

2 December 2013

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

Dear Secretary

### **Draft Terms of Reference for the Financial System Inquiry**

ANZ supports the draft Terms of Reference for the Financial System Inquiry and welcomes the opportunity to provide comments.

#### **Objectives**

The Inquiry can position Australia to take advantage of the massive growth on the nation's doorstep. Australia's financial system, business and consumers can benefit from access to larger pools of capital and businesses' ability to operate within the wider market on a globally competitive basis. Efficient allocation of capital in an open market, operating within a framework that promotes competition, stability and equity, can help realise the opportunity and support strong economic and employment growth.

Reflecting this view, ANZ supports the objectives of the draft Terms of Reference on how the financial system should be positioned to best meet Australia's evolving needs and support economic growth. As the objectives indicate, it is important that the appropriate balance is struck between an "efficient, competitive and flexible financial system" and "financial stability, prudence, integrity and fairness".

ANZ welcomes the related requirement under the fourth point of the draft Terms of Reference that policy options must "promote a competitive and stable financial system that contributes to Australia's productivity growth", "promote the efficient allocation of capital and cost efficient access and services for users" and "foster dynamic and innovative financial service providers".

#### **Comment on particular draft Terms of Reference**

ANZ welcomes examination of factors that will drive change in the financial system. The most significant of these are the impact of regulation, accumulation of superannuation savings, globalisation and digital services, and taxation of investment and financial services.

The first point of the draft Terms of Reference requires the Inquiry to take stock of developments in the Australian financial system since the 1997 Inquiry and the global financial crisis. The Australian model for financial services regulation has served Australia well. Consumers and business have benefited from an open market that has delivered growth, efficient and widespread access to financial services, stability and innovation during a time of great global instability.

Although the Australian model has been successful, virtually all aspects of our financial markets have been affected by regulatory changes introduced since 2008. The Inquiry is an important opportunity to review the cumulative impact of these policy and regulatory changes. The changes include:

- The wholesale funding guarantee, the Financial Claims Scheme, and the proposed Financial Stability Fund;
- International stability reforms such as the Basel III reforms and over-the-counter derivatives regulation;
- The two-phase implementation of consumer credit regulation, including responsible lending practices;
- The banking competition package, removing home loan exit fees and implementing a new account-switching process;
- Superannuation and Future of Financial Advice reforms;
- Credit and debit card reforms and the Strategic Review of Innovation in the Payments System;
- Reforms to privacy and the introduction of a comprehensive credit reporting regime; and
- International integrity measures such as those under the *Foreign Account Tax Compliance Act* and Anti-Money Laundering and Counter-Terrorism Financing Rules.

In addition, there have been four inquiries during the previous Parliament and additional reviews conducted by the Reserve Bank of Australia, Australian Prudential Regulation Authority and the Australian Securities and Investments Commission.

The costs of regulation are ultimately passed on to consumers or shareholders. Engagement in policy and regulatory processes requires dedicated management and operational attention, consuming resources that might otherwise be focused on competing more vigorously, serving customers or improving efficiency. ANZ supports the Inquiry as a means to assess the balance between regulatory benefits and costs, and the Government's moratorium on new financial sector regulation during this process.

Given the fundamental impact of regulation, ANZ welcomes the second point of the draft Terms of Reference that requires the Inquiry to refresh the philosophy, principles and objectives for a future financial system and the role of government and financial regulators. In the 1997 Inquiry, this examination was a critical foundation for developing recommendations.

The third point of the draft Terms of Reference requires the Inquiry to consider opportunities and challenges that will affect the future financial system. Technological change and globalisation of trade, financial services and regulation will play an increasing role in the development of our financial services markets.

ANZ particularly supports reference to "international integration, including international financial regulation". A strong focus on removing obstacles to trade and investment is



needed to take advantage of regional growth. Integration with international financial markets benefits business and consumers as well as Australian financial service providers.

This point also requires the Inquiry to consider changes in the sourcing and distribution of capital in Australia. Since the GFC, banks have improved their liquidity positions and increased funding from stable sources including customer deposits, long term wholesale funding and equity to provide greater stability in the event of market shocks. The continuing growth of superannuation has a fundamental impact on availability of capital in the financial system. Examining the implications of changes in demand for credit and funding sources is an important aspect of the Inquiry's work.

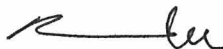
As noted above, ANZ supports the focus in the fourth point of the draft Terms of Reference on competition, efficiency and productivity consistent with stability and equity. This point also requires the Inquiry to recommend policy options to "support individuals and businesses to be reasonably able to manage their finances by understanding risks and rewards in the financial sector" and "cost efficient access and services for users".

We strongly support these elements of the Terms of Reference. Consumers who have good financial literacy tend to choose products and services that are suited to their circumstances, contributing to customer satisfaction. Financial literacy complements consumer protection regulation and promotes financial self-sufficiency within the community at all stages of the life cycle. Financial literacy is closely linked with financial inclusion; that is, access to financial products and services is most beneficial where a consumer understands how to use them well.

The sixth point of the draft Terms of Reference requires the Inquiry to examine "taxation of financial arrangements, products or institutions to the extent these impinge on the efficient and effective allocation of capital". Taxation shapes the incentives faced by investors allocating capital to financial products and services in Australia and international markets. Competition among governments and financial intermediaries for capital will increase with globalisation. It is important that the Inquiry provide advice to the Tax Policy White Paper on the impact of taxation policy on the efficiency and competitiveness of Australia's capital markets.

The Inquiry is an important opportunity to position Australia's financial system to benefit from the region's strong growth. ANZ looks forward to participating in and assisting the Inquiry.

Yours sincerely



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