

Thursday 5th December 2013

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**Re draft Terms of Reference for the Financial System Inquiry
- Consultation paper from Finance and Treasury Association.**

Dear John,

The Finance and Treasury Association (FTA) is pleased that the Government is taking this opportunity to do a stock-take of the Australian Financial System.

FTA welcomes this opportunity to consult with Government on the draft Terms of Reference for the Financial System Inquiry which David Murray AO will chair.

As you know, the Finance and Treasury Association (FTA) is Australia's pre-eminent professional association for executives in non-financial corporations working across all aspects of treasury and financial risk management. For its membership of corporate treasurers, FTA provides training and skills development and access to current information, facilitates networking and builds a community in this specialised area of business. It seeks to increase recognition of the skills of members and to convey the views of members on key technical issues facing the profession to government, other associations and the wider community.

The deregulation unleashed by the Martin and Campbell Inquiries and the Wallis Review permitted the financial system as a whole to capitalise on technological innovations and so produce greater productivity gains than any other sector over the past 30 years. This is one reason for the growing financial services share of the economy in the long run.

FTA considers that the Murray Financial System Inquiry like its Campbell and Wallis Inquiry predecessors represents a vital opportunity to position the Australian financial system to help Australia as a whole compete in a global economy.

However it is by no means the same challenges as faced by previous Inquiries.

By any standard, Australia now has an excellent track record of solid economic growth and financial stability since prior to the Wallis Inquiry.

And following Australia's strong performance during the Global Financial Crisis, there would appear to be validation for some of Australia's unique financial reforms and processes introduced by previous Governments and implemented collaboratively by Australia's regulatory agencies.

FTA commends the drafters for including in scope reference to matters which are all significant issues in their own right such as taxation of financial arrangements, superannuation and monetary policy but which impact very directly on the core considerations of the Inquiry.

And FTA is greatly encouraged that Government in refining the terms of reference is reaching out to a wide group of stakeholders and seeking comment from users of financial services.

Specific Comments

FTA recognises that there must always be a balance between financial system stability and product safety on the one hand and commercial risk and return on the other.

As corporate finance professionals who are the in-house finance experts, corporate treasurers, are trusted to make decisions based on risk assessments about sources of capital.

Growing corporate productivity and continued domestic employment growth for Australians demands that Australian companies continue to be able to access capital from a breadth of sources. The traditional reliance of Australian business upon direct borrowing from banks is being eroded by global bank capital rules implemented in Australia which favour home lending at the expense of more productive corporate capital investment.

The trend of banking regulation under Basel 3 is that as demand picks up, debt capital in the form of bank loans will be increasingly more costly to source, which is one reason for the trend toward on-market funding as companies diversify their funding sources. Australian corporations are now embracing the domestic corporate bond market which provides access to the domestic saving pool in another guise i.e. superannuation fund investors.

It is important government enhance and not inhibit this long anticipated development or corporate funders may be encouraged to look to riskier sources of capital.

Ultimately, the financial services sector is a system whose role is to enable economic activity in other parts of the economy and to provide an efficient mechanism for risk transfer.

While an important employer and source of innovation, the experience of Iceland, Ireland and southern England in the GFC suggests that pursuing financial services based growth strategy would be misguided; we do not construe this to be the intention of this Inquiry.

However, Australia clearly has an opportunity both to increase the financial services business it does with Asia in particular, and also to learn more from those who have learnt hitherto from us.

Although Australia's financial system has done well in aggregate through the GFC, we should not assume that we do have all of the answers. For this reason, it is encouraging that the Murray Committee will take advice from an international panel of experts. FTA suggests that it would be a mistake for this group not to include someone with an intimate understanding of both the current functioning and future direction financial services development in the Asian region.

Similarly, it would be a mistake for there not to be a spread of philosophical perspectives and experience to be represented on the Committee as well as the Advisory Panel. It is critical that a business end user perspective is represented by someone with an intimate understanding of the functioning of that system from the perspective of a wholesale financial service / product user.

It is important that the Inquiry be free to employ multiple perspectives to analyse the same problem. A panel of experts all with the same neo-classical economics view of the functioning of the financial system e.g. unswerving belief in the "efficient markets hypothesis" should be avoided. It is self-evident that in financial services, information asymmetries and transaction costs must be assumed, rather than assumed away as done by a previous generation of economists.

A person with experience as a corporate treasurer, or at least directly overseeing such a function such as a former or current chief financial officer, would be ideal as an advisor to the Inquiry. Furthermore, a corporate legal perspective would be valuable in order to highlight the cost and complexity of compliance with the latest generation of financial regulations.

While Australia should strive to preserve what is unique and functioning well (arguably mandated superannuation and the collegiate approach of its markets and prudential regulators are two examples) it has to be recognised that we operate in an environment dominated by major country central banks, by self-interested multinational banking conglomerates, and increasingly by sovereign actors in the guises of government-owned wealth funds and banks. Such a world will never present a global “level playing field”.

FTA is encouraged by the focus of the terms of reference on technology. In order for corporate treasurers to perform their key tasks, they rely on safe, reliable and fast communication of highly critical financial information. And to be true to their mission they will seek to stay in the vanguard of technology while controlling their costs. FTA members have an interest in ensuring that Australian companies have access to a state of the art payments system.

Conclusion and Recommendations

FTA has made some preliminary remarks around the philosophy of the Inquiry and made initial suggestions as to additional perspectives that might be employed.

FTA is broadly comfortable with the draft terms of reference of the Inquiry. However,

- FTA submits that the draft terms of reference needs to be modified in each section to have a greater focus on end users, and in fact to differentiate clearly between three classes of end user, consumer, small business and non-financial corporations.
- Furthermore, greater reference should be made throughout to availability of financial services and products in the context of commerciality, risk and return considerations.
- Specifically, we suggest redrafting item 4.3. or adding a similar line to read “support individuals and businesses to be reasonably able to manage their financial risks by using financial products”.
- FTA also submits that there needs to be consistency between regulations so that commercial decisions are made for commercial reasons rather than due to accounting, tax or legal reasons.

We look forward to working with the Financial System Inquiry Secretariat on the next stages of the consultation.

Yours faithfully,



Paul Travers FFTP

President

Finance and Treasury Association



David Mitchell CFTP (Snr)

CEO

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About FTA

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