



5 December 2013

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

Dear Mr Lonsdale

### **Financial System Inquiry – Terms of Reference**

The Australian financial system has been resilient and has served the economy well since the 1997 Financial System Inquiry, including during the turbulent years of the global financial crisis. Nonetheless, the Australian Financial Markets Association (AFMA) agrees it is now appropriate to evaluate the financial system's capacity to meet the evolving needs of businesses and households during a time of significant change.

Financial markets are a key pillar in our highly interconnected financial system, providing competition within the system through savings, investment and risk management services that meet the needs of Australian businesses and households. Looking to the future, Australia's economic prosperity will be increasingly dependent on capital markets. Global regulatory reform is changing the economics of financial intermediation, while technological innovation and economic developments, including demographic change, will shape the financial services needs of the economy.

Against this backdrop, AFMA believes that the Inquiry should be directed to make findings and recommendations to place the financial system in the best position to serve the expected future needs of Australians in a secure, efficient, fair and cost-effective manner.


The draft Terms of Reference provide a relevant framework to guide this work and we suggest only minor refinements, as per the attachment. We believe the refinements will bring a sharper focus in the Terms of Reference on:

- The role of policy making, including the efficacy of the domestic policy development process and its interrelationship with international bodies that set global regulatory standards;

- The role of the financial system in allocating financial risk in accordance with the desired risk profile of participants in the economy; and
- Taxation of financial services in a manner that gives appropriate priority to the objectives of financial system policy, including our international competitiveness.

AFMA supports the Government's decision to form a Special External Council. It is relevant because global regulatory standards have a markedly greater influence on Australian financial regulation than at the time of the 1997 Inquiry, there is ongoing integration of international economies and financial systems, especially in the Asian region, and Australia faces stiff competition as a base for financial services businesses. The Inquiry provides an opportunity for Australia to develop policies that will protect our national interests in this respect.

Yours sincerely

A handwritten signature in black ink, appearing to read "David Lynch". The signature is fluid and cursive, with the first name "David" and last name "Lynch" clearly distinguishable.

**David Lynch**  
**Executive Director**

# AFMA Attachment

## Financial System Inquiry – Draft Terms of Reference

### OBJECTIVES

The inquiry is charged with examining how the financial system could be positioned to best meet Australia's evolving needs and support Australia's economic growth.

Recommendations will be made that foster an efficient, competitive and flexible financial system, consistent with financial stability, prudence, integrity and fairness.

### TERMS OF REFERENCE

1. The Inquiry will report on the consequences of developments in the Australian financial system since the 1997 Financial System Inquiry and the global financial crisis, including implications for:
  - 1.1. how Australia funds its growth;
  - 1.2. domestic competition and international competitiveness; and
  - 1.3. the current cost, quality, safety and availability of financial services, products and capital for all end users.
2. The Inquiry will refresh the philosophy, principles and objectives underpinning the development of a well-functioning financial system, including:
  - 2.1. balancing competition, innovation and efficiency, with stability and consumer protection;
  - 2.2. how financial risk is allocated and systemic risk is managed;
  - 2.3. assessing the consequences of financial regulation, including its impact on compliance costs, flexibility, innovation and financial services trade;
  - 2.4. the role of Government and its policy making process; and
  - 2.5. the role, objectives, funding and performance of financial regulators.
3. The Inquiry will identify and consider the emerging opportunities and challenges that are likely to drive further change in the financial system, including:
  - 3.1. the role and impact of new technologies, market innovations and changing consumer preferences and demography;
  - 3.2. international integration, including international financial regulation;

- 3.3. changes in the way Australia sources and distributes capital, including the intermediation of savings through banks, non-bank financial institutions, insurance companies, superannuation funds and capital markets;
- 3.4. changing organisational structures in the financial sector;
- 3.5. corporate governance structures across the financial system and how they affect stakeholder interests; and
- 3.6. developments in the payment system.
4. The Inquiry will recommend policy options that:
  - 4.1. promote a competitive and stable financial system that contributes to Australia's productivity growth;
  - 4.2. promote the efficient allocation of capital and risk, and cost efficient access and services for users;
  - 4.3. support individuals and businesses to be reasonably able to manage their finances by understanding risks and rewards in the financial sector;
  - 4.4. foster dynamic and innovative financial service providers; or
  - 4.5. relate to other matters that fall within this terms of reference.
5. The Inquiry will take account of the regulation of the general operation of companies through corporations law to the extent these impinge on the efficiency and effective allocation of capital within the financial system.
6. The Inquiry will examine the taxation of financial arrangements, products or institutions to the extent these impinge on the efficient and effective allocation of capital by the financial system and its competitiveness, and provide observations principles that will guide ~~could inform~~ the Tax Policy White Paper.
7. In reaching its conclusions, the Inquiry will take account of, but not make recommendations on the objectives and procedures of the Reserve Bank in its conduct of monetary policy.
8. The Inquiry may invite submissions and seek information from any persons or bodies.
9. A final report is to be provided to the Treasurer by 1 November 2014, following an extensive period of consultation. Consultation will include the publication of an interim report that communicates the Committee's predispositions, allowing adequate time for interested persons or bodies to provide input to the final report.