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First Impressions of the Murray Financial System Inquiry Interim Report

By Jim Bulling (JB) and Kate Richie (BRR)

BRR Joining us today is Jim Bulling, who is a Partner in the Financial Services Team at K&L Gates; Jim thanks for your time.

JB Pleasure Kate.

BRR Now Jim we've obviously seen the Murray Financial System Inquiry release its Interim Report and it covers a number of issues but certainly one of the hot topics at the moment is superannuation. What were the main findings in the Report around super?

JB Well I suppose the first thing we should note Kate is that the last Financial System Inquiry, which was conducted about 16 years ago, paid very little attention to superannuation. The Murray Inquiry which we're in the middle of right now has really identified how important and significant superannuation is in the financial system. The comments that Murray made in relation to super fell into a couple of categories. Firstly, there was some commentary about large superannuation funds which make up about two-thirds of the total assets invested in super. The most significant observation was that fees were too high compared, to overseas experience, and that there seemed to be a lack of fee competition amongst funds in Australia. There's a couple of observations I have made about this. Fundamentally, the outcome in superannuation for Australians depends on three things: Investment returns, cost of insurance and fees. If you dumb down the superannuation product in order to get lower fees, you may end up with dismal investment performance and expensive insurance experience, so just tackling fees itself may not necessarily lead to better outcomes for consumers. The other thing I wanted to say about the Murray Inquiry observations was that comparisons with overseas experience need to be looked at very carefully, because it's very difficult to compare like for like. The experiences overseas are all very different to the system we have here. So with these sorts of qualifications, the options that the Murray Interim Report identified, were wait to see how the My Super products were kicking into the industry – remembering that My Super has only really been with us for 12 months, and there is something like 120 – in excess of 120 My Super products out there in the market. The industry spent a fortune collectively in developing this no frills low cost My Super product, and we really haven't had a chance to see how the introduction of those products is going to impact on prices across the board. I'd be saying let's see how My Super settles in before taking any further action.

BRR Well it seems like there's obviously a number of complex issues to consider. The report also looks at advice and some of the issues around advice. What do you see is the main ones to come out of the report?

JB When talking about the recommendations and observations that the Murray Inquiry identified for advice, we've really got to put all that in the context. We have to put it in a context of where we are on the advice reform spectrum and we've

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had in the last 18 months - two years, the introduction of all the FOFA reforms for advice. That has led to wholesale increase in expectations placed on advisers and a lot of additional consumer protection for investors. All those reforms have gradually been introduced from 1 July 2013. Now what the Murray Inquiry was saying was are additional measures required? They talked about a couple of additional measures; they talked about increasing the education competency standards for advisers and introducing a national examination. The second thing they talked about was the introduction of a public register for advisers. Now I don't think you'll find too many people arguing with these recommendations. Indeed, the Commonwealth Bank came out last week and said that they were going to introduce, voluntarily, a compulsory minimum standard for their advisers and a minimum requirement for tertiary qualifications. I think there's probably broad support around stakeholders in the advice industry for minimum competency standards. As for the Register itself, it could provide some additional benefits, but it's not as clear that there's a lot of support for that, but let's see what the final report comes out with.

BRR Well as you've said we've got support in some areas and perhaps not support in others. For interested parties that are looking to make submissions, what would be your advice for them?

JB Well the Murray Inquiry is open to taking submissions between now and the 26 August, so if parties are interested in making submissions on the interim observations and options, they probably need to get their skates on, because they've only got six weeks to do it. I know that a number of industry bodies are working hard right now at responding to the report handed down this week, and the final report is due out in November. Once further submissions are submitted by August, then the committee looks at those further submissions and comes out with their financial recommendations by the end of this year.

BRR And Jim after we see the final report, what happens next?

JB Once the recommendations are announced then it will be up to the Government to consider those recommendations and consider whether law reform is required. If we look at what happened 16 years ago with the Wallis Review recommendations, there were a number of significant reforms suggested in that review, and many of them were taken up by the Government at the time. For instance, financial services reform came out of the Wallis Review. The existing regulatory architecture, the Reserve Bank, ASIC, and APRA were all creatures created out of the recommendations made in the Wallis Review, and they were significant reforms which have provided you know most of the framework for the development of the financial services industry in the last 15 years. They were big picture issues which were taken up by the Government then. Will the Government now take up the reform issues identified by Murray? I am not so sure. There isn't the same need for reform because the financial sector is pretty healthy; it is not broke so why play with it. We've got a very uncertain political climate right now, so we might have to wait and see on some of the recommendations, I don't think there will be the same level of commitment from Government for legislative reform whatever the Murray Report comes out with.

BRR Well as you said we certainly will have to wait and see but thanks so much for sharing your insights on the interim report as it stands.

JB Thanks Kate.

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BRR That was Jim Bulling, who is a Partner in the Financial Services Team at K&L Gates. Listeners if you have any questions for Jim you can send them through either using the panel on your screen or otherwise via email to law@brrmedia.com.

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