

5 December 2013

Head of Secretariat
Financial System Inquiry
The Treasury
Langton Crescent
PARKES ACT 2600

Email: fsi@treasury.gov.au

Dear Sir/Madam,

**PUBLIC CONSULTATION
DRAFT TERMS OF REFERENCE – FINANCIAL SYSTEM INQUIRY**

AustralianSuper is pleased to provide this submission in relation to the consultation on the draft terms of reference on the recently announced Financial Systems Inquiry.

About AustralianSuper

AustralianSuper is an APRA regulated industry superannuation fund that is run only to benefit our members. With over 2 million members and over \$69 billion in members' assets, we use our scale to deliver as much value as possible for members. We are grateful for the opportunity provided to comment on the draft terms of reference for the Financial System Inquiry (FSI).

We note that the draft terms of reference are very wide and there is a relatively short timeframe for the completion of the FSI (November 2014). Our first preference would be for the Inquiry to be extended for a further twelve months in order to ensure that the matters covered in the Terms of Reference receive due consideration. If this is not achievable we suggest that interim or draft recommendations be made available for consultation in September 2014.

As suggested in recent consultations on same, we have provided our suggested amendments in red to the draft terms of reference (attached).

We have focussed on four key areas of concern which are potentially but not explicitly covered in the draft terms of reference. These are areas which we think require deliberate examination under the FSI.

1) Cost and effectiveness of regulation

We are concerned that the administrative burden and cost of compliance in the financial services sector potentially outweighs the regulatory benefits obtained. Specifically we are concerned that there is no ongoing process of review of specific regulatory requirements to determine whether they have met the original objectives behind such requirements. Whilst regulatory impact statements purport to estimate future costs and benefits of regulation, there is no process which adequately deals with whether implemented regulatory measures have worked or are working.

2) The scope of prudential regulation

Specific consideration needs to be given in relation to the scope of prudential regulation in Australia and whether or not this needs to be extended. There are a number of areas where prudential regulatory coverage is incomplete.

We suggest that if prudential regulation is considered to be effective in areas such as superannuation then the question of why one third of superannuation funds under management are not prudentially regulated could reasonably be considered under the FSI.

The inquiry may also consider whether some types of managed investment schemes require prudential regulation, particularly where they appear to consumers to be offering banking style products or services.

3) Measures to promote a diversity of funding

The inquiry will be asked to report on, amongst other things, how the financial system can more efficiently allocate Australian sourced capital to minimise exposure to volatility in global capital markets. We suggest that this should specifically include active consideration of measures to promote a diversity of funding to provide a wider range of funding options in the future.

4) Measures to ensure the development of 'fit for purpose' financial products in the superannuation and retirement sectors

We are concerned to ensure that the delivery of financial products and services that are 'fit for purpose' for consumers of superannuation and retirement products is paramount. This is an appropriate area of focus for the FSI.

Superannuation is a long term compulsory investment that should ultimately be able to provide sufficient retirement savings to augment, and for some Australians, replace the Centrelink Aged Pension for most working Australians. To the extent that this public policy objective is NOT met, the taxpayer ultimately bears the burden to fund - via the Commonwealth Government - the Centrelink Aged Pension for those who have insufficient retirement savings.

Superannuation is a public/private sector partnership in Australia – the tax concessions provided to superannuation by the Government should reasonably be subject to some review of their effectiveness in assisting the overall Superannuation policy objective of replacement of part/all of Government-funded support for the Centrelink Aged Pension.

To this end AustralianSuper thinks it is important to ensure that any superannuation products that are provided to Australian consumers should be fit for the purpose of meeting the Government's objectives in superannuation. The concept of 'fit for purpose' should be included in the principles that are important in setting retirement income policy.

The details of how to test whether a superannuation fund or product is 'fit for purpose' would require some level of consideration by Regulators and from research. It would mean that the product design and cost would be judged on its likely capacity to deliver an adequate retirement income for investors given set contribution, time and investment parameters. The Financial Systems Inquiry can consider whether it is appropriate to create product design measures intended to achieve this objective.

We are ready to provide further information to assist in relation to the draft terms of reference where required. Please do not hesitate to contact me on 03 8648 3847 if you wish to discuss this further.

Yours sincerely



Louise du Pre-Alba
Head of Policy

Financial System Inquiry – Draft Terms of Reference

Objectives

The inquiry is charged with examining how the financial system could be positioned to best meet Australia's evolving needs and support Australia's economic growth.

Recommendations will be made that foster an efficient, competitive and flexible financial system, consistent with financial stability, prudence, integrity and fairness.

Terms of Reference

1. The Inquiry will report on the consequences of developments in the Australian financial system since the 1997 Financial System Inquiry and the global financial crisis, including implications for:
 - 1.1. how Australia funds its growth;
 - 1.2. domestic competition and international competitiveness; and
 - 1.3. the current cost, quality, safety and availability of financial services, products and capital for all end users.
 - 1.4. How to consider measures to promote the diversity of funding.
2. The Inquiry will refresh the philosophy, principles and objectives underpinning the development of a well-functioning financial system, including:
 - 2.1. balancing competition, innovation and efficiency, with stability and consumer protection;
 - 2.2. how financial risk is allocated and systemic risk is managed;
 - 2.3. assessing the consequences of financial regulation, including its impact on compliance costs, flexibility, innovation and financial services trade;
 - 2.4. the role of Government; and
 - 2.5. the role, objectives, funding and performance of financial regulators.
 - 2.6. The future scope of prudential regulation.
 - 2.7. The future ongoing review processes for financial services regulation.

3. The Inquiry will identify and consider the emerging opportunities and challenges that are likely to drive further change in the financial system, including:
 - 3.1. the role and impact of new technologies, market innovations and changing consumer preferences and demography;
 - 3.2. international integration, including international financial regulation;
 - 3.3. changes in the way Australia sources and distributes capital, including the intermediation of savings through banks, non-bank financial institutions, insurance companies, superannuation funds and capital markets;
 - 3.4. changing organisational structures in the financial sector;
 - 3.5. corporate governance structures across the financial system and how they affect stakeholder interests; and
 - 3.6. developments in the payment system.
4. The Inquiry will recommend policy options that:
 - 4.1. promote a competitive and stable financial system that contributes to Australia's productivity growth;
 - 4.2. promote the efficient allocation of capital and cost efficient access and services for users;
 - 4.3. support individuals and businesses to be reasonably able to manage their finances by understanding risks and rewards in the financial sector;
 - 4.4. foster dynamic and innovative financial service providers;
 - 4.5. foster measures to ensure the development of 'fit for purpose' financial products and services in the superannuation and retirement sectors; or
 - 4.6. relate to other matters that fall within this terms of reference.
5. The Inquiry will take account of the regulation of the general operation of companies through corporations law to the extent these impinge on the efficiency and effective allocation of capital within the financial system.
6. The Inquiry will examine the taxation of financial arrangements, products or institutions to the extent these impinge on the efficient and effective allocation of capital by the financial system, and provide observations that could inform the Tax Policy White Paper.

7. In reaching its conclusions, the Inquiry will take account of, but not make recommendations on the objectives and procedures of the Reserve Bank in its conduct of monetary policy.
8. The Inquiry may invite submissions and seek information from any persons or bodies.
9. A final report is to be provided to the Treasurer by 1 November 2014, following an extensive period of consultation. Consultation will include the publication of an interim report that communicates the Committee's predispositions, allowing adequate time for interested persons or bodies to provide input to the final report.