

I have read the discussion paper dated November 2008 and have the following comments to make. By way of background I do voluntary work on two Foundations that are involved in raising money to finance research into the marine sciences. I have therefore had a considerable exposure to grant making entities.

Principles underpinning the rules

I do not have a problem with these principles.

Required distributions

My belief is that PPFs should NOT be required to make distributions at a rate that will result in the diminution of the real value (i.e. inflation adjusted) of their capital. Therefore any required distributions should be related to their earnings after adjustment for inflation. Note here that my definition of earnings does not include unrealised capital gains or losses.

The formula to calculate required distributions should also take into account the nature of grants versus the nature of income. i.e. grants will tend to be lumpy (\$5,000 for this project, \$30,000 for that project and so on) whereas the earnings will be a specific sum. It will be difficult to get a precise match between the two. Also grants may be made in instalments over several years and this also should be taken into account in the formula. There are various ways to express such a formula and I will leave it to the reviewers to come up with something sensible based on the principles stated here.

I do not feel strongly that a lower distribution rate should apply initially to allow for the build-up of corpus. The build-up of corpus should come from donations to the PPF.

Regular valuations at market rates

I do not see a particular need for this, given my comments re distributions.

Minimum PPF size

This sounds like a sensible idea. I would have thought that the minimum size should be at least \$1 million.

Increased public accountability

This sounds reasonable and if implemented should use existing structures such as ABNs. Information published should be similar in content to that required for a company.

Regulatory powers by ATO

It is reasonable that PPFs should comply with the laws (this assumes also that the laws are sensible and can be complied with).

Any such transition period should be similar to that used when other structures are subject to change. Two years seems OK.

I would not insist on a corporate trustee. So long as the rules are obeyed, there should not be a need for a corporate trustee.

Fit and proper person test

This could be difficult. Any such test should take into account that fine people may not have a degree, may not be members of professional associations, may never have run a company etc.

PPFs are private

I do not see the benefit of limiting the number of donors. So long as the rules are obeyed, it should not be a problem if more than 20 people donate to a PPF.

Investments in only liquid assets

If this rule is introduced, there should be a grand-fathering clause to isolate existing illiquid assets.

CONCLUSION

I hope the above comments are useful.

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