<u>Title:</u> Inquiry into Australia's Financial Services: Benefits FOR Australia

Author: David L Allen, GPO 1865 Sydney NSW 2001 [Productivity, Statistics & IT-Consultancy]

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To: Senior Adviser
Financial System and Services Division
The Treasury
Langton Crescent
PARKES ACT 2600; Email: fsi@treasury.gov.au

<u>1. Abstract</u>: It appears that the Basel-agreements are **<u>not</u>** designed to provide Benefits to Australia nor are they correctly formulated. The 44 recommendations under review appear to be based on an adherence to Basel3 or 4 and could be rethought from an Australian point-of-view. I submitted a report to the FSI-investigation, Brisbane's G20 and to the David Murray report in December 2014. I also wrote about this topic to the corresponding European Inquiry in Switzerland, the US Federal Reserve and, in 2011 to the Senate Inquiry into Banking Competition. Additionally I spoke / wrote about these topics to several of the key players such as the RBA and ASIC. Subsequently there have been improvements in Australia and in other countries, such as:

a) Australian PRA: There are too many 'banks' in Australia and 'banks' should be careful about storing data 'On-the-Cloud' – i.e. in computers in foreign countries. Have the stress-tests been redone by competent mathematicians?
b) Issues with Australian banks are being acknowledged, a massive improvement from the super, super optimistic stress test of some Australian banks.
c) Fraud has featured prominently, with several agencies reporting a win after being tapped on the shoulder. ASIC will report crime and different organisations are concerned about cartels.
d) Respectable people are starting to talk about the housing bubble and other dangerous bubbles. Glen Stevens and David Gonski may be talking some markets down.
e) David Murray would like to have a debate about debt. The Australian Constitution's main focus is on State-debt and I ran a successful political campaign in 2006/2007 that focused on Australian debt. I am most happy to debate this topic with David Murray at his convenience. Concern was expressed at the recent ASIC conference on the 44 recommendations as Australian banks rate 27 out of 29 on a debt to assets ratio. Australian banks appear to have been badly managed through two decades of the resources boom. <u>Fact of life.</u>

Generally, it is not beneficial for the Australian Economy for the banks to have such a large percentage of Australia's cash and the legislation that protects them is too powerful. On the other hand, the legislation that protects Australians has been white-anted in a Sierpinski Triangle process that leaves this legislation looking like a Swiss cheese or a Sierpinski Triangle. There are too many agencies that are paid handsomely to ensure that the banks deliver Benefits to Australia and the Swiss cheese approach means that some aspects are not controlled at all.

The Basel agreements should be redrafted to reflect the interests of resource-rich countries rather than just the interests of resource-poor powers. I am pleased Australia is starting to talk to sister countries such as Brazil and Canada. Additionally the US Federal Reserve is under pressure for several issues, with the alleged money laundering of $141.2B to Brussels being an example that has

been widely reported. Colin Barnet has questioned the competency of people running our major corporations and I have been asking the same question for several years. Ross Gittens reports that the macro economists have replaced by lawyers.

Consequently I support very few of the 44 Recommendations at this stage. As I reported in my 2014 G20 / David Murray submission, I take the royal command "It is your responsibility to look after your own money" very seriously.

David Allen, B. Sc (Hons, Maths), MA (Management), technical IT-expert with a lot of experience in Financial Services in Europe and Australia, independent of all political parties and lobby-groups.

PS: I wrote to Brisbane's G20 that Australia should not sell our export products as quickly and as cheaply as possible. I have expressed this opinion in subsequent and previous submissions.

PPS: The main weakness of the 44-Recommendations may be the lack of emphasis on Risk Management, which is unusual as Risk Management features in the title of the Basel Conference in August. As people seem to be agreeing that Stress Testing is unlikely to be effective, I **recommend** that Mathematicians conduct a Risk Management exercise, showing the Strengths and Weaknesses of Australia's banking industry and thus of Australia's economy.

Our debt levels seem to imply that we have simply squandered much of the wealth that the mining boom was meant to bring to this nation.

Yours Sincerely

David Allen

2. My previous Submissions on this topic to Europe and to the US Federal Reserve

2.1 Submission to Europe / Switzerland

Due to an acute shortage of time (I was already 7 weeks late), I simply sent them a copy of the document I sent in December 2014 to the Financial Services Investigation, Brisbane's G20 meeting and David Murray's report. Additionally I provided the following comment:

My motto is "Benefits for Australia" and I do not believe that Basel 3 has delivered such benefits. The 2014 G20 meeting in Brisbane, Australia focused on adding more than a trillion dollars to the world economy at the expense of resource rich countries such as Australia and Brazil.

I realise that the end-date for submissions has passed but I believe it is important that an Australian perspective be represented.

Basel 3 / 4 has a very European focus. Tax avoidance is not featured as strongly as resource-rich countries would wish. Equivalent mining rights do not appear to be addressed at all. Gold, which people in Basel find particularly interesting, does not feature prominently despite the recent referendum and numerous stories of gold being stolen or transferred from one European country to another.

Notes: Beatrix Wullschleger in Basel (where they may sell watches for more than $10,000) responded to my late European FS-submission with 3 mails (showing appreciation for Australian interest) and I am registered to attend the conference in Switzerland if I find a sponsor to pay my airfare (Benefits for Australia should be represented). Basel3 and 4 may be undergoing a remake and Rio Tinto has returned land to be part of a National Park in the Northern Territory. Beatrix wrote "Thank you for your registration for the 4th Conference on Credit Analysis and Risk Management, Basel, Switzerland; August 27-28, 2015" and Australia should be represented.

PS: I wrote to Beatrix, sending a seven week late submission that was a request to speak in Basel. While they politely declined my very late submission, they have courteously registered me to attend the meeting. It would be most unusual if Australia were not represented at the meeting.

2.2 Notes to the US Federal Reserve on Inflation, sent in January 2015

Inflation has had different definitions and baskets-of-goods over the decades and few reflect the real economy. As an example, Australia's inflation has been roughly equivalent to that of Britain over the last few decades. When I went to London in the 1970's, wages were low and food was expensive compared to Australia's. Nowadays British wages are relatively high and food is cheap when compared to Australia's. The second example of inflation being poorly defined is provided by the price of oil as prices skyrocketed recently without affecting inflation and the corollary may hold as prices decline.

Informal colonial taxes may also affect inflation calculations. As an example the Scientific American about two decades ago stated that America had spent over one trillion dollars on their water systems and that their rivers functioned better before the first dime was spent. Australia's 'benefit' from the 2014 G20 meeting is the establishment of an infrastructure hub.

My pre-emptive G20 approach has been successful and US-media recently reported two cases of a European Government seeking to revoke diplomatic immunity in order to collect fines that relate to tax avoidance. Additionally the NY Times carried an extensive report about processes surrounding the construction of the 4 billion dollar subway in New York. Maths may be inaccurate and international taxes may increase. Are other countries producing G20 financial services reviews? ".

2.3 Results of these two submissions

Discussions about Financial Services in the Northern Hemisphere are generally carried out in secret with minimal Australian involvement. It is interesting to see that some discussions are becoming public and that Benefits-for-Australia may occasionally be considered. Perhaps Europe and America may need to consider real benefits to themselves more closely.

As an example, estimates by financial experts for the damage caused by Cyclone Larry in Qld were an extravagant $30 billion. America wasted a lot of money after Cyclone Katrina and the estimate for Cyclone Sandy was $90 Billion, while an estimate of ONE dollar may have been closer to the mark. Bob Massey came from Harvard about a month ago to inform us that the final cost of Cyclone Sandy was a staggering $60 billion. Clearly America needs a Mathematician who provides realistic cost estimates for such events before the cash is dissipated. On the other hand, Americans are much better than we are at chasing down money that has been fritted away and we can learn from them.

It appears that reporters are now more prepared to discuss the hoarding of large amounts of money in secret bank accounts in Europe. The US Federal Reserve has a kitty of two trillion dollars as a safeguard against the next 'global crisis'. What is the targeted kitty for Australian banks? Understandably some commentators are now discussing the merits of Basel3 / 4 approach and it appears the QE has finally ended following disclosures that the US Federal Reserve was still sending money to Brussels quite recently.

2.4 What the Recommendations do not Address

The number of issues that David Murray could have addressed is enormous and I am pleased he omitted most of them. However some are intrinsically important and this is the major flaw in the 44 Recommendations.

Example1: Some countries structure much of their business organisations into pyramids. Why do we do business with them at our cost?

Example2: European (and perhaps American) companies are operating under a new business model that I am happy to discuss.

Example3: We do not know how many organisations there are in Australia operating as 'banks'.

Example4: Replacing half the banks' exec-force with modestly paid Australians who have the mathematical skills and ethics to do professional executive work is the single approach that could deliver the most Benefits for Australians**.** In one of his better books, Management guru Peter Drukcer indicated that most execs do little useful work.

Example5: Australia should return to following the best trends for international remuneration and for all aspects of the financial organisation industry.

Example6: The recommendations generally do not contain either current or targeted metrics. A UBS report this week reported that banks made up 34% of the ASX300 – a world record. What is the targeted percentage?

Example7: Following on from the security lessons learnt from the European plane crash, do targeted increases make Australian banks less secure?

Example8: Given Australia's debt-situation, did the Basel agreements deliver any benefits to Australian banks? Presumably the Basel agreements resulted in numerous projects with business-cases and profits that should have made Australia's banks the safest in the world, as such business-cases are usually met.

Example9: Europeans are urging the rest of the world to adopt Basel4 before Basel3 has been implemented. Consequently Basel3 has never been evaluated and this is such poor business practice that business managers would be sacked if they worked for reputable organisations.

Example10: Australia's GST almost certainly followed from a previous Basel agreement. The introduction of the GST (or VAT / BTW / ...) in European countries did nothing to prevent the economic ills that have befallen them, necessitating massive bailouts by other countries. Australia should be wary of discussing changes to GST-rates until due diligence has been done on our experience the corresponding Basel agreements.

I am happy to discuss these omissions at your convenience. Detailed metrics that might support the reasoning behind the 44 recommendations should be essential.

3. The Recommendations

http://www.treasury.gov.au/ConsultationsandReviews/Consultations/2014/FSI-Final-Report

My Yes / No vote appears in the Number column and the corresponding reasons appear in the Description column in bold. Thank you for inviting me to comment on these recommendations.

Chapter 1: Resilience (pages 33–88)

Number	Description
1 NO!	**Capital levels** *Set capital standards such that Australian authorised deposit-taking institution capital ratios are unquestionably strong.* **This is a flawed Basel recommendation. It is the most important of the 44 Recommendations and brings no benefits to Australia. The Australian PRA has apparently agreed to Basel's new standards but will not give details to the public. Are our banks now safe? Colin Barnett recently criticised the intellectual capabilities of mining organisations, which are advised by banks and subsidised by the ATO. If we do not have clever, ethical Australians with mathematical and technological training and hands-on experience running our banks, they will never be strong.** **Is the amount of money that the US Federal Reserve holds in reserve considered to be the new norm?**
2 NO!	**Narrow mortgage risk weight differences** *Raise the average internal ratings-based (IRB) mortgage risk weight to narrow the difference between average mortgage risk weights for authorised deposit-taking institutions using IRB risk-weight models and those using standardised risk weights.* **Authorised deposit-taking institutions appears to be a code name for what we may have once called banks. We should always use standardised risk weights and they should be specified by qualified mathematicians.**
3 NO!	**Loss absorbing and recapitalisation capacity** *Implement a framework for minimum loss absorbing and recapitalisation capacity in line with emerging international practice, sufficient to facilitate the orderly resolution of Australian authorised deposit-taking institutions and minimise taxpayer support.* **Any 'emerging international practice' would be currently based on Basel 3 or 4 and this is**

	designed to provide benefits for resource-poor countries.
4 **NO!**	**Transparent reporting** *Develop a reporting template for Australian authorised deposit-taking institution capital ratios that is transparent against the minimum Basel capital framework.* **The Transparency, accountability & integrity concept is not well defined and provides benefits to Europe. Indeed Basel does not define its terms well. There is an article in a recent book by French Economist Thomas Pikkerty that shows how such concepts may be used to transfer money to France and to Europe as a sort of colonial tax.**
5 **NO!**	**Crisis management toolkit** *Complete the existing processes for strengthening crisis management powers that have been on hold pending the outcome of the Inquiry.* **The Base3 / 4 processes for strengthening crisis management powers provide benefits for colonising countries. The 2008 GFC may be an example of an artificial crisis and it appears that the US Federal Reserve may still be paying QE-money to Europe. Are QE-type schemes a cause of financial instability for resource-rich countries?**
6 **YES!**	**Financial Claims Scheme** *Maintain the ex post funding structure of the Financial Claims Scheme for authorised deposit-taking institutions.* **We need to maintain what we have if it is effective.**
7 **NO!**	**Leverage ratio** *Introduce a leverage ratio that acts as a backstop to authorised deposit-taking institutions' risk-weighted capital positions.* **The current Swiss cheese or** Sierpinski Triangle **approach needs to be rethought from the ground up before new legislation is introduced.**
8 **NO!**	**Direct borrowing by superannuation funds** *Remove the exception to the general prohibition on direct borrowing for limited recourse borrowing arrangements by superannuation funds.* **Detroit showed just how vulnerable large pots of superannuation-money are and some Australian superannuation funds have disappeared in recent years, a la Robert Maxwell. Indeed I believe I prevented one such superannuation fund from going bust just a few years ago. The terms & conditions may be too complex for most managers to understand.**

Chapter 2: Superannuation and retirement incomes (pages 89–142)

Number	Description
9 YES!	**Objectives of the superannuation system** *Seek broad political agreement for, and enshrine in legislation, the objectives of the superannuation system and report publicly on how policy proposals are consistent with achieving these objectives over the long term.* **Public debate is always a good idea.**
10 NO!	**Improving efficiency during accumulation** *Introduce a formal competitive process to allocate new default fund members to MySuper products, unless a review by 2020 concludes that the Stronger Super reforms have been effective in significantly improving competition and efficiency in the superannuation system.* **The proposed Improved Competition & Efficiency norms tend to result in a level-playing-field in which only massive international organisations can compete. This applies equally to Australian 'banks' as well as to superannuation organisations.**
11 NO!	**The retirement phase of superannuation** *Require superannuation trustees to pre-select a comprehensive income product for members' retirement. The product would commence on the member's instruction, or the member may choose to take their benefits in another way. Impediments to product development should be removed.* **Removing impediments to product development could result in more Swiss cheese or** Sierpinski Triangle type legislation.
12 YES!	**Choice of fund** *Provide all employees with the ability to choose the fund into which their Superannuation Guarantee contributions are paid.* **This may be theoretically possible.**
13 NO!	**Governance of superannuation funds** *Mandate a majority of independent directors on the board of corporate trustees of public offer superannuation funds, including an independent chair; align the director penalty regime with managed investment schemes; and strengthen the conflict of interest requirements.* **Independent Directors tend to be related to each other, work for several companies and may**

	well be supported by massive international organisations. Qualifications and all bank accounts of directors should be controlled. The best way to guarantee quality is to reduce remuneration levels to below $200,000 so directors have time to manage the affairs of the company rather than managing <u>their own investments</u>.

Chapter 3: Innovation (pages 143–192)

Number	Description
14 **NO!**	**Collaboration to enable innovation** *Establish a permanent public–private sector collaborative committee, the 'Innovation Collaboration', to facilitate financial system innovation and enable timely and coordinated policy and regulatory responses.* **Financial-innovation appears to be a code for creating Swiss-cheese or Sierpinski Triangle structures that provide <u>no benefit to Australians</u>. As an example, there has been a lot of innovation around the credit-checks that relate to credit-cards. Once a customer is locked in, the credit-card-supplier holds all the aces. Other forms of easy debt have also become available while the macro-economists have been 'out of town'.**
15 **NO!**	**Digital identity** *Develop a national strategy for a federated-style model of trusted digital identities.* **The average Australian may have more than a dozen digital identities and the required formats for each organisation may be different. This is simply not possible and would be dangerous once criminals <u>have access to them</u>.**
16 **NO!**	**Clearer graduated payments regulation** *Enhance graduation of retail payments regulation by clarifying thresholds for regulation by the Australian Securities and Investments Commission and the Australian Prudential Regulation Authority.* **The thresholds are pretty clear already, although they were not designed for such large deposits. The requirements for each organisation may well <u>be different</u>.** *Strengthen consumer protection by mandating the ePayments Code. Introduce a separate prudential regime with two tiers for purchased payment facilities.*

	NO! **Electronic payments are generally far more expensive than cash payments are. Financial Services organisations love <u>electronic payments which bring no benefits to Australia</u>.**
17 NO!	**Interchange fees and customer surcharging** *Improve interchange fee regulation by clarifying thresholds for when they apply, broadening the range of fees and payments they apply to, and lowering interchange fees.* *Improve surcharging regulation by expanding its application and ensuring customers using lower-cost payment methods cannot be over-surcharged by allowing more prescriptive limits on surcharging.* **Firstly new regulations are not required at this stage. The focus should be on replacing as much complex legislation as possible with simplified legislation that consumers can understand and comply with.** **Secondly <u>surcharging should be abolished</u>.**
18 NO!	**Crowdfunding** *Graduate fundraising regulation to facilitate crowdfunding for both debt and equity and, over time, other forms of financing.* **Firstly new regulations are not required at this stage. The focus should be on replacing as much complex legislation as possible with simplified legislation that consumers can understand and <u>comply with</u>. Please remove Swiss cheese structures and ensure that legislation provides benefits for Australia.**
19 NO!	**Data access and use** *Review the costs and benefits of increasing access to and improving the use of data, taking into account community concerns about appropriate privacy protections.* **Reliable information is at a premium, drowned in volumes of unreliable electronic data. This is then swamped by oceans of unusable electronic noise that is of interest to nobody. Large advertising organisations supply copious amounts of electronic garbage that we should not be paying for and the '<u>it is free</u>' slogan is false – Australia pays dearly for this 'free' service.**
20 NO!	**Comprehensive credit reporting** *Support industry efforts to expand credit data sharing under the new voluntary comprehensive credit reporting regime. If, over time, participation is inadequate, Government should consider legislating mandatory participation.*

	Government has introduced such large volumes of financial-services legislation in recent decades that some financial-services organisations now consider themselves to be above the Law. The Swiss-cheese or Sierpinski Triangle approach should be rectified before new legislation is even considered.

Chapter 4: Consumer outcomes (pages 193–232)

Number	Description
21 **YES!**	**Strengthen product issuer and distributor accountability** *Introduce a targeted and principles-based product design and distribution obligation.* **The product issuer and distributor accountability obligations that apply to manufacturing should apply equally to organisations should apply equally to organisations that provide financial services, especially to organisations that provide such services illegally in Australia.**
22 **NO!**	**Introduce product intervention power** *Introduce a proactive product intervention power that would enhance the regulatory toolkit available where there is risk of significant consumer detriment.* **Products and services that provide no benefit to Australia and pose a risk of significant consumer detriment should not be sold (or leased out) in Australia. There are many such products and services that could be evaluated and perhaps withdrawn from the market.**
23 **NO!**	**Facilitate innovative disclosure** *Remove regulatory impediments to innovative product disclosure and communication with consumers, and improve the way risk and fees are communicated to consumers.* **More innovation is not required as it provides no benefits for Australia. Debt levels are rising rapidly and innovative products are sold in packages that are too complex for consumers to understand. Apparently some packages that an Australian bank has recently sold in the UK have explanations that would not pass an English test and such lack of diligence is very expensive for Australia. Westpac and AMP had problems with their overseas investments.**
24 **NO!**	**Align the interests of financial firms and consumers** *Better align the interests of financial firms with those of consumers by raising industry standards, enhancing the power to ban individuals from management and ensuring remuneration structures in life insurance and stockbroking do not affect the quality of financial*

	advice. **Consumers want stability and reliability, both in the short- and long-term. Financial services organisations want to maximise their short term profit, the returns to investors and the remuneration levels of their senior executives. The two short-term approaches are mutually exclusive.**
25 **YES!**	**Raise the competency of advisers** *Raise the competency of financial advice providers and introduce an enhanced register of advisers.* **The CV's of all financial advice providers, especially the execs, should be controlled and all such employees should be mathematically competent Australian-born citizens.**
26 **YES!**	**Improve guidance and disclosure in general insurance** *Improve guidance (including tools and calculators) and disclosure for general insurance, especially in relation to home insurance.* **Disasters such as the HIC-fiasco and the floods resulting from Cyclone Larry in Qld have caused insurance premiums to be totally out of kilter with the value of the object that is being insured.**

Chapter 5: Regulatory system (pages 233–260)

Number	Description
27 **NO!**	**Regulator accountability** *Create a new Financial Regulator Assessment Board to advise Government annually on how financial regulators have implemented their mandates.* *Provide clearer guidance to regulators in Statements of Expectation and increase the use of performance indicators for regulator performance.* **Firstly we have too many organisations that are operating in an environment that is so full of holes it looks like a Swiss cheese or a** Sierpinski Triangle. **Replacing about 20 such organisations with one effective Financial Regulator would be a great idea for Australia.** **Secondly increasing the use of key performance indicators looks attractive until one looks at the result for organisations that use this approach. Colin Barnett may have described the way their execs operate in recent interviews. Financial planners who are driven by key**

	performance indicators have been prominent in the media lately for fraudulent activity caused by cutting corners to meet kpi's. **<u>Replacing half the banks' exec-force with modestly paid Australians who have the mathematical skills and ethics to do professional executive work is the single approach that could deliver the most Benefits for Australians.</u>**
28 **NO!**	**Execution of mandate** *Provide regulators with more stable funding by adopting a three-year funding model based on periodic funding reviews, increase their capacity to pay competitive remuneration, boost flexibility in respect of staffing and funding, and require them to undertake periodic capability reviews.* **Remuneration for financial service execs in the English speaking world is not competitive, it is extortionately high. I have yet to meet a remuneration consultant who understands how the Black Scholes (or Monte Carlo) method for calculating executive remuneration works. Such high remuneration levels provide a disproportionate cost to Australia for several reasons and cause us to attract people to Australia who may have intimate contact with criminal organisations from overseas.** **On the other hand, financial service organisations tend to employ newly arrived Australians who are willing to work for a low wage in their more junior positions. Again the majority of people who are employed by financial service organisations should be Australian-born and I have enormous respect for those individuals who are willing to put their careers on-the-line when they see that their bosses are pursuing strategies that are not in Australia's interests.** **Unfortunately kpi-driven employees may take their more ethical colleagues to task, sending massive reports to their bosses with probability-logic that would not pass muster in a primary school. While life has ever been thus, recent trends to commercialisation are resulting in a loss of continuity that Australian organisations from a decade ago and most current overseas organisations would consider to be essential.** **<u>Australia should return to following the best trends for resource-rich countries for remuneration and for all aspects of the financial organisation industry.</u>**
29 **NO!**	**Strengthening the Australian Securities and Investments Commission's funding and powers** *Introduce an industry funding model for the Australian Securities and Investments Commission (ASIC) and provide ASIC with stronger regulatory tools.* **Organisations such as ASIC, ABA, Australia PRA, the RBA, CCC, the Federal Police, FIRB, SEC, Religious organisations and volunteer / charity organisations have strong regulatory tools that they seldom use. Perhaps the Finance Ministers could drop by each such organisation once a month to check that they are actually doing what they are paid for. Apparently**

	submissions for this inquiry will be sent to several organisations on this list. There are many more organisations that may welcome a copy of this submission, Basel3 and 4 and the 44 Recommendations. As Sam Walsh recently wrote "The essence of competition law around the world is that competitors do not collude". **Sam's statement supplements that of Adam Smith. 'People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public interest'.**
30 **NO!**	**Strengthening the focus on competition in the financial system** *Review the state of competition in the sector every three years, improve reporting of how regulators balance competition against their core objectives, identify barriers to cross-border provision of financial services and include consideration of competition in the Australian Securities and Investments Commission's mandate.* **Reviewing the state of competition every three months would still be inadequate, as the structure of international organisations which were recently beyond reproach may have altered due to activities such as takeovers. The New York Times reported recently that it may take 12 months to decipher the structure of organisations that are sending hot-money into American property. Some structures may be impossible to decode as countries move towards making Pyramid-structures quite acceptable.** **The definition of a bank has changed considerably over recent decades and could perhaps be applied to credit unions, insurance companies, gambling organisations, internet banks, shadow banks etc. Constant review is necessary to protect Australian banks.** **NB: When replying to the Senate Inquiry into Banking Competition, I said that we already had too much competition and the situation has worsened since then. Fortunately the Australian PRA has recently agreed with my comment.**
31 **NO!**	**Compliance costs and policy processes** *Increase the time available for industry to implement complex regulatory change.* *Conduct post-implementation reviews of major regulatory changes more frequently.* **Firstly complex regulatory change should be banned as the Financial Instruments that are required to drive Australia's economy are simple and honest people tend to avoid complex structures whenever possible.** **Post-implementation review should follow each regulatory change. Basel4 provides a serious example where this is not done. While Basel3 has not yet been completely implemented let alone evaluated, Europeans are urging us to adopt their Basel4 measures and to modify our**

	GST-rate. This is poor business procedure and people who supported such a procedure would be dismissed in a reputable business environment that operates in a responsible way.

Appendix 1: Significant matters (pages 261–276)

Number	**Description**
32 **NO!**	**Impact investment** *Explore ways to facilitate development of the impact investment market and encourage innovation in funding social service delivery.* **The investment market has had too much innovation in recent years and, according to some reports, fraud is rampart. Australian debt has increased substantially and, after decades of record prices for our export products, we are now 27th out of 29 on an IMF merits-list. Fact of life. Who is responsible for creating this new debt?** *Provide guidance to superannuation trustees on the appropriateness of impact investment.* *Support law reform to classify a private ancillary fund as a 'sophisticated' or 'professional' investor, where the founder of the fund meets those definitions.* **There has been so much 'Law Reform' that Australians have no idea what the Law is any more. The situation is worse in America where their burghers are bombarded with legislation with names such as The Patriots' Law that diminish security and the freedom of the individual. International Cockpit-security legislation is an example. The term 'Sophisticated' funds is often a coded term for high-risk-funds.**
33 **NO!**	**Retail corporate bond market** *Reduce disclosure requirements for large listed corporates issuing 'simple' bonds and encourage industry to develop standard terms for 'simple' bonds.* **Current levels of disclosure are inadequate and should not be reduced.**
34 **Yes!**	**Unfair contract term provisions** *Support Government's process to extend unfair contract term protections to small businesses.* *Encourage industry to develop standards on the use of non-monetary default covenants.* **Small businesses are extremely vulnerable to lengthy contracts that are far too complex for them to understand.**

35 NO!	**Finance companies** *Clearly differentiate the investment products that finance companies and similar entities offer retail consumers from authorised deposit-taking institution deposits.* **Generally only authorised deposit-taking institutions should offer <u>investment products</u>.**
36 YES!	**Corporate administration and bankruptcy** *Consult on possible amendments to the external administration regime to provide additional flexibility for businesses in financial difficulty.* **Bankruptcy is always a difficult process for any organisation and people tend to become emotional in Court when genuine companies are <u>wound up</u>.**
37 YES!	**Superannuation member engagement** *Publish retirement income projections on member statements from defined contribution superannuation schemes using Australian Securities and Investments Commission (ASIC) regulatory guidance.* *Facilitate access to consolidated superannuation information from the Australian Taxation Office to use with ASIC's and superannuation funds' retirement income projection calculators.* **As we saw in Detroit a year ago, superannuation funds may be badly managed and suddenly disappear. ASIC can assist to reduce the frequency with which superannuation organisations go bankrupt in <u>Australia</u> and I may have assisted in this process for one large superannuation fund.**
38 YES!	**Cyber security** *Update the 2009 Cyber Security Strategy to reflect changes in the threat environment, improve cohesion in policy implementation, and progress public–private sector and cross-industry collaboration.* *Establish a formal framework for cyber security information sharing and response to cyber threats.* **While strategies can reduce the frequency of cyber-crime, cyber-security is a myth – all cyber-data is at risk and all bank techo's I have met indicate that money should not be stored in the 'cloud'. I have campaigned for this for several years and the Australian PRA recently expressed the view that some types of information should not be stored in the 'cloud' – a win**

	for me and for Australia. While many cyber-strategies are promoted by marketing people from large cyber-firms, Australia's cyber-security strategies should be guided by Australians who have technical skills in this field as many of the cyber-strategies that have been advocated since the 1980's have provided no benefits for Australia or for Australian Education. **While we cannot eliminate viruses from the very large number of computers that are used to provide financial services in Australia, a requirement that all computer hardware and software that is used in Australia should be locally manufactured may decrease the level or risk slightly, resulting in a Benefit for Australia.**
39	**Technology neutrality** *Identify, in consultation with the financial sector, and amend priority areas of regulation to be technology neutral.* *Embed consideration of the principle of technology neutrality into development processes for future regulation.* *Ensure regulation allows individuals to select alternative methods to access services to maintain fair treatment for all consumer segments.* **While technology allows large amounts of information to be processed intelligently and vast amounts of data and cyber-noise to be stored (but never processed), certain priority areas should be done manually (when possible) and off-line away from any contact with the internet for security reasons. Cash with traceable serial-numbers could still be used for transactions that are liable to fraud, with the sale of Government assets being just one example.**
40 **YES!**	**Provision of financial advice and mortgage broking** *Rename 'general advice' and require advisers and mortgage brokers to disclose ownership structures.* **As the NY-TIMES recently reported, the structure of pyramid-organisations that invest hot money in America (and in Australia) are so complex that it may be impossible to unravel them.**
41 **YES!**	**Unclaimed monies** *Define bank accounts and life insurance policies as unclaimed monies only if they are inactive*

	for seven years. **Some financial services organisations and government organisations are far too ready to claim money that <u>belongs to consumers.</u>**
42 **YES!**	**Managed investment scheme regulation** *Support Government's review of the Corporations and Markets Advisory Committee's recommendations on managed investment schemes, giving priority to matters relating to:* • *Consumer detriment, including illiquid schemes and freezing of funds.* • *Regulatory architecture impeding cross-border transactions and mutual recognition arrangements.* **As Australia's debt levels rise, consumers are the big losers and overseas financial and technological institutions and their execs are the big winners.**
43 **NO!**	**Legacy products** *Introduce a mechanism to facilitate the rationalisation of legacy products in the life insurance and managed investments sectors.* **Terms such as Legacy-product and Legacy-system tend to be promoted by international organisations that have a benefit in providing new products and IT-systems. If a product or IT-system still operates in a financially responsible way, <u>keep it</u>!**
44 **NO!**	***Corporations Act 2001* ownership restrictions** *Remove market ownership restrictions from the Corporations Act 2001 once the current reforms to cross-border regulation of financial market infrastructure are complete.* **Firstly cross-border regulation of financial infrastructure will probably never be complete.** **Secondly, the sections of the Corporations Act 2001 that regulate market ownership provide a Benefit for Australia and should not be removed to provide Benefits for resource-poor countries. This type of proposal may be typical of Basel3 and 4 and could perhaps be referred to Sam Walsh.**

*******End of Response, Many Thanks, David Allen B. Sc (Hons, MA (Management) *******