strong venture capital market that Australia currently enjoys.

## 3. Market Access

### ✦ Tokyo

- ✦ In April 2007, 4 members of Council of Economic and Fiscal Policy (CEFP), recommended that the Tokyo Stock Exchange and its commodities counterparts merge.
- ✦ The Financial Services Agency (FSA) also wants to evolve the financial system to attract international investors and talent to Japan.

### ✦ Sydney

- ✦ In June, Australian Prime Minister John Howard proposed the establishment of a carbon trading exchange by 2012.

## 4. Infrastructure

### ◆ Tokyo

- ◆ Currently, Japanese financial institutions lagged behind its regional rivals in terms of IT investment.
- ◆ Plans to bolster the market functions are to raise the confidence level and improve the companies' disclosure system as well as reforming the existing tax laws.
- ◆ Plans are also in place to develop a specialized financial district in Tokyo.
- ◆ Enjoy preferential treatment such as tax incentives and expedited construction permits. Amenities such as the English-speaking schools and hospitals will also be provided within the zone.

### ◆ Sydney

- ◆ There are no strategies in place to specifically improve the infrastructure in the financial industry.
- ◆ Most of the infrastructure reform within Sydney is focused on improving the transportation system

## 5. Other Strategies

### ✦ Sydney

- ✦ Axiss Australia employs four primary strategies to further their cause, namely promotion, attraction, facilitation and aftercare.
- ✦ Promotional efforts stress its competitive advantages.
- ✦ Ensure seamless transition into Sydney, by providing advice on issues such as regulations, taxation and immigration.
- ✦ Provide opportunities for leaders of incoming firms to meet up with the relevant government agencies and industry associations, forge strong ties between all parties involved.
- ✦ Introduce initiatives to ensure that the environment in Sydney remains conducive for the development of financial institutions.

## 6.1 Progress - Tokyo

- ✦ With respect to the **business environment** strategies, headway is made on three fronts.
- ✦ 1. On 8 August 2007, ASBJ and IASB came to a consensus, through the Tokyo Agreement, to expedite the process of conforming Japan's GAAP to the IFRS by mid-2011.
- ✦ 2. The major discrepancies identified within the 2005 agreement will also be eliminated by 2008.
- ✦ 3. The Financial Instruments and Exchange Law has also progressively been implemented even though it is not expected to come into full force until 1 April 2008.
- ✦ As for **market access strategies**, progress was made on the possibility of a merger of 4 of Tokyo's exchanges.

## 6.2 Progress - Sydney

- ✦ **Educational level** of the workforce within the financial services industries has improved.
- ✦ However, remuneration of finance professionals in Sydney has not kept pace, and they are generally at lower levels compared to others
- ✦ “Low-cost” is actually a double-edged sword.
- ✦ Australian efforts in trying to make regulations more business-friendly has paid off.
- ✦ Despite having favorable laws, tax rates in Australia are not as competitive when stacked up against its rivals.

## 7.1 Conclusion - Sydney

- ✦ **Australia's** efforts to transform into a global financial centre falls short in a few key areas.
- ✦ Relatively less accessible geographical location
- ✦ Tax rates and compensation packages, not an attraction of top financial talent to Sydney.
- ✦ Added challenge of flight of human capital to larger English speaking centres in pursuit of better opportunities.
- ✦ Australia's promotional efforts have not managed to garner the sort of reactions it was hoping from financial institutions.

***– Instead pulling in 'front' line, revenue-generating operations, the institutions (JP Morgan, UBS and Morgan Stanley) have made Sydney a hub for their various back office support functions.***

## 7.1 Conclusion - Tokyo

- ✦ **Tokyo**, is bogged by issues centering on its people and regulatory and tax environments.
- ✦ 1. Recent reviews of the financial industry show it is determined to set things right.
- ✦ Initiatives to enhance business collaboration as well as improvements to the existing regulatory framework may just give the country's flagging financial sector its much needed boost to pick up from where it left of.
- ✦ 2. Tokyo has all that it takes to come out ahead – remuneration rates are above average, a good number of financial institutions decided to make Tokyo their home in Asia, and the Japanese are fiercely loyal.
- ✦ ***Expectations are rising in the land of the rising sun.***