

GOVERNMENT RESPONSE TO THE FINANCIAL SYSTEMS INQUIRY

IOOF Technical Services

On October 20, 2015, the Government's response to the Financial Systems Inquiry (FSI) was released by the Treasurer, Scott Morrison and Assistant Treasurer, Kelly O'Dwyer. The Government's response had originally been scheduled for release in September, but was delayed by the change in Prime Minister and ministerial responsibilities.

The Government has largely adopted the findings of the FSI, released December 2014, in all but a few key recommendations.

With some recommendations, the Government has indicated it agrees with the principle behind the FSI recommendation, but has pushed back on the proposed solution, sending the issue back to the long-suffering Productivity Commission (PC) for more work.

Below are some of the key recommendations of immediate interest to financial advisers operating in the superannuation and wealth management industry:

Superannuation

SMSF borrowing

The Government has categorically ruled out the FSI recommendation to remove the exemption from borrowing restrictions for SMSFs entering into limited recourse borrowing arrangements. According to the Government there is insufficient data to say there is a problem. However with improvements in ATO data collection, the Government will look at this again in 3 years' time.

- Advisers and SMSF trustees will be happy about this, as they will have at least another three years of the exemption.
- It does mean that APRA funds and SMSFs will continue to be treat-

ed differently when it comes to borrowing rules. However we expect the Government weighed this up against the concerns of small business – advisers, accountants and trustees. It is important to note here that Ms O'Dwyer, is also the Minister for Small Business.

Selection of default super funds

Currently the selection process is via Fair Work Australia, a process that has been strongly criticised as anticompetitive and has since stalled. The Government has agreed to immediately commission the PC to come up with alternative models for the selection of default funds via a formal competitive process.

- The FSI timetable of 2020 for this review has been replaced with 'immediately'. This is welcome as the current situation is untenable and a solution is needed before 2020.
- The Government ignored the FSI suggestion of a formal tender or auction process for new MySuper members, and has sent the issue back to the PC.

Comprehensive retirement income product

The Government supports the development of pre-selected comprehensive retirement income products.

However the language is slightly different – the FSI will 'require' trustees to pre-select a retirement income product, where the Government intends to 'facilitate' trustees selecting these products.

- The important issue is the Government has agreed to remove the impediments to retirement income product development. This will be tied into the Tax White paper (because the tax treatment is one of these impediments) and the Retirement Income Systems review. The Government will 'progress' this review by the end of 2016.



The quote

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Codifying the objectives for superannuation

The Government agreed with the FSI to enshrine in legislation the objectives of superannuation. The FSI set out the objectives of superannuation should be to:

- provide income in retirement
- help managed risks in retirement
- be invested in the best interests of members, and
- reduce fiscal pressure on the Government.

They are planning to legislate this by the end of 2016.

This seemingly innocuous recommendation may have far reaching consequences. The actions of Governments, trustees and product providers will all be constrained by the enshrined objectives.

Advisers

The Government will not go ahead with the FSI recommendations to ban upfront commissions on life insurance. The Government reiterated its support for the Life Industry reforms announced on 25 June 2015 and will go ahead with these reforms from the end of 2015.

The Government supported the FSI proposals for improved professionalism for financial advisers with new requirements for education and professional development. Legislation to this effect will be introduced by mid-2016.

Product issuers

The Government agreed with the FSI to make product issuers and distributors more accountable for their products. There will be a product design and distribution obligation on product issuers and distributors.

- Product issuers will love the freedom to innovate. However the issue here will be with the capacity of the regulators to be able to engage with the innovative products the Government means to encourage.

Regulators

The Government agreed with the FSI's objective to improve regulator accountability and capability, but rejected the need for another body to review ASIC and APRA's performance.

- The Productivity Commission will be commissioned to review the state of competition in the financial sector in 2017.

Conclusion

The Government has trodden carefully in accepting most of the recommendations of the FSI in relation to superannuation and wealth management. They have rejected the controversial recommendation to ban borrowings by SMSFs, and accepted other recommendations in principle but qualified their acceptance by sending out recommended solutions to further review. **FS**