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03 December 2013

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



By email: fsi@treasury.gov.au

Dear Sir

Financial System Inquiry – Terms of Reference

Thank you for the opportunity to comment on the draft Terms of Reference for the Financial System Inquiry.

We support the approach of adopting Terms of Reference that are broad in scope so that the Inquiry is able to undertake a "root and branch" examination of the financial system.

We suggest that paragraph 5 of the Terms of Reference is extended to state that the "Inquiry will take account of the regulation of the general operation of companies **and managed investment schemes** through corporations law to the extent these impinge on the efficiency and effective allocation of capital within the financial system".

Collective investments have become a more significant and sophisticated feature of Australia's financial system since the 1997 Financial System Inquiry, both as a financial product for retail and institutional investors and as a method of distributing funds to productive economic activity. They are now important vehicles influencing the efficiency and effective allocation of capital within the financial system. They offer great opportunities for economic growth and wealth management but, as shown by the GFC, are particularly sensitive to domestic competition between financial services providers and to the international competitiveness of Australia's financial system.

Extending paragraph 5 of the Terms of Reference in the manner suggested above will enable the Inquiry to examine how well the regulatory arrangements for managed investment schemes have responded to their growth and the challenges of the GFC, and to make any appropriate policy recommendations that arise from that examination.

We have a keen interest in the Inquiry, particularly in relation to financial regulation and the international competitiveness of Australia's financial system. We look forward to being able to comment on the substantive policy issues arising in those areas once the Inquiry is underway.

Yours faithfully



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