

Manager
Philanthropy and Exemptions Unit
Personal and Retirement Income Division
The Treasury
Langton Crescent
PARKES ACT 2600

13 January 2009

To Whom It May Concern:

We write to express our support for the Government's review of the Prescribed Private Fund ('PPF') guidelines and in particular, Philanthropy Australia's submission dated 8 January 2009 to the Treasury discussion paper, Improving the Integrity of Prescribed Private Funds ('Paper').

As a large, global organization which has advised philanthropists and the charitable sector for over 140 years, we hope to provide some unique insights regarding the motivation and behaviours of both donors and recipients, and how these have been encouraged by the creation of PPFs.

While strongly supportive of actions to ensure transparency and accountability of PPFs, we believe any proposed changes must recognize that significant philanthropy occurs in two distinct but related stages – the establishment of a structure and plan for giving, followed by the actual distribution over time of the capital sum and earnings.

Observations

1. A commitment to philanthropy is often formed on sale of a family business, a major shareholding or the receipt of inheritance i.e. When the benefactor has or is expecting a very large sum of money and is making allocations to home, investment, family gifting, lifestyle etc. Logically, any structure that promotes an allocation to charity at this time will promote a greater sum being given.
2. This allocation decision often signals the commencement of an individual or family's structured, strategic approach to philanthropy, one that usually becomes part of family tradition.
3. Over generations, the number of private donors likely to be involved in a family's PPF will exceed 20.
4. Even in the absence of such a significant one-off event, many philanthropists will make one major charitable allocation per financial year.
5. Many philanthropists are successful business people, and, in keeping with the growing trend to social entrepreneurship, would like to combine their monetary contribution with their skill, networks and creativity in the form of new projects, which may be short term or long term and develop into significant long term partnerships.

6. Most charitable organisations would prefer longer term partnerships with philanthropists that understand their vision and service model – who do not insist on seeing the results of their funding overnight and who prefer to support the core needs of the organisation. This type of relationship only develops over time, often starting with smaller distributions at the outset growing into larger more significant distributions as the relationship grows.
7. There is an obvious direct and strong correlation between individual's wealth and their desire and ability to give. Put simply, when times are tough, charitable donations dry up. Hence any structure aimed at maximising charitable contributions should make it as easy as possible for donors to give the maximum amount possible in any given year – because next year, they may have little to give.
8. Donors like flexibility in their philanthropy; the ability to allocate reactively, in the short term and in particular in times of need, and strategically over the long term, in any given year.
9. Most charitable institutions would prefer sustained funding of a higher value over the longer term rather than short term bursts of funding. All would certainly prefer to be as self-funding as possible.
10. Many philanthropists prefer establishing a longer term, consistent relationship with the recipient of their funding that is active in both good times and bad and the organisation and the community can rely on.
11. Corporate foundations structured as PPFs tend to distribute all of their capital each year (ie are pass-through entities), which artificially reduces the reported average distribution rate of PPFs.
12. Since their inception, PPF structures have been central to ensuring the highest irrevocable financial commitment is made to the community by the donor - one that cannot be unwound or later becomes subject to future financial vicissitudes or individual motivations. This is compared with annual or ad hoc philanthropic funding decisions, inevitably subject to market uncertainties and individual priorities and motivations.
13. Strong growth in retail savings & investment growth and intergenerational wealth transfer has contributed to overall wealth levels and the desire for intergenerational philanthropic structures. PPFs have to date been the preferred structure by which families establish intergenerational philanthropic commitments.
14. To date, PPF's have contributed greatly to growing a culture of giving in Australian society, which severely lagged US and European community giving standards. Any changes to PPFs that render them solely short term philanthropic vehicles without also providing the flexibility for longer-term endowments would discourage their use, reduce levels of giving, and inhibit development of Australia's nascent culture of philanthropy.

Conclusions

We believe it essential that any changes to the current regime do not diminish the propensity of donors to make large, irrevocable charitable donations and that any attempt to regulate the speed at which donors distribute such donations be fully cognizant of the likely impact on the propensity to maximize giving.

This is even more important given the current economic and employment environment.

Generally, we support the notion of a minimum distribution rate to ensure that committed funds are used for their intended purpose. We recommend the maximum distribution rate not exceed the average expected return on invested funds awaiting deployment, agree with Philanthropy Australia's recommended 5%, and note its consistency with the US endowment model.

Most importantly, we support Philanthropy Australia's key point that the real value of any PPF's worth must be maintained ie. that PPFs be structured such that the philanthropic 'investment' is promoted rather than simply philanthropic 'consumption'. This sustainability principle not only matches the long-term funding requirements of the charitable recipients, it maximizes the total charitable contribution because the distribution rate can't exceed the investment return, ensuring the growth of an ever-larger capital base. Over the long term, this will make the Australian philanthropic sector more capable of self-funding, similar to the successful US model.

Who we are

UBS Wealth Management is one of the three businesses carried out in Australia by global financial services firm UBS AG, which has over 70,000 employees in 180 offices across 55 countries.

UBS Wealth Management is the world's oldest, and one of the world's largest, wealth managers and the largest wealth manager number one in Asia Pacific. In June, for the fourth consecutive year, AsiaMoney awarded UBS 'Best Private Bank in Asia'.

In Australia, UBS operates in Sydney, Melbourne, Brisbane and Perth and employs in excess of 1500 staff. The Wealth Management business employs in excess of 350 staff including 100 private client advisers, who provide sophisticated services to affluent and high net worth families, corporate executives and a wide range of charitable and not-for-profit organisations.

UBS Wealth Management has a dedicated worldwide philanthropic advisory platform, which includes:

- Advising high net worth individuals and families on philanthropic options;
- Advising those same clients on how to structure their giving, including the establishment of PPFs;
- Assisting clients to incorporate philanthropy into their estate planning and intergenerational wealth transfer;
- Provision of investment advice to a number of Australia's largest not for profits and charitable foundations;
- Design of investment solutions specifically for charitable and not for profit organizations; and
- Supporting philanthropy through direct financial support, sponsorship, global roundtables and forums.

Globally, UBS manages, administers and researches international philanthropic projects through the UBS Optimus Foundation. In Australia, the UBS Australia Foundation coordinates all of the charitable activities of UBS including workplace giving, corporate donations and staff volunteering.

We commend the Government for undertaking this review of PPF Guidelines and would be happy to offer further information or assistance in working together towards a more generous and inclusive community.

We also welcome simplification of the process for establishing a PPF and clarification of the guidelines so that PPFs may operate confidently and without uncertainty.

Should there be additional consultation, please direct all notices and enquiries to:

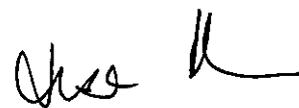
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Yours sincerely,

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