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Advice and Investment Branch

Retirement, Advice and Investment Division

Treasury

Langton Cres

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Dear Treasury

QUALITY OF ADVICE REVIEW-DRAFT TERMS OF REFERENCE

Background

My name is Kurt Willis. I am 32 years old, work in HR, have an MBA and law degree from the University of Technology Sydney and come from a middle-class background and have an interest in investment and creating wealth.

I live in Sydney. My dream is to own my own house.

In Sydney, the median price of a house is $**1,499,126** (One million, four hundred and ninety nine thousand, one hundred and twenty six dollars). The median salary in Australia is **$52,732** (fifty two thousand, seven hundred and thirty two dollars).

 A 20% deposit for the median house in Sydney is **$299,825.2** (two hundred thousand, eight hundred and twenty five and twenty cents) and assuming an average worker can save 50% of their salary to obtain a house deposit this would take them **11 years** to obtain.

At my age, I have managed to save approximately $60,000. These assets include my car (2010 model bought second hand from a relative), money in ASX stocks, cryptocurrencies, NFT's (non-fungible tokens), equity crowd fund investing platforms such as onmarket.com.au and oversea stocks on Commsec international.

I have put money in these different assets because the Australian interest rate is **.1%** (point 1 percent). This means if I was to put my entire savings in my bank account I would earn approximately 58 dollars a year.

Therefore, my ability to obtain enough cash to purchase a house is dependent on my salary (weighed down by my HECS debt which thanks to my interest in higher education is currently more than $100,000 dollars) and my ability to leverage investment opportunities available to me.

It is in this context that I saw with great interest I saw the draft terms of interest for your quality of advice review.

I wish to focus my submission on section 3.2:

"The processes through which investors are designated as sophisticated investors and wholesale clients, and whether the consent arrangements are working effectively."

Background on section 3.2

The definition of a sophisticated investor is found under section 708(8) (c) of the Corporations Act 2001. Under the Act, qualified accountants provide certificates that appear to show that a person (additions made by me in bold):

(i) has net assets of at least the amount specified in regulations made for the purposes of this subparagraph (**2.5 million dollars)**; or

(ii) has a gross income for each of the last 2 financial years of at least the amount specified in regulations made for the purposes of this subparagraph a year (**$250,000 gross annual income over two financial years)**;

This entitles them to be a 'sophisticated investor' and have access to additional investment products.

Submission

Young Australians, such as myself, are coming of age in an economy where the median home price is almost **30 times** their average yearly earnings. Where previous generations could afford a deposit to purchase a house start a family in their twenties the current generation will typically only be able to do so in their 30's or older.

In this context, young Australians need all the help they can get to access investment opportunities. **They will be drawn naturally to investments that provide the highest return on investment.**

A sophisticated investor test which is based on net worth or yearly income risks having that market being accessed entirely by older Australians.

Young Australians, being unable to access investments only provided to sophisticated investors will inevitably place their entire savings either in cryptocurrencies or on the stock market. The highest potential returns on the stock markets for instance are found on overseas exchanges in companies such as Amazon, Microsoft and Google or within options and leverage products (either within stock markets or cryptocurrencies markets) and within speculative low cap stocks on the ASX.

The free market will respond to customer demand and I can imagine that in future we could see:

- Platforms offering options trading or leverage stock accounts (similar to RobinHood) attempting to operate in Australia;
- Platforms offering options trading or leverage cryptocurrency accounts attempting to operate in Australia;
- Platforms offering further access to cryptocurrencies trading in Australia;
- Platforms offering investments in overseas stocks in Australia;
- Platforms offering further exposure to low cap stocks in Australia.
- Online influencers and telegram groups etc leveraging investment in low cap stocks (pump and dump groups).

This future picture may not look particularly healthy and regulators should instead aim to provide access to the benefits of financial markets to all Australians and aim to educate market participants so that they can make informed decisions and take appropriate risk.

Australian firms which provide financial products which are limited to 'sophisticated investors' should be allowed to compete and offer their products to all Australians as they risk being replaced by firms and platforms which provide access to the products mentioned above.

By restricting access to certain parts of the financial markets (via sophisticated investor tests) only to Australians with high net worth this risks creating division between generations and unhealthy markets. Regulators should provide access to everyone and promote financial education. A test in the form of a financial literacy test would be my preference.

I am personally very unhappy that I am unable to access certain parts of the Australian financial markets simply because of my (lack of) net worth.

This partially explains the attraction to DeFi (decentralised finance) and cryptocurrencies which in this environment seem inevitable.

I strongly recommend abolishing the sophisticated investor test as it is currently.

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