CIFR
Centre for International Finance and Regulation
Towards Financial System Integrity

Centre for International Finance and Regulation

Financial System Inquiry (FSI) Workshop II – The Interim Report

26 August 2014

Foreword

Presentations from Financial System Inquiry (FSI) Workshop II – The Interim Report

The Centre for International Finance and Regulation (CIFR) was delighted to host the Financial System Inquiry (FSI) Workshop II at Sydney's Hilton Hotel on Thursday 21 August 2014.

CIFR is a Centre of Excellence established to address fundamental issues affecting the Australian financial industry through research and education.

CIFR developed the Workshop in consultation with the FSI Secretariat and brought together senior representatives of the FSI Panel and Secretariat, government, regulators, academia and industry to hear a broad range of responses from industry and academic experts to the FSI's Interim Report.

All presentations from the Workshop are included. Delegates at the Workshop provided feedback on aspects of the Interim Report via Event Poll and the feedback is provided here. We also make the video of presentations available and it can be accessed from our website and via YouTube.

CIFR will separately lodge a submission to the FSI, drawing on the research of its Research Director and Research Fellow, and CIFR-funded research projects.

Yours sincerely

Professor David R. Gallagher
Chief Executive Officer
Centre for International Finance and Regulation

25 August 2014

Contents

Event Poll Results

During the Workshop, participants in our event polling exercise provided their input on the direction of the Inquiry as well as their perceptions about some of the observations in the Interim Report. The results appear below.

MORNING SESSION

Inquiry's initial assessment:

'The financial system has performed reasonably well in meeting the financial needs of Australians and facilitating productivity and economic growth…However, there is no room for complacency.'

A)	Yes	**72.20%**
B)	No	**16.70%**
C)	Neutral / unsure	**11.10%**

What have you read in connection with the Inquiry's Interim Report?

A)	A lot of material, including the whole Report	**19.20%**
B)	A lot of material but not the whole Report	**50.00%**
C)	Not a lot of material but at least some of the Report	**23.10%**
D)	Articles in the media but none of the actual Report	**7.70%**
E)	Nothing of relevance – I only read the Sports pages in the Tele	**0.00%**

There has been adequate opportunity to provide input to, and engage with, the Inquiry in the consultation process that has been run to date.

A)	Yes	**53.20%**
B)	No	**23.40%**
C)	Neutral / unsure	**23.40%**

Questions

Academic Response to the Interim Report

COMPETITION

How do you rate the state of competition in banking?

A)	Comfortable oligopoly	**56.40%**
B)	Moderately competitive	**33.30%**
C)	Vigorously competitive	**7.70%**
D)	Neutral / unsure	**2.60%**

FUNDING

Would you support the development of a small- and medium-sized enterprise finance database to reduce information asymmetries between lenders and borrowers?

A)	Yes	**65.10%**
B)	No	**7.00%**
C)	Neutral / unsure	**27.90%**

SUPERANNUATION

Considering the entire superannuation industry, do you regard it as sufficiently competitive?

A)	Yes	**11.10%**
B)	Competitiveness varies depending on segment of the industry	**28.90%**
C)	No	**53.30%**
D)	Neutral / unsure	**6.70%**

STABILITY

Do you support the allocation of more resources to monitoring and detecting potential threats to the financial system?

A)	Yes	**81.00%**
B)	No	**11.90%**
C)	Neutral / unsure	**7.10%**

CONSUMER OUTCOMES

Should there be a clear distinction apparent to consumers between the receipt of information about a financial product and the receipt of advice about a financial product?

A)	Yes	90.50%
B)	No	2.40%
C)	Neutral / unsure	7.10%

REGULATORY ARCHITECTURE

Do you agree that the Inquiry should recommend changes to increase independence and accountability of the regulators?

A)	Yes	81.80%
B)	No	15.90%
C)	Neutral / unsure	2.30%

RETIREMENT INCOME

Considering 'retirement risks' generally (e.g. longevity risk), which type of industry participant should be primarily responsible for managing such risks?

A)	Government	29.80%
B)	Private sector (e.g. insurers)	21.30%
C)	Individuals	42.60%
D)	Neutral / unsure	6.40%

TECHNOLOGY AND FINANCIAL DATA ARCHITECTURE

Should the regulatory architecture adopt the principle of technology neutrality in regulating delivery models for financial services?

A)	Yes	56.40%
B)	No	33.30%
C)	Neutral / unsure	10.30%

INTERNATIONAL INTEGRATION

Is there a need for a change to the role of an existing financial coordination body (such as the CFR, FSAC or RBA) to promote accountability and provide economy-wide advice to Government about Australia's international financial integration?

A)	Yes	76.90%
B)	No	15.40%
C)	Neutral / unsure	7.70%

OPPORTUNITIES IN THE ASIAN CENTURY/INTERNATIONALISATION OF THE RENMINBI (RMB)

Would greater international integration with Asia put Australia in a stronger position to meet the financial needs of Australians?

A)	Yes	86.50%
B)	No	8.10%
C)	Neutral / unsure	5.40%

Interactive Session

PART A – FRAMING THE INQUIRY

Areas of challenge and opportunity

In framing its work, the Inquiry has identified 5 high level areas of challenge and opportunity with implications for the future:

- Future financial crises
- Fiscal pressures
- Productivity growth
- Technology change
- International integration

These areas are a sound basis to use to inform identification of priority issues for the Inquiry to address.

A)	Yes	**36.80%**
B)	No	**52.60%**
C)	Neutral / unsure	**10.50%**

Themes

The Inquiry has adopted 3 themes for the purpose of classifying priority issues.

- Growth and consolidation
- Post-GFC regulatory response
- Emerging trends

The themes are a reasonable basis on which to classify priority issues to help the Inquiry achieve its objective.

A)	Yes	**66.70%**
B)	No	**23.80%**
C)	Neutral / unsure	**9.50%**

Priority Issues

Nine priority issues have been identified

1. Competition and contestability
2. Funding Australia's economic activity
3. Superannuation efficiency and policy settings
4. Stability and the prudential framework
5. Consumer outcomes and conduct regulation
6. Regulatory architecture
7. Retirement incomes and ageing
8. Technology opportunities and risks
9. International integration

Would you suggest any other issue/s be elevated to equivalent level of priority?

Suggestions put forward by participants:

- Culture
- Education & financial literacy
- Asian integration
- Inertia/Complacency
- Transparency
- Data capture+availability for research
- Database of audited superannuation financial statements
- Trust
- Compensation levels
- Tax policy
- Tax reform is critical to the FSI and shouldn't be kept for a separate report
- Framework for deciding how and when Australia should choose to depart from international regulatory standards
- Integrity
- Accountability/performance of regulators
- Incentive structures
- Accountability
- The underperformance of traditional managed funds and consumer warnings thereof, education

Of the 9 issues identified, nominate the 3 you believe the Inquiry should give most attention.

1.	Competition and contestability	9.50%
2.	Funding Australia's economic activity	11.10%
3.	Superannuation efficiency and policy settings	19.00%
4.	Stability and the prudential framework	0.00%
5.	Consumer outcomes and conduct regulation	11.10%
6.	Regulatory architecture	12.70%
7.	Retirement incomes and ageing	17.50%
8.	Technology opportunities and risks	4.80%
9.	International integration	14.30%

If there was a need to lower the priority of 3 issues to direct more attention to the other issues, nominate 3 issues you believe are less important than others.

1.	Competition and contestability	13.80%
2.	Funding Australia's economic activity	13.80%
3.	Superannuation efficiency and policy settings	6.20%
4.	Stability and the prudential framework	23.10%
5.	Consumer outcomes and conduct regulation	6.20%
6.	Regulatory architecture	9.20%
7.	Retirement incomes and ageing	7.70%
8.	Technology opportunities and risks	15.40%
9.	International integration	4.60%

Will technology lead to the entry of new firms that will make banking significantly more competitive within 5 years?

A)	Yes	73.90%
B)	No	21.70%
C)	Neutral / unsure	4.30%

Are there adequate processes to balance competition issues and prudential issues on an ongoing basis?

A)	Yes	13.00%
B)	No	60.90%
C)	Neutral / unsure	26.10%

PART B – INTERIM REPORT'S OBSERVATIONS

These questions gauge perceptions about some of the observations in the Interim Report that have attracted the most attention.

OBSERVATION: 'There is little evidence of strong fee-based competition in the superannuation sector, and operating costs and fees appear high by international standards. This indicates there is scope for greater efficiency in the superannuation system.'

A)	Yes	76.00%
B)	No	16.00%
C)	Neutral / unsure	8.00%

OBSERVATION: 'If allowed to continue, growth in direct leverage by superannuation funds, although embryonic, may create vulnerabilities for the superannuation and financial systems.'

A)	Yes	73.90%
B)	No	17.40%
C)	Neutral / unsure	8.70%

OBSERVATION: 'Superannuation policy settings lack stability, which adds to costs and reduces long-term confidence and trust in the system.'

A)	Yes	84.00%
B)	No	16.00%
C)	Neutral / unsure	0.00%

OBSERVATION: '…sound corporate governance requires clarity of the responsibilities and authority of boards and management…within institutions, substantial regulator focus on boards has confused the delineation between the role of the board and that of management.'

A)	Yes	73.90%
B)	No	21.70%
C)	Neutral / unsure	4.30%

OBSERVATION: 'The current disclosure regime produces complex and lengthy documents that often do not enhance consumer understanding…and impose significant costs on industry participants.'

A)	Yes	100.00%
B)	No	0.00%
C)	Neutral / unsure	0.00%

OBSERVATION: '…Improving standards of adviser competence and removing the impact of conflicted remuneration can improve the quality of advice…'

A)	Yes	88.50%
B)	No	7.70%
C)	Neutral / unsure	3.80%

OBSERVATION: '…Comprehensive financial advice can be costly, and there is consumer demand for lower-cost scaled advice.'

A)	Yes	92.00%
B)	No	4.00%
C)	Neutral / unsure	4.00%

Agenda

8am *Registration*

8.45am **WELCOME**

Professor David R. Gallagher

Chief Executive Officer, Centre for International Finance and Regulation (CIFR)

David was appointed Chief Executive Officer of CIFR and Professor in the UNSW Business School at UNSW Australia in April 2013. David previously held senior academic appointments at the Macquarie Graduate School of Management, The University of Texas at Austin, and the University of Technology, Sydney, and served as a visiting scholar with the Investment Company Institute in Washington DC. David's research interests and expertise are in the fields of investment management and capital markets. He is a Research Director at the Capital Markets CRC Limited, an Editor of 'Accounting and Finance' and serves on the advisory board of MARQ Services Pty Limited.

9am

David Murray AO

Chairman, Financial System Inquiry

David Murray joined the Commonwealth Bank in 1966, was appointed Chief Executive Officer in June 1992, and retired from this position in 2005. In November 2005 the Australian Government announced that Mr. Murray would be Chairman of the Future Fund. His statutory term ended in April 2012. Mr. Murray is a member of the Oliver Wyman Senior Advisory Board and a Consultant to Tenix Pty Ltd. He was formerly a Senior Advisor to Credit Suisse, Sydney. He has also previously served as a member of the Finance Sector Advisory Council and was the inaugural Chair of the International Forum of Sovereign Wealth Funds. In 2001, he was awarded the Centenary Medal for service to Australian Society in banking and corporate governance and, in 2007, he was made an Officer in the Order of Australia (AO). Mr. Murray is currently the Chair of the Financial System Inquiry.

9.15am

The Hon John Howard OM AC

Interviewed by Professor David R. Gallagher

John Winston Howard served as Australia's Prime Minister between March 1996 and November 2007. He is the nation's second longest serving Prime Minister, was a member of Parliament for 33 years, and was Treasurer in an earlier government. Under his leadership Australia enjoyed continued economic growth averaging 3.6% per annum. His government delivered major economic reform in the areas of taxation, workplace relations, privatisation and welfare. Under John Howard's leadership Australia strongly supported the United States and other nations in the fight against terrorism. The Howard government strengthened bilateral ties between Australia and many nations in Asia.

Mr Howard is a Companion of the Order of Australia and was awarded the Presidential Medal of Freedom, the highest civilian award in the United States by President George W Bush. In January 2012 Queen Elizabeth II appointed Mr Howard to the Order of Merit. In 2013, on the recommendation of the Japanese Government, he was awarded the Grand Cordon of the Order of the Rising Sun.

9.40am-12.30pm ACADEMIC RESPONSE TO THE INTERIM REPORT

9.40am COMPETITION

Professor Fred Hilmer AO

President & Vice-Chancellor, UNSW Australia – CIFR Board Member

Professor Hilmer is the President and Vice-Chancellor of UNSW Australia, a position he has held since 2006. Professor Hilmer is also a Director on the Group of Eight Board. He held the position of Chair of the board from 2011–2013. Prior to taking up his position at UNSW Australia, he was CEO at John Fairfax Holdings Limited from 1998–2005. In 1998 Professor Hilmer was appointed an Officer of the Order of Australia for his contribution to management education, industrial relations and competition policy.

9.55am FUNDING

Professor Deborah Ralston

Executive Director, Australian Centre for Financial Studies (ACFS), Monash University

Professor Deborah Ralston is the Executive Director of the Australian Centre and a Professor of Finance at the Monash University. Previous appointments include Pro Vice Chancellor of the Division of Business Law and Information Science at the University of Canberra, and Director of the Centre for Australian Financial Institutions at the University of Southern Queensland. Her research interests include the impact of financial regulation, the strategy and management of financial institutions and regional economic development. She has published widely in these areas and is a co-author of the text Financial Institutions Management. Deborah is a Fellow of the Australian Institute of Company Directors, the Financial Services Institute of Australasia, and the CPA Australia.

10.10am SUPERANNUATION

Dr Geoff Warren

Research Director, Centre for International Finance and Regulation (CIFR)

Geoff was appointed Research Director at CIFR in January 2014 after working part time as a CIFR Research Fellow during 2013. Geoff is currently on leave from The Australian National University, where he was a Senior Lecturer in the School of Finance, Actuarial Studies and Applied Statistics from 2009 to 2013. Geoff's research focuses on investment-related areas such as superannuation and funds management, portfolio construction, asset pricing and valuations. Prior to joining ANU, Geoff was Director of Capital Markets Research at Russell Investments in Australia. Prior to that role, he spent 14 years within the research department of investment banks Ord Minnett and JP Morgan, in various roles including company analyst, strategist and head of research.

10.30am *Break*

11am STABILITY

Professor Mardi Dungey

The University of Tasmania

Mardi Dungey is Professor of Economics and Finance at the University of Tasmania, a Senior Research Associate at the Centre for Financial Analysis and Policy at the University of Cambridge and Adjunct Professor at the Centre for Applied Macroeconomic Policy at the Australian National University. She is a Fellow of the Academy of Social Sciences of Australia. Her research interests combine the empirical sides of finance and economics, particulary in in the effects of financial crises on open economies and policy assessment. Mardi has published extensively on the transmission of financial crises.

11.15am CONSUMER OUTCOMES

Professor Gail Pearson

The University of Sydney

Gail Pearson is Professor of Business Law at the University of Sydney. Professor Pearson is widely published on financial services. This includes *Financial Services Law and Compliance in Australia*, Cambridge, 2009 and *Understanding Australian Consumer Credit Law* CCH 2010. An article following a New York Symposium on the Revolution in the Regulation of Financial Advice may be of interest: 2013 (2&3) St John's *Law Review* 511. She is also works on commercial statutes and the Indian legal system. Professor Pearson is President of the International Association of Consumer Law and hosted the last international conference in Sydney in 2013. She has been involved in a number of international initiatives to increase consumer protection including as a member of the International Law Association committee on international protection of consumers which drafted the Sophia Statement on the Development of International Principles on Consumer Protection, and at the invitation of the Brazilian government on consumer protection measures. Professor Pearson is a Member of the Code Compliance Committee of COBA – the Customer Owned Banking Association.

11.30am REGULATORY ARCHITECTURE

Associate Professor Pamela Hanrahan

The University of Melbourne

Pamela is a lawyer specialising in corporate law and securities and financial services law and regulation. She is an Associate Professor at the Melbourne Law School and was formerly a Regional Commissioner of ASIC and, before that, a Special Counsel at Allens. She is the author a number of books, book chapters and refereed journal articles in the her areas of interest, including two books on collective investment law – Managed Investments Law and Practice and Funds Management in Australia. She is co-author (with Professor Bob Baxt and Justice Ashley Black) of Securities and Financial Services Law, and a co-author of the Commercial Applications of Company Law series. Her particular research interest is in the intersection between the statutory and general law duties owed by directors, CIS operators, financial advisers and other intermediaries. Pamela is a member of the Corporations Committee of the Law Council of Australia and a Fellow of the Financial Services Institute of Australasia. She is currently serving as the Registrar of Community Housing for NSW.

11.45am RETIREMENT INCOME

Professor John Piggott

Scientia Professor – UNSW Australia

John Piggott is Director of the ARC Centre of Excellence in Population Ageing Research (CEPAR), and of the Australian Institute for Population Ageing Research at UNSW Australia, where he is Scientia Professor of Economics and also holds an ARC Australian Professorial Fellowship. In 2012, he was elected as a member of the University's Council. Dr Piggott has a long standing interest in retirement and pension economics and finance. His publications include more than 100 journal articles and chapters in books. His Australian policy experience includes membership of both the Henry Tax Review Panel and the Ministerial Superannuation Advisory Committee. Internationally, he worked for nearly a decade with the Japanese Government (Cabinet Level) on pension and ageing issues, and in 2004 was tasked with evaluating World Bank assistance on pension reform in the Asian region for the Bank's Operations Evaluation Department. He has been a consultant to several foreign governments on pension issues, including Russia and Indonesia.

12pm TECHNOLOGY AND FINANCIAL DATA ARCHITECTURE

Dr Kingsley Jones

Research Fellow, Centre for International Finance and Regulation (CIFR)

Kingsley was appointed as a CIFR Research Fellow in April 2014. Kingsley is the Founding Partner/CIO for Jevons Global, a global investment firm. He has held a number of senior positions in the financial services industry over the past 17 years, including Portfolio Manager for the Macquarie Global Thematic Fund; Global Head of Quantitative Trading Research and a member of the Australian Value team at AllianceBernstein LP; Head of Quantitative Research at CFSB in Sydney; and Quantitative Analyst at County Investment Management. Kingsley holds a PhD in Theoretical Physics from the University of Bristol, and a BSc (Hons) from The Australian National University, a CFA and is an affiliate member of the MTA. He is a commentator on CNBC and developed the cost-basis theory of market sentiment.

12.15pm INTERNATIONAL INTEGRATION

Professor Ross Buckley

Scientia Professor – UNSW Australia, CIFR King & Wood Mallesons Chair of International Finance Law

Ross Buckley is the CIFR King & Wood Mallesons Professor of International Finance Law, and a Scientia Professor, at UNSW Australia, in Sydney. His principal field of research is international financial regulation, particularly, at the moment, the regulation of digital financial services. He co-edits the *International Banking and Finance Law Series* and the *Global Trade Law Series* of Wolters Kluwer of The Hague. He has consulted to the US Department of Justice, the US Securities and Exchange Commission, the Asian Development Bank, the Indonesian Department of Finance, the Vietnamese Department of Commerce and the Australian Taxation Office as well as to banks and finance houses in Australia and abroad. He has been a Fulbright Scholar at Yale, a Senior Fulbright Scholar at Duke and many times a half-bright scholar.

12.30pm	**OPPORTUNITIES IN THE ASIAN CENTURY/INTERNATIONALISATION OF RENMINBI (RMB)**

Geoff Weir

former Research Fellow, Centre for International Finance and Regulation (CIFR)

Geoff began his career in The Australian Treasury, Reserve Bank of Australia and the Organisation for Economic Cooperation and Development. In 1991 he moved to the financial sector, working in London and Paris as a hedge fund strategist for Bankers Trust International and later for Moore Capital. In 1996 Geoff returned to Sydney to take up a position as Head of Global Fixed Income at BT Funds Management. In 2002 he moved to JBWere (now Goldman Sachs JBWere) where he worked as strategist on a global macro hedge fund. Geoff was appointed to the position of Director, Australian Financial Centre Forum, in September 2008. Geoff has an Honours degree in economics from Macquarie University in Sydney and a Master of Philosophy degree from New College, Oxford.

12.45-2pm LUNCHEON

12.45pm	**WELCOME**

Peter Mason AM

Chairman, Centre for International Finance and Regulation (CIFR)

Peter Mason is a Senior Advisor to UBS Investment Bank; and a Non-Executive Director of Singapore Telecommunications Ltd (SingTel). Peter is Chairman of the Centre for International Finance and Regulation (CIFR); Chairman of the UBS Australia Foundation; a Trustee of the Sydney Opera House Trust; a Director of UNSW Australia Foundation; and an Ambassador for the Australian Indigenous Education Foundation. Peter has over 40 years' experience in investment banking. He was Chairman of AMP Limited from 2005 to May 2014 (Director from 2003), and Chairman of David Jones Limited from 2013-2104 (Director from 2007). Peter was Chairman of JP Morgan in Australia from 2000 to 2005 and Executive Chairman of their associate, Ord Minnett Group. Prior to that he was Chairman and Chief Executive of Schroders Australia Limited and Group Managing Director of Schroders' investment banking businesses in the Asia Pacific region. Peter was a member of the Council of UNSW Australia for 13 years. For 12 years he was a Director of the Children's Hospital in Sydney and Chairman of the Children's Hospital Fund for eight years. Peter was appointed a member of the Order of Australia for his contribution to the Children's Hospital.

12.50pm AN INTERNATIONAL ACADEMIC'S RESPONSE TO THE INTERIM REPORT

Professor Stephen J. Brown

NYU Stern School of Business interviewed by Professor David R. Gallagher

Stephen J. Brown is David S. Loeb Professor of Finance at the Leonard N. Stern School of Business, New York University. He graduated from Melbourne High School and Monash University in Australia and studied at the University of Chicago, earning an MBA in 1974 and a Ph.D in 1976. In December 2002 he was appointed to the honorary position of Professorial Fellow with the title of professor at the University of Melbourne, and in 2007 was elected Academic Director, Financial Management Association He has served as President of the Western Finance Association and Secretary/Treasurer of that organization, has served on the Board of Directors of the American Finance Association, and was a founding editor of the Review of Financial Studies. He is a Managing Editor of The Journal of Financial and Quantitative Analysis and has served on the editorial board of The Journal of Finance and is on the board of the Pacific-Basin Finance Journal. and other journals. He has published numerous articles and five books on finance and economics related areas. He is currently a member of the Academic Advisory Board of Russell Investments, is retained as an advisor to MIR Investment Management Ltd in Sydney, and has served as an expert witness for the US Department of Justice and has testified on his research before a Full Committee Hearing of the U.S. Congress House Financial Services Committee in March 2007. In 2010 he served as a member of the Research Evaluation Committee of the Excellence in Research Australia initiative on behalf of the Australian Government.

1.30pm INTERNATIONAL REGULATORS' PERSPECTIVES
"The Future of Financial Regulation"

Professor Justin O'Brien

Australian Research Council Future Fellow
Director, Centre for Law Markets and Regulation, UNSW Australia

Professor O'Brien is a specialist in the dynamics of financial regulation, with particular reference to capital market governance. He has written extensively on the intersection between regulatory form and ethical considerations. He is the recipient of a range of major grants from the Australian Research Council and the Economic and Social Research Council in the United Kingdom. Professor Justin O'Brien is also a Visiting Fellow at the Edmond J Safra Center for Ethics at Harvard University and one of CIFR's lead researchers

2-3.15pm INDUSTRY RESPONSE TO THE INTERIM REPORT

BANKING

Steven Münchenberg

Chief Executive Officer, Australian Bankers Association

Steven Münchenberg is the Chief Executive of the Australian Bankers' Association (ABA). He has over 20 years of experience in public policy in the private, public and not-for-profit sectors. Prior to his appointment as ABA CEO, Steven was Group Manager, Government Affairs & Public Policy at the National Australia Bank (NAB). In this role, he was responsible for managing the relationships between the bank and all levels of government in Australia. Before joining NAB, Steven was Deputy Chief Executive of the Business Council of Australia, the public policy research and advocacy body representing the chief executives of the top 100 corporations in Australia. Steven has also been CEO of a not for profit organisation charged with promoting the positive aspects of environmental management in the minerals and energy sectors. He has also worked at senior levels within the Australian Government.

INSURANCE

Rob Whelan

Executive Director & Chief Executive Officer, Insurance Council of Australia

Mr Robert Whelan joined the Insurance Council of Australia following a highly successful career as a senior manager in a diverse range of roles within the insurance and banking sectors. He has particularly strong experience in managing the corporate affairs and policy functions in such major insurers as AAMI and Suncorp as well as extensive general business management experience in broader financial services with such companies as AMP, Legal & General and Colonial Mutual. He is well regarded in the financial services industry as a leader in the development of public policy and has worked extensively with regulatory bodies, government and consumer groups.

SUPER

John Brogden AM

Chief Executive Officer, Financial Services Council

John Brogden is the CEO of the Financial Services Council (FSC), which represents Australia's retail and wholesale funds management businesses, superannuation funds, life insurers, financial advisory networks, trustee companies and public trustees. The FSC has over 125 members who are responsible for investing more than $2.3 trillion on behalf of 11 million Australians. From 1996 to 2005 John was the Member for Pittwater in the NSW Parliament. In 2002, on his 33rd birthday, John was elected Leader of the Opposition – the youngest person ever to hold the role and lead a major political party in Australia. John is the Chairman of UrbanGrowth NSW, Chairman of Lifeline Australia, a Director of NIA Limited (health.com.au), Chairman of Furlough House Retirement Village and Chairman of The Broken Bay Institute. John is a member of the NAB Advisory Council for Corporate Responsibility. On Australia Day 2014, John was appointed as a Member of the Order of Australia (AM) for significant service to the community through representational roles with social welfare organisations, particularly Lifeline, to the business and financial sectors and to the Parliament of New South Wales.

MARKETS

Dr David Lynch

Executive Director, Australian Financial Markets Association

David Lynch is Chief Executive of the Australian Financial Markets Association (AFMA), which is the industry body that represents participants in Australia's financial markets including stockbrokers, banks, state treasury corporations, energy traders and market infrastructure providers. AFMA deals with policy and regulatory issues affecting the businesses of financial market participants and it also coordinates the effective self-management of the over-the-counter (OTC) financial markets. AFMA promotes high professional standards in the financial markets through the provision of training and accreditation programmes and provides a range of data services to the industry, including the BBSW benchmark rate. David began his career at the Central Bank of Ireland and has worked in the financial markets industry throughout his career to date. He was awarded a PhD from Macquarie University, Sydney for research on Asian financial sector development.

FINANCIAL ADVICE

Andrea Slattery

Chief Executive Officer, SMSF Professionals Association of Australia

Andrea is the Managing Director/CEO of the SMSF Professionals' Association of Australia Limited (SPAA). She has worked in the financial services industry for over 22 years and has established herself as an authority in the field of SMSFs. Her passion for the industry and its self-regulation is one of the reasons for SPAA's inception and subsequent recognition as the peak professional body for the SMSF sector. (The SMSF sector is the largest superannuation sector in Australia accounting for 31% or $531.5B of a total Australian asset pool of $1.75T.) She is recognised as a thought leader in Australia's Superannuation and Finance Service sectors and is the face and voice of the association. Andrea is significantly involved in the Finance and SMSF sectors, building integrity, best practice standards for advice, education, and advocacy through her participation in and membership of a range of advisory committees to Government, Treasury and the Regulators.

3.15pm *Break*

3.45pm **IMPLEMENTATION**

Mark Johnson AO

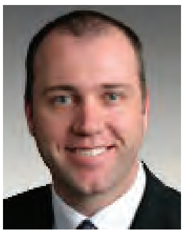
Senior Advisor, Gresham Partners

Mark Johnson AO is Chairman of Alinta Energy, a Director of Westfield Group and Senior Advisor to Gresham Partners. He has spent more than forty years in banking and corporate finance and retired as Deputy Chairman of Macquarie Bank in 2007 and as Chairman of Macquarie Infrastructure Group in 2010. He has recently retired as Chairman of AGL Energy and Guinness Peat Group. Mark was Chairman of the Australian Financial Centre Task Force, an Australian Government initiative directed towards ensuring efficiency and competitiveness in the financial services sector. From 2002-2013 he was one of the three Australian representatives on the APEC Business Advisory Council (ABAC) and Chairman of the APEC CEO Summit in Sydney in 2007.

4.15pm **INTERACTIVE SESSION**

Anthony Lane

Event Facilitator



Anthony joined CIFR as a consultant in August 2014. He has extensive experience in the financial services industry gained from positions as a corporate/financial services lawyer, management consultant and investment consultant and from various executive roles. Over 2001-2014 Anthony held positions in Mercer's investments business including (whilst based in London) Global Chief Operating Officer and Global Head of Manager Research. Anthony is a former director of the Investment Management Consultants Association (Australia) and has served as a member of the Financial Services Council's Investment Board Committee. Anthony has Masters of Law and Bachelor of Commerce (Finance) degrees from UNSW Australia and a Graduate Diploma of Applied Finance and Investment from FinSIA.

5pm *Close*

Videos

These can be seen on YouTube via the CIFR website

REFLECTIONS FROM CAMPBELL, TO MARTIN, TO WALLIS AND TO MURRAY: 1981 - 2014

The Hon John Howard OM AC

Interviewed by Professor David R. Gallagher

AN INTERNATIONAL ACADEMIC'S RESPONSE TO THE INTERIM REPORT

Professor Stephen J. Brown

NYU Stern School of Business interviewed by Professor David R. Gallagher

THE FUTURE OF FINANCIAL REGULATION SERIES

Professor Justin O'Brien

Australian Research Council Future Fellow
Director, Centre for Law Markets and Regulation, UNSW Australia

In a series of interviews commissioned by the Centre for International Finance and Regulation (CIFR), Professor Justin O'Brien discusses the future of financial regulation with industry experts on a recent visit to the Spanish capital.

CIFR
Centre for International Finance and Regulation

CIFR WORKSHOP II

Financial System Inquiry

The Interim Report

21 AUGUST 2014

Centre for International Finance and Regulation

WELCOME

David Murray AO

Chairman

Financial System Inquiry

Centre for International Finance and Regulation

"Reflections from Campbell, to Martin, to Wallis and to Murray: 1981-2014"

The Hon John Howard OM AC
interviewed by
Professor David R. Gallagher

ACADEMIC RESPONSE TO THE INTERIM REPORT

CIFR
Centre for International Finance and Regulation

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Competition Aspects of the FSI Interim Report—20 August 2014

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A key principle of Australia's National Competition Policy is that "there should be no regulatory restrictions on competition unless clearly demonstrated to be in the public interest". Further, "to the extent practical and relevant, review of regulation should take an economy-wide perspective of the impact of restrictions on competition".[1]

The rigorous application of these principles over the decade from 1996 to 2006 had a significant effect on increasing competition, and hence productivity and growth. It was estimated that the impact lifted GDP by at least

[1] National Competition Policy: Report by the Independent Committee of Inquiry; Australian Government Publication Service, Canberra, 1993 (Page 212).

2.5% over what would otherwise have been the case.[2] However, to the best of my knowledge, banking and regulation of other areas of finance have not been subjected to a review of the impact of regulation on competition either as a special review during the 1996–2006 period, or via regulatory impact assessments carried out by the Office of Best Practice regulation. Instead, special reviews—Campbell, Wallis and now Murray—are undertaken every 20 or so years..

Applying the competition policy principles to the financial sector is, to say the least, challenging for a number of reasons. First, regulation, particularly with respect to system stability, and consumer protection is a key feature of the sector. The economic consequences of "getting this wrong" are severe as indicated by global experience with the GFC and with failures of financial firms and banks. Second, competition issues and stability issues are intertwined. For example, as the interim report points out, different approaches to risk weighting may tilt the competitive balance in favour of the major banks. Yet remedying the competitive disadvantage of smaller banks

[2] Productivity Commission: Review of the National Competition Policy Reforms Report Number 33, February 2005.

may adversely affect their stability. Similarly, lowering switching costs may be pro-competitive, but may allow a run on a particular bank to more easily occur.

Third, our degrees of freedom to deal with banking regulation are limited by the need to accommodate international standards and approaches.

Finally, the range of competition issues varies widely across subsectors, as set out in Exhibit 1 (below). In banking, the main issues are market structure, and the way regulation affects competition and entry. For payments and financial markets, the small number of players/platforms has led to what are effectively access and pricing controls administered by the Reserve Bank. For wealth management and superannuation, the key competition issue is with respect to information asymmetries, with many consumers not able to properly assess what they are buying and how this meets their needs.

Exhibit 1

Competition issues in the financial sector

	Competition issues			
Subsector	Structure	Barriers	Switching costs	Informed consumers
Banking	?	H	H	✓
Business banking	?	H	H	?
Payments	✗	?	M	✓
Financial markets	✗	M	L	✓
Wealth management/ superannuation	✓	L	M	✗

While these factors highlight the complexity and importance of bank regulation, in my view they are not a reason to exempt bank regulation from the regulation review process of the National Competition Policy. Three questions emerge.

First, how should this balancing act, on the one hand promoting competition, and on the other delivering system stability, integrity and fairness be handled? It is unlikely that a solution will emerge from articulating general principles. Sometimes the competition issues will be most pressing. At other times, the need for regulation to protect stability, deal with systemic risk or protect consumers will be dominant.

Take again the example of how to deal with the impact of different risk weighting approaches for major banks versus small authorised deposit taking institutions. Reducing risk weighting approaches for smaller ADIs raises prudential issues. Raising risk weighting via increasing minimum weights for large and small players may improve competitive intensity, but the added costs to large banks could wipe out the gains from more vigorous competition. It is almost impossible to make this trade-off on the basis of general principles.

If the appropriate balances between competition and regulation cannot be struck on the basis of general principles, then what is needed?

The answer is detailed economic analysis of the costs and benefits of each of the pieces of regulation, applying the regulation review policy established by the National Competition Policy. Each of the elements in the risk weighting example above could be quantified under different assumptions.

A second issue concerns who should undertake the review. There is a problem. There is currently no longer an effective regulation review process in the National Competition Policy, a point covered in papers I presented last year.[3,4] Even if such a process was re-established following the Harper review, it is not clear that it would work in the financial sector, as stability and competition issues are so complex and so intertwined.[5]

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[3] The Red Tape Challenge: From Meat Axe to Scalpels, IARIW-UNSW Special Conference on Productivity Measurement, Drivers and Trends, Frederick G Hilmer, November 2013.

[4] Reflections: The Changing Politics of Competition Reform, The Australian Competition and Consumer Law Journal, Frederick G Hilmer, September 2011.

[5] Competition Policy in Banking, Xavier Vives, IESE Business School, September 2011.

Perhaps one way forward is for the Reserve Bank and the body responsible for regulation review to jointly prepare reports. The report would cover the state of competition in financial markets, and the appropriateness of regulation restricting competition in light of quantitative analysis of the expected benefits of competition versus regulatory impact.[6]

The Reserve Bank would bring the analytic horsepower to support an evidence-based approach as well as a deep understanding of prudential issues. The input of others with important perspectives, such as the ACCC, APRA and ASIC would also be sought.

A third issue is "how often such reviews should be carried out". Rather than prescribe a fixed time, the review would be triggered by a proposed significant change in current regulation.

[6] The FSI or similar reviews are not the place to do this, given the time between reviews and the range of issues faced.

Let me conclude by speculating on some of the issues a competition review of proposed banking regulation might raise. On its face, the market structure of banking—4 large firms, plus a number of others, seems quite competitive. However, with the exception of Macquarie, significant new entrants and other smaller players—regional banks, mortgage brokers—have not survived. Moreover, switching costs are high, and the majors seem remarkably alike. Their cost structures are similar; their business mix and revenue models are similar, as are investor expectations. Differences, such as slightly different mixes of business and offshore participation are at the margin. And the banks all have excellent information on each other's structure, performance service levels and product offerings.

Consequently the optimal strategy for each bank is quite similar. Banks therefore do not need to collude. For if each acts logically, they act similarly. This is unlike other industries where competitors strive for different market positions and/or unique cost structures. For example,

Aldi or Cosco versus Woolworths and Coles, or boutique beers versus the major breweries, or the innovation in cost structures that underpinned the Japanese and now the Korean and Chinese automotive companies.

Why the similarities among the four majors? And to what extent is this an unintended consequence of regulation? To what extent does shared infrastructure, such as the payment system, contribute to this situation? Will substantial technology bets trigger an era of differentiation? And, most importantly, is there a better way to regulate for stability while encouraging the differentiation that characterises competitive markets? How might new entrants be encouraged, and how might failures be handled without reverting to a less competitive environment?

These are not simple issues, but they are important. My main point is that competition issues in financial services need greater, sharper, better resourced and more frequent attention than has been the case historically.

I look forward to the FSI's deliberation and recommendations on these and related competition issues.

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MONASH University

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Funding Australia's Economic Activity

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Observations from the FSI Interim Report:

- *Ongoing access to **foreign funding** has enabled Australia to sustain higher growth than otherwise would have been the case. The risks associated with Australia's use of foreign funding can be mitigated by having a prudent supervisory and regulatory regime and sound public sector finances.*

- *There are structural **impediments for small- and medium-sized enterprises** to access finance. These impediments include information asymmetries, regulation and taxation.*

- *Australia has an established **domestic bond market**, although a range of regulatory and tax factors have limited its development.*

Funding Innovation

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- High growth businesses are important for employment and economic growth
- Early stage investment in Australia through VC funds is low by international standards
- VC Funds have had poor returns since the late 1990s
- Estimated in both Australia and the US that around 80% of early-stage, seed and start-up funding now comes from non-VC sources

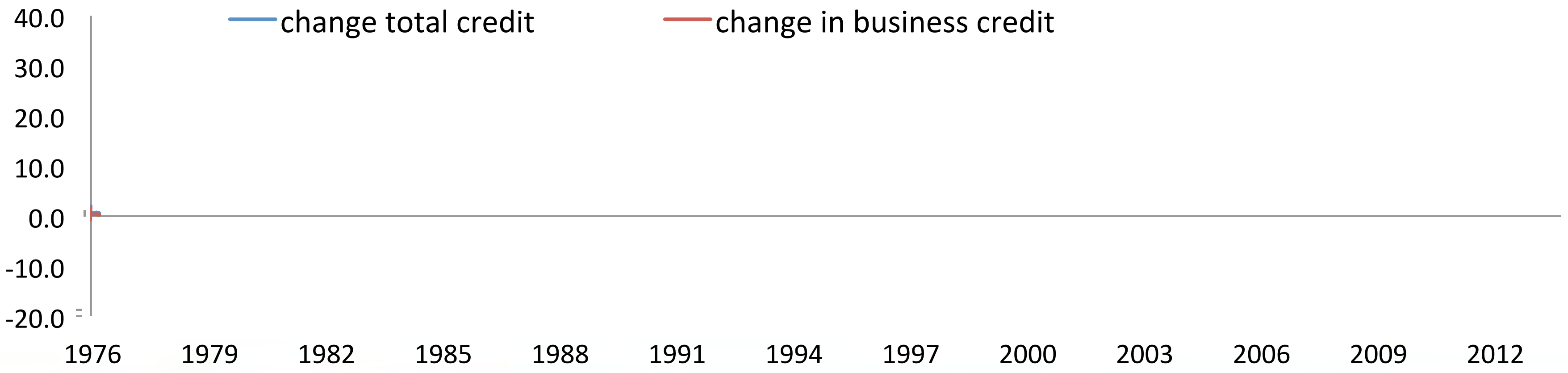
Recommend that:

- Extending tax incentives provided to VC structures to alternative forms of early stage equity financing (see UK SEIS)
- Removal of up-front taxation of equity or employee stock options for early-stage firms Perhaps as measured by a revenue threshold
- Support for technology platforms to connect investors and businesses

Funding SMEs

Intermediated debt markets in Australia and elsewhere have been experiencing **structural change** over a long period – consolidation of banking, increasing capital requirements, and increased transaction costs for small but complex SME loans.

Add to this the impact of **cyclical factors** such as GFC – further structural change?



Source RBA credit aggregates 2014

Funding SMEs

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Around 2m Australian SMEs employ almost 70% of workforce

90% of SME credit currently comes from banks - since GFC increased cost of debt relative to larger firms and greater reliance on loan covenants - a lesser share of credit available

Due to both **demand and supply factors**:

- Demand less due to deleveraging, greater reliance on internal funding, mortgage funding

- Supply constrained credit due to increased risk of SMEs, transaction costs, capital costs

BUT also there is the emergence of new internet-based providers

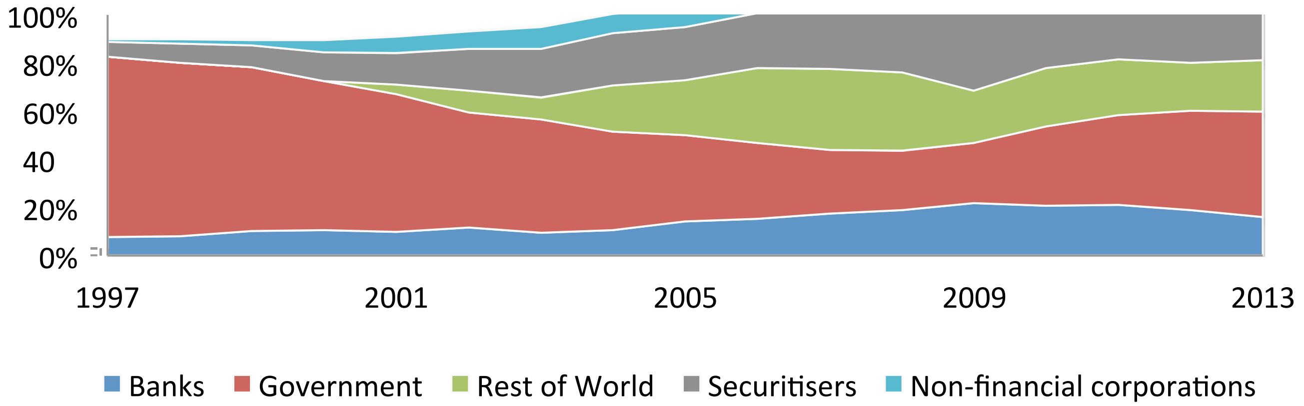
Recommendations:

- Encourage greater securitisation of home loans to reduce impact on balance sheet
- Reviewing the use of risk-weights for home loans – standardised Basel v IRB weight
- Reducing information asymmetry between SMEs and lenders – SME Finance Database

Funding – corporate bonds

Total Australian Bond Market (Listed and OTC) is around $1,200 billion
(and $650 billion issued off shore)

Only 3 per cent or $39 billion of all bonds issued in Australia are issued by Australian non-financial corporates



Only $280 million worth of bonds are available on the listed bond market and only 1 per cent of Australian households invest in bonds

Funding – corporate bonds

Further development of the domestic corporate bond market will require a more liquid secondary market to attract issuers.

Recommendations:

- Reduce the cost and complexity of listed debt issuance relative to equities – support for reviewing the size and scale of vanilla bond offerings for listed companies.

- Allowing Certificates of Depository Interests (CDIs) for traded corporate debt on retail market - *Simple Corporations and Other Measures Bill.*

- Retail investor education to increase the proportion of bonds held in portfolios, particularly those of SMSFs.

Conclusion

Australia has a highly concentrated business sector.

A key priority for the FSI should be to ensure that the necessary financial infrastructure and flow of funds are in place to maximise the potential growth of the real economy. A more diverse economy with innovative, and growing businesses is in the national interest.

Future benefits lie in:

- Funding innovation to promote new high value jobs
- Ensuring that funding channels to SMEs are not constrained
- Developing a vigorous domestic corporate bond market

Superannuation

Comments on Fees and Portability

Dr Geoff Warren

CIFR Research Director

Centre for International Finance and Regulation

Fees: General Message - More Evidence Needed

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- Need to better understand ***WHY*** fees are where they are.
- Three possible explanations for high fees, and what to be concerned about:

Explanation:	*Concern:*
1. Providers are making excess returns	Who are the rent-seekers; and why is competition not working?
2. Inefficiencies	Where? Why?
3. Higher cost but value-added services	Are members paying for services that are poor value for money?

- ***This issue is much more nuanced and convoluted than it first seems. And system design is a key element. Let me provide a sense …***

The FSI Interim Report Featured This Chart ….

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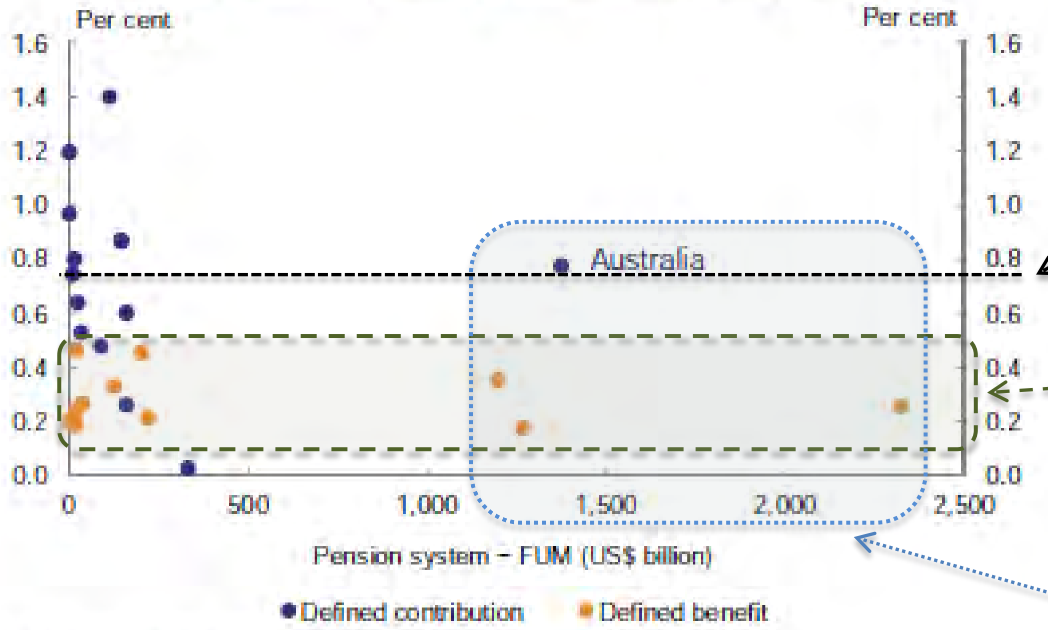
Chart 4.1: International comparison of superannuation (pension) expenses
Annual expenses, as a percentage of funds under management (FUM)



Source: Grattan Institute.[20,21]

Australia is near the median for DC systems

The other is DC vs DB. DB systems are lower cost.

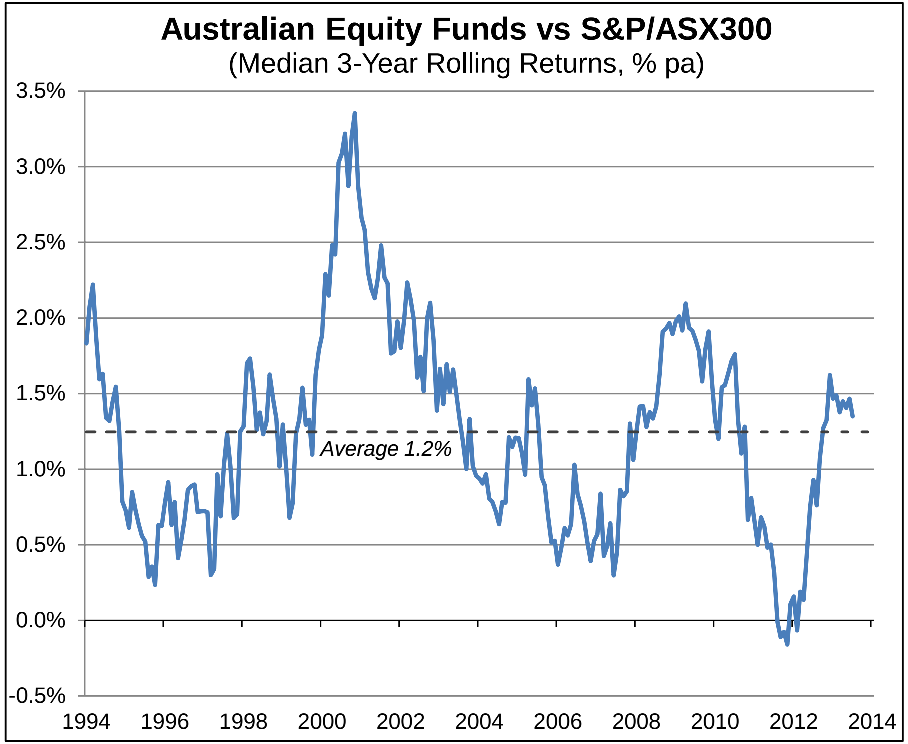
FUM (scale) is one dimension. Here Australia looks high cost.

What could be pushing up system costs?

- FSI interim report did a good job of listing the possible influences
- Many influences related to provision of ‘value-added’ services:
  - Asset allocation: exposure to growth assets and alternatives
  - Active management
  - Choice + associated architecture (many products, portability, advice, marketing, etc)
  - Member servicing and administration
  - Insurance
  - Regulation
- Other influences related to suspected inefficiencies:
  - Fragmentation (too many funds; too many accounts)
  - Presumption that active management involves a dead-weight loss. *Comment over …*

Active vs Passive. It all depends.

- Beware of generalizing based on US findings!
- Evidence suggests Australian active equity managers have done well
  - It all depends on:
    - the market
    - the investor (fees, access, capability)
    - availability and efficacy of passive
  - Let trustees and management choose; but ensure are informed and aligned



Price Discrimination - How You Enter the System Matters

quities

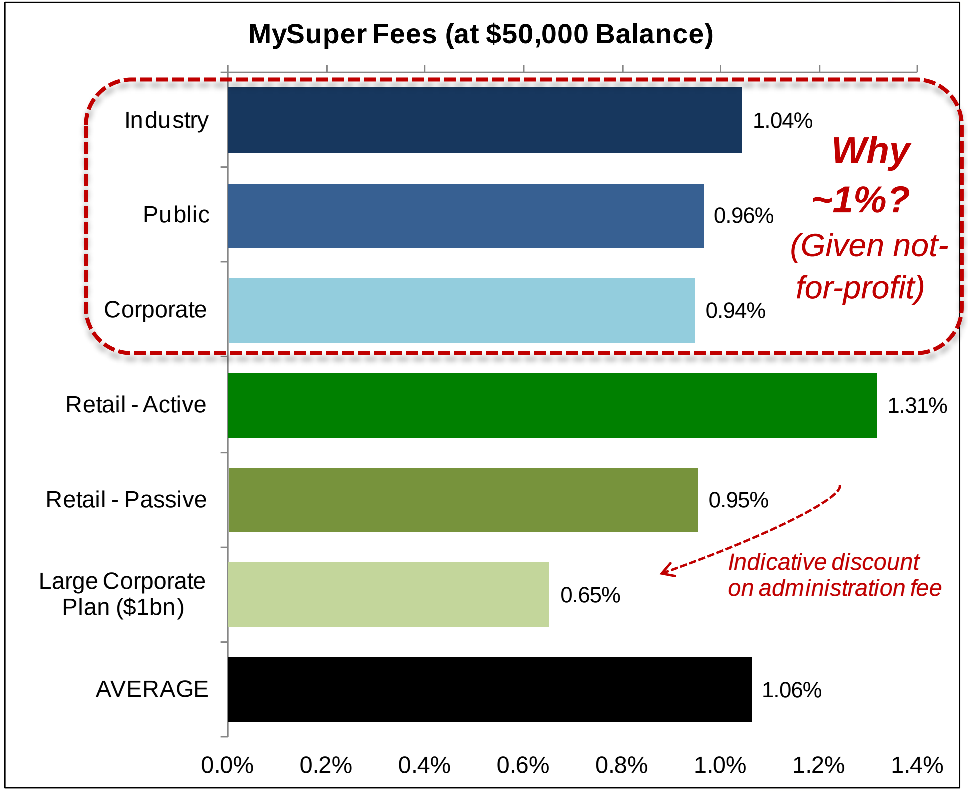
Retail:	
Direct - Retail	~1%-2%
Direct - Wholesale	Average: 0.9%
Via Adviser and Platform	Wholesale + fees (2%-plus?)
Institutional:	
Pooled Trust, $10m	0.70%
Pooled Trust, $100m	0.62%
Segregated Mandate, $100m	0.49%
Pooled Trust, $1bn	0.18%
Segregated Mandate, $1bn	0.13%

Source: Mercer Fee report; industry contacts and examples

Vanguard Australian Shares Fund

Retail:	
First $50,000	0.75%
Next $50,000	0.50%
Balance over $100,000	0.35%
Institutional:	
$500,000-plus	0.18% (Negotiable)

Source: Vanguard website



Source: Chant, Manokumar and Warren (2014)

Fees: The Response

- Insufficient evidence available for FSI to make informed policy recommendations. Further research is required to properly understand what drives fees.

- What to scrutinize:
  1. Cost vs. benefit, not just cost. *(Is there value for money in so many services?)*
  2. Basis of price discrimination. *(Why do retail investors pay so much more?)*
  3. Why not-for-profit fees are ~1%. *(No profit motive … should yield insights.)*

- Beware of unintended consequences. Target costs … then what else happens?
  - *Response of retail funds to MySuper was to shift from active to passive and reduce alternatives to reduce fees. Whether members are better off is moot.*

Portability: Definitely Worth Re-Considering

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- ***Near-immediate portability has costs as well as benefits:***
  1. *Liquidity management* – only one dimension
  2. *Link to investment strategy* – especially propensity to invest in illiquid alternatives:
     - Implications for diversification
     - Fostering long-term investing (alluded to within Interim Report)
     - Impact of excess cash holdings (recognized in the Interim Report)
  3. *Impact on return* – redemption activity creates externalities for other investors
  4. *Member equity* – related to prices at which units are transferred
- ***Response***
  - Easing of portability rules might provide for a better trade-off
  - Principles-based approach has much merit … it provides flexibility

Professor Mardi Dungey

Associate Dean, Research

University of Tasmania

Centre for International Finance and Regulation

UNIVERSITY OF TASMANIA

Interconnectivity and Systemic Risk

General Principles of Government Intervention: Table 1.1

System–wide approach:

A system–wide view of the interdependence, interconnectivity and feedback relationships between different parts of the financial system and other sectors of the economy.

The GFC revealed: complexity and interconnectedness was greater than appreciated (3-9

Interconnectivity and Systemic Risk

Use the framework of interconnectivity to comment on:

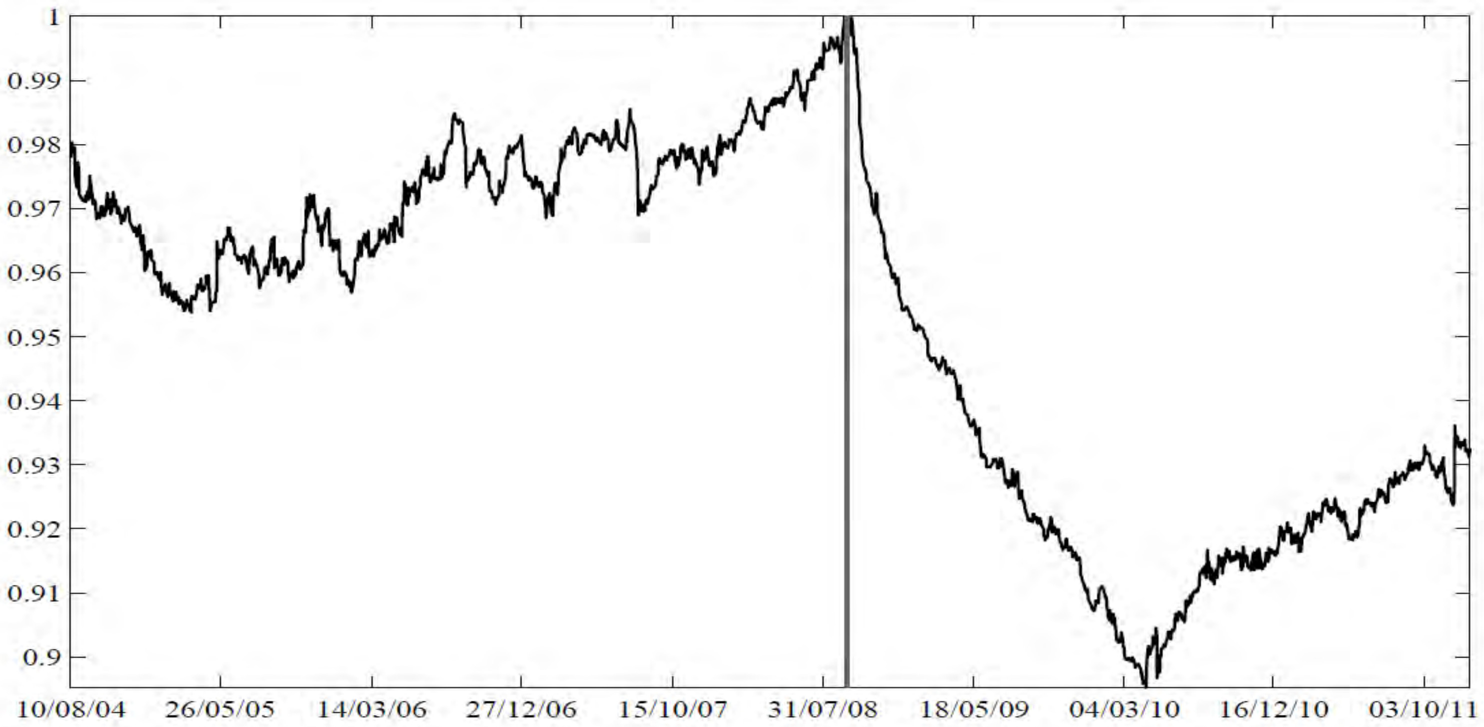
- The cost/benefit of more intensive monitoring and stress testing (3–10)
- Too-big-to-fail can be dealt with by directly addressing systemic risk posed by large banks (1–12)
- Role of insurers (3–6)
- The permeability of prudential parameters

Measuring Interconnectivity?

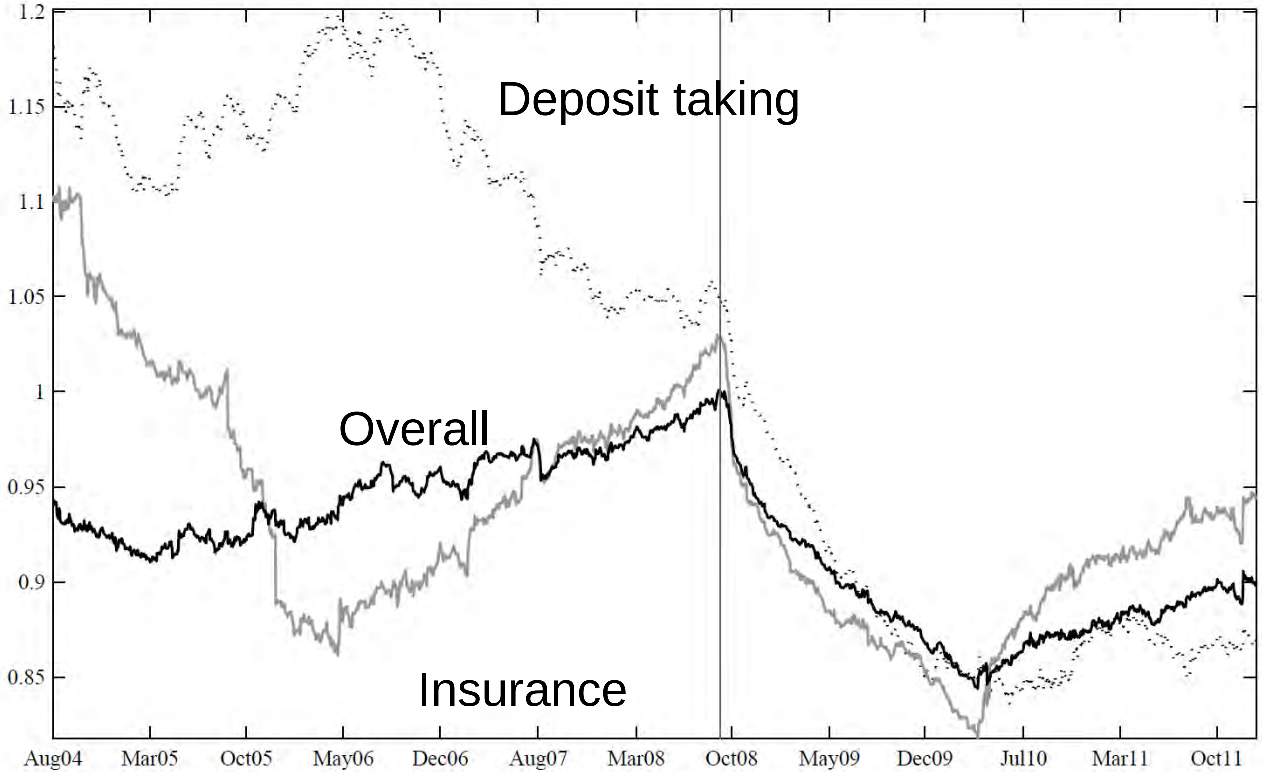
- Current best practice includes **only** interconnectivity between financial sector, usually banks

- All firms exist in the network of interconnections in the economy:
  - We measure that interconnectivity by a network of correlations
  - Equity returns as underlying data (intraday volatility)
    - Take account of firm size, leverage, liquidity
  - The more connected a firm is, the higher it will rank in the network

US: Interconnectedness and financial firms

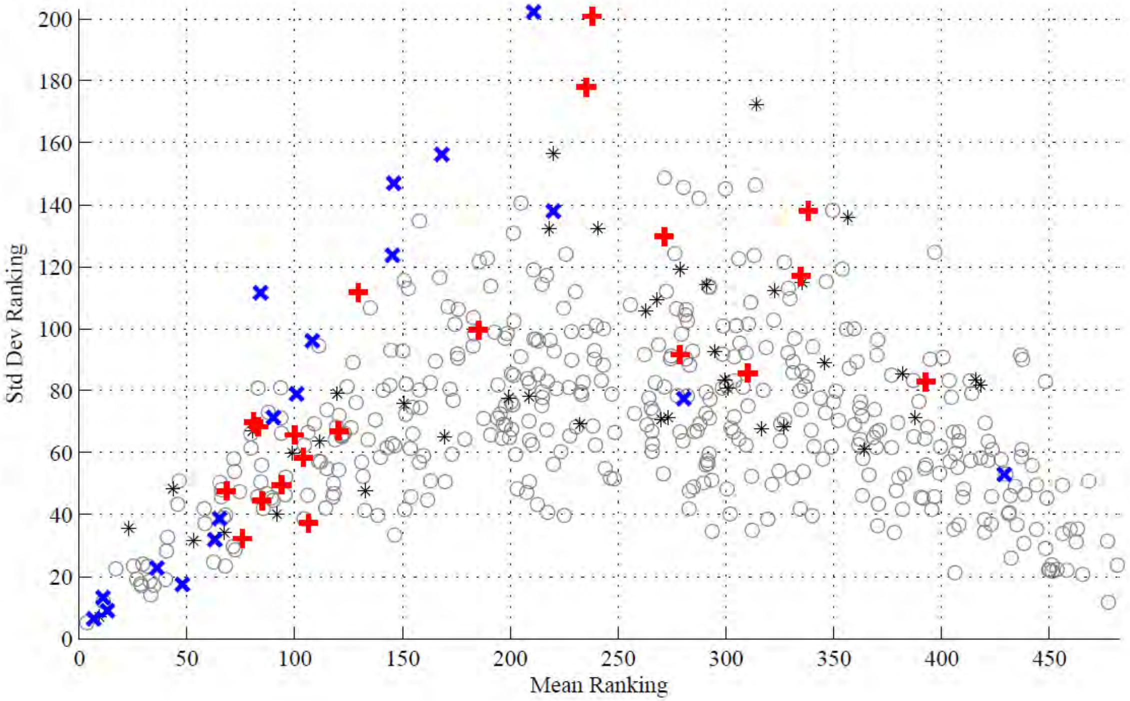


US: Interconnectedness – banking and insurance

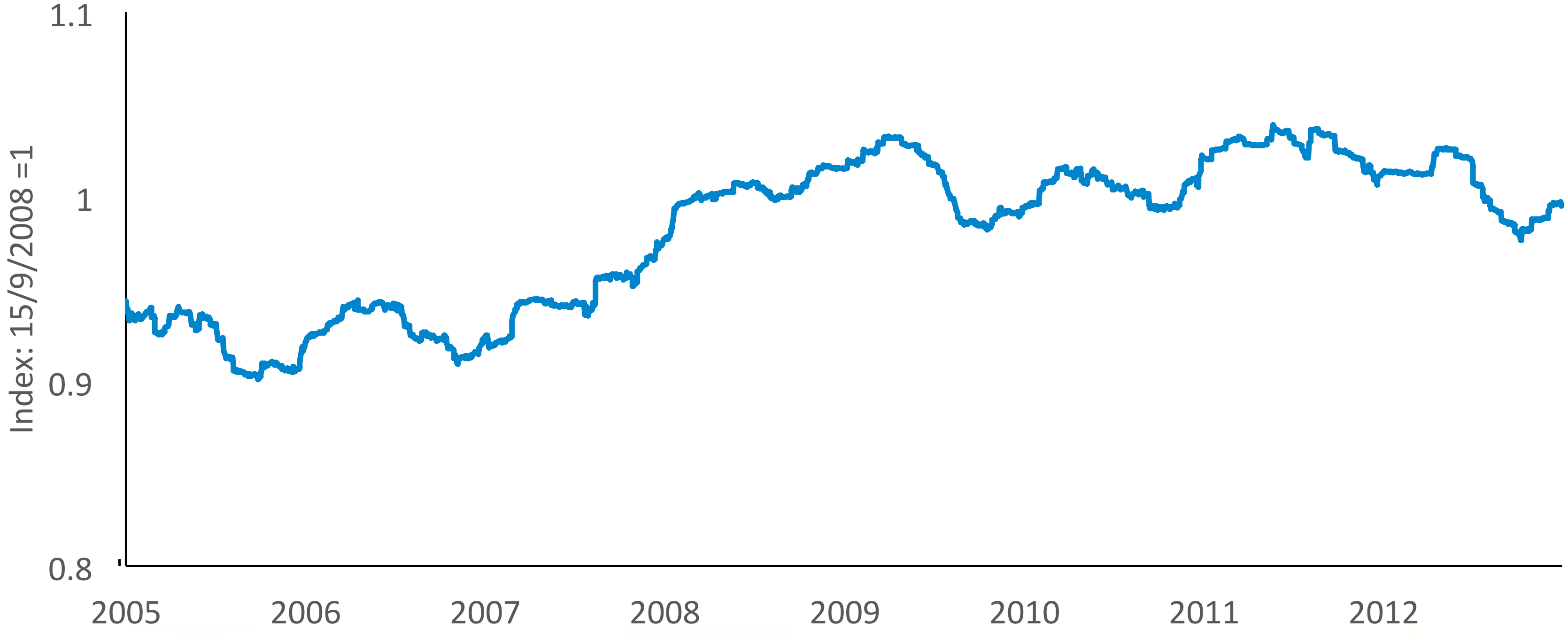


US: Boomerang Curve

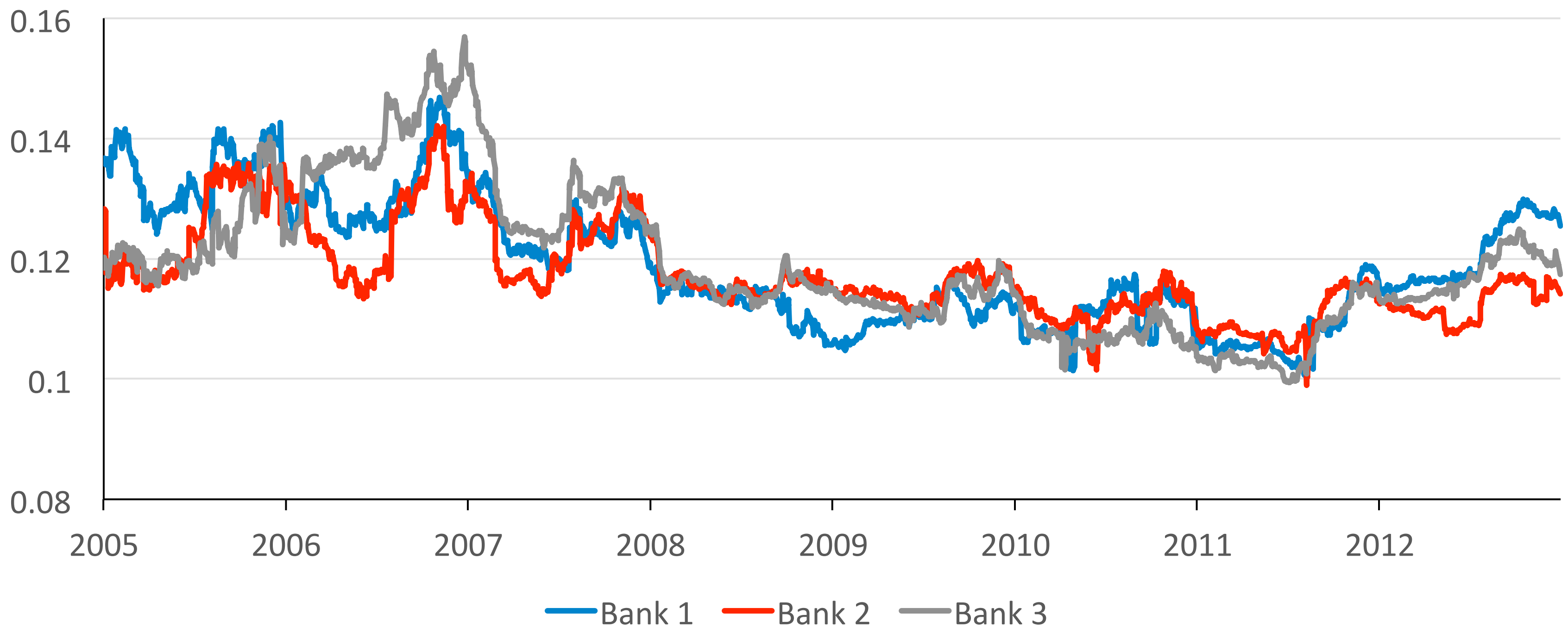
x = banks; + = insurance companies; o = real economy



Australia: Interconnectedness



Australia: Bank Interconnectedness



Implications:

1. Interconnectedness can be measured, provides useful information

2. The data and methods to do this are available but require:
   - Resourcing – skills, personnel, time
   - Recognition of value by all players

3. Results support the need to include insurers

4. We can detect risk **and** impact of policy actions
   - Supports the need for prudential permeability

Professor Gail Pearson

The University of Sydney

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How do we get to where we should go?

- The current situation
- Consensus about where we want to go to meet consumer (society) needs,
- overall need - funding for retirement
- No consensus about how we get there
- The model which promotes consumer <u>choice</u> for an efficient competitive economy partly broken

Some GAPS

- Discussion of direct consumer access to investment platforms as a consumer protection issue
- Consequences for failure to meet product design standards
- Technology not just to deliver information but to provide for consumer needs
- Revisiting the definition of a retail client

Specific issues

- A continuum of information, sales, general advice, personal advice
- OK, but No panacea in:
- Better disclosure
- Financial education
- Default products
- Better advisers and advice

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Product regulation and product suitability

- Identify products that should be banned
- Identify products that should not be sold to individuals with certain characteristics
- Regulate product characteristics
- Introduce modified ACL consumer guarantees
- Require the financial product to be suitable for the particular consumer

- Would a market for financial products, not intermediated by financial planners or platforms, with product regulation and suitability requirements deliver the efficient, competitive and fair market that consumers need?

Summary

The regulatory model for an efficient competitive economy that promotes consumer choice with disclosure complemented by financial literacy programmes, along with financial planning or credit assistance to encourage selection of products, is partly broken. Existing consumer protection and compensation measures have failed too many individuals.

The FSI Report poses policy choices between modified disclosure including digital delivery, and options for product regulation. It discusses methods to improve financial advice but does not pose a choice between enhanced advice and wider direct consumer access to financial products. These two policy conundrums (disclosure v product regulation and advice v direct access) are linked. We know about the limitations of disclosure to individuals faced with making unfamiliar complex decisions as most individuals do not read disclosure documents; they are difficult to comprehend; and individuals, including the very smart, have cognitive biases in making decisions. We know that financial literacy programmes do not significantly improve decision-making. We know there are significant problems with the quality of advice due to the competence of advisers, conflicted remuneration and conflicts inherent in concentrated ownership structures. And we know there is confusion between advice and sales. We know that fee structures, particularly for superannuation products are a major issue.

The Report should ask if a better regulatory model would be greater direct consumer access to financial products, unmediated by financial planners or platforms, accompanied by financial product regulation, mandatory quality standards and suitability requirements.

In this model, there would be a clear distinction between sales and advice, there would be information about products (disclosure), there would be avenues for advice on general and particular matters, those who sell and issue products would have to meet certain obligations about those products, and there would be consequences for failure to meet those obligations.

Product regulation of financial products

This is not a radical idea. It already exists. It can be enhanced.

Identify products that should not be in the market and ban them. This occurs in the consumer credit market with ‘short term’ credit. This could be extended to particularly risky products. The Report should ask if there are products that should be banned. It canvasses giving ASIC the power to ban products. This is supported.

Identify products that should not be sold to individuals with certain characteristics. This is implicit in the distinction between retail clients, professional investors and sophisticated investors. It occurs in the consumer credit market through bans on ‘small amount’ credit to social security recipients. The Report asks whether some products should be regarded as suitable or unsuitable for different classes of consumers. There should be some discussion of relevant distinguishing characteristics of classes of consumers eg retirees. There should be discussion of giving power to ASIC to ban some products for some classes of consumers.

Regulate product characteristics. The Report raises issues of complexity and product development. Existing product characteristic regulation exists in consumer credit and includes interest rate caps, bans on residential mortgage exist fees, no negative equity in reverse mortgages. It also occurs to some extent through self regulation such as Financial Services Council standards– but this is not sufficiently transparent. The purpose of product regulation is for safety or an assessment of risk, and for comparability between like products. The Report should have a discussion of the purpose of regulation of product characteristics for consumer protection and discussion of characteristics that should or might be regulated. To some extent this is there in the discussion of 'mandated product design' for MySuper and whether ASIC should have the powers re marketing terminology which describes products such as 'capital guaranteed'. There should also be discussion of standardising descriptors such as 'balanced', 'advocacy fund' and the like. Fees and costs are characteristics of financial products and impact on returns. There is greater lack of comparability between similar managed investment products than between similar superannuation products. There should be a discussion of the feasibility of regulating fees and costs as a product characteristic – not just as a disclosure issue. There has been a consumer credit debate as to whether fees and charges should be set on a cost recovery basis or on a profit basis.

Vanilla products. Mandated vanilla products such as basic deposit products are a form of product regulation. There should be a discussion of whether this is suitable for investment products and whether there should be a mandated range of relatively risk free products.

Default products. These such as the MySuper Default Superannuation Fund List are regulated by product characteristic. There should be a discussion of the opt out and 'seduction' of consumers at all stages but particularly in the immediate pre and post retirement phase, to products that are more profitable for providers.

Achieving product quality through consumer guarantees. There are mandatory consumer guarantees in the Australian Consumer Law (ACL) with statutory rights of redress which have replaced the non-excludable implied contractual terms. This should be considered for financial products. Correspondence with description and fitness for communicated purpose or desired result at the time of acquisition should not be controversial. Whether a product is high risk or low risk is something that would clearly fall within description. What constitutes a financial product of acceptable quality will require modification. The test, following the ACL, could be what a reasonable consumer fully acquainted with the product including hidden defects would regard as acceptable. Assessing this could take into account the product and statements and representations about the product. It could not guarantee future rates of return but it could assess reasonable expected rates of return at the time of acquisition. It may be possible to build a future time frame into this.

Consider introducing **an appropriate or suitability requirement for the financial product** not just for financial advice and consumer credit. Suitability protects against irrational choice and information deficits. Financial planners, and consumer credit assistance providers and credit providers must all assess the appropriateness or suitability of their advice, recommendation or product in order to match the characteristics and requirements of the person with the characteristics of the product. There are enhanced suitability requirements for small amount credit. There are suitability requirements for margin loans. This is raised in the Report and indirectly foreshadowed in the discussion of insurance pricing. That the financial product is suitable for the person would require closer attention to the financial situation, capacity to bear loss, risk profile, and stage of life of the person. A suitability requirement could ensure better outcomes for those making the transition to and in retirement by protecting them from unwise investments that destroy retirement savings. The Report discusses changes in pricing due to big data <u>about</u> people. There should also be a discussion of the use of technology to obtain good matches between product and person <u>for</u> the individual. There needs to be a discussion of where liability for assessing suitability of the product for the person should fall – the issuer/manufacturer, adviser, seller?

If there were more stringent product characteristic regulation, mandatory quality standards and suitability standards what changes should be made to the financial advice regime and to the disclosure regime?

First, quality and suitability regulation should encourage **greater direct access for consumers to financial products**. A person can buy insurance from a general insurer without going through a broker. It should not be necessary to access financial products through a **financial adviser**. It is difficult to understand what value is added. There have been difficulties for small investors in accessing advice, much discussion of the difficulties in obtaining 'scaled' advice, and seemingly unending problems with the quality of advice from 'aligned' financial planners. Consumers who may have one superannuation fund and one or two managed investments do not need investment **platforms**. There should be a discussion of platforms from a consumer outcomes perspective not just a competition perspective. Reference to 'the distribution model' indicates that much activity is sales not independent advice (the conflicted remuneration problem).

The Report asks if general **advice should be renamed sales**. This is supported. Consideration should also be given to **a definitional continuum** of information, sales, general advice (if it is truly generic advice) and personal advice. A clear distinction between sellers and advisers should facilitate the enhancement of the quality of advisers by the measures discussed in the Report. It should be clear whose products are being sold by sellers and it should be clear if an adviser **is independent or tied** to a particular product group. Greater direct access to products, plus clarity that an activity is a sale rather than advice will require greater scrutiny of the regulation of selling practices. A suitability requirement should limit egregious practices.

If financial advisers are unnecessary in many situations, if access to financial products is by way of sale rather than advice, **how much disclosure of information is necessary**? It is arguable that the advice industry has obscured information required to know what products are available, compare products and compare like products. Better standardisation of descriptive terms and the basis of fees and costs as argued for above would permit better comparability. Despite the strong arguments that disclosure has failed, layered information, better information presentation, risk profile disclosure would all assist **on line comparison tools**. Direct access and on line comparison of fees and costs should provide a signal to reduce costs. For instance, annual statements and on line comparison of superannuation products should have a comparison of the average return of funds of that type throughout the industry and the average fees and costs level of funds of that type and how an individual's particular fund compares.

Who should be protected? The definition of a retail client should be revisited. There may not be sufficient protection for individuals over the income and assets test who are not financially sophisticated. This may also be important for self managed superannuation funds. Whether an individual who borrows for investment or for investment for retirement purposes is protected under the National Consumer Credit Protection Act should be clarified.

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Regulatory architecture

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- Section 7 covers a range of issues relating to regulatory architecture, across the whole financial system (capital markets; financial services/ wealth management; banking and insurance; payment services).

- It reaffirms the basic Wallis design, and makes some observations about the regulatory agencies and their coordination (but note the Senate Committee's report on ASIC).

- Three key areas for FSI to focus on in concluding its work:
    - Regulatory philosophy and regulatory perimeters
    - The 'regulatory burden' problem
    - ASIC's mandate

- FSI should be encouraged to look forward to what regulation seeks to achieve, rather than seeking to justify the status quo.

Regulatory philosophy and regulatory perimeter

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- The Wallis philosophy relied on conduct and disclosure rules for ensuring financial market integrity and consumer protection, and prudential regulation for financial safety.
- FSI asks where the perimeters of each of those regulatory models should lie.
- An equally important question is whether these current models are appropriate for regulating the provision of financial services by fiduciary intermediaries (like CIS operators, personal financial advisers and broker/dealers) and other financial services providers (like product manufacturers). Is a more nuanced regulatory approach required here?

Regulatory burden

- Discussions of regulatory burden are unhelpful unless they distinguish between the different forms of regulation: capital markets, financial services (fiduciary and non-fiduciary), prudential (financial resources, liquidity, governance, risk management). It is a question of the right form of regulation for a a particular part of the system, that produces the desired social and economic outcome consistent with international frameworks.

- Often the problem is not too much or too little regulation, but poor quality regulation (e.g. Ch 7 of the Corporations Act, including FoFA). FSI should consider ways to improve the process of regulatory change in the financial sector (including through decreased reliance on legislative reform).

ASIC's mandate

- ASIC's mission and brand is confused, which diminishes its effectiveness. Time to separate the fruit salad – apples (securities and markets), oranges (fiduciary intermediaries), bananas (consumer FS) and grapes (unlisted companies) – this can be done without legislative reform (see ASICA sec 97). It acknowledges the different regulatory philosophies underpinning the different responsibilities but maintains overall coordination.

- ASIC should devolve 'compliance' and capacity building to co-regulators and focus on enforcement.

- We should look at an integrated meta-agency for retirement income – perhaps co-locate the relevant parts of ASIC, APRA and the ATO in Canberra? Consider SMSFs and the protection of the public's investment in the deccumulation phase.

The way forward

- FSI offers a once-in-a-cycle opportunity to imagine a better regulatory architecture – one that is fit for a complex system.

- The growth in the number and range of intermediaries in the 'investment chain' needs to be acknowledged, and the capacity of the Wallis architecture to respond re-examined.

- Not everything requires law reform. Significant amounts can be achieved through changes to business practices by industry (for example, in financial planning) and by emboldening regulatory agencies to work more innovatively with their existing powers and structures.

Summary - Regulatory Architecture

This paper looks at the three most important issues raised by Section 7 of the Interim Report: the question of regulatory philosophy and regulatory perimeters; the problem of regulatory burden; and the scope of ASIC's mandate. The Report concludes that 'Australia's regulatory structure has served us well, and the perimeters defined by the Wallis Inquiry remain broadly valid'. Accordingly it does not invite us to revisit Wallis's binary regulatory architecture, comprising prudential regulation in some parts of the system and conduct and disclosure regulation in others, although it does ask where the boundaries of each should lie. However a more far-reaching inquiry, looking at the capacity of these regulatory models to respond to the issues in the provision of financial services by fiduciary and non-fiduciary intermediaries, is required. The Report raises the question of regulatory burden, although it does not engage with the core issue of poorly designed regulation and its causes. It also confronts the problem of ASIC's overly broad (and sometimes discordant) mandate, and invites solutions. In concluding its work in these areas, the FSI should look to provide a clear statement of direction for the development of regulatory architecture that supports the telos of the financial system, is consistent with international norms, and maximises the possibilities for regulatory innovation within existing the legislative and institutional frameworks.

ARC CENTRE OF EXCELLENCE IN POPULATION AGEING RESEARCH

The FSI and retirement incomes

Professor John Piggott
Centre Director

UNSW AUSTRALIA

Australian National University

THE UNIVERSITY OF SYDNEY

1. Demographic challenge
2. Complexities in decision-making
3. Managing risks in retirement
4. Regulatory barriers to products

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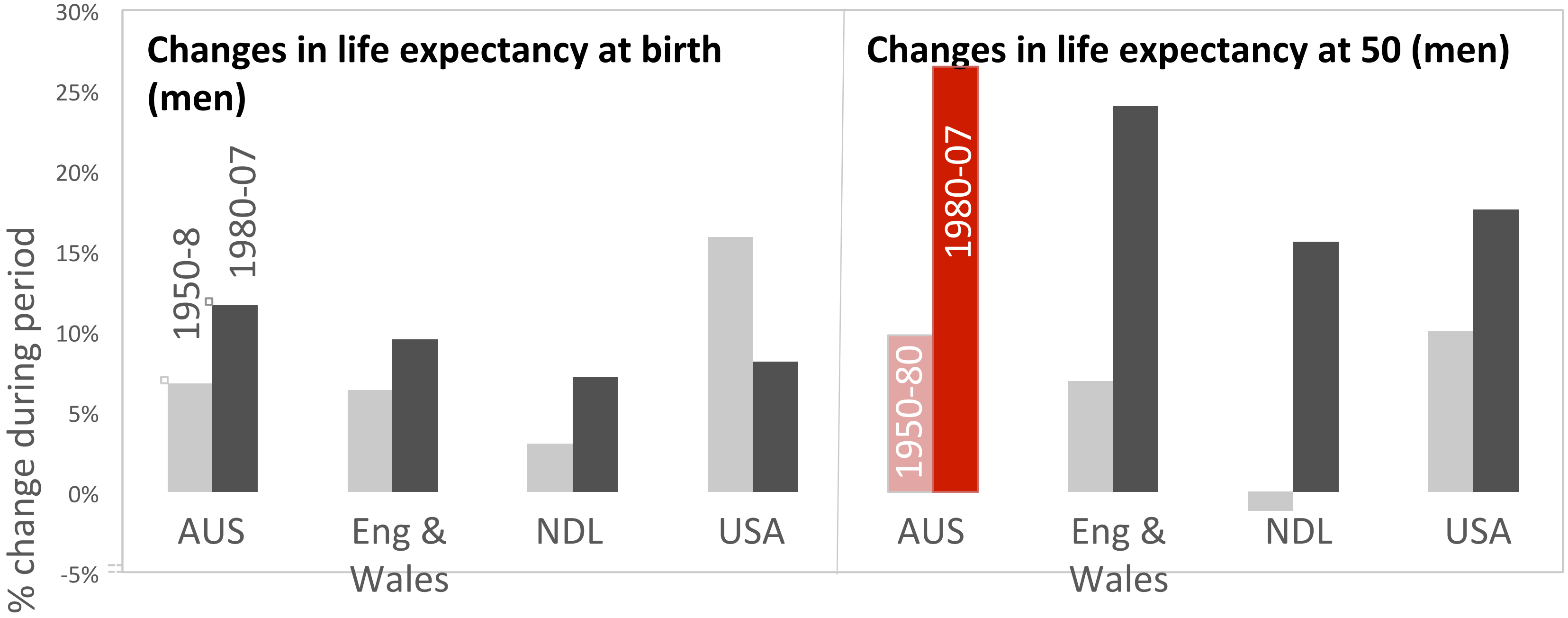
…but first, the FSI policy options

STATUS QUO INCENTIVES DEFAULTS COMPULSION

1. Demographic challenge: Underestimating longevity



Source: Human Mortality Databas www.mortality.org

1. Demographic challenge: Underestimating longevity

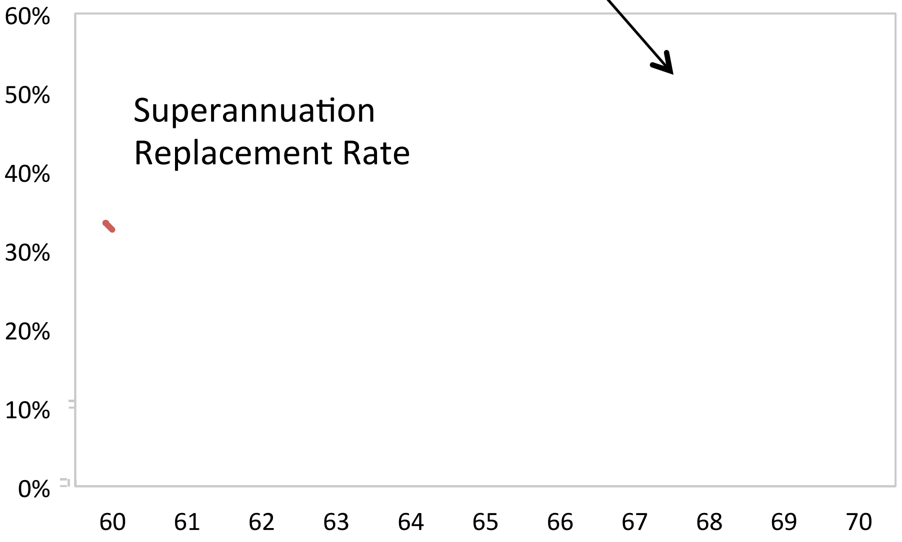
E.g. How long do you think you will live?

Source: Wu, Stephens, and Thorp (201)

Note: Under- (over- estimation was actually based o characteristic such a education, marital an work status

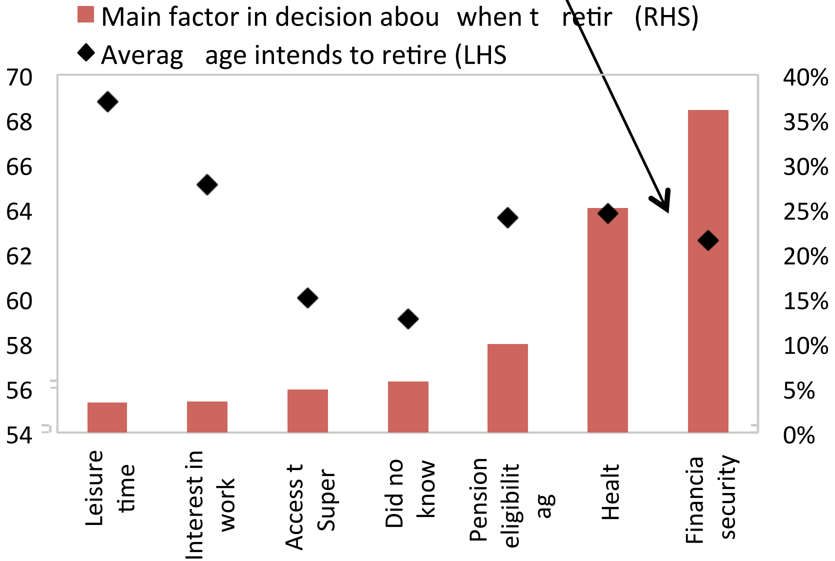
2: Complexities in decision making, including on retirement age

Super already introduces incentives



Example of benefits accumulated if retire at given age under reasonable assumptions

But many still intend to retire at 62... Despite 'financial security' being key deciding factor



Decision factor by intended retirement age (persons in labour force 45+ who intend to retire)

Source: Chomik and Piggott (2012) and ABS Cat. 62380DO010_2010201106

3. Managing risks in retirement

What are the risks?

- Longevity risk
- Investment risk
- Inflation risk
- Liquidity risk
- Replacement rate risk
- Counter-party risk

But also others:

- Cognitive decline (25% of 85-89 and 35% of 90+)
- Aged care (1/3 of men, ½ of women aged 65 will enter residential care)

3. Managing risks in retirement

- Three parties – public, private market, families
- Public goal – managing public sector exposure over time
- Liquidity preference in early retirement = self insurance
- Late life longevity insurance would work but for barriers

4. Regulatory barriers to product development

- Longevity insurance market prone to failure because of asymmetric information
- Currently, no government agency has any responsibility for supporting this market
- Not just multiple approvals, but finding a way to support the market
- Not subsidy, just promoting efficiency

Summary - RETIREMENT INCOMES IN THE FSI

As outlined in CEPAR's submissions to the FSI, and noted by the inquiry itself, there is no legislative or formal statement of the guiding objectives for the retirement income system. I take as a point of departure that the purpose of Superannuation is to allow individuals to effectively manage risks so as to maintain a stream of resources in retirement, rather than merely an accumulated asset for individuals or a source of funding for business.

Population ageing and the expected growth in Superannuation assets means that now is the time to put policies in place to make the system fit for purpose. The FSI discussion proposes a spectrum of policy options in this area, but in thinking about these, it is useful to think about how people behave in making complex decisions, the advice they are provided, the nature of the risks they have to deal with in retirement, and the regulatory barriers for product development.

For example, while incentives exist to work longer, the advice often takes a given retirement age for granted as part of the saving and retirement income decisions. Risks vary over the course of retirement so what is right for the younger old is often not the case for the older old. And when discussing risk management, we need better coordination and more thought about who should be bearing which risks.

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Questions?

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Dr Kingsley Jones
Research Fellow
Centre for International Finance and Regulation

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Technology & Financial Data Architecture

- Digital services innovation
- Customer information protections
- Cyber-security risks and opportunities
- Data architecture and regulatory analytics

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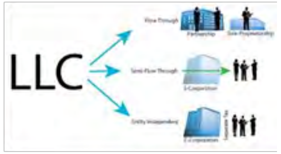
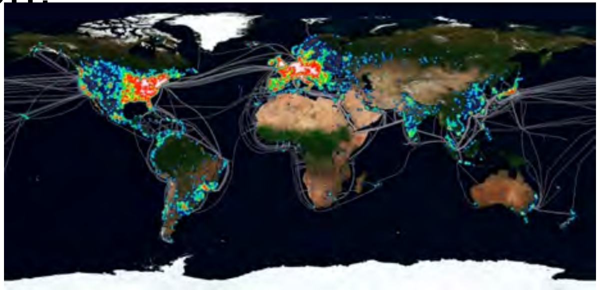
Technology & Service Innovation

- Digital service models are global
- Tax and regulatory structures are local
- Are jurisdictional legal innovations “technologies”
- Should regulatory settings be *technology neutral*?
- Are regulations operating as a barrier to trade?



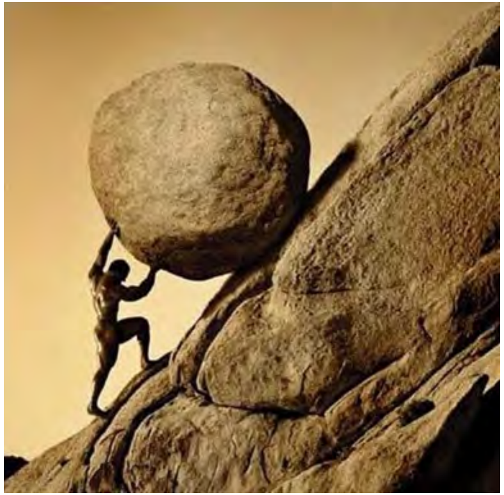
Customer Information

- Can cross-border information flow be regulated?
- How might "query level controls" improve privacy?
- What policies inform data release & aggregation?
- Cloud computing and record keeping security
- Effect of the *Mosaic Principle* on privacy



Cyber-security

- Role of the *Trusted Digital Identity*
- Rise of behavioural hacking and phishing
- State-sponsored versus private activity policies
- Machine trust versus human trust protocols
- Policies to encourage *digital security innovation*



Data Architecture and Regulatory Analytics

- The balance of regulation versus enforcement
- Are Big Data and Analytics being used to best effect?
- Policies on mandating *machine readability* of reporting data
- Policies on sharing, aggregation and anonymisation of data
- Initiatives to address knowledge and skills development

Summary - Technology & Financial Data Architecture

There are three key areas of the Preliminary FSI Report that mention technology in the context of financial services regulation. These include: Technological Innovation (Section 8.1); Customer Information (Section 8.2); and Cyber-Security (Section 8.3). We present our response to the questions posed in those sections informed by CIFR sponsored research in these areas. In addition, we mention the much wider role of human and technology capital in shaping the possible effectiveness of regulatory enforcement and organizational productivity through the growth of Big Data and Analytics. The views we present are targeted at understanding the extent to which technologies are global, while regulatory responses are typically local. This may create un-intended consequences through retarding consumer access to innovative digital service models. However, such efforts to lessen the impact of regulation as a trade barrier need to be balanced with the necessary customer privacy and cyber-security provisions. We describe these tensions with some recommended areas for policy focus.

Save the date…

October 1st: Hilton Hotel, Sydney

Regulatory Analytics and Data Architecture Workshop

- Organizational Challenge
- Technology Facilitators
- Concept Demonstrations

A CIFR sponsored research workshop: Kingsley.Jones@cifr.edu.au

Professor Ross Buckley

CIFR King & Wood Mallesons Chair in International Finance Law, UNSW

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THE UNIVERSITY OF NEW SOUTH WALES

How internationally financially integrated are we?

Financial Integration across Selected Comparator Countries

Chart 10.1 from Treasury Financial System Inquiry Interim Report, July 2014

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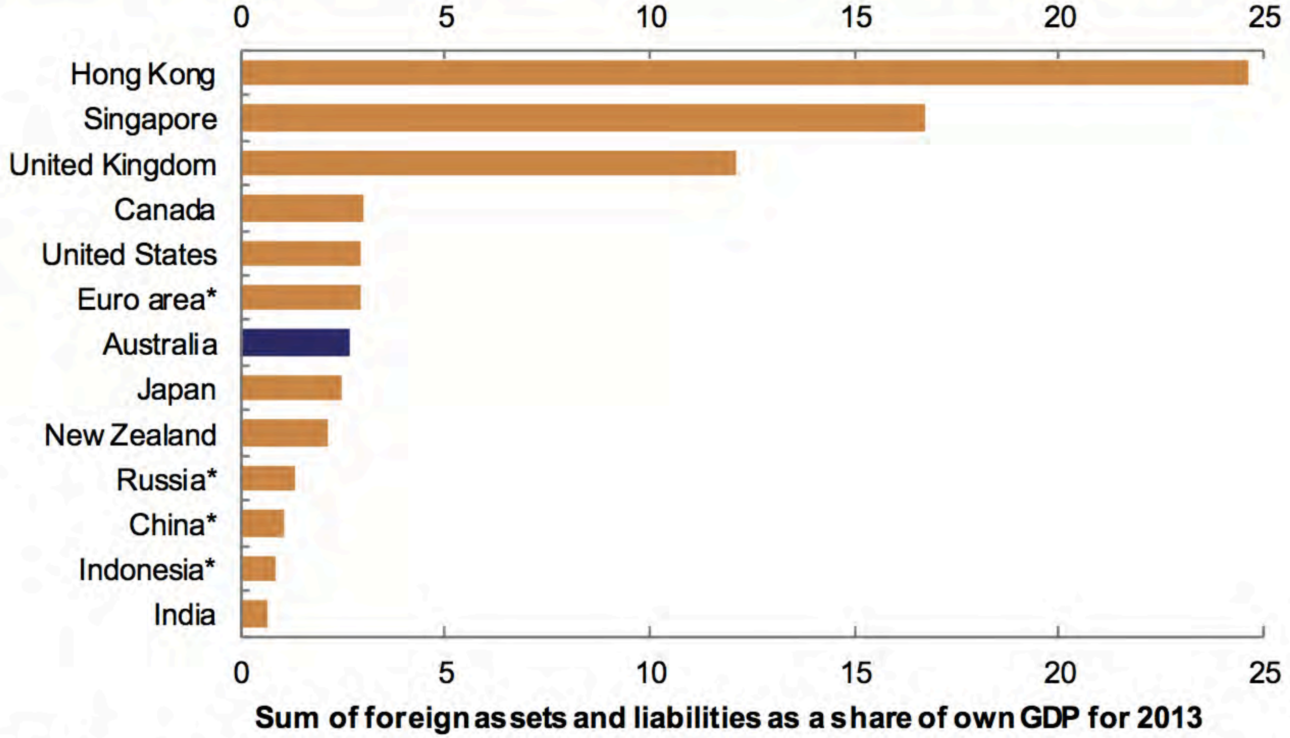

Source -- FSI calculations using ABS, IMF, Thomson Reuters and national sources.

With where are we integrated?

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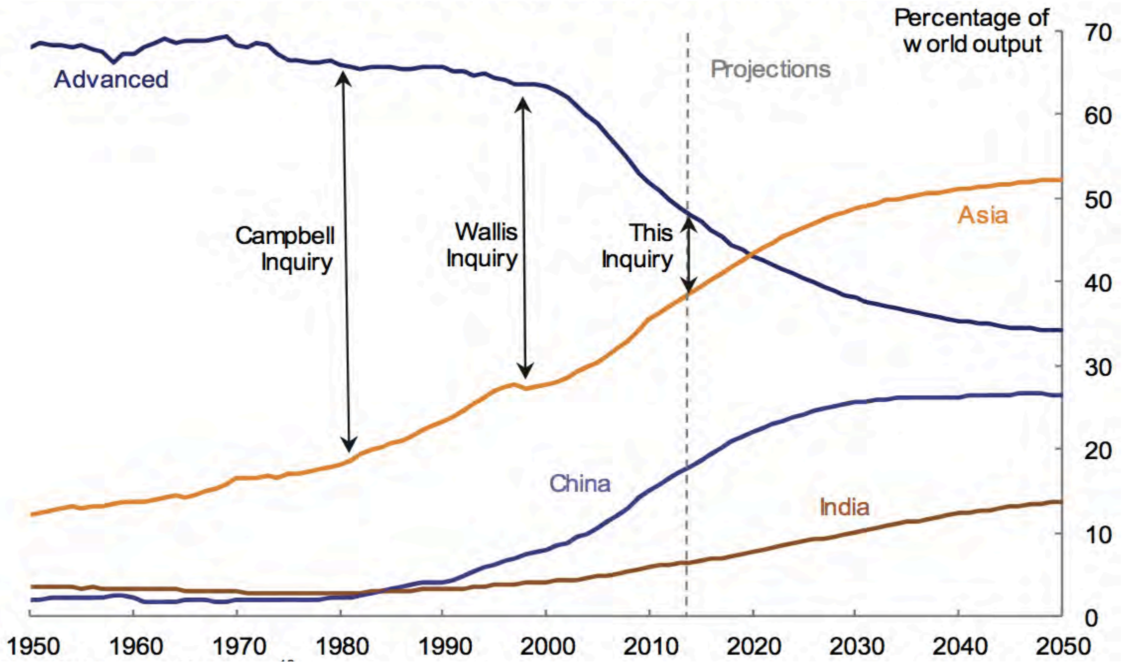
"Australia's main financial relationships are with Europe and the United States" and "although the focus of merchandise trade has shifted to the Asian region, financial flows are yet to follow in a substantial way".

In this we are typical of East Asian nations.

Past and Forecast Shift in Economic Weight

Chart 10.2 from Treasury Financial System Inquiry Interim Report, July 2014



Source -- Treasury projections based on IMF and Conference Board data, as well as A Madison, *Statistics on World Population, GDP and GDP per capita, 1–2008 AD*, (Groningen Growth and Development Centre, 2010). Based on purchasing power parity adjusted GDP.

Projected share of world GDP, by specific regions, 1980 to 2050 –

Fig 2.6 from Senate Economic References Committee Report into ASIC, June 2014

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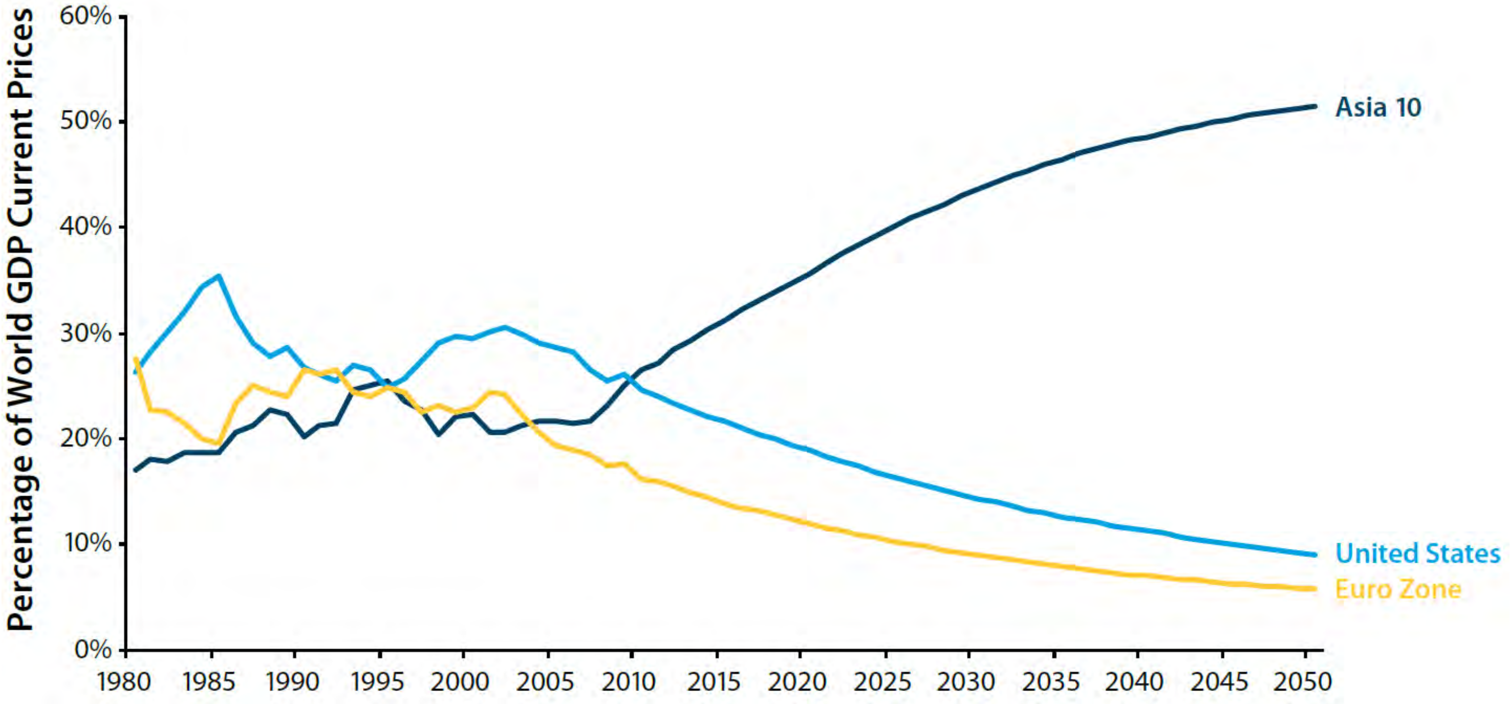

Source -- ANZ Research

The report underplays

- The potential for Australia of true financial integration within the region.
- The question for 25 years or more has been "how do we create regional financia centre in Sydney?"
- Perhaps it isn't the right question.
- Is the better question "what role is there for Australia in the financial integration of East Asia with itself?"
- Of course, the rise of the RMB is critical in this

The report underplays

- The transformative potential of the funds under management in Australian superannuation.
- Superannuation FUM today are about 100% of GDP
- FUM already exceed the total market cap of the ASX
- FUM are predicted to rise to about 180% of GDP by 2033 – some $7.3 trillion in 2033 dollars.
- Superannuation has the potentia to provide demand for the local bond market and be a game changer in other ways.

The report underplays

- The impact of taxation on our international financial integration
- Australia's banks are among the safest and most profitable in the world.
- Yet international deposits are about $120 billion or 6% of their liabilities.

Tax Rules

- IWT on retail deposits of non-residents has narrowed the funding base and worked against competition.
- Johnson in 2009 and Henry in 2010 both recommended the abolition of the IWT.
- Many other aspects of our tax system work agains integration
- Complete review of all the ways our tax regim dissuades further financial integration is sorel needed.

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Coordination of Australia's international financial integration

- FSI says it could be improved.   Options –
- an expanded role for the CFR, or FSAC, or the RBA or …
- a Treasury Minister to champion Australia's financial services, within Government and externally
- a Government resource focussed on competitiveness, with authority to generate legislation quickly and effectively to enhance Australia's competitiveness
- improved communication and feedback between the market and financial policy advisers by having a standing body

A broader view of the real basis of regional financial integration

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- My faculty's student body is some two-thirds Asian-Australian
- Superb students, with deep cultural understanding and a range of language skills
- A wonderful resource for the nation
- The New Colombo Plan – the government wants to see a semester of study in an Asian university become a rite of passage for youn Australians

Conclusion

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- In my view the Interim Report underplays:

  (i) the potential for Australia of the region become financially integrated within itself,

  (ii) the game changer that FUM in super can be, and

  (iii) the extent to which our current tax regime limits our international integration

Conclusion continued

- It could well have displayed a broader appreciation of what international financial integration is built upon – which is ultimately clever people understanding the financial needs in other countries
- But it is a balanced, insightful report that presages a very strong final report

Opportunities in the Asian century:
Internationalisation of the Renminbi (RMB)

Geoff Weir

CIFR
Centre for International Finance and Regulation

Financial Integration and the Importance of China

Size Matters:

- Trade, GDP, capital markets and savings pools

Natural Fits:

- Australia a capital importer/ China the biggest global savings pool
- China's growing demand for services/ Australia's comparative advantages

"Finance Follows Trade":

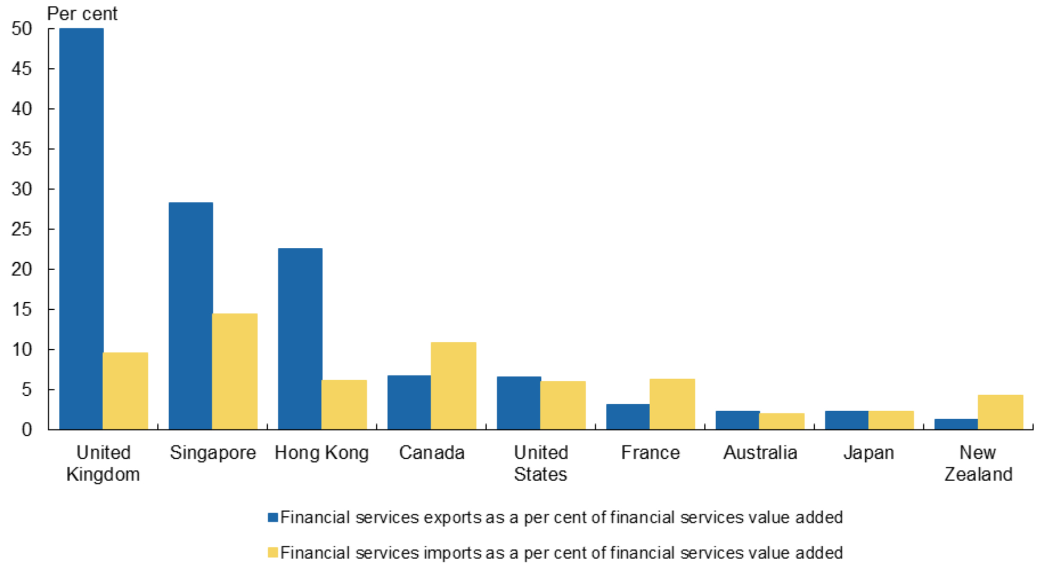
- China our major trading partner but minor financial partner
- Scope for substantially broader and deeper financial links:
    - but this will not happen automatically

Constraints: China

- Capital flows into and out of China are still heavily regulated, its capital markets underdeveloped and its corporate governance patchy
- But this is changing rapidly: why? (CIFR Report)
- Outlook: within a decade, China will have the largest capital markets in the world, be a major component of global investment portfolios and the RMB will be a significant global funding currency

How Are We Positioned? Non Policy Issues

- Some exciting developments: ASX/Bank of China platform
- But private sector awareness still patchy: role of private and public sectors
- Inward looking focus: low financial services exports



Source CIFR RMB Report p9

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How Are We Positioned? Policy Issues

- Financial architecture in place
- Asian Passport: moving in right direction
- Accessing early opportunities: RQFII quota?
- Bond market development and regional financial integration
- Cross-border funds management tax issues: wasted years
- Funding our investment needs at the best possible commercial rates: IWT and shooting ourselves in the foot

Concluding Comments: Are the Planets Aligning?

- China as a catalyst for raising awareness of Asian opportunities
- Government commitment
- Official family support
- Role of ATO
- The FSI Report

Peter Mason AM

Chairman

Centre for International Finance and Regulation

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AN INTERNATIONAL ACADEMIC'S RESPONSE TO THE INTERIM REPORT

Professor Stephen J. Brown
– NYU Stern School of Business
interviewed by Professor David R. Gallagher

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INTERNATIONAL REGULATORS' PERSPECTIVES

"The Future of Financial Regulation"

Professor Justin O'Brien

interviews

Greg Medcraft

David Wright

Ashley Alder

Howard Wetston Q.C.

Martin Wheatley

Anne Héritier Lachat

Leonardo Pereira

INDUSTRY RESPONSE TO THE INTERIM REPORT

CIFR

Centre for International Finance and Regulation

Steven Münchenberg

Chief Executive Officer

Australian Bankers Association

CIFR

Centre for International Finance and Regulation

AUSTRALIAN BANKERS' ASSOCIATION INC.

Summary - Australian Bankers' Association – Notes for Presentation to CIFR FSI Workshop II

The Australian banking industry believes the Financial System Inquiry is an important opportunity for careful and considered deliberation on the state of Australia's financial system, its role in serving the Australian economy and hence the Australian people. Out of this Inquiry, we hope to see clear recommendations on the policy settings needed to ensure the system continues to serve Australia as well in the future as it has in the past.

That's why the banking industry has argued consistently that the Inquiry should focus on ensuring Australia has the best financial system to meet its future needs. This means having a banking system that meets the needs of household and business customers, investors, employees and the broader community. To achieve this objective, we need a banking system that is stable, resilient, safe, competitive, innovative, diverse, efficient, inclusive and profitable.

To ensure the banking system can continue to serve the needs of Australian customers and the economy, the banking industry's initial submission to the Inquiry focussed on five key areas:

1. The strengths of the current system and the importance of ensuring these are not undermined.
2. *Funding* – putting in place measures to strengthen and diversify sources of funding for the economy.
3. *Competition* – testing any impediments to more competition and, where appropriate, removing them.
4. *Regulation* – ensuring the regulatory regime supports rather than inhibits the financial system from serving the economy.
5. *Technology* – making sure the central role of technology in banking is properly understood and the regulatory regime supports the full realisation of technology's benefits, while protecting the system from any risks.

We were pleased to see that many of the industry's proposals were reflected in the Inquiry's Interim Report. Bu then, the Interim Report covered a lot of ground.

The issue now is to focus on those issues that will matter most to whether the financial system can continue to serve Australia's needs.

In considering what final recommendations to make, the banking industry would suggest the Inquiry take into account a number of points:

- First, given the demonstrated strengths of the current system, regulatory and policy changes should only be made where there is clear evidence that the change is needed and that the benefits of the change outweigh the costs and consequences;

- Second, and related to the first, is that considerable care is needed in introducing new policy or regulatory proposals in anticipation of possible future problems – we need to be wary of complacency, our system has done well but is not invulnerable, but we need to be careful in putting in place policy or regulatory proposals to deal with possible future problems when these have a real impact today on the system, consumers or the economy. An example is the calls for ever higher levels of bank capital, supposedly to make banks ever safer, but at what cost to banks' ability to serve the economy – we must remember that the safest car is the one that doesn't move at all; and

- Finally, careful consideration needs to be given to policy proposals developed offshore – just because someone else has done something may make it interesting but is not sufficient grounds for Australia to do it – there are many structural and regulatory differences in Australia that mean international proposals need to be adapted to Australian circumstances, if they are relevant at all – examples include pre-funding our deposit guarantee or ring-fencing banks.

These are principles, but there are some specific areas the industry will cover its submission on the Interim Report. These include:

- Addressing the challenges presented by the current regulatory capital framework, particularly for regional and smaller banks;

- Ensuring there is a coordinated and comprehensive approach to improving the quality and diversity of funding for the economy;

- Recognising the considerable improvements already made to the stability and resilience of the system and prioritising any measures to improve stability towards those that minimise upfront impacts on the system and economy;

- Building on financial literacy, increasing the effectiveness of disclosure and improving financial advice, to assist customers to get the best out of financial products and services; and

- Proposing a collaborative approach to managing technological change, involving regulators, industry and consumer representatives.

Robert Whelan

Executive Director & CEO

Insurance Council of Australia

CIFR
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INSURANCE COUNCIL OF AUSTRALIA

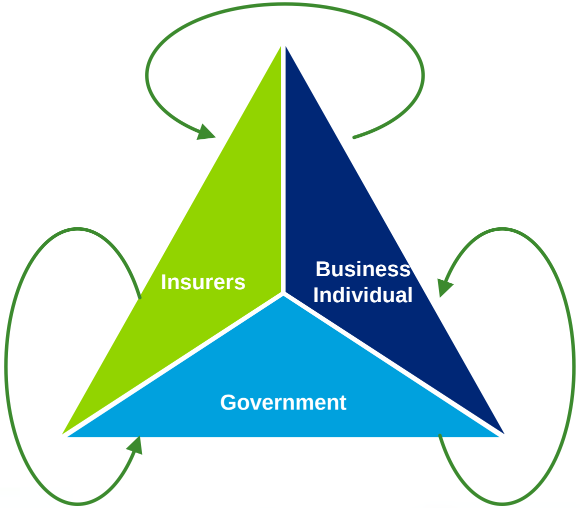
Centre for International Finance and Regulation

The IC Submission – Articulation o framework

- How risk is allocated in the economy
- Insurable risk is always a transfer
- Classic problems in insurance, such as information asymmetry, moral hazard & adverse selection
- Risk is best allocated to the least cost bearer of the risk

Principles for allocating risk

- Risk is allocated and pooled within the economy
- Risk is allocated towards those best placed to manage it
- The market provides price signals to encourage an efficient allocation of risk



Spectrum of risk

Disaster
Financial
Individual/home/property
Motor vehicle
Travel

Financial System Inquiry – Themes fro   the Interim Report

- Wallis was macro institutional. Murray is micro adjustment.
- Overall conclusion system is working well, so what becomes the case for intervention? Starting point is status quo – no disturbance until evidence suggests otherwise.
- Three key shocks/changes post Wallis – GFC, ageing/superannuation, technology. Each assessed rationally.
- Challenge of estimation, agency & information asymmetry – the better choices problem (e.g. How do we get it right on retirement adequacy, advice, insurance cover?)
- Competition and consumer sovereignty (technology facilitates, but how do we avoid the downsides?)

Outline o FS Interi Repor Key Issues

Issue	Questions asked
Non Insurance	• Just how bad is the problem? • Does the problem merit intervention?
Technology	• Is the concept of the pool dead? • Can technology invite competition? • Will technology lead to exclusion?
Competition	• Can aggregators inject competition? • Shoul policy be directed towards supporting aggregators explicitly? • Do statutory schemes need more competition?
Disclosure	• Has disclosure reached it limits? • Can policy “nudge” consumers towards better choices & better estimation?

Industry Response to FSI – Directions

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Question	Direction
Framework	• Needs to be reasserted • TOR included ho ris is allocate in th economy • Important in settling basic starting point debates
Non Insurance	• Limited and event specific (catastrophe total loss events) • Interventio risk secon roun disturbances (NZ experience)
Competition & Aggregators	• Competition is intrinsically valuable • Aggregation another for o intermediatio with sam agenc issues • Marginal case fo government intervention to promote o own thes forms of intermediation
Disclosure	• GI products well understood and commonplace • Harm arises generally from *not* buying the product • One size fits all approach not appropriate for GI • More work neede on improving choice o estimation

John Brogden AM

Chief Executive Officer

Financial Services Council

Centre for International Finance and Regulation

David Lynch

Chief Executive

Australian Financial Markets Association

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AFMA

Financial Markets

- Equity, debt, derivatives – performed well against the Inquiry's principles but must continue to evolve
- International context – more important than ever
- Government policy settings – mechanisms to influence financial market development

Regulation & Taxation

- Policy framework and regulation – about sound policy development and effective implementation
- Industry's role in financial markets and the regulatory process
- Tax settings and future reform

Industry Development & International Integration

- Corporate bond market development – about meeting economic needs

- New global regulatory architecture – important role for Australia

- Competitiveness of Australia – more effectively leveraging off our strengths in financial services

Andrea Slattery

Managing Director/CEO

SMSF Professionals' Association of Australia (SPAA)

Centre for International Finance and Regulation

Professionalism – what are the challenges

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- Speed of change, research & barriers
  - Is there a single financial services profession?
  - Industry led reform around occupations
  - New opportunities
  - Technology capacity and disrupters
- Self-regulation with regulator powers & resources
- Consumer protection
- Consumer expectations and engagement
- Higher standards and professional codes of conduct and ethics

Financial Advice – FSI on the right track

- SPAA strong support for the FSI's comments that the quality and standard of financial advice needs to be improved

- This should be achieved by leadership in the areas of:
  - Training
  - Competencies
  - Professionalism

- A self-regulated profession not a regulated mandated minimum competency

- The regulator has the resources and powers to regulate, supervise & police

Financial Advice – ongoing education critical

- SPAA support for increasing the minimum education and competency standards for personal advice

- SPAA does not support for the introduction of a national examination for financial advisers.

- A national exam will be a disincentive for advisers from undertaking further education or competencies at a higher level than the exam

Separating advice from sales – consumer expectations

- SPAA supports the need for a *clear distinction* between what is **financial advice** and what is **factual or sales information – no general advice category**

- Lead to consumers having greater awareness of whether they are receiving financial advice that takes into account their personal circumstances and financial goals or whether they are being provided factual or sales information explaining a product

- The language and recognition of professional advice needs to change for the future

To conclude;

- Self-regulation & regulatory powers to build professions
- Consumer protection – having an engaged and informed public
- No regulated mandated minimum competencies or exams

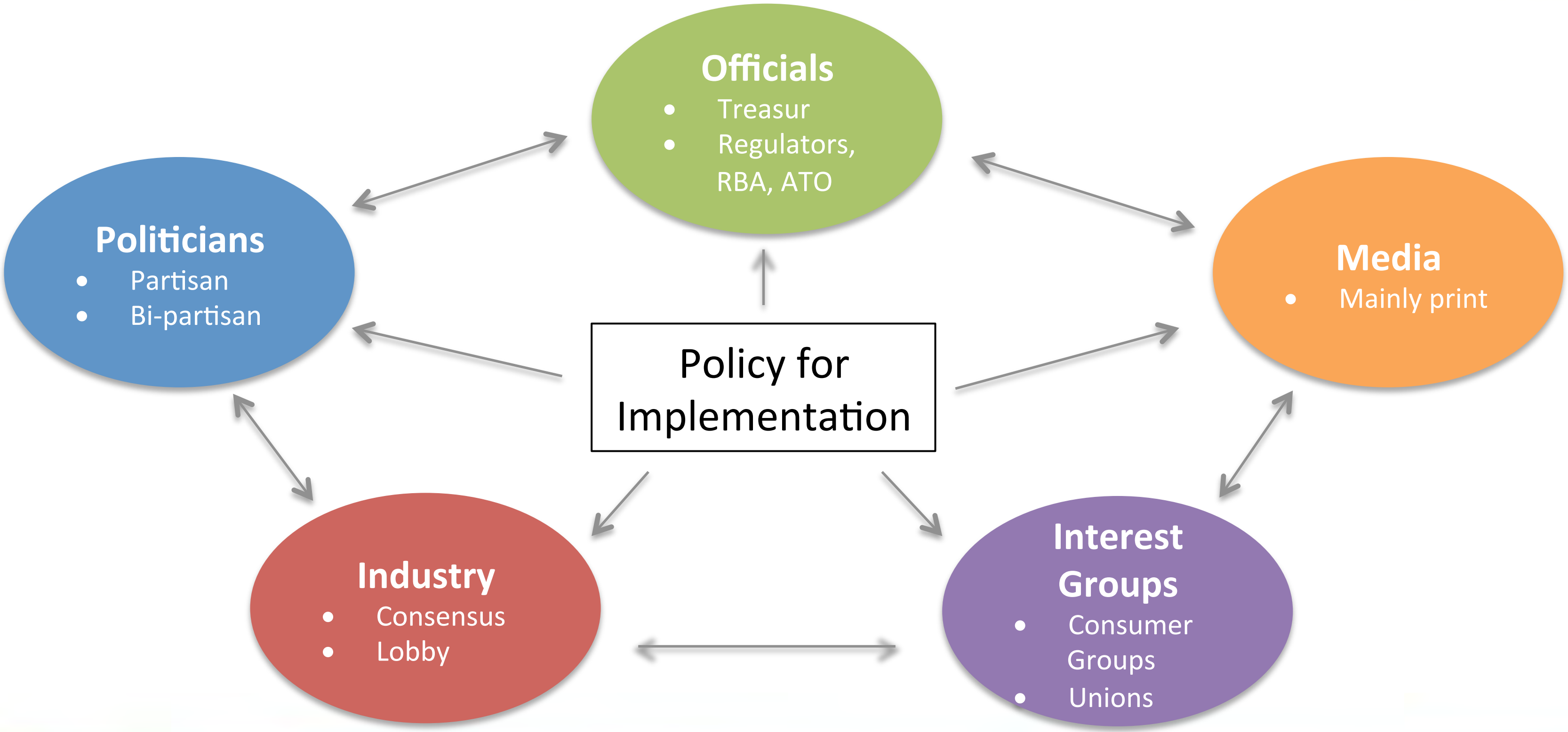
Implementation

Mark Johnson
Gresham Partners
Sydney
21 August, 2104

What is Essential?

- Government that “gets it”
- Minister with Cabinet clout
- Competent secretariat
- Trust

Who's Involved?



Financial Services Task Force: A Proposal

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Composition	• Industry – 7-10 peopl • Treasury (Division Head) • Ministerial Representative
Secretariat	• Two/three professional • From private sector
Funding	• User (industry) pay • Trade associations?
Reporting	• Treasurer or Assistant Treasurer • Report each six/twelve(?) months • Priorities specified • Tabled in Parliament

REGULATORY FRAMEWORKS FINANCIAL MARKETS
INTERNATIONAL CAPITAL MARKETS INTEGRATION
SYSTEMIC RISK
RISKS
GLOBAL FINANCIAL SYSTEM
INVESTOR PROTECTION
MANAGING SYSTEMIC
COMPLEXITY
RISK TRANSMISSION
PRODUCTS
FINANCIAL MARKET
DEVELOPMENTS
MARKET QUALITY MEASUREMENTS
SERVICES
COUNTERPARTY
RISK
MARKETS
TECHNOLOGIES
AUSTRALIA FINANCIAL SERVICES HUB
MANAGED FUNDS
NEW MARKETS
PAYMENT SYSTEMS
OUTSOURCING
INFORMED REGULATION
LEGISLATION, SEL - ION CODES
REGULATORY SYSTEM ARCHITECTURE REFORM
DIVERSIFICATION
MARKET AND REGULATORY PERFORMANCE
PROTECTION
PERFORMANCE
REGULATORY
INNOVATION
INTEGRITY
EFFECTIVE FINANCIAL CONSUMER
ENFORCEMENT EXPERIENCE, PRUDENTIAL AND ACCOUNTING STANDARDS
SUPERANNUATION
CORPORATE BONDS

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