



05 December 2013

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

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Dear Mr Lonsdale

### **Financial System Inquiry – Terms of Reference**

Following the last comprehensive Australian financial system inquiry in 1997 we saw the introduction of ground breaking reforms which led to the twin peak model of financial system regulation, putting Australia at the forefront of global financial services regulation and increasing our global competitiveness.

CPA Australia calls on this review to be just as bold and to look beyond simply examining the issues facing Australia's financial services sector today. Rather, this inquiry should lead to enhancements in Australia's robust and responsive regulatory system, with the focus being on reforms that will lift the global competitiveness of Australia's financial services sector and serve it well for the next 10, 15 or even 20 years. This will be the major challenge facing this inquiry.

For some time Australia has been promoting its desire to become a financial services 'hub' in the Asian region. At this stage those aspirations are yet to be met and action is needed if we are to achieve this objective - especially given the pace with which our competitors for this title are advancing. Given the tight timeframe of this inquiry, CPA Australia suggests that this inquiry leverage the work undertaken in 2010 by the Australian Financial Centre Forum on *Australia as a Financial Centre* (the Johnson Report). This report not only provides insight into this issue, but should serve as a guide to necessary reforms to increase the global competitiveness of our financial services sector.

Since the 1997 review of Financial Services, the Australian and global environment for financial services has changed significantly. Over this period we have seen a number of major financial shocks hit Australia's financial system including the Asian financial crisis, the corporate collapse of HIH and the recent global financial crisis. We have seen the continued growth of Australia's superannuation industry, the continued incredible pace of globalisation, the emergence of Asia as a centre of global economic prosperity and influence, a growing and ageing population and increases in cross-border financial transactions. Despite these changes, the most significant transformation, and the one which will drive this review, are the advances in communication technologies that have changed forever the complexity of the global financial services industry, the speed of transactions, the increased contagion risk of the system, and the way that consumers,

sellers and regulators all operate within the Australian and global financial services sectors.

### **Scope and structure of the review**

CPA Australia welcomes the breadth of the Draft Terms of Reference for the inquiry. We believe that a full 'root and branch' review is appropriate to fully capture the significant changes in financial services regulation and industry structure that have occurred over the past 16 years.

One of the driving considerations of the review should be on improving the global competitiveness of Australia's financial services sector. Despite Australia still being seen as a leader in financial services regulation, CPA Australia is concerned that when examining the competitiveness of the financial services sector that this be undertaken from global and regional perspective, rather than from a more simplistic domestic perspective. By taking a global perspective this inquiry will better and more accurately reflect the changing landscape of global financial services.

Equally important is the need to ensure that when examining the regulatory burden on firms and advisers that this is looked at from a systemic viewpoint and that the cumulative impact of all regulation is taken into consideration. For an individual firm it is not just the regulatory burden imposed from one agency or one piece of legislation that is a factor, it is the cumulative impact from all regulators that can have a significant negative impact on the competitiveness of Australian firms.

Given the breadth of the inquiry, CPA Australia believes that it is important that the final terms of reference better define the scope of the inquiry. Our suggestion would be to split the inquiry into two parts. The first stage should examine systemic issues and the industry as a whole, including barriers, opportunities and the global competitiveness of the Australian financial services sector. The second stage should then examine individual sectors and any market and regulatory failures that currently exist and how these could be addressed to best position the Australian financial services sector for the future – including reforms to regulatory agencies, reporting structures and government oversight.

In reviewing the superannuation sector it is also important that the review consider the adequacy of savings policy as a whole. This should capture the changing financial challenges for individuals both now and in the future including increasing longevity, higher global living standards, and the rising general costs of living for all Australians.

Given the short timeframe of this review it may be possible that the first stage, as outlined above, could form part of an initial discussion paper that is released with the final terms of reference for the inquiry.

### **Timeline**

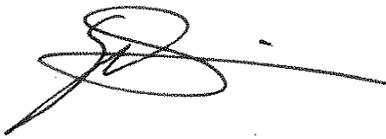
As you will appreciate the next twelve to eighteen months will be a busy period with a number of major government inquiries being undertaken which will overlap with this broader financial system inquiry. These include the current review into the operations of the Australian Securities and Investments Commission, the preparation of a White Paper

on Tax Reform, and the government's G20 commitment to undertaking further action to mitigate the risks associated with revenue base erosion and profit shifting.

These various inquiries will have far reaching implications for this and other reviews and it is important that consideration be given to how these reviews are coordinated when finalising the Terms of Reference, the timing of your call for submissions and the development of the interim and final reports of this inquiry.

CPA Australia welcomes the 'root and branch' approach of the government to its review of Australia's financial system and we look forward to furthering our contribution to this important and comprehensive review.

Yours sincerely

A handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke extending to the right.

Stuart Dignam  
General Manager, External Positioning  
CPA Australia