CHARTERED ACCOUNTANTS
AUSTRALIA + NEW ZEALAND

31 March 2015

Manager
Senior Adviser
Financial System and Services Division
The Treasury
Langton Crescent
PARKES ACT 2600

Via email: fsi@treasury.gov.au

Dear Sir/Madam,

Financial System Inquiry Final Report

Chartered Accountants Australia and New Zealand welcomes the opportunity to provide a submission to Treasury on the Final Report (Report) from the Financial System Inquiry (FSI). Our key points are below and Appendix A provides our detailed submission. Appendix B includes more information about Chartered Accountants Australia and New Zealand.

Key points

- We consider that the Inquiry's recommendations should be reviewed to ensure that they do not add regulation, costs and complexity where there is no clear benefit to do so.
- The outcomes from the Inquiry should focus on setting the financial system up for the future and the different challenges that will bring.
- As we noted in our submission on the interim report, there are a large number of reviews and inquiries currently being undertaken, including the tax discussion paper released yesterday. It is therefore important that the recommendations are viewed in a holistic manner together with the outcomes from the other inquiries.
- We support the creation of a set of comprehensive objectives for our retirement incomes system including super and age pension. We note these objectives are necessary before additional recommendations can be properly considered.
- We support the recommendations to improve consumer understanding through innovative disclosure and communication. We note that it is not just the way risk and fees are communicated to consumers but also the consumer's perception of the fees, the fee structure and the ethical culture within the organisation which need consideration.

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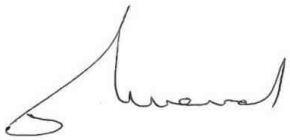
Should you have any queries concerning the matters discussed in our submission or wish to discuss them in further detail, please contact me via email rob.ward@charteredaccountantsanz.com or telephone (612) 9290 5623 or Karen McWilliams via email karen.mcwilliams@charteredaccountantsanz.com or phone (612) 8078 5451.

Yours sincerely



Rob Ward AM FCA
Head of Leadership and Advocacy

Appendix A

We consider that the Inquiry's recommendations should be reviewed to ensure that they do not add regulation, costs and complexity where there is no clear benefit to do so. Whilst individual recommendations appear beneficial, it is still important that proper consideration is given to the cost and complexity of implementing them and any unintended consequences.

The outcomes from the Inquiry should focus on setting the financial system up for the future and the different challenges that will bring. It is important that regulation is not created which may hinder the agility of the financial system to respond to future challenges.

As we noted in our submission on the interim report, there are a large number of reviews and inquiries currently being undertaken, including the tax discussion paper released yesterday. It is therefore important that the recommendations are viewed in a holistic manner together with the outcomes from the other inquiries.

Chapter 1 – Resilience

8. Remove the exception to the general prohibition on direct borrowing for limited recourse borrowing arrangements by superannuation funds.

We have advocated for a comprehensive review of direct borrowing in superannuation for a number of years. Fundamentally, such a review is required to assess whether borrowing in super is appropriate or not and what impacts borrowing may have on other sectors of the economy. But also to determine whether a better framework for limited recourse borrowing arrangements (LRBAs) exists, that may alleviate some of the current concerns around these arrangements. We strongly encourage further analysis of borrowing in superannuation before any decisions are made to remove the ability for super funds to engage in LRBAs. Potential changes to the legislative and regulatory framework should be assessed to determine if that provides a better solution to some of the concerns that have been raised around these arrangements.

Jeremy Cooper, as part of the superannuation system review, identified borrowing as a potential issue for the super sector. The panel's view at that time was that borrowing within super was not consistent with Australia's retirement income policy. However, legislation giving effect to borrowing was, at the time, still relatively new and the government had further announced its intention for consumer protection mechanisms. The panel therefore declined to make a specific recommendation other than for a review of borrowing to take place in two years (which would have been June 2012). To date, that review has not taken place nor have the announced consumer protection mechanisms been put in place.

Borrowing can be a useful tool for increasing retirement savings. Conversely, it can compound and magnify losses when investments go wrong. Rather than an outright ban on direct borrowing however, better guidelines and/or restrictions could be placed on these arrangements to address the risks associated with borrowing. Consideration could be given to (but not limited to):

- Loan to Value Ratios,
- limiting the amount of borrowing (dollar or percentage of total assets),
- types of assets allowed for borrowing, and
- licensing for those advising on LRBA's.

The regulation for those who can advise on borrowing arrangements needs to be tightened. We are aware of property spruikers and others pushing borrowing arrangements, inappropriate investments and in some cases the inappropriate setup of a self-managed super fund. While we do not believe that LRBA should be classified as a financial product, (although specific LRBA offerings may be deemed financial products), we do consider it appropriate that anyone advising on these arrangements operates under or holds a full or limited Australian Financial Services License (AFSL) in the area of superannuation.

The current legislation for LRBAs is difficult to navigate, with breaches of super law occurring too frequently. These breaches are often due to structuring of holding trusts, paperwork, improvements to property and terminology rather than the actual use of borrowed funds for investment purposes.

While there has been some level of take-up of LRBAs in SMSFs, it has not been significant to date. We consider it timely for a review to determine whether borrowing is appropriate or not before it becomes widespread, potentially impacting on funding, housing and security of retirement savings.

Should a decision be taken to ban borrowing however, we consider it would need to be on a prospective basis, whereby existing borrowing arrangements are grandfathered. Borrowing arrangements are typically for large assets, which would be difficult and expensive to unwind, impacting on retirement savings.

Conclusion:

Defer making a decision on direct borrowing in superannuation, pending a comprehensive review of limited recourse borrowing arrangements including the appropriateness of the legislative and regulatory framework surrounding these arrangements in addressing concerns.

Chapter 2 – Superannuation and retirement incomes

9. Seek broad political agreement for, and enshrine in legislation, the objectives of the superannuation system and report publicly on how policy proposals are consistent with achieving these objectives over the long term.

We have long argued that there is too much tinkering within superannuation and against its frequent use as a budgetary tool in the annual Federal Budget. The specific changes made are often not related to efficiencies or equity in the super system but the need of the government of the day to 'balance the books'.

Australia lacks clear long term policy objectives around our retirement income system. Achieving the right tax, legislative and regulatory settings will always be a difficult task until we are clear about what we want to achieve. An analysis of the interactions between superannuation and the age pension system will be crucial as will the direction of tax concessions within super. It may also involve an assessment of the community's expectations of our system including access to age pension.

If the objective of our retirement incomes system is to ensure that Australians have a comfortable retirement, then the policies need to be and can be tailored to this objective. If higher income earners are able to adequately save for what would be, on balance, a comfortable retirement, then the tax concessions associated with this need to be re-considered, particularly during the accumulation phase. However, to the extent that compulsory contributions are still required to be made for these people, they should be able to opt out of the compulsory super guarantee system or continue to access concessions on these amounts.

We need to be careful however that in reducing tax concessions, we don't inadvertently prevent or hinder those who are most likely to be able to support themselves in retirement from doing so. Any targeting of high balance super funds or high income earners will need to be carefully assessed.

To this end, while we support the setting of objectives for our super system, we would encourage a broader set of objectives to cover the retirement incomes system including the age pension. That is, create a set of objectives for Australians to achieve an adequate, if not comfortable retirement.

Conclusion:

Broadly support the creation of a set of objectives however, broaden the scope to include a more comprehensive set of objectives for our retirement incomes system including super and age pension.

10. Introduce a formal competitive process to allocate new default fund members to MySuper products, unless a review by 2020 concludes that the Stronger Super reforms have been effective in significantly improving competition and efficiency in the superannuation system.

We strongly urge the Government to delay any consideration for changes in this area until the Stronger Super reforms have had the opportunity to run their course. Considerable time and cost have been expended by the superannuation sector on the development of these reforms, some of which are still to be fully implemented. They must be given the opportunity to prove their effectiveness in improving competition and efficiency in the system. Furthermore, we believe 2020 may be too soon to be assessing the success of these reforms and at this stage it is not clear what success looks like.

We consider it too early to make recommendations on the outcome of a review in 2020. If the Stronger Super reforms prove to have not been effective, then at that time all other options need to be looked at and assessed, which may include modifications to the current system rather than a whole new system.

To date, we have supported employer choice for default fund selection and continues to do so. However, should another method be introduced it would need to be fair, robust, equitable and contain transparent arrangements for selecting default fund MySuper products.

Conclusion:

Stronger Super reforms be given sufficient time to deliver competition and efficiencies to the super system. No alternative action should be prescribed at this time but may be considered as part of a review process.

11. Require superannuation trustees to pre-select a comprehensive income product for members' retirement. The product would commence on the member's instruction, or the member may choose to take their benefits in another way. Impediments to product development should be removed.

We do not believe that a case has been made within the FSI report to warrant this recommendation being adopted. While we appreciate the issues that are trying to be addressed, we remain unconvinced that the pre-selection of an income product for retirees will adequately address the issues. Other actions may be more appropriate.

We strongly encourage initiatives that will remove impediments to retirement income product development. In fact, we would encourage consideration to providing greater incentives for product development. The ability of Australians to be able to access a greater range of products can only be seen as a positive, particularly given the relatively narrow choice currently available. We also encourage a review of current pension arrangements, particularly around allocated pension drawdown rules. This would seem appropriate in light of our aging population, to encourage more savings and enable draw down over a longer period.

We also consider that more should be done to facilitate access to quality and affordable financial advice, which will assist Australians in better funding for their retirement.

More, better and flexible retirement income products together with better access to financial advice is what is required, rather than a pre-selection model. It is at the point of retirement (and beyond) that decisions need to be made by the individual based on their circumstances at that particular time. Pre-selection serves no purpose if it still needs to be evaluated against other products given the current circumstances, particularly as the proposal suggests that member approval is needed before the income product is commenced. There will be risks associated with pre-selection if and when new products become available that may be a better design for a particular individual. It will only add to the costs of super funds, which will ultimately be borne by the members of the fund without any discernible benefit.

Conclusion:

No pre-selection model should be introduced as there does not appear to be a compelling case to do so. Removal of impediments and provision of incentives to better product development as well as improved access to quality, trusted and affordable advice is needed.

12. Provide all employees with the ability to choose the fund into which their Superannuation Guarantee contributions are paid.

We fundamentally support the ability of employees to choose their own fund to receive their superannuation guarantee contributions. All employees, regardless of work circumstances or enterprise bargaining agreements should be able to choose.

We note however that some employees may not wish to choose for themselves or have the knowledge to choose. In these cases, it is useful to have access to a selection of funds contained within an award or agreement, or default funds chosen by an employer. To this end, there may be merit in allowing compulsion to a particular fund to be retained within an enterprise agreement where the employee has not specifically selected their own fund.

Conclusion:

We fundamentally support the ability of employees to choose where their super contributions are directed, however we acknowledge that some may need support and/or guidance in doing so. Direction to a fund in agreements could be retained where specific employee nominations are not made.

13. Mandate a majority of independent directors on the board of corporate trustees of public offer superannuation funds, including an independent chair; align the director penalty regime with managed investment schemes; and strengthen the conflict of interest requirements.

Fundamentally, we are supportive of a trustee board model that allows for the establishment of a talent pool of professionals. The role and responsibility of superannuation fund trustees is critical to the overall governance and operation of the Australian superannuation system. It is imperative that Boards have the flexibility to identify and recruit the right skill sets for trustees to ensure they have the best Board to look after their members interests. While the equal representation model may have been useful in prior years, we do not believe that it remains the best model for the superannuation industry into the future. Employer and employee representation should not be required nor aspired to as a default or best practice scenario.

We note that as per Principle 2 of the ASX Corporate Governance Principles, all directors, whether independent or not, should bring an independent judgement to bear on board decisions. This is clearly aligned with acting in members' best interests and conflicts with the notion of employer and employee appointments. If independent judgement is required, as it should be, then equal representation appointments potentially undermine that thinking.

Best practice would dictate a system in which a talent pool of professionals from a range of backgrounds dominate superannuation boards. This would bring more appropriate types and levels of skills and knowledge to the mix. The decisions of the right skill set for the Board as a whole should remain with the existing Board, acting in the best interests of the members and not be layered by a requirement that a position be filled by an employer or employee representative. Even if the Board were to request a certain skill set be met by an employer/employee appointment, this added layer undermines the best possible candidate filling the position.

We note, that our belief for a talent pool of board trustees does not necessarily advocate for a fully independent board.

The difficulty of mandating independence for all members of a trustee board is that the Board may lose the ability to utilise the services of experienced and knowledgeable people due to their affiliation with an organisation. It does not make sense to limit a Board's ability to optimise the potential of the Board in this way. However, it must be clear that any board appointment is not due to a person's affiliation but because of their individual skill set.

From time to time, it may be desirable to appoint a person *because* of their affiliation with an organisation so the Board can access that particular experience. Again, a requirement for all 'independent' trustees may deprive the Board of the ability to access that skill set. Any potential conflicts of interest in these circumstances would need to be declared and managed, as appropriate.

We consider the best interests of members would be served by a board with at least a minimum number of independent trustees.

In line with ASX Corporate Governance Principles, we are supportive of the role of Chair of trustee boards being an independent trustee. Regardless of the makeup of a trustee board, the best interests of members will be best served by the Board being directed by an independent Chair.

The definition of independent is a subjective matter. In the context of the superannuation industry, the knowledge and experience that would prove invaluable to a Board is generally obtained having come from a certain sector, affiliation, fund type or background, which by its very nature may impinge on independence.

The accounting profession has dealt with the notion of independence with a principles based approach. APES 110 issued by the Accounting Professional and Ethical Standards Board is the Code of Ethics for Professional Accountants and extensively deals with actual and perceived independence along with risks and safeguards. Where threats to independence can be identified, appropriate safeguards must be put in place to mitigate those risks to an acceptable level. If those risks cannot be reduced to an acceptable level through safeguards, then the accountant, particularly auditors, would need to remove themselves from, or not accept, an engagement. We would encourage a similar approach to be used for superannuation trustee boards.

With this in mind, there are clear circumstances in which no appropriate safeguards could be put in place and in the superannuation context, these could be identified as clear rules or guidelines which may need to be adhered to in the first instance. For example, by reference to the ASX Corporate Governance Principles in which an independent director is a "non-executive director who is not a member of management……". Other rules and/or guidelines may address current employment or affiliations.

Hard coding a definition of independence in legislation runs the risk of a "tick the box" mentality about what independence actually looks like and this can be vastly different for any individual. It is near impossible to identify every possible scenario that could affect the independence of every person. Being overly prescriptive in defining independence may allow people to satisfy set independence requirements when any reasonable person could see they were not independent at all.

We are supportive of frameworks and policies around management of conflicts of interest including registers and disclosures, it is important that where breaches occur, boards deal with it in an appropriate way.

While disclosure of conflicts is useful, it does little to manage the conflict if there is no consequence attached to it. That is, following disclosure there needs to be clear processes for how the actual conflict is managed and the Board held accountable where conflicts are not managed appropriately.

Conclusion:

We support and encourage a framework for director trustees that will enable a talent pool of professionals to be appointed to boards. While we support a model that requires a minimum number of independent trustees, there must be flexibility retained to enable the right people to be appointed to act in members best interests.

We support the requirement for an independent Chair.

Chapter 3: Innovation

14. Establish a permanent public-private sector collaborative committee, the 'Innovation Collaboration', to facilitate financial system innovation and enable timely and coordinated policy and regulatory responses.

We don't consider it necessary to establish a separate, permanent committee specifically for financial system innovation. This would add unnecessary costs and duplication with little additional benefits. We consider this would be better served through existing innovation bodies as well as newly developed collaborations such as the 'Stone and Chalk' fintech hub to open in Sydney.

We also note that the Senate is part way through their inquiry into Australia's innovation system, with the report due 31 July 2015. With this review currently underway in Australia, we consider the best approach would be to wait and consider the recommendations for Australia's innovation system as a whole.

Conclusion:

We don't support the creation of a separate permanent committee for financial system innovation.

15. Digital Identify – Develop a national strategy for federated-style model of trusted digital identities

As we move further into the digital economy, there is a need for trusted digital identities.

Conclusion:

We support the development of a national strategy for digital identities.

18. Crowd funding - Graduate fundraising regulation to facilitate crowd funding for both debt and equity and, over time, other forms of financing.

We note that equity crowd funding was the subject of a separate consultation by government earlier this year. Therefore, we don't consider there is any requirement for this recommendation to also be taken forward. However, we encourage Treasury to progress the crowd sourced equity funding (CSEF) legislation as soon as possible.

Debt funding or peer to peer lending did not form part of that consultation. Further CAMAC did not consider debt funding as part of their review. As part of the consultation into CSEF, we recommended that the relevant regulations be implemented and a post implementation review be carried out before the development of the associated debt funding legislation. We noted that there are different risks associated with crowd sourced debt funding and the relevant stakeholders were not involved in the CSEF consultation.

Conclusion:

We support the consultation into debt crowd funding but note equity crowd funding regulation is already in process. We encourage release of the crowd sourced equity funding legislation as soon as possible.

Chapter 4: Consumer outcomes

23. Remove regulatory impediments to innovative product disclosure and communication with consumers, and improve the way risk and fees are communicated to consumers.

As was stated in the Inquiry's report, there continues to be a knowledge imbalance between consumers and those that provide financial advice. Further it is generally agreed that the disclosure obligations that were introduced as part of the Financial Services reform regulations in the early 2000s have not delivered the outcomes intended. It would appear disclosure issues have been addressed by providing additional disclosure rather than simpler disclosure. Unfortunately the complexity of products and the various fees have resulted in a quantity of fee disclosure approach rather than to address the quality of the fee disclosure.

Simple and user friendly communication is vital for consumers to be in a position to make informed decisions around their finances. One area of significance is the need to improve the consistency of fee presentation. In many cases the range of different fees, names of fees and how they apply is confusing for consumers. As a consequence, consumers rely on the "trust" of the individual who is providing the finance advice. The Future of Financial Advice (FoFA) reforms may assist in providing simpler disclosure for consumers, especially with the introduction of an annual Fee Disclosure Statement however even with this, commissions are not included. So in reality consumers are not receiving a complete picture of the cost associated with their advice,

It is generally recognized that when it comes to consumers and engagement with their finances, the level of engagement is low (This is a reflection of the complexity of the industry and products). A strong focus on simplifying the communication will result in greater consumer engagement.

A key element as outlined in the Inquiry's report is to ensure any proposed measures are appropriately consumer tested. In line with this position, whilst not addressed in the Inquiry's report directly, there is a strong need to address the definitions of retail and wholesale investors. One of the key elements associated with the definition of a wholesale investor is the associated consumer protection safeguards. We are seeing greater numbers of consumers being classified as wholesale or sophisticated investors. Irrespective of the objective financial tests associated with these definitions, there continues to be a knowledge imbalance and a need to address the objective tests and whether some form of subjective test should be introduced.

The Retail/ Wholesale investor definition was addressed during the FoFA consultations but has not been progressed. From a consumer protection perspective, we would strongly encourage the Government to put this back on its agenda.

A couple of years ago the Chartered Accountants Australia and New Zealand released a paper "*Why business ethics matter to your bottom line*". Whilst not specifically focusing on the financial services industry, the paper suggests that Australian business leaders and regulators need to shift their current focus on employee ethics training as the solution to unethical

practices, to a new orientation that focuses on building the sort of institutional integrity that supports employees in making ethical choices.

The paper argues that such a shift demands a rethink of business leaders' current mindset about what is appropriate, as well as a critical review of modern day best practices in business ethics management. Business ethics needs to be promoted as part of the culture of an organisation, rather than through employee training programs.

There is a strong need to ensure business leaders and management within financial services businesses are accountable for the culture and integrity of the business. It is often stated that the behaviours of employees is a reflection of the management. As a consequence, there needs to be a greater focus on those managing the business.

One of the key elements in addressing "trust and confidence" in the financial services industry is the need to address both real and perceived conflicts of interest at all levels of an organisation. An issue, that continually arises and has been addressed at various levels, is conflicted remuneration structures. Whilst it can be argued that most providers of financial advice endeavour to provide advice in their clients' best interest, there is a perception that this is not the case. One reason is remuneration structures are perceived to be based on sales, for example commissions on life insurance. ASIC has released a report on advice and life insurance that highlights a number of concerns that need to be addressed.

Without going into the 'for' and 'against' arguments, the critical aspect currently must be consumer perception. Irrespective of the changes the industry proposes and makes, if consumers continue to have a belief that there are conflicts, then all of the industry proposals will not deliver the desired outcome, which is an industry that is trusted and consumers have confidence in. We have consistently advocated that commissions do not align with the provision of professional services.

Again this issue is not one that the individual provider of advice can address simply. It is necessary for the wider financial services industry, and in this case the life insurance companies, to address and make the changes that consumers will recognise.

Conclusion:

We support the recommendations to improve consumer understanding through innovative disclosure and communication. We note that it is not just the way risk and fees are communicated to consumers but also the consumer's perception of the fees, the fee structure and the ethical culture within the organisation which need consideration.

25. Raise the competency of financial advice providers and introduce an enhanced register of advisers

The current consultations into the financial services industry and the provision of financial advice are an opportunity to develop the long term framework for the provision of quality financial advisory services. It is the opportunity to set a professional benchmark for the decades to come that will deliver trust and confidence for consumers and also the industry. It is critical that these consultations and recommendations are not developed in isolation but are developed in a holistic manner. Further it is vital that the outcomes deliver on the original policy objectives and not a short term quick fix. When there is such a high profile focus on the industry it is easy

to try and deliver a quick solution that superficially appears to be addressing the problem but in reality it does not.

We strongly support the introduction of new framework for education and professional standards that focuses on education but also on ethical and cultural behavioural change. We believe a number of the issues raised in the Parliamentary Joint Committee Inquiry into proposals to lift the professional, ethical and education standards in the financial services industry recommendations provide an important framework.

The enhanced register is an opportunity to provide an appropriate tool for consumers, if it is developed appropriately. Importantly the register must not become a marketing tool, it should be a validation tool that consumers can use. As we have previously stated, consumers are not generally engaged with their finances and in many cases there are low levels of financial literacy. Combine this situation with the current low levels of trust and confidence in the industry, the development of the enhanced register is only one component of the changes necessary. Without addressing more broadly the real issues facing the industry, irrespective of the quality of the register and its content, if there is low trust and confidence, the register will not be used by consumers.

Conclusion:

We strongly support the introduction of new framework for education and professional standards that focuses on education but also on ethical and cultural behavioural change. We also support an enhanced register of advisers.

Chapter 5: Regulatory system

27.a Create a new Financial Regulator Assessment Board to advise Government annually on how financial regulators have implemented their mandates.

We do not support the creation of a new Financial Regulator Assessment Board. We recommend that the Auditor-General be provided the mandate, and resourcing, to review the role of regulators against the Parliament-set Statement of Expectations. The cost to set up, administer and manage a new board is not required. The proposal for Treasury to provide this support and undertake the work is not appropriate. The skills required to assess and report on performance against a mandate are engrained in the Auditor-General office and these skills would allow an appropriate and robust report.

Conclusion:

We do not support a new Financial Regulator Assessment Board instead recommending the mandate be given to the Auditor General.

27.b Provide clearer guidance to regulators in Statements of Expectation and increase the use of performance indicators for regulator performance.

Agree that clear, Parliament-set Statements of Expectations are required. These must also set out the Parliament's risk tolerance to allow the work of the regulators to be appropriately

prioritised and managed. We believe that if clear Statements of Expectations are provided, and the regulators' performance against these Statements is reviewed by the Auditor-General, there is no need to separately develop performance indicators and so this cost may be saved.

Conclusion:

We support clearer guidance on the Statements of Expectation but recommend that separate performance indicators may not be needed if the Auditor General reviews their performance against the statements.

28. Provide regulators with more stable funding by adopting a three-year funding model based on periodic funding reviews, increase their capacity to pay competitive remuneration, boost flexibility in respect of staffing and funding, and require them to undertake periodic capability reviews

Conclusion:

We support this proposal on the proviso that it is matched by clearer Statements of Expectations and appropriate accountability (see our responses to Q27).

29. Introduce an industry funding model for ASIC and provide ASIC with stronger regulatory tools.

We note that ASIC, for example, currently collects substantial funds from markets through the licencing, enforceable undertakings, and registration processes. This funding however is not maintained by the regulator but utilised in the general government budget. The value to the regulatory process of requiring the regulators to collect other money is therefore unclear. Also we note that the cost to administer revenue collection will need to be set against any potential additional levy. We would also comment that there is an "industry-pays" model in place. Australia has a very high regulatory compliance cost base and the "red-tape" burden on business is already substantial.

Finally, as we noted in our submission to the FSI, there are a number of issues in relation to independence and equity which will need to be assessed before an effective system could be implemented. Australia has a distinct legislative framework which determines the role and responsibilities of regulatory bodies, privacy and confidentiality laws, and rights of consumers and investors quite differently from many other major capital markets. The implications of a regulatory body being funded by those it regulates will require considerable analysis to address the impact of these numerous laws and regulatory frameworks.

Conclusion:

We consider this recommendation requires further analysis to understand current revenues and the implications to the legislative framework.

31. Increase the time available for industry to implement complex regulatory change and conduct post-implementation reviews of major regulatory changes more frequently.

We consider this recommendation sensible given the volume of changes to the industry in recent years. Additionally, post implementation reviews are important to ensure the regulation is operating as intended and to understand any unintended consequences which may have arisen so that these can be considered in future changes.

Conclusion:

We support the recommendation.

Appendix 1: Significant matters

36. Corporate administration and bankruptcy. Consult on possible amendments to the external administration regime to provide additional flexibility for businesses in financial difficulty.

We support further consultation on the external administration regime. We provided some proposals in our submission on the Insolvency Law Reform Bill and are also working with other bodies to obtain further evidence to support possible changes.

Conclusion:

We support further consultation on the external administration regime.

37.a Publish retirement income projections on member statements from defined contribution superannuation schemes using Australian Securities and Investments Commission (ASIC) regulatory guidance.

We support and encourage the provision of retirement income projections on member statements. We believe this will be a great tool to better engage Australians in their superannuation. Many Australians defer any decisions and engagement in their super during the early part of their working lives because it is so far away. However, illustrating to them the outcome of current savings levels will be a strong incentive to better engage earlier to improve their outcome.

In publishing these details, we encourage simplicity and consistency. This will be vital to create the longer term focus and improving short term input decisions.

Conclusion:

Support the publishing of retirement income projections to promote greater engagement by Australians in their superannuation savings.

37.b Facilitate access to consolidated superannuation information from the Australian Taxation Office to use with ASIC's and superannuation funds' retirement income projection calculators.

Conclusion:

To the extent that this will provide better and more accurate information to Australians, we support this recommendation.

38. Cyber security

Update the 2009 Cyber Security Strategy to reflect changes in the threat environment, improve cohesion in policy implementation, and progress public-private sector and cross industry collaboration.

The 2009 Cyber Security Strategy needs to be updated as a matter of priority. Cyber threats are constantly evolving in terms of the type of threats as well as the protagonists. Cyber threats can potentially impact not just individual organisations but entire sectors such as the financial sector as well as the workings of government and the economy as a whole. It is vital this strategy is updated to reflect these threats and mechanisms are in place for it to be reviewed on a regular basis. Given the wide ranging nature of cyber threats, the updated strategy needs to be the result of and reflect the need for ongoing collaboration between government and the private sector.

Conclusion:

We support the update of the 2009 cyber security strategy as a matter of priority.

Establish a formal framework for cyber security information sharing and response to cyber threats

It is important that there is a formal framework for information sharing and for responding to cyber threats given they are constantly evolving. It has become evident that coordination is required across sectors in order to plan for cyber threats, share information as well as responding to threats. The private sector, including the telecommunication and financial sectors, need to understand their roles as well as the role of government to ensure a rapid and coordinated response in the event of a cyber-attack.

Conclusion:

We support the establishment a formal framework for cyber security information sharing and responses to cyber threats

Taxation matters

- **Taxation of superannuation**
- **Aligning earnings tax rate across the accumulation and retirement phases.**
- **Options to better target super tax concessions**

We do not believe that any tax changes should occur within superannuation without first considering the objectives of our retirement incomes system. As stated above, achieving the right tax, legislative and regulatory settings will always be a difficult task until we are clear about what we want to achieve.

We further believe that consideration of tax concessions in super should be assessed as part of the tax white paper process.

With this in mind we make the following comments:

- Tax concessions are often designed to drive certain behaviours. We need to ensure that changes to existing tax concessions does not inhibit the very actions we would like to encourage, ie saving for retirement. For example, tax free earnings in retirement phase was introduced to encourage people to take income streams from their super (considered more desirable) rather than lump sums. Aligning the earnings tax rate will remove an incentive to people taking income streams.
- It will be important to use real data to assess tax concessions, not anecdotal evidence. Large super balances, particular in SMSFs are not actually that common but tend to dominate public commentary.
- Super is a tax preferred saving system designed to promote greater retirement savings. We caution against being critical of the very behaviour that tax concessions are designed to encourage.

Conclusion:

No tax changes should occur without first setting the objectives for our retirement incomes system and without reference to the final recommendations in the tax reform white paper.

Taxation issues forming part of the broader tax reform framework

The Final Report identifies several important tax topics relevant to the Panel's work, including negative gearing, the capital gains tax discount and the dividend imputation system. These tax issues are closely interrelated with key aspects of the Inquiry such as superannuation and retirement benefits. The broader policy objectives in these areas require consideration of taxation policy in an integrated fashion and not in a piecemeal fashion. There are many stakeholders within the business community and civil society with a keen interest in these topics, and they have perspectives which go beyond the financial system.

The Government has embarked upon a tax reform process in which these and many more aspects of the Australian tax system will be discussed.

At a practical level, trade-offs (e.g. between direct and indirect tax policies) may be required in finalizing the white paper on tax reform.

Finally, the Federalism White Paper is addressing Federal-State tax arrangements in a bid to reduce inefficient taxes which hamper our financial system. We will also contribute to this project.

For these reasons, we will reserve our position on tax-related issues identified in the Report and contribute to the broader tax reform process.

Appendix B

Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand is made up of over 100,000 diverse, talented and financially astute professionals who utilise their skills every day to make a difference for businesses the world over.

Members of Chartered Accountants Australia and New Zealand are known for professional integrity, principled judgement and financial discipline, and a forward-looking approach to business.

We focus on the education and lifelong learning of members, and engage in advocacy and thought leadership in areas that impact the economy and domestic and international capital markets.

We are members of the International Federation of Accountants, and are connected globally through the 800,000-strong Global Accounting Alliance and Chartered Accountants Worldwide which brings together leading Institutes in Australia, England and Wales, Ireland, New Zealand, Scotland and South Africa to support and promote over 320,000 Chartered Accountants in more than 180 countries.