

6 December 2013

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

By email: [fsi@treasury.gov.au](mailto:fsi@treasury.gov.au)

Dear Mr Lonsdale,

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

The Stockbrokers Industry Association, as the peak industry body representing wholesale and retail stockbrokers and investment banks in Australia, would like to make the following comments on the draft Terms of Reference for the Financial System Inquiry announced by the Federal Government in November 2013.

The Inquiry, to be chaired by David Murray AO, will be an ideal and timely opportunity for wide-ranging review of the Australian financial system, including:

- developments since the last Inquiry in 1997, and the GFC;
- the philosophy, principles and objectives underpinning the system and its regulation;
- opportunities and challenges likely to drive change; and
- changes in sourcing and distribution of capital.

We look forward to assisting the Inquiry to '*...refresh the philosophy, principles and objectives underpinning the development of a well-functioning financial system...*' (**TOR2**).

Our Members will be particularly interested in the following matters for review as set out in the Draft Terms of Reference:

- assessing the consequences of financial regulation, including its impact on compliance costs, flexibility, innovation and financial services trade **(TOR2.3)**;
- the role, objectives, funding and performance of financial regulators. **(TOR2.5)**
- emerging opportunities and challenges that are likely to drive further change in the financial system, including:
  - the role and impact of new technologies, market innovations and changing consumer preferences and demography **(TOR3.1)**;
  - international integration, including international financial regulation **(TOR3.2)**;
  - changing organisational structures in the financial sector **(TOR3.4)**; and
  - corporate governance structures across the financial system and how they affect stakeholder interests **(TOR3.5)**; and
- policy options that...foster dynamic and innovative financial service providers **(TOR4.4)**.

## Comments

The Terms of Reference are an excellent first draft, and will allow scope for our Members to raise most of the issues that we currently have before Treasury and ASIC, together with broader issues not currently under consideration.

We have two suggestions which we suggest will improve Draft Terms of Reference and result in a more thorough inquiry, especially in relation to financial markets:

1. **Specific Reference to Markets Regulation:** the past 5 years have seen unprecedented change in markets and market regulation in Australia. A new competitor to the incumbent ASX, Chi-X, has entered the market, providing an alternative venue for the trading of ASX-listed securities. Accompanying Chi-X's entry, market supervision has moved from the ASX to ASIC. Accordingly, we submit that it is important that the Inquiry looks at **Markets** regulators and regulation as well as purely **Financial** regulators and regulation. In order to clarify this, we would suggest the following marked-up additions to TOR2.3 and TOR2.5:

- 2.3 assessing the consequences of financial **and markets** regulation, including its impact on compliance costs, flexibility, innovation and financial services trade
  - 2.5 the role, objectives, funding, ~~and performance of~~ and **relations between** financial **and market** regulators.
2. **Competition in Clearing Services:** following on from our first point, it is unclear whether the terms are wide enough to encompass competition and competitiveness within market operators, in particular competition to the ASX in Clearing and settlement.

The Association is grateful for the opportunity to comment on the draft terms of reference for the Inquiry. Thank-you also for the invitation to participate in roundtable discussions on the Terms of Reference with senior Treasury and Inquiry officers.

We look forward to the finalisation of the Terms of Reference, the launch of the Inquiry, and our continued participation.

Yours sincerely,



**David W Horsfield**  
**Managing Director/CEO**