

FSI Final Report – Summary of ASFA’s positions/recommendations

Rec #	Topic	FSI Recommendation	ASFA positions/recommendations
Chapter 1: Resilience			
8	Direct borrowing by superannuation funds	Remove the exception to the general prohibition on direct borrowing for limited recourse borrowing arrangements by superannuation funds.	ASFA supports prohibiting direct leverage in superannuation. We believe that leverage is, in most cases, inconsistent with the objectives of superannuation and may lead to financial instability.
Chapter 2: Superannuation and retirement incomes			
9	Objectives of the superannuation system	Seek broad political agreement for, and enshrine in legislation, the objectives of the superannuation system and report publicly on how policy proposals are consistent with achieving these objectives over the long term.	<p>ASFA strongly supports the recommendation that broad political agreement is reached on the objectives of the superannuation and retirement system. It is critical that the primary objectives are universally endorsed, across political lines and the superannuation system. We propose that the primary objective, as set out in the FSI Report, is enshrined in legislation, through Explanatory Memoranda, or preambles to legislation.</p> <p>ASFA has concerns about the creation of a new industry body to monitor progress against these goals and objectives, on the basis of the need for flexibility and the additional layers of bureaucracy it may create. Rather, ASFA recommends that a cross sectional Superannuation System Review Panel (made up of system participants, academics, policy makers and regulators) is established to agree more quantitative measures against which success is measured and monitored. This panel could sit under existing structures such as the Productivity Commission.</p>
10	Improving efficiency during accumulation	Introduce a formal competitive process to allocate new default fund members to MySuper products, unless a review by 2020 concludes that the Stronger Super reforms have been effective in significantly improving competition and efficiency in the superannuation system.	<p>ASFA supports a comprehensive assessment of the efficiency of the superannuation system. We recommend that this process commences as soon as possible, to allow an appropriate timeframe over which the system and its dynamics may be assessed ahead of any future review.</p> <p>ASFA recommends that a Superannuation System Review Panel is established to determine appropriate measures of competition and efficiency and on this basis gather relevant data. This approach will allow a current and ongoing assessment of industry efficiency and competitiveness. The industry will be able to use this data to self-assess – and improve – while public policy makers will be informed of the status of competitive forces through timely, relevant and dynamic information.</p>

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11	The retirement phase of superannuation	Require superannuation trustees to pre-select a comprehensive income product for members' retirement. The product would commence on the member's instruction, or the member may choose to take their benefits in another way. Impediments to product development should be removed.	<p>ASFA fully supports this pragmatic recommendation which should lead to significant improvement in the retirement income system. ASFA recommends that trustees are given the flexibility to offer more than one comprehensive income product for retirement (CIPR) within the superannuation fund. This flexibility would allow trustees to offer products which are appropriate for specific retirement needs rather than forcing a "one-size fits all" approach. Maintaining trust in the superannuation and retirement system is paramount. As such, ASFA believes that appropriate regulation of these retirement products is critical, that APRA oversight is appropriate and that this oversight should continue past the initial approval stage, given the importance of these products to the retirement outcomes for Australians.</p> <p>ASFA also recommends that tax and social security settings are reviewed, to ensure that individuals are incentivised to invest in products which are consistent with the objective of providing income in retirement.</p>
12	Choice of fund	Provide all employees with the ability to choose the fund into which their Superannuation Guarantee contributions are paid.	<p>While supporting the principle of choice within the superannuation system, ASFA is cognisant of specific circumstances where providing full choice may result in an impractical or costly outcome. ASFA does not support extending choice of fund to circumstances where employer contributions are made to employees who are members of defined benefit funds. ASFA also notes the complex factors which are at play in a recommendation to provide all employees with the ability to choose their own fund. Portability arrangements, while not a perfect solution, do also provide the functionality for a member to move monies to the fund of their choice.</p>
13	Governance of superannuation funds	Mandate a majority of independent directors on the board of corporate trustees of public offer superannuation funds, including an independent chair; align the director penalty regime with managed investment schemes; and strengthen the conflict of interest requirements.	<p>ASFA supports better governance of superannuation funds. ASFA recommends that at least one-third of the board should be independent directors; that trustee boards should be required to appoint an independent chair; and that there should be a general requirement to strengthen conflict of interest requirements.</p> <p>ASFA recommends that there is clarity around the definition of independence. To this end, we have proposed a definition of independence that we believe is more appropriate than the current definitions in the SIS Act and ASX Principles. ASFA recommends that the definition of independence should be removed from the SIS Act and instead be included in a Prudential Standard.</p>

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			ASFA does not support the alignment of director penalty regime with managed investment schemes at this stage. Rather, ASFA proposes that this be reviewed more holistically, to provide greater consistency with other fiduciary responsibilities across the financial system.
Chapter 3: Innovation			
14	Collaboration to enable innovation	Establish a permanent public–private sector collaborative committee, the ‘Innovation Collaboration’, to facilitate financial system innovation and enable timely and coordinated policy and regulatory responses.	ASFA does not support this recommendation as it believes that market forces are the best way to foster innovation.
15	Digital identity	Develop a national strategy for a federated-style model of trusted digital identities.	ASFA strongly supports this recommendation.
19	Data access & use	Review the costs and benefits of increasing access to and improving the use of data, taking into account community concerns about appropriate privacy protections.	ASFA supports this recommendation; releasing more datasets would lead to better informed public and private sector decision making.
Chapter 4: Consumer outcomes			
21	Strengthen product issuer and distributor accountability	Introduce a targeted and principles-based product design and distribution obligation.	ASFA cautiously supports this recommendation.
22	Introduce product intervention power	Introduce a proactive product intervention power that would enhance the regulatory toolkit available where there is risk of significant consumer detriment.	ASFA supports amending the law to provide ASIC with a proactive product intervention power, while noting that this power should be designed to occur relatively infrequently, when consumers’ best interests are clearly at significant risk.
23	Facilitate innovative disclosure	Remove regulatory impediments to innovative product disclosure and communication with consumers, and improve the way risk and fees are communicated to consumers.	ASFA strongly supports this recommendation and welcomes initiatives to improve transparency around financial products and to make communication with consumers simpler and more effective. ASFA advocates that legislative changes should be addressed as a priority to enable greater innovation in this area.
24	Align the interests of financial firms and consumers	Better align the interests of financial firms with those of consumers by raising industry standards, enhancing the power to ban individuals from management and ensuring	ASFA supports this recommendation, consistent with its submission to the FSI Interim Report.

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		remuneration structures in life insurance and stockbroking do not affect the quality of financial advice.	
25	Raise the competency of advisers	Raise the competency of financial advice providers and introduce and enhanced register of advisers.	ASFA supports this recommendation, consistent with its submission to the FSI Interim Report. ASFA also supports a national, universal and consolidated register for all financial advisers.
Chapter 5: Regulatory system			
27	Regulator accountability	Create a new Financial Regulator Assessment Board to advise Government annually on how financial regulators have implemented their mandates. Provide clearer guidance to regulators in Statements of Expectation and increase the use of performance indicators for regulator performance.	ASFA broadly supports this recommendation, but notes that there are a number of issues which are important to resolve ahead of implementation. These include the proposed funding model; detail of the mandate; resourcing, board composition and how consultation with stakeholders will occur. ASFA also believes that the conflicts, or perceived conflicts, associated with this body sitting within Treasury, will need to be addressed.
28	Execution of mandate	Provide regulators with more stable funding by adopting a three-year funding model based on periodic funding reviews, increase their capacity to pay competitive remuneration, boost flexibility in respect of staffing and funding, and require them to undertake periodic capability reviews.	ASFA supports this recommendation. It is important that regulators are able to focus on fulfilling their core purpose of ensuring a safe and competitive financial system.
29	Strengthening ASIC's funding and powers	Introduce an industry funding model for Australian Securities and Investments Commission (ASIC) and provide ASIC with stronger regulatory tools.	While ASFA supports adequate and appropriate funding for ASIC, ASFA does not support the raising of additional levies from industry. Under current arrangements, there is little transparency over the use of industry funded levies by the various financial regulators. As a first step, we should be looking for greater detail on how industry levies are being used to support those budget items which directly relate to superannuation regulation. In terms of extra tools for regulators, ASFA believes that the current tools, used effectively, can deliver the right outcomes, however we need to assess how the regulators are currently applying them.

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30	Strengthening the focus on competition in the financial system	Review the state of competition in the sector every three years, improve reporting of how regulators balance competition against their core objectives, identify barriers to cross-border provision of financial services and include consideration of competition in the Australian Securities and Investments Commission's mandate.	ASFA supports the recommendation that the financial system is subject to periodic review, but recommends extending the time between reviews to five years, rather than three as proposed. ASFA also supports the recommendation to improve reporting of how regulators balance competition against their core objectives, but does not feel that it is appropriate to include competition within ASIC's mandate.
31	Compliance costs and policy processes	Increase the time available for industry to implement complex regulatory change. Conduct post-implementation reviews of major regulatory changes more frequently.	ASFA strongly supports this recommendation. Recent experience has been less than desirable, and it is critical to trust in the superannuation and retirement system, that a more effective approach to regulatory change is found. Learning from past experience, both positive and negative is important, and ASFA supports the use of post-implementation reviews.
Appendix 1: Significant matters			
32	Impact investment	Explore ways to facilitate development of the impact investment market and encourage innovation in funding social service delivery. Provide guidance to superannuation trustees on the appropriateness of impact investment. Support law reform to classify a private ancillary fund as a 'sophisticated' or 'professional' investor, where the founder of the fund meets those definitions.	ASFA notes the structural constraints to the development of an impact investment market, and the active participation of superannuation funds in these investments as and when they are identified as being in the best interests of members.
37	Superannuation member engagement	Publish retirement income projections on member statements from defined contribution superannuation schemes using ASIC regulatory guidance. Facilitate access to consolidated superannuation information from the Australian Taxation Office to use with ASIC's and superannuation funds' retirement income projection calculators.	ASFA strongly supports this recommendation. ASFA has been an advocate for the mandatory inclusion of retirement income projections on member statements. However, ASFA recommends that trustees be given flexibility to determine which cohort of members should receive these projections. To complement this initiative and further encourage member engagement, ASFA recommends that the ATO be tasked with providing a summary of the balances of members' superannuation accounts with their annual taxation assessment notice.

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38	Cyber security	Update the 2009 Cyber Security Strategy to reflect changes in the threat environment, improve cohesion in policy implementation, and progress public–private sector and cross-industry collaboration. Establish a formal framework for cyber security information sharing and response to cyber threats.	ASFA is strongly supportive of this recommendation.
39	Technology neutrality	Identify, in consultation with the financial sector, and amend priority areas of regulation to be technology neutral. Embed consideration of the principle of technology neutrality into development processes for future regulation. Ensure regulation allows individuals to select alternative methods to access services to maintain fair treatment for all consumer segments.	ASFA is strongly supportive of this recommendation.
40	Provision of financial advice and mortgage broking	Rename ‘general advice’ and require advisers and mortgage brokers to disclose ownership structures.	ASFA supports renaming ‘general advice’ with a more appropriate, consumer tested term to help reduce consumer misinterpretation of, and excessive reliance on, this type of information.
43	Legacy products	Introduce a mechanism to facilitate the rationalisation of legacy products in the life insurance and managed investments sectors.	ASFA strongly supports the introduction of a mechanism to facilitate the rationalisation of legacy products. This should occur across the financial services sector, and not be limited to the rationalisation of life insurance and managed investment products.