ATTACHMENT TO RESPONSE TO THE INTERIM REPORT OF THE FINANCIAL SYSTEM INQUIRY

ANZ
26 AUGUST 2014

ATTACHMENT - ANZ RESPONSE TO THE FINANCIAL SYSTEM INQUIRY INTERIM REPORT

Detailed response to Observations (Obs), Policy Options (PO) and Additional Information requests (AI)

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Competition (Banking)			
xviii, 2-9	Obs	The banking sector is competitive, albeit concentrated. The application of capital requirements is not competitively neutral. Banks that use IRB risk weights have lower risk weights for mortgage lending than smaller ADIs that use standardised risk weights, giving the IRB banks a cost advantage.	Refer ANZ submission comments on 'Regulatory capital requirements'.
xix, 2-11	PO	The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives: • No change to current arrangements • Assist ADIs that are not accredited to use IRB models in attaining IRB accreditation • Increase minimum IRB risk weights • Introduce a tiered system of standardised risk weights • Lower standardised risk weights for mortgages • Allow smaller ADIs to adopt IRB modelling for mortgages only	As above.
2-12	AI	The Inquiry seeks further information on the following area: • How could Government or APRA assist smaller ADIs to attain IRB accreditation?	As noted above, ANZ supports reasonable measures to assist smaller ADIs to improve their risk management capabilities and infrastructure such as providing additional guidance and expertise. Importantly however, this must occur without also damaging the credibility of IRB accreditation standards in Australia.
xix, 2-16	PO	The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives: • No change to current arrangements • Provide direct Government support to the RMBS market • Allow RMBS to be treated as a high-quality liquid	ANZ does not consider that the Australian RMBS market exhibits signs of market failure that warrant Government intervention. Competition within the residential mortgage market remains intense, with mortgage finance available from a range of institutions. In the absence of a clearly identifiable market failure, explicit government support programs transfers risk to the public sector and has the potential to affect the underwriting standards of mortgage originators resulting in the potential moral hazard identified in the Interim Report. We believe that the risk of the assets

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		asset for the purpose of the liquidity coverage ratio.	should reside in the private sector, and any losses should not be transmitted to the public sector. However, the effectiveness of this market can be improved by: • Simplifying the prudential regime for RMBS – ANZ supports APRA's proposals to simplify the regulatory requirements for RMBS contained in APS120. • Addressing the capital regime applied to RMBS – Basel III draft securitisation proposals which impose higher capital charges for securitisation exposures are pending finalisation and APRA have indicated they will consult with industry when the BCBS review is finalised. The current proposals from the Basel Committee on Banking Supervision (BCBS) impose onerous capital charges for securitisation exposures which, if adopted, will impact global bank demand for RMBS (e.g. capital charges for simple 'AAA' RMBS could increase from current 7 per cent RWA to 20 per cent RWA). Domestic and offshore banks currently represent the largest buyer segment of Australian RMBS (estimated to be 60-70 per cent of recent transactions). • Ensuring that Australia's securitisation 'skin in the game' requirements are materially consistent with offshore jurisdictions and applied equally to both regulated and unregulated sponsors of securitisation transactions. In relation to HQLA, ANZ note that AAA rated tranches of Australian RMBS are already eligible assets under the RBA's future Committed Liquidity Facility. Classifying RMBS directly as HQLA may be helpful but ultimately have limited benefits for ADIs.
2-18	PO	The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives: • No change to current arrangements • Expand CCR by making it mandatory, adding new fields and/or extending it to SME lending.	Comprehensive credit reporting (CCR) is a major improvement to the availability of information and will provide significant benefits to financial institutions, consumers, and small businesses over time. The suggestion in the interim report that large banks are delaying involvement in CCR or will not participate in CCR is, from ANZ's perspective, incorrect. CCR will take time to implement given major changes to business processes, information technology to exchange information, and the high sensitivity of dealing with customers' credit history. The challenges are more extensive for the major institutions that have more products and complex information systems. ANZ is making major investments in the CCR capabilities and anticipates it will be able to 'use' or 'provide' CCR data by 2016-17.

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			ANZ would expect the market to trend inevitably towards the inclusion of SME lending in CCR. To some extent, CCR is now available on a reciprocal basis with some credit bureaus for SME lending. For example, Veda offers a trade payment service in which information is available on creditors and the age trial balance for a customer. There are significant benefits to CCR in areas such as rate for risk, improved responsible lending, decreases in bad debt and more differentiated lending limits. One of the most important benefits is improved visibility of the 'credit invisibles' for new start-ups where utility and small lending lines can be 'seen', allowing a faster and lower cost access to credit for those sole traders and businesses that may not be using main stream credit. Over time, extending the data captured may provide additional benefits. In addition to the five fields now captured (open date, closed date, limit, product type and payment history), account balances may be useful as a balance can infer utilisation and assist in validating repayment amounts. ANZ believes that the comprehensive credit information for small business will be a significant step in addressing 'information asymmetry' issues affecting the availability of finance for those customers. It is also likely to improve the contestability of the market for small business by allowing ANZ to compete more vigorously for customers. Making CCR mandatory for all participants – or regulating it – would, in ANZ's view, be counter-productive. It is likely that implementation and investment would slow as the necessary legal and regulatory framework was considered, developed and implemented. The competitive and accountability implications of regulation for suppliers, users and intermediaries of data are complex. Incremental benefits of a more regulated form of CCR over a market driven approach are difficult to imagine.
2-18	AI	The Inquiry seeks further information on the following area: • Is there evidence that spreads in SME and personal lending reflect reduced competition?	ANZ Small Business Banking's lending rates and fees reflect our understanding of small business credit risk, associated capital requirements and efficient cost structure achieved through the scale of our business. Reflecting the characteristics of small business, the cost of finance for small business is higher than that for consumer residential mortgages due to factors including: • The cost of writing a small business loan is higher than that for a consumer residential mortgage due to more complex credit assessment requirements and smaller scale of the small business lending market. • Credit loss rates are higher for small business loans than residential

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			mortgages. The APRA FSI submission provides industry information that shows default rates on SME retail (not secured by residential mortgages) are 2.3 per cent and for SME retail (secured by residential mortgages) 1.9 per cent, compared to non-business related residential mortgages of 0.9 per cent.[1] ANZ approaches the small business market on a 'whole of segment basis' rather than on a 'product by product' basis. It should be noted that only around one third of ANZ Small Business Banking's customers have borrowings with ANZ. These borrowings total $11bn compared with customer deposits with ANZ of AUD29 billion. Conclusions about competition in the small business market would need to consider both funding and lending interactions, rather than focusing solely on lending. ANZ believes that small business banking competition is robust and will continue to intensify. We are actively competing to increase our share of this market, have ample funds available for lending to small business and creditworthy customers. We seek to meet the diverse range of small business' commercial and personal needs. ANZ has pledged to lend AUD2 billion to new small businesses in 2014, which represents a doubling of our commitment made in 2013. ANZ also provides small business with unsecured lending, which we view as an integral component of our small business offering. Our lending products are available on a fully secured, partially secured or unsecured basis. Specialised capabilities and scale are needed to serve small business customers. Approaches which are appropriate for residential retail consumers or larger business customers are unlikely to be efficient, or effectively meet the needs of small businesses. The Code of Banking Practice requires us to act as a "diligent and prudent banker" and a fundamental obligation is to appropriately assess a customer's financial position. Assessment of a new customer's position needs to be rigorous. Personal customers applying for retail consumer lending, for example, for a residential mortgage, are typically able to provide PAYG certificates as proof of earnings. This provides a basis for meeting banking obligations and enables low cost, relatively simple and highly automated processing. However, for small businesses, particularly start-ups, substantiating the customer's capacity to service a loan can be challenging. Historical trading figures

[1] APRA, *Financial System Inquiry Submission*, 31 March 2014. p. 79.

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			may not be available and are unlikely to be audited. Whilst BAS statements can assist, these still require analysis. Cash flow forecasts may need to be completed by the customer to enable assessment of loan repayment capacity. Understanding a customer's ability to repay a loan underpins the provision of credit. Whilst, for customers with established businesses, historical financial performance and account behaviour may adequately demonstrate the ability to repay a loan, our primary focus for start-up businesses is on understanding the customer's likely cash flow and the operator's industry experience and business expertise. While security reduces the risk to the lender, and consequently the interest rate offered on borrowing, this is not as important as the ability to repay the loan through robust cash flow. Recovery actions are costly and damaging for customers and banks, and we seek to avoid placing customers in such a situation. The nature of each bank's approach to competing in the small business market is dependent on their business model. ANZ has sought to invest in scalable small business infrastructure (including systems, processes and specialised knowledge) and deliver benefits to customers by using this infrastructure across a large customer base. ANZ utilises loan application assessment processes which can vary from automated to full manual assessments, based on the exact nature of each customer's loan application: • ANZ is able to build a deep understanding of existing customers' cash flow by monitoring transactions on their bank accounts. Eligible existing customers can therefore be approved for additional lending through an automated process. • Full manual assessment is used for complex applications. This is typically required for start-ups in order to provide appropriate assurance that the customer's business plan is viable, forecast cash flows are robust, and the loan applied for is consistent with the customer's ability to service the loan. The diversity of Australian small business makes it challenging to obtain rich credit data across all market segments to underpin lending. Achieving a large small business customer base is necessary for any bank to gain the extensive credit data required to effectively quantify credit risk. ANZ and other banks have invested in sophisticated systems and credit models to better identify, quantify and manage risk and efficiently allocate capital to match that risk. ANZ considers that the argument there are structural barriers to alternative

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			providers entering the market is weak. All providers of services face the challenges of understanding the credit risk of new customers and relatively higher risk of lending to businesses. As noted above, the introduction of CCR for small business is expected to reduce information related barriers. Other important initiatives include: • The Australian Bankers' Association (ABA) is currently working with CPA Australia to assist small business to understand lending requirements and to apply for finance. • The ABA is also coordinating a project to improve data availability on small business. Current data on business lending provided to APRA aggregates information on small and large business, effectively limiting the ability of government to make sound policy judgements. ANZ believes that relatively simple improvements in data reporting could significantly increase the information available to policy makers.
2-21	AI	The Inquiry seeks further information on the following area: • Is integration in the banking sector causing competition issues? • Is vertical integration distorting the way in which mortgage brokers direct borrowers to lenders? • If so, what would be the best way to limit the adverse impacts?	ANZ considers that competition issues which arise through vertical integration should be considered under Australian competition law. Economic literature on competition recognises the efficiency and competitive benefits from manufacturers of products or services aligning their interests with those of distributors and retailers, enabling them to implement a competitive distribution channel in competition with other vertically integrated brands.[2] Where issues of disclosure arise, for example, in informing consumers about relationships between originators and distributors of products, these should similarly be dealt with by the prohibition against false and misleading conduct. The interim report seeks views on the level and exercise of market power by 'major banks'. Cooperation between banks to influence prices or other competitive outcomes is illegal. ANZ is subject to competitive constraints and does not have an ability to affect the market price or restrict output in the market. Our competitors would respond swiftly and efficiently to any such action by ANZ. As at June 2014, ANZ's share of loans in Australia was 16 per cent and of deposits 14.8 per cent.[3]
2-23	PO	The Inquiry would value views on the costs, benefits and trade-offs of the following policy option or other alternatives:	Lenders mortgage insurance (LMI) provides a credit enhancement to higher LVR lending which needs to be recognised in the risk weight framework, allowing lower risk weights to be applied (noting the standardised risk weights already factor in

[2] Refer Business Council of Australia, *Submission to the Competition Policy Review*, June 2014, page 108 for a short discussion on US Supreme Court views on vertical integration in the context of resale price maintenance.
[3] APRA, "Monthly Banking Statistics", for the period ending 30 June 2014

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		• No change to current arrangements • Decrease the risk weights for insured loans	an LMI benefit). LMI insurance spreads mortgages risk across other participants in the financial markets and de-correlates the riskiness of mortgage lending through reinsurance activities into offshore markets. Not allowing the reduced risk to be recognised via lower risk weights results in a double count of the capital needed to support this component of mortgage lending. Consider two mortgages that are otherwise identical except one has mortgage insurance and the other does not – the current arrangement requires Advanced IRB banks to hold the same amount of capital against these two mortgages, despite the fact that the insured loan is less risky.
Competition (Payments)			
xix, 2-27	Obs	Regulation of credit card and debit card payment schemes is required for competition to lead to more efficient outcomes. However, differences in the structure of payment systems have resulted in systems that perform similar functions being regulated differently, which may not be competitively neutral.	The payment system is characterised by a range of regulation, price controls and undertakings, as well as operational complexity and significant technological change. Competitive neutrality will be seen from a range of perspectives. ‘Improvements’ to competitive neutrality could involve either further regulation or a reduction in regulation. Based on previous experience, controls applied in one area in the payment sector cause consequential changes throughout the payment system. These affect the distribution of benefits and costs to, and assets of, customers, merchants and participants. Because of the difficulty in determining the most efficient outcome, particularly given the rate of technological change, ANZ favours a ‘lighter touch’ approach. An overall view of the best structure with specific options for change is required. Customer choice and interests should be key considerations. Changes to payments regulation also come at an opportunity cost to normal commercial activity and other goals such as implementation of the New Payments Platform. A policy goal should be to move more cash and cheques payments to electronic payments over time. The use of cheques is costly and inefficient, and the ‘cash economy’ affects government taxation revenues. Greater use of electronic payments would improve business efficiency, the government revenue position and broader social welfare.
xx, 2-32	PO	The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives: • No change to current arrangements	Fundamental analysis of the payment system would be required before changes to current pricing and other rules are considered. Options for change are likely to have a range of consequences that should be assessed before firm recommendations are made.

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		• Lower interchange fee caps or ban interchange fees • Expand interchange fee caps to include payments of similar economic substance; • Remove interchange fee caps • Cap merchant service fees or cap differences in interchange service fees between small and large merchants • Require acquirers to enable merchants to choose which scheme to route transactions through • Allow payment schemes to reintroduce 'no surcharge' rules or broaden the ban on 'no surcharge' rules to all payment systems • Enforce reasonable cost recovery in customer surcharging • Provide merchants and customers with real-time pricing information regarding interchange fees and merchant service fees	• Lowering or banning interchange fees, expanding interchange fees to payments of similar economic substance, capping merchant fees, or removing interchange fees would redistribute benefits and costs among customers, merchants and participants. New price regulation has the potential to limit the payment propositions that can be viably or profitably offered to customers. It is important that Australia continues to support a globally competitive range of payment mechanisms. • Enforcement of cost recovery by merchants would involve significant policing resources and would appear unlikely to generate substantial benefits (noting that misleading conduct is already dealt with under competition laws). • Requiring acquirers to enable merchants to choose a payments scheme, or mandating the provision of real-time pricing information to merchants or customers is likely to involve substantial information technology and other investment.
Competition (Insurance)			
2-41	PO	The Inquiry would value views on the costs, benefits and trade-offs of the following alternatives: • No change to current arrangements • Ensure aggregators are able to use automated processes to seek quotes from general insurance websites • Create comparison categories for insurance products that aggregators could use to compare the value of different products	The best approach to dealing with these issues is to have clear product disclosure on terms and conditions to the consumer. The Inquiry's principles for competition policy justify action by government to facilitate competition where market participants have excessive market power or behave anti-competitively. It does not require regulators to take action in favour of a particular class of intermediary (online information aggregators) in the absence of evidence that market participants have the ability to affect the market price or restrict output in the market. ANZ does not believe it has such an ability. Establishing comparison categories is likely to be problematic. In digital environments, product types and bundles frequently change or evolve and competitors will take different approaches. If mandated, product categories can reduce innovation; alternatively, if not mandated, they would be likely to require regular updating. Unless there is a strong public interest (for example, in improving price or consumer disclosure of specific products), establishing comparison categories should be approached cautiously.

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2-41	AI	The Inquiry seeks further information on the following areas: • Would opening up state- and territory-based statutory insurance schemes to competition improve value for consumers? • How could insurance aggregators provide meaningful comparisons of policies with different levels of coverage?	ANZ does not operate in State and Territory statutory insurance schemes. Harmonisation of stamp duty requirements (or their uniform abolition) would be a key reform to reduce costs and help customers. Opportunities to improve competition and consumer value by privatising schemes may appropriately be dealt with through the Harper Review or public debate. Provision of online insurance information may not appropriately inform consumers of product features. Simple price comparisons do not recognise the features and coverage of products, such as income protection. We support full transparency in relation to ownership and conflicted remuneration structures.
Funding			
xx, 2-45	Obs	Ongoing access to foreign funding has enabled Australia to sustain higher growth than otherwise would have been the case. The risks associated with Australia's use of foreign funding can be mitigated by having a prudent supervisory and regulatory regime and sound public sector finances.	ANZ agrees that ongoing access to foreign funding has enabled Australia to sustain higher growth than otherwise would have been the case. As noted in our interim submission to the FSI, ANZ considers that markets for bank funding operate efficiently. Funding in offshore markets is undertaken to improve tenor and investor diversification. Australian banks generally swap foreign currency proceeds back to Australian dollars to fund domestic balance sheets. If offshore markets were temporarily not accessible, bank funding would be accessible domestically, albeit funding tenor would decline The benefit of increased tenor from offshore markets is reflected in the use of the Australian Government wholesale guarantee during the GFC. Banks issued long-term debt under the guarantee scheme for 12 to 18 months (ANZ nine months), allowing them to maintain or extend the contractual tenor of funding. During this period, the major banks benefited from significant inflows of domestic deposits which improved liquidity but did not fully address tenor objectives.
2-57	AI	The Inquiry seeks further information on the following area: • What measures can be taken to mitigate the effects of developments in the housing market on the financial system and the economy? How might these measures be implemented and what practical issues would need to be considered?	Refer ANZ submission comments on 'Household leverage'.

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Funding (Small Business)			
xxi, 2-61	Obs	There are structural impediments for small- and medium-sized enterprises to access finance. These impediments include information asymmetries, regulation and taxation.	Refer ANZ submission comments on 'Small and medium enterprises'.
xxi, 2-68	PO	The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives: • No change to current arrangements. • Facilitate development of an SME finance database to reduce information asymmetries between lenders and borrowers.	ANZ believes there is a need for better information about the small business market and supports the improvement of data on small business lending. However rather than the development of a separate database, ANZ recommends improvement to APRA and RBA data. Currently available APRA and RBA data does not enable analysis of lending based on business size, typically representing whole of business market data which includes small businesses up to institutional sized customers. ANZ believes capturing actual lending data for the entire business market in discrete business 'size' bands would enable users to cut the data or segment the market to suit their need. This allows for the fact that there are no commonly accepted definitions of market segments such as 'small business' and such definitions could change over time. The likely extension of CCR over time to include small business would assist in reducing information asymmetries between lenders and borrowers. However, ANZ does not see a need to mandate CCR or the inclusion of small business. We would expect the market to trend inevitably towards the inclusion of SME lending. To some extent, CCR is now available on a reciprocal basis with some credit bureaus for SME lending.
2-68	AI	The Inquiry seeks further information on the following areas: • To what degree will technological developments resolve issues related to information asymmetries in SME lending? • What are the best options to narrow the informational gaps between lenders and SME borrowers? • Could the use of certain loan covenants be reduced, while still providing SMEs with adequate access to finance and lenders with appropriate protection? • What are the prospects for a market for securitised	In relation to the *measures to reduce information gaps*, see previous comments above and in response to 2-18, including the ABA and CPA Australia project to improve small businesses' understanding of application processes. In relation to *loan covenants*, customers covered by ANZ's standard customer documents, including 'Letter of Offer' and 'Finance Conditions of Use', are not subject to additional ongoing financial monitoring or reporting covenants. Arrears management for the vast majority of ANZ's small business customer base would commence only in the event that a customer misses a contractual payment or overdraws an account beyond its approved limit. *Covenants* may be required in a small number of cases where small business customers have specific risks or more complex loan arrangements. There is a relatively small proportion of 'small business' lending customers (i.e., customers

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		SME loans developing? • What are the main barriers to greater broker activity in SME finance? Are these barriers transitional or structural in nature? • What are the best options for improving the tax treatment of VCLPs?	with ANZ lending facilities of less than $1m) currently with loan covenants and these customers are served by other areas of ANZ. We actively review whether these customers would be better served by our Small Business Banking processes if customer circumstances change over time. ANZ considers that measures to restrict the use of loan covenants for such customers would reduce lending to them and not be in their interests. In relation to greater *broker activity in SME finance*, ANZ already undertakes a substantial proportion of small business activity through brokers. We believe the use of brokers is a commercial judgement based on customer outcomes and business need.
Funding (External administration)			
2-71	PO	The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives: • No change to current arrangements. • Implement the 2012 proposals to reduce the complexity and cost of external administration for SMEs.	ANZ agrees with the views of the Inquiry that a Chapter 11 regime should not be adopted in Australia and that there is little empirical evidence that Australia's voluntary administration regime is causing otherwise viable businesses to fail. The Chapter 11 regime produces few rehabilitated companies in the long term, is costly and involves long periods of administration. Chapter 11 effectively gives control rights to unsecured creditors, which is at odds with the Australian legal system which recognises the position of creditors with security. ANZ believes that key reforms that would improve the current external administration regime include: a 'safe harbour' for directors from insolvent trading laws where there are attempts by directors to facilitate genuine restructures, to be achieved by the adoption of a modified business judgment rule defence (see below) some form of limited protection on the operation of ipso facto clauses (provisions in contracts that allow one party to terminate the contract upon the insolvency of the other) reform of section 420A of the *Corporations Act,* so that non-core or obsolete assets can be disposed of quickly to facilitate a restructure. Currently, the section places undue focus on the process and discourages a quick sale even though there may be ample evidence that the proposed sale price exceeds market value. ANZ is of the view that any safe harbour defence should promote the policy objective of obliging directors to obtain early restructuring advice from an appropriately experienced and qualified professional, such as a Chief Restructuring Officer (CRO). The CRO would be an employee of, or contractor with, the company, whose role would be to investigate, advise, negotiate and oversee the

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			implementation of the restructuring. While the appointment of a CRO is currently possible, it is a rare occurrence in Australia due to concerns that a CRO could be personally liable for insolvent trading as a 'shadow director'. It is, therefore, important that legislative attention is given to the definition of director so that a CRO participating in the restructuring process is not taken to be a shadow director of the company. In relation to the 2012 proposals, a wide range of changes are proposed and further review would be required in relation to impacts on SMEs.
2-71	AI	The Inquiry seeks further information on the following area: • Is there evidence that Australia's external administration regime causes otherwise viable businesses to fail and, if so, what could be done to address this?	See above.
Funding (Infrastructure finance)			
2-72	AI	The Inquiry seeks further information on the following area: • What are the impediments to the development of liquid, tradeable claims on infrastructure projects?	The Australian B20 *Infrastructure and Investment Taskforce Policy Summary* and the Financing Growth Taskforce *Infrastructure Financing Paper* set out a range of impediments to financing of infrastructure and markets for infrastructure securities.[4] As set out in the *Policy Summary*, post-GFC financial-sector prudential regulation has addressed key weaknesses in the global financial system, but its effects, and subsequent industry reorganisation, have made it more costly for many players to provide long-term capital. For example, both Basel III and Solvency II treat long-term investments in infrastructure as similarly risky to long-term corporate debt or investments, requiring a higher capital ratio. However, infrastructure investments are often lower risk, with lower defaults, higher recoveries, and counter-cyclical features. Solvency II similarly penalises equity infrastructure investments.
Funding (Impact investment and social impact bonds)			

[4] The B20 Australia 2014 documents are available at http://www.b20australia.info/priorities-1. The Business 20 (B20) is a forum through which the private sector produces policy recommendations for the annual meeting of the Group of 20 (G20) leaders. At the July 18 2014 B20 Summit in Sydney, around 400 business leaders and policymakers finalised recommendations for the G20 leaders' summits to be held in Australia later this year.

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2-75	PO	The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives: • No change to current arrangements. • Provide guidance to superannuation and philanthropic trustees on impact investment. • Classify a private ancillary fund as a sophisticated or professional investor for the purposes of the exemptions from the prospectus regime if the sponsor of the fund meets either of these thresholds. • Simplify and streamline disclosure requirements associated with social impact bonds. • Undertake a more active role in expanding impact investment, such as providing risk capital and establishing social investment banks	Impact investing is developing in other markets such as UK and USA. If well adapted to Australian circumstance and conditions, it can deliver benefits to investors, the community and government. The superannuation industry is currently holding assets valued at approximately AUD1.8 trillion, Private Ancillary Funds (PAF) hold AUD3 billion, and the broader charitable foundation market is estimated to hold in excess of AUD10 billion. PAF is a small player but, reflecting its mission, more likely to be a pioneer in this type of investing. The needs of each group of investors needs to be considered separately. Issues for superannuation fund investment in Social Impact Bonds are the small scale and effective management of risk. Suitable frameworks for measuring and confirming outcomes to investors also need development.
Funding (Deposits and superannuation)			
2-81	AI	The Inquiry seeks further information on the following areas: • What effect is the implementation of the Basel III capital and liquidity regimes in Australia expected to have on the cost of funds, loan pricing and the ability of banks to finance new (long-term) loans? How large are these effects expected to be? • What share of funding for ADIs is expected to come from larger superannuation funds over the next two decades? What effect might this have on bank funding composition and costs? What effect will this have on the ability of ADIs to write long-term loans?	Refer ANZ submission comments on 'Impact of superannuation and Basel III on funding'.
2-85	AI	The Inquiry seeks further information on the following area: • What effects will the trends in the size and	The level of superannuation assets is expected to grow from around 110 per cent of GDP now to around 160 per cent by 2033, when growth is projected to level off.[5] This compares to the level of bank assets of currently around 200 per cent of

[5] Rice Warner, *Ageing and Capital Flows – Financial System Inquiry*, July 2014, p10.

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		composition of superannuation have on the broader flow of funds in the economy over the next few decades, including on international capital flows to and from Australia?	GDP currently.[6] Increasing superannuation is expected to increase the pool of savings available to the domestic economy, although this would be offset by some decline in non-superannuation saving. As noted by the ANZ submission section on 'Impact of superannuation and Basel III on funding', funding received from superannuation funds is generally less 'sticky' than retail deposits and impacts banks' funding and lending strategies. Increased funding from superannuation substituting for retail deposits reduces the ability to fund long-term assets (other factors being equal).
Funding (Corporate bonds)			
xxi, 2-86	Obs	Australia has an established domestic bond market, although a range of regulatory and tax factors have limited its development.	Australia does not have a deep corporate bond market and, with limited retail access to corporate bonds, the market has not grown to its potential. There has been little depth of support for long-term private debt across the investment grade spectrum. Corporate issuers of debt, including infrastructure project companies, have found US and European markets more competitive from a tenor and price perspective because those markets can match long-dated insurance or pension liabilities. Relatively low levels of government debt mean that there is limited public sector liquidity, which would otherwise form the foundation for the debt market. Governments should be encouraged to support the development of a long-term debt market.
xxii, 2-91	PO	The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives: • No change to current arrangements. • Allow listed issuers (already subject to continuous disclosure requirements) to issue 'vanilla' bonds directly to retail investors without the need for a prospectus. • Review the size and scale of corporate 'vanilla' bond offerings that can be made without a prospectus where the offering is limited to 20 people in 12 months up to a value of $2 million, or for offers of up	ANZ supports Option 2 – allowing ASX 200 listed issuers, subject to continuous disclosure and related offer requirements, to issue 'vanilla' bonds directly to retail investors. This approach would be similar to the manner in which equity rights today are offered to retail investors (or debt is issued to institutions). Under the equity rights approach, retail investors are protected by operation of the continuous disclosure obligations, prohibitions on misleading or deceptive conduct, and corporations laws including duties of directors and officers of a company. Offer documents would be required to be correct and set out risks associated with the investment. Entities have obligations to disclose information that a reasonable person would expect, if it were generally available, to have a material effect on the price or value of the listed securities of that entity. ASX 200 listed companies offering equity rights to consumers today benefit from

[6] RBA, *The Financial System in the Post-crisis Environment*, March 2013

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		to $10 million with an offer information statement.	regulatory relief from full prospectus requirements. It is appropriate that debt issuances should receive a similar level of regulatory relief. This would reduce the costs of issuing bonds substantially but would not compromise disclosure to or protection of investors. It would, over time, lead to substantial deepening of the market for debt securities.
2-91	AI	The Inquiry seeks further information on the following areas: • As a greater share of the population enters retirement, would the demand for fixed income products increase in the absence of regulation or other incentives? • Would the development of annuity-style retirement income investment products encourage the growth of fixed income markets? • Could enhanced transparency of transactions improve liquidity in the over-the-counter Australian corporate bond market, including its attractiveness to retail investors? What commercial or regulatory impediments are there to the potential development of improved transparency in the over-the-counter corporate bond market? • Could alternative credit ratings schemes develop in Australia and would this help improve the appetite for bonds, particularly those of growing medium-sized enterprises? Could alternative standards of creditworthiness develop in Australia? What are the barriers to such developments, and what policy adjustments would assist such developments?	As an increasing proportion of the population enters retirement, demand for income stream products, together with defensive and capital preserved products will increase. Long-term assets are required to develop and manage the risk of retirement income products. There are significant opportunities for local, State and the Australian Government to issue long-dated bonds that would support the development of retirement products. The ability to provide retirement income products is hampered by under-development of the market for long-dated fixed income assets that may be used to support these products and hedge risk.
2-94	PO	The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives: • No change to current arrangements. • Review the size and scale of offerings that can be made without a prospectus where the offering is limited to 20 people in 12 months up to a value of $2 million, or for offers of up to $10 million with an offer	Alternative forms of funding, such as crowd sourced funding, should provide be adequate protection for investors on par with other debt or equity funding (such as that under the continuous disclosure regime for widely offered securities).

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		information statement. • Introduce additional protections for investors in relation to use of private placements and non-renounceable rights issues.	
2-94	AI	The Inquiry seeks further information on the following areas: • Is there a need to introduce differentiated markets to allow greater access to equity markets by smaller companies? • Should other capital-raising requirements be modified to reduce dilution effects? • Would this affect the capacity of corporates to raise funds, particularly under conditions of market stress?	See above.
Superannuation			
xxiii, 2-99	Obs	There is little evidence of strong fee-based competition in the superannuation sector, and operating costs and fees appear high by international standards. This indicates there is scope for greater efficiencies in the superannuation system.	Refer ANZ submission comments on ‘Superannuation’.
xxiv, 2-114	PO	The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives: • No change to current arrangements and review the effectiveness of the MySuper regime in due course. • Consider additional mechanisms to MySuper to achieve better results for members, including auctions for default fund status. • Replace the three-day portability rule: ○ With a longer maximum time period or a staged transfer of members’ balances between funds, including expanding the regulator’s power to extend the maximum time period to the entire industry in times of	Refer ANZ submission comments on “Superannuation” **Obstacles to industry efficiency** The regulatory and taxation regime applying to superannuation presents obstacles to adopting the most efficient structures and systems. ANZ Wealth’s OnePath Master Trust is a complying superannuation fund. Like many other superannuation funds, member contributions to the Trust are invested through a master life policy issued by a life insurance company. Over time, investments made through this legacy life insurance company structure have led to complexities in back office processes and higher administration costs. It is now common practice in industry to move towards a direct investing structure, reducing the inefficiencies and costs. Under existing taxation laws, a movement of assets held by the life company to the superannuation fund with the direct investing structure would trigger the application of the capital gains tax rules. Although some loss rollover and asset relief rollover arrangements are in place, these do not effectively deal with the

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		stress. o By moving from the current prescription-based approach for portability of superannuation benefits to a principles-based approach.	problem. ANZ believes that loss rollover and asset rollover relief should be extended to allow assets within the life company structure to move to a direct investing structure within the umbrella of the same Master Trust without triggering the application of capital gains tax that would otherwise be borne by members. In addition, barriers to superannuation fund mergers could also be removed to facilitate greater scale. Tax relief for fund mergers were introduced to facilitate MySuper transition, this relief could be extended indefinitely. **Three day portability rule** The three-day portability rule forms a part of the SuperStream reforms that aim to improve the efficiency of rollovers by superannuation entities. Setting the required time-frame creates operational difficulties. Under forward unit pricing, a member wishing to transfer their benefit has the value of their benefit calculated by reference to a price that is set at a future point in time. It is considered by industry to be best practice. Many funds that invest in wholesale trust vehicles are unable to price within the three days because sometimes these vehicles take longer to provide pricing data. Other factors beyond the control of super funds that may impact on timeliness in obtaining asset prices include distribution and high volume periods, State based holidays and market corrections. ANZ strongly supports an efficient rollover regime but believes that the three day rule should be extended to 14 working days. This would improve the practical operation of fund portability and compliance without compromising efficiency.
2-115	AI	The Inquiry seeks further information on the following areas: • Does, or will, MySuper provide sufficient competitive pressures to ensure future economies of scale will be reflected in higher after-fee returns? What are the costs and benefits of auctioning the management rights to default funds principally on the basis of fees for a given asset mix? Are there alternative options? • Is the recent trend of greater vertical integration in the wealth management and superannuation sectors reducing competitive pressures and contributing to higher superannuation fees? Are there mechanisms to ensure the efficiency of vertical integration flow through to consumers? • Are there net benefits in tailoring asset allocation to	ANZ supports open competition to ensure the most efficient outcome, whether a product is being offered by a vertically integrated provider or by specialised or other providers. End benefit projections should not be mandatory for superannuation funds. The matter has already been the subject of extensive consultation with government and ASIC. Most super providers have tools on their websites to assist consumers in projecting retirement outcomes based on their circumstances. We also support customers availing themselves of quality financial advice in relation to their personal circumstances. We believe there is an undue focus on short-term returns. The asset allocation for a superannuation fund is generally set to provide returns over a 5–7 year horizon. This is an appropriate measure of performance rather than short-term market fluctuations. There is a trend away from active asset management in favour of indexed type

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		members and/or projecting retirement incomes on superannuation statements? • Is there an undue focus on short-term returns by superannuation funds? If this is a significant issue, how might it be addressed? • To what extent is there a trend away from active asset management within asset classes in superannuation funds? Is this a positive or negative development for members? • How could funds price switching properly and take into account differences in liquidity between asset classes? • Could other arrangements be developed to facilitate asset transfers between funds when members switch? Do funds require additional mechanisms to manage liquidity beyond the need for liquidity for portability and member investment switching? • Is the trust structure best placed to meet the needs of members in a cost-effective manner?	managers. This is culminating in lower fees for members for an equivalent risk and return trade off. ANZ's practice is to review buy and sell spreads and reset where appropriate to ensure equity between investors. There is an industry issue around the valuation of illiquid assets which may give rise to equity issues in the fund. The current rollover arrangement of converting into cash is appropriate because it helps manage the difference in the asset mix between sending and receiving funds. An in-specie type transfer would give rise to significant tax and cost issues. With regard to liquidity, rules around fund liquidity should be strengthened and tested to ensure funds can meet their benefit payments to members. The current trust structure works well and the law is clear. There is no compelling reason to change.
xxiv, 2-116	Obs	If allowed to continue, growth in direct leverage by superannuation funds, although embryonic, may create vulnerabilities for the superannuation and financial systems.	Property gearing by self-managed superannuation funds is likely to increase both investment returns and risks. Gearing clearly increases returns in a positive market but gives rise to greater risks in the event of a market downturn. It may not be an appropriate strategy for those close to retirement, or where there are not appropriate measures to manage risk or diversify investments. ANZ favours restrictions on the use of leverage in superannuation funds. We do not currently offer a specific retail property loan product for SMSFs.
xxiv, 2-117	PO	The Inquiry would value views on the costs, benefits and trade-offs of the following policy option or other alternatives: • Restore the general prohibition on direct leverage of superannuation funds on a prospective basis.	See above.
xxiv, 2-118	Obs	Superannuation policy settings lack stability, which adds to costs and reduces long-term confidence and trust in the system.	ANZ agrees that stability is essential to raise confidence in the superannuation system.

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2-126	AI	The Inquiry seeks further information on the following areas: • To what extent should the Inquiry be concerned about the high operating expenses of many SMSFs? • Should there be any limitations on the establishment of SMSFs?	SMSFs require separate accountancy reports, tax returns and compliance arrangements reflecting their specific circumstances. This will reduce economies of scale compared to superannuation master trusts. There may be a need for better and ongoing education of advisers, trustees, accountants and other professionals when establishing and advising on self-managed superannuation funds.
Stability (TBTF and systemic risk)			
xxvi, 3-9	Obs	During the GFC, significant government actions in a number of countries, including Australia, entrenched perceptions that some institutions are too-big-to-fail. These perceptions can be reduced in Australia by making it more credible to resolve these institutions without government support.	Refer ANZ submission comments on 'Stability'.
xxvii, 3-12	PO	The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives: • No change to current arrangements. • Increase the ability to impose losses on creditors of a financial institution in the event of its failure.	As above.
3-12	AI	The Inquiry seeks further information on the following area: • Is it possible to reduce the perceptions of an implicit guarantee for systemic financial institutions by imposing losses on particular classes of creditors during a crisis, without causing greater systemic disruption? If so, what types of creditors are most likely to be able to bear losses?	See above.
xxvii, 3-13	PO	The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives: • No change to current arrangements • Strengthen regulators' resolution powers for financial	See above.

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		institutions	
xxvii, 3-14	PO	The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives: • No change to current arrangements. • Invest more in pre-planning and pre-positioning for financial failure.	See above.
xxvii, 3-16	PO	The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives: • No change to current arrangements. • Further increase capital requirements on financial institutions considered to be systemically important domestically.	See above.
3-18	PO	The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives: • No change to current arrangements. • Modify the FCS, possibly including simplification, lowering the insured threshold or introducing an ex ante fee.	ANZ does not support further changes to the scope of the FCS or the threshold level. Further changes would increase costs, delay implementation and create uncertainty. ANZ believes a change to an ex ante funded FCS is unnecessary and would increase costs for depositors. Australia has a strong banking and regulatory system, under which no depositor has lost money since Federation. Recent regulatory measures have increased capital and taken other steps that reduce the risk of failure. Under the existing law, depositors are primarily protected through depositor preference over other creditors, with the ex post levy on other ADIs to make up any shortfall. An ex ante levy to support the FCS, providing an earmarked fund for resolution purposes, is, in effect, a tax on depositors, creating an impact on growth and lending. It is also unclear how such a fund would be managed over time. Given the strong track record of depositor safety arising from existing protections, it would appear that a post-funded resolution support scheme is sufficient to meet stability concerns.
3-18	AI	The Inquiry seeks further information on the following areas: • What measures could be taken to simplify the FCS with minimal burden on industry, while still ensuring	See above.

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		the effectiveness of the scheme? • What is an appropriate threshold for the FCS guarantee of deposits?	
xxvii, 3-20	PO	The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives: • No change to current arrangements. • Ring-fence critical bank functions, such as retail activities.	Refer ANZ submission comments on 'Ring-fencing'.
3-20	AI	The Inquiry seeks further information on the following areas: • Is there a case for introducing ring-fencing in Australia now, or is there likely to be in the future? • If ring-fencing is pursued, what elements should be protected and from what risks? For example, should deposit-taking functions be protected from proprietary trading. Is one of the models used overseas appropriate for Australia? • How 'high' should any ring-fence be? Do ring-fenced activities need to occur in entirely separate financial institutions, or could they be part of a group structure that has other business activities? Within a group, what level of separation would be necessary? • Are there ways to achieve the same benefits as ring-fencing without the costs of structural separation?	See above.
xxvii, 3-24	Obs	A number of jurisdictions have implemented new macroprudential toolkits to assist with managing systemic risks. The effectiveness of these for a country like Australia is not yet well established, and there are significant practical difficulties in using such tools.	Refer ANZ submission comments on 'Macroprudential toolkits, prudential perimeter and stress testing'.
xxviii, 3-29	PO	The Inquiry seeks views on the costs, benefits and trade-offs of the following policy options or other alternatives:	See above.

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		• No change to current arrangements. • Establish a mechanism, such as designation by the relevant Minister on advice from the RBA or CFR, to adjust the prudential perimeter to apply heightened regulatory and supervisory intensity to institutions or activities that pose systemic risks.	
3-29	AI	The Inquiry seeks further information on the following areas: • Is new legislation the most appropriate mechanism to adjust the prudential perimeter to respond to systemic risks, or could a more timely mechanism be of benefit? What alternative mechanisms could be used? • What accountability processes would be necessary to accompany any new mechanism? • What criteria could determine when an institution or activity was subject to heightened regulatory and supervisory intensity?	See above.
xxviii, 3-30	PO	The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives: • No change to current arrangements. • Introduce specific macroprudential policy tools.	See above.
3-30	AI	The Inquiry seeks further information on the following areas: • Are there specific macroprudential tools that Australia should adopt to manage systemic risk? • What agency or agencies should have these macroprudential tools?	See above.
3-31	PO	The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives:	Refer ANZ submission comments on ‘Macroprudential toolkits, prudential perimeter and stress testing’. ANZ supports a fact and data based approach to assessing risk, including greater regulatory focus on stress testing. Stress testing is a valuable tool for gaining

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		• No change to current arrangements. • Australian regulators make greater use of stress testing with appropriate resourcing.	insights into portfolio behaviour under adverse conditions, identifying areas of risk that would otherwise be difficult to recognise, and for planning management actions to be taken in the event of a stress event. It can also be used to gauge the net benefit of proposed regulatory or policy changes. The approach taken by regulators needs to balance the trade-off between simplicity (which promotes intuition and sound understanding) and complexity (which can lead to greater, though possibly spurious, accuracy and comes at the cost of a loss of transparency). It would be a mistake to place undue reliance on stress testing as a regulatory tool; rather it should be one of a number of tools, and the resource investment required of financial institutions should be commensurate with that status.
Stability (International prudential framework)			
xxviii, 3-34	Obs	Australia has implemented some aspects of global prudential frameworks earlier than a number of jurisdictions. It has also used national discretion in defining capital ratios. When combined with other aspects of the prudential framework and calculated on a consistent basis, Australian banks' capital ratios (common equity tier 1) are around the middle of the range relative to other countries. However, differences such as those in definitions of capital do limit international comparability.	Refer ANZ submission comments on 'Implementation of international prudential standards'.
xxix, 3-41	PO	The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives: • No change to current arrangements. • Maintain the current calibration of Australia's prudential framework. • Calibrate Australia's prudential framework, in aggregate, to be more conservative than the global median. This does not mean that all individual aspects of the framework need to be more conservative.	See above.

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3-41	AI	The Inquiry seeks further information on the following area: • Is there any argument for calibrating Australia's overall prudential framework to be less conservative than the global median?	See above.
xxix, 3-42	PO	The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives: • No change to current arrangements. • Develop public reporting of regulator-endorsed internationally harmonised capital ratios with the specific objective of improving transparency. • Adopt an approach to calculating prudential ratios with a minimum of national discretion and calibrate system safety through the setting of headline requirements.	See above.
3-43	AI	The Inquiry seeks further information on the following area: • Would adopting a more internationally consistent approach to calculating capital ratios materially change Australian banks' cost of accessing funding? • How would using minimal national discretion distinguish between prudent banks that hold capital as currently defined and those that rely on less loss absorbing capital? • How might APRA need to adjust minimum prudential requirements to ensure system safety is not altered if using minimal national discretion in calculating prudential ratios?	See above.
Corporate Governance			
xxix, 3-44	Obs	To contribute to the effectiveness of the financial system, sound corporate governance requires clarity of the responsibilities and authority of boards and management.	Refer ANZ submission comments on 'Corporate Governance'.

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		There are differences in the duties and requirements of governing bodies for different types of financial institutions and, within institutions, substantial regulator focus on boards has confused the delineation between the role of the board and that of management.	
xxx, 3-48	PO	The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives: • No change to current arrangements. • Review prudential requirements on boards to ensure they do not draw boards into operational matters. • Regulators continue to clarify their expectations on the role of boards.	See above.
3-48	AI	The Inquiry seeks further information on the following area: • Is it appropriate for directors in different parts of the financial system to have different duties? For example, differences between the duties of directors of banks and insurers and trustees of superannuation funds. Who should directors' primary duty be to?	ANZ considers the current distinctions between the duties of a director of a company, a superannuation fund trustee and a life insurance company are appropriate. The main distinction for the directors of a superannuation fund is that they now have a statutory obligation to act in the interests of the beneficiaries of the superannuation fund, and to the extent there is a conflict with their duties to the shareholder, prefer to the interests of the beneficiaries. A life insurance company and its directors do not stand in a fiduciary relationship with the policyholders or in respect of their stewardship of the statutory fund assets which support the policy liabilities of the life insurance company. However, they do have a statutory obligation to give priority to the interests of the policyholders and prospective policyholders in the administration and investment of the statutory fund assets. This is to ensure the statutory fund assets are invested solely for the benefit of the policyholders.[7] Similar requirements should not apply to Boards of ADIs because the interests of depositors are protected through depositor preference and the FCS.

[7] Relevant provisions are section 48 of the *Life Insurance Act 1995* - Duty of Directors in relation to Statutory Funds; section 52A (2) (d) *Superannuation Industry (Supervision) Act 1993* Covenants relating to directors; and section 601FD *Corporations Act 2001* Duties of Officers of Responsible Entities. Each of the above sections have a similar effect in that each of the directors or officers need to prefer the interests of beneficiaries over the company or shareholder if there is a conflict.

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Consumer Outcomes (Disclosure)			
xxxi, 3-56	Obs	The current disclosure regime produces complex and lengthy documents that often do not enhance consumer understanding of financial products and services, and impose significant costs on industry participants.	ANZ agrees with the observation.
xxxi, 3-62	PO	The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives: No change to current arrangements. Improve the current disclosure requirements using mechanisms to enhance consumer understanding, including layered disclosure, risk profile disclosure and online comparators. Remove disclosure requirements that have proven ineffective and facilitate new ways of providing information to consumers, including using technology and electronic delivery. Subject product issuers to a range of product design requirements, such as targeted regulation of product features and distribution requirements to promote provision of suitable products to consumers. Provide ASIC with additional powers such as: Product intervention powers to prescribe marketing terminology for complex or more risky products. A power to temporarily ban products where there is significant likelihood of detriment to consumers. Consider a move towards more default products with simple features and fee structures.	Refer ANZ submission comments on 'Disclosure'. ANZ will make a separate submission on disclosure.
3-62	AI	The Inquiry seeks further information on the following areas: Do similar issues in relation to the PDS disclosure regime	ANZ supports a review of prospectus requirements. There is currently a belief that prospectuses must be issued by paper. Regulatory clarity is required. We favour

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		apply to prospectuses, and is there a need to review prospectus requirements? What evidence is there on the effectiveness of financial literacy strategies in enhancing consumer confidence and decision making at particular points in time, and in achieving increasing literacy over the long term?	being able to issue prospectuses online, with customers then able to opt out of electronic delivery in favour of receiving a paper prospectus. On financial literacy effectiveness, improving consumer outcomes requires addressing both demand-side and supply-side issues; they are complementary. Improvements in disclosure that take account of the insights offered by Behavioural Economics such as the limited capacity to process information are a key part of the solution. ANZ and the Consumer Action Law Centre have made a separate submission on this to the Inquiry. Building the motivation for consumers to shop around, seek information and their capacity to understand that information and make informed decisions, is also part of the solution. On the question of evidence, there exists clear evidence that the design, method of delivery and timing of 'interventions' such as information or education programs are key to success in affecting consumer decision-making and behaviour. American research refers to 'teachable moments'. These occur when people are motivated by a life circumstance to educate themselves towards better management of their personal finances.[8] Teachable moments typically occur at points of decision-making, such as buying a house, or when circumstances change, such as having a baby or struggling financially with debt or money management to 'make ends meet'. Evaluations over the past 10 years by RMIT University[9] of ANZ's financial education programs for adults, MoneyMinded[10] and Saver Plus[11], provide evidence of the motivation of lower income earners struggling to make ends meet to participate in money management workshops and to change their behaviour. The primary objective of these programs is to increase confidence and basic money management skills and in the case of Saver Plus, to support development of a long-term savings habit over the 10 months of the program. RMIT's evaluation studies show that typically 80 per cent or more of participants in both MoneyMinded and Saver Plus report feeling more confident in their financial decision-making following the program. This finding is consistent across countries

[8] See for example, Ted Beck and Brent Neiser, "Learning and Growing: Lessons learned in Financial Education", p. 13.
[9] The evaluation studies are available at https://www.anz.com/about-us/corporate-responsibility/cr-library/
[10] MoneyMinded is a financial education program developed by ANZ and partners from the education and financial counselling sectors in 2002 and delivered through community organisations across Australia and the Asia Pacific Region.
[11] Saver Plus is a matched savings and financial education program which aims to assist individuals and families on low incomes to develop a savings habit and reach a financial goal. Saver Plus was developed by ANZ and the Brotherhood of St Laurence and its first phase of delivery was 2003 to 2004.

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			where ANZ runs the MoneyMinded program adapting it for local cultures and conditions (evaluations have been conducted in 12 countries). In some markets, particularly those that are developing, evaluation has found participants change their bank accounts to one more suited to their needs. For example, 58 per cent of participants in Fiji and 64 per cent in the Solomon Islands reported making such a change. Both MoneyMinded and Saver Plus evaluations provide evidence of shifts in behaviour to purposeful and deliberate saving, as opposed to spending all income and struggling to make it to the next 'payday', or benefit payment, or saving whatever is left over after all spending. In the case of Saver Plus individuals who have been tracked over time, RMIT found that 87 per cent continued to save the same amount or more that they did in the program for up to a year after completing the program.[12] Program design and delivery, including reaching people through effective channels, tapping motivation at the right time, delivering messages and lessons in a way that resonates with participants are all necessary elements for a program that works. For an analysis of the effectiveness of SaverPlus using a behavioural Economic framework, see Chant Link & Associates, *Understanding the Success of Saver Plus* (2009).[13] On the question of increasing financial literacy over the long-term, there are few longitudinal studies. However, a robust review of research prepared in June 2013 reached some relevant conclusions.[14] In particular: • Small, timely interventions can equal the impact of much more instruction delivered well before a financial decision. Similarly, larger interventions have larger impacts when they occur closer to financial decisions (p.4) • Education affects behaviour but the impact diminishes over time. Small interventions timed closer to financial decision have modest impact for a short amount of time. However the longer the intervention and the closer it is to a financial decision, the more effective it becomes (p.4). On the basis of the evidence relating to our own programs and the evidence we have reviewed, improving consumer confidence and effecting positive behavioural

[12] Russell et al, 2012, *Evaluation of Saver Plus Phase 4* (2009-2011) p. 8.
[13] See http://www.anz.com/about-us/corporate-responsibility/cr-library/.
[14] Lynch, Fernandes and Netemeyer, 2013, *The Effect of Financial Literacy and Financial Education on Downstream Financial Behaviours*, available at www.nefe.org

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			changes is possible where the right design and delivery principles are applied.
Consumer Outcomes (Financial advice)			
xxxii, 3-63	Obs	Affordable, quality financial advice can bring significant benefits for consumers. Improving standards of adviser competence and removing the impact of conflicted remuneration can improve the quality of advice. Comprehensive financial advice can be costly, and there is consumer demand for lower-cost scaled advice.	Refer ANZ submission comments on 'Financial advice'.
xxxii, 3-63	PO	The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives: • No change to current arrangements. • Raise minimum education and competency standards for personal advice (including particular standards for more complex products or structures, such as SMSFs) and introduce a national examination for financial advisers providing personal advice. • Introduce an enhanced public register of financial advisers (including employee advisers) which includes a record of each adviser's credentials and current status in the industry, managed either by Government or industry. • Enhance ASIC's power to include banning individuals from managing a financial services business.	As above.
3-72	AI	The Inquiry seeks further information on the following areas: • What opportunities exist for enhancing consumer access to low-cost, effective advice? • What opportunities are there for using technology to deliver advice services and what are the regulatory impediments, if any, to those being realised? • What are the potential costs or risks of this form of financial advice, and what measures could be taken	Many customers are seeking access to episodic or scaled advice with limited or specific needs such as insurance or accumulation superannuation. Government's narrow carve out of general advice from the ban on conflicted remuneration as part of its Future of Financial Advice refinements will help ensure consumer have access to simple, targeted and free general advice. Consumers will also expect financial information, advice and solutions to be available using new technologies. There are many opportunities to use technology to provide advice and wealth solutions to more Australians in a consistent and

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		to mitigate any risks?	lower cost manner. Further policy and regulatory guidance should be developed about how advice and product selection should operate through digital channels; for example, the circumstances under which clients can self-determine needs and select products without requiring documented advice. Guidance has been provided, through the 2010 Regulatory Guide 221, but greater clarity about digital delivery of advice or direct wealth solutions would be valuable. Specific measures to support changes and mitigate risks could be provided through regulatory guides and class orders, and, potentially by recognising digital delivery in advice legislation. Consultation with consumers and industry is clearly important.
3-73	AI	The Inquiry seeks further information on the following areas: • Is there is a case to more clearly distinguish between independent and aligned advisers, and what options exist for doing this? • Would consumers be likely to understand the difference between aligned and independent advisers and, if so, to what extent would this be likely to factor into a consumer's decision to take the advice? • Would consumers be likely to be sensitive to differences in the price of independent or aligned advice?	Consumers' interests are protected by the Future of Financial Advice reforms that establish the Best Interest Duty, aimed at ensuring that customers receive independent advice suited to their needs and circumstances. There is a risk that advisers in the industry may be positioned as 'independent' (i.e. as not owned by an institution) where they may still have some form of affiliation (e.g. white label platform) or platform incentive. Government may wish to consider, define and monitor the use of the term 'independent' in this context. The scale of aligned groups drives down the cost of advice delivery for the benefit of consumers and promotes competition.
xxxii, 3-74	PO	The Inquiry would value views on the costs, benefits and trade-offs of the following policy options: • No change to current arrangements • Rename general advice as 'sales' or 'product information' and mandate that the term 'advice' can only be used in relation to personal advice.	Any changes to the term 'general advice' should aim to help consumers understand different information formats and content (i.e. factual information, general advice and personal advice). Appropriate consumer research is needed to determine current understanding of these terms. Based on consumers' views, the best approach to aid understanding could be developed. Once a position has been determined, the industry must then develop a uniform approach to communicating this with advisers and consumers alike. Renaming general advice to 'sales or product information' alludes to the sale of a financial product. General advice is not always related to a financial product. A seminar on transition to retirement strategies is not product-related and is not personal advice. The term 'sales' or 'product information' in such a scenario would

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			be a misrepresentation of the information provided to the consumer.
Consumer Outcomes (Underinsurance)			
xxxiii, 3-75	Obs	Technological developments have the potential to reduce insurance pooling. This will reduce premiums for some consumers; however others will face increased premiums, or be excluded from access to insurance. Underinsurance may occur for a number of reasons including personal choice, behavioural biases, affordability, and lack of adequate information or advice on the level of insurance needed.	Refer ANZ submission comments on 'Underinsurance and life insurance'.
3-80	AI	The Inquiry seeks further information on the following areas: • Does Australia have a problem with underinsurance that warrants some form of policy response? Specifically: o How does Australia compare internationally on adequacy of insurance coverage? o Has the issue of underinsurance been increasing over time? o What evidence and data are available to support a conclusion about our level of underinsurance? o What evidence and data are available to assess whether more granular risk-based pricing will lead to exclusion or further underinsurance? • If warranted, what are possible approaches to lessen the existence of, or mitigate the impact of, underinsurance?	See above.
3-82	AI	The Inquiry seeks further information on the following area: • Is there a role for Government and/or industry to facilitate further development of microfinance initiatives, in collaboration with the not-for-profit and community sector? To what extent would this	The further development of microfinance initiatives is an important area of work for the industry, government and the not-for-profit sector. Other important priorities, in ANZ's view, are basic bank accounts and financial literacy. Further investigation is needed into potential microfinance models, the types of products and access (e.g. access to small amount, low interest credit or matched

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		improve access to small amount credit?	savings products) and the implementation models and approaches. While acknowledging the importance of microfinance, ANZ has chosen to concentrate its investment on savings and financial literacy programs, an area of equal importance. These programs have been proven to build financial capability and assist people to develop their resilience and well-being through improved money management skills and savings. Our main programs, MoneyMinded, MoneyBusiness and Saver Plus, have reached over 180,000 people in Australia since 2005 in partnership with the Brotherhood, other community organisations and the Australian Government.
3-85	PO	The Inquiry would value views on the costs, benefits and trade-offs of the following policy options: • No change to current arrangements. • Amend the existing regulatory framework for managed investment schemes.	ANZ supports refining and improving future offerings of all financial products. Consumer protection and identification of key risks is an important regulatory function. ANZ does not support any change to the existing regulatory framework so far as it relates to the establishment and operation of managed investment schemes. Altering the operation of existing schemes will necessarily involve trade-offs between parties which have entered into contractual agreements on agreed terms. It must be noted that changes to the establishment and operation of managed investment schemes has the potential to impact the future attractiveness and viability of these schemes for both investors and financiers. Managed investment schemes have been noted as increasing investment in agriculture, horticulture and forestry. Increased investment into these areas is important for the future development of Australia's agricultural export industry. ANZ does support improving the external administration framework for dealing with insolvent schemes or insolvent responsible entities. This would include the adoption of a statutory concept of 'insolvency' for schemes, similar to that applicable to corporations, and the introduction of a winding up procedure for an insolvent scheme, comparable to that for winding up an insolvent company.
3-86	AI	The Inquiry seeks further information on the following area: • Given the limitations of professional indemnity insurance, what options, if any, exist for addressing the issue of consumer loss?	As noted in FOS statistics, all except one unpaid determination are in the investment area.[15] Over the period from 2010 to 2014, 18 financial service providers have not complied with FOS determinations. Of these, one firm is in administration, nine are in liquidation and the remaining eight have advised FOS that they have insufficient funds to meet their obligations. ASIC is investigating or

[15] Financial Ombudsman Service, *Unpaid FOS determinations by financial service providers: an overview*, 2014.

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			taking action in relation to these matters. ANZ agrees with the view that a last resort compensation scheme is inappropriate as it would mean more responsible licensees would underwrite claims.[16] Priority should be given to compliance to assure that licensees are in a position to compensate clients through insurance arrangements and their capital resources.
3-87	PO	The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives: • No change to current arrangements. • Government to renew consideration of 2009 proposals on product rationalisation of legacy products.	Product rationalisation is important for reducing industry costs, introducing new technology and providing better services to customers. Reducing the number of legacy products is not the only legacy issue that needs to be addressed. Many super funds invest through a life company structure, a legacy investment structure that could be replaced with a more efficient direct investment structure. We would welcome any further consideration to enable capital gains tax relief for intra fund transfers to enable superannuation funds to move to more direct investment structures.
3-87	AI	The Inquiry seeks further information on the following areas: • Are there elements of the consumer framework not covered in this chapter that require consideration? • In addition to the current regulatory framework, what role can industry self-regulation play in improving consumer outcomes generally?	Self-regulation by industry – through industry codes of conduct, industry standards, collaboration or establishing of special purpose bodies – plays an important role in improving market efficiency and consumer outcomes. It can address complex and long-term issues, reduce the need for regulation and reduce costs to taxpayers. Government should look to maximise the use of this alternative approach where appropriate.
Regulatory Architecture (Burden, Perimeters)			
3-97	AI	The Inquiry seeks further information on the following areas: • Is there evidence to support conclusions that the regulatory burden is relatively high in Australia when considered against comparable jurisdictions? • Are there examples where it can be demonstrated that the costs of regulation affecting the financial system are outweighing the benefits? • Are there examples where a more tailored approach could be taken to regulation; for example, for smaller ADIs?	The interim report notes that it lacks evidence about the costs and benefits of recent regulatory changes. This is unsurprising given the limited quality of regulatory impact statements in recent times. Benefits have not been quantified to any reasonable degree, and costs (where they are quantified) appear substantially underestimated. Once implemented, the costs and benefits of changes are very difficult to attribute to particular initiatives. Regulatory change becomes embedded in a business and markets change. Analysis is likely to be subject to debate. For this reason, it is very important to identify potential costs and benefits as part of the decision-making process. The most significant impact on industry efficiency is likely to arise through rules

[16] Commonwealth of Australia, *Compensation arrangements for consumers of financial services*, prepared by Richard St John, 2012.

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		• Are there regulatory outcomes that could be improved, without adding to the complexity or volume of existing rules? • Could data collection processes be streamlined? • If new data is required, is there existing data reporting that could be dropped? • Instead of collecting new data, could more be made of existing data, including making more of it publicly available?	that affect major flows or stocks of funds to customers, rather than other types of regulatory costs such as compliance (although these are also important). As set out in our submission to the Inquiry, ANZ believes the impact of regulation on the international competitiveness of financial institutions and their customers has received insufficient consideration. We believe that the adoption of more stringent policy parameters than are reasonable has reduced the relative competitiveness of Australian banks and will affect economic outcomes and the cost of our services to customers. The ABA has responded on behalf of industry to the FSI with information on estimates of regulatory costs of AUD1.7 billion for recent reforms. It has provided suggestions on causes of high costs. • Inadequate industry consultation and unrealistic deadlines can lead to avoidable implementation challenges and unnecessary work effort being directed to 'tactical' solutions. • Tactical solutions can include upgrades to legacy systems and manual processes, which involve relatively higher degrees of operational risk when compared with strategic solutions. • Late regulatory relief or adjustments have meant that banks have already allocated significant program expenditure to meeting the regulation. • Small differences in country-specific regulations aimed at achieving the same policy outcomes can add substantially to implementation costs and risks of non-compliance. ANZ believes that full regulatory impact statements should be required for major rule or regulatory changes. This would be consistent with the intention of The Australian Government Guide to Regulation and is reasonable given the huge flows of capital that can be affected. Although preparation of costs and benefit estimates is complex and costly, it is standard practice in corporations and a similar standard should apply to important regulatory decisions. A useful model for consideration is the UK Government's regulatory impact process and templates.[17] Regulation should generally be applied consistently across entities according to their function. Allowing lower standards of prudential regulation to smaller organisations on the basis of competitive impacts would confuse policy objectives. As demonstrated through the GFC, smaller organisations can pose a substantial

[17] See https://www.gov.uk/government/publications/impact-assessment-template-for-government-policies.

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			risk to system stability and create risks for taxpayers.
xxxiv,3-99	Obs	The regulatory perimeters could be re-examined in a number of areas to ensure each is targeted appropriately and can capture emerging risks.	See comment below.
xxxiv3-103	PO	The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives: • No change to current arrangements. • Align regulation of APRA-regulated superannuation trustees and funds with responsible entities and registered management investment schemes.	-
Regulatory Architecture (Retail payment regulation)			
3-106	PO	The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives: • No change to current arrangements. • Consider a graduated framework for retail payment system regulation with clear and transparent thresholds.	Similar types of economic activity should be regulated in an equivalent way for all providers. Providers should not, of course, be subject to regulatory requirements that are unrelated to the financial services they provide. For example, all issuers of credit should be required to comply with the same regulatory standards to ensure an even playing field. Similarly, a digital payment platform that has the effect of taking deposits should be subject to the same deposit-taking obligations and licensing requirements as an ADI. Growth in the number of apparently unregulated providers of credit and payments services suggests that this area should be a priority.
3-106	AI	The Inquiry seeks further information on the following areas: • Is there firm evidence to support opportunities for simplifying the regulatory framework for retail payment systems and participants? • What are practical and appropriate options to simplify the current regulatory framework for retail payment systems and participants?	See comments on 2-27.

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Regulatory Architecture (AFSL)			
xxxiv3-108	PO	The Inquiry seeks views on the costs, benefits and trade-offs of the following policy options or other alternatives: • No change to current arrangements. • Impose AFSL requirements for providers of fund administration and technology service of sufficient scale. • Apply market integrity rules for licensed securities dealers that provide investor services substantially similar to market participants of a licensed financial market. • Introduce a mechanism to allow a heightened level of regulatory intensity to be applied where risk arises outside the conduct perimeter.	ANZ supports an approach which regulates similar types of economic activity in an equivalent way for all providers.
Regulatory Architecture (Independence, accountability, structure, execution of mandate)			
xxxv, 3-108	Obs	Australia generally has strong, well-regarded regulators but some areas of possible improvement have been identified to increase independence and accountability.	Refer ANZ submission comments on 'Regulatory architecture'.
xxxv,3-113	PO	The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives: • No change to current arrangements. • Move ASIC and APRA to a more autonomous budget and funding process	ANZ agrees with the interim report that independent, accountable and appropriately resourced financial regulators are important for the efficient and fair operation of the financial system. The RBA, APRA and ASIC operate with a high level of autonomy and independence. The agencies are accountable to Parliament and through annual reporting requirements, and through discharge of their statutory obligations. Members of the agencies, once appointed, are able to exercise independent judgment. The main areas in which the interim report suggests independence may be affected are through ministerial powers of direction, and budget autonomy.[18] The

[18] A Minister may give a direction to APRA or ASIC about policies they should pursue or priorities they should follow, and to ASIC to investigate a particular matter. The Treasurer, with the advice of the Federal Executive Council, may determine the policy the RBA should adopt, if there is a difference of opinion as to whether the monetary and banking policy is directed to the greatest advantage of the people of Australia (Interim report, 3-109). The Inquiry notes that it has only been able to identify one instance of a Ministerial direction. In 1992, the Attorney General gave an instruction to the Australian Securities Commission to increase cooperation between the ASC and the Director of Public Prosecutions (Interim report, 3-110).

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			interim report also identifies views of stakeholders who argue that options for improving oversight of regulators should be considered. The public places great importance on the independent judgement of regulators to exercise their statutory functions. It is appropriate for a government accountable to electors to have the ability to provide directions transparently to a regulator. The interim report seeks views on moving ASIC and APRA to a more stable and autonomous basis for funding. Discussion of resourcing follows government policy to reduce public sector costs, including material reductions across agencies. Agencies exist to achieve the objectives of the legislature. It is appropriate for government through the budget process to determine the level of resources and year to year variation. ANZ agrees that appropriate level of resourcing to maintain the capability of regulatory staff is important, particularly given market competition for expert banking and financial skills. Consultation on the appropriate level of resourcing and an independent process to provide advice to government on resourcing may be valuable. ANZ believes that the funding goal should be, as far as possible, to raise revenue efficiently and user-based charges may be efficient. A specific funding proposal should be assessed to identify whether this is as efficient as current budget funding. ANZ notes that 'user-pays' based charging will require specific processes to be developed by the regulator and industry, and, in effect, move from a general tax base to business specific charges. Revenue from penalties and fines should generally be paid to consolidated revenue so that inappropriate incentives for regulators are not created. However, payments made under enforceable undertakings can usefully be directed to activities that help redress the impacts of that market conduct or support protection of consumers against that conduct. For example, where broad market impacts have resulted from conduct subject to enforceable undertakings, it would be appropriate to use payments to fund financial literacy projects aligned with the National Financial Literacy Strategy 2014-17 through the not-for-profit organis[19]ation, Financial Literacy Australia. ANZ's overall view is that the costs of a 'user-pays' model for financial regulation (including operating and compliance costs as well as wide economic costs) should

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			be assessed against the costs of the existing funding model. Payments made under enforceable undertakings could be directed to activities to bolster consumer protection, including through financial literacy programs.
xxxv,3-117	PO	The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives: • No change to current arrangements. • Conduct periodic, legislated independent reviews of the performance and capability of regulators. • Clarify the metrics for assessing regulatory performance. • Enhance the role of Statements of Expectations and Statements of Intent. • Replace the efficiency dividend with tailored budget accountability mechanisms, such as regular audits and reviews to assess the regulators' potential for savings. • Improve the oversight processes of regulators.	See above.
xxxvi3-117	Obs	During the GFC and beyond, Australia's regulatory coordination mechanisms have been strong, although there may be room to enhance transparency.	See below.

Xxxvi 3-120	PO	The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives:
		• No change to current arrangements.
		• Consider increasing the role, transparency and external accountability mechanisms of the CFR:
		  ○ Formalise the role of the CFR within statute.
		  ○ Increase the CFR membership to include the ACCC, AUSTRAC and the ATO.
			ANZ supports enhancement of present arrangements to increase transparency and external accountability.
			ANZ does not support increasing the CFR membership as this is likely to limit its effectiveness. An expanded membership would make it more difficult for the CFR to discuss sensitive prudential and regulatory issues.
			Mechanisms are needed to provide guidance from government to regulators on the appropriate balance between broad economic outcomes, system stability and consumer protection.
			A more formal approach should be considered for coordinating macroeconomic and monetary policy with bank prudential regulation as these policies play an important

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		o Increase the reporting by the CFR.	role in financial system stability.
Xxxvii 3-121	Obs	Regulators' mandates and powers are generally well defined and clear; however, more could be done to emphasise competition matters. In addition, ASIC has a broad mandate, and the civil and administrative penalties available to it are comparatively low in relation to comparable peers internationally.	**Regulator mandates** The interim report observes that regulators' mandates are well defined and suggests that more can be done to emphasise competition matters. ANZ believes that further examination of statutory, regulatory and policy objectives would be valuable. The statutory objectives of the RBA, APRA and ASIC vary considerably in structure and approach. The majority of RBA objectives can be considered as relating to the long-term improvement in economic welfare: the "greatest advantage of the people", "full employment", and "economic prosperity and welfare of the people of Australia". [20] The APRA objective relates primarily to "financial system stability in Australia", taking into account other factors such as financial safety and efficiency, competition, contestability, and competitive neutrality. [21] The ASIC objectives focus on "commercial certainty", "reducing business costs", and "efficiency and development of the economy"; and the "confident and informed participation of investors and consumers". [22] As the interim report states, Australian regulators and the financial system have performed well. Nevertheless, there are differences in statutory objectives and concepts that could be reconciled more thoroughly to improve clarity. The interim report does not suggest modification of statutory objectives although it raises the prospect of enhancing the role of Statements of Expectations and Statements of Intent.[23] This may be an appropriate vehicle for clarifying regulatory objectives. **Economic growth** The Australian Government has stressed the importance of economic growth in promoting the wellbeing and prosperity of Australians at a time when advanced economies are adversely affected by slow rates of growth. As the Prime Minister has noted, there are few problems that cannot be addressed by increased economic growth.[24] Achieving trend rates of national economic growth would increase government revenues and the flexibility to address any future economic

[20] Reserve Bank Act 1959, Section 10.
[21] Australian Prudential Regulation Authority Act 1998, Section 8.
[22] Australian Securities and Investments Commission Act 2001, Section 1.
[23] Interim report, 3-117.
[24] Mr Abbott stated "stronger economic growth is the key to addressing almost every global problem", *Address to the World Economic Forum*, Davos, Switzerland, 23 January 2014, Davos, Switzerland.

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			stress. The importance of economic growth is reflected in the Inquiry terms of reference and the goal of the Australian G20 to lift GDP by more than 2 per cent above the trajectory implied by current policies over the coming five years.[25] To support G20 growth goals, the Australian B20 has recommended to G20 Ministers, in addition to completing core reforms: • Examining the fragmented and incomplete implementation of existing international reforms, and establishing new processes for developing future international regulation. The new processes should improve consultation with business and involve deeper assessment of costs and benefits. • Taking greater account of the economic and development environment in Emerging Market Economies (EMEs) when developing global rules. • Reviewing regulation to determine whether the combination of new prudential and conduct regulatory standards inadvertently results in a restriction of access to finance, particularly for EMEs and for small and medium enterprises (SMEs). • Remove disincentives affecting the development of investment in long-term infrastructure projects. **Interim report approach to growth** The Inquiry has set out a framework that links the regulatory framework to growth. It can be broadly characterised as market-based with government removing barriers to competition and ensuring the integrity of the competitive processes. It includes: • Weight placed on market mechanisms and the need to efficiently allocate resources and risks within the Australian financial system. The interim report does not focus on direct economic outcomes from activities of financial services businesses. • General principles for government intervention: an outcomes focus, forward-looking, cost effectiveness, competitive and technological neutrality, targeted and proportionate intervention, a system-wide approach, transparency, accountability and independence.[26] • Specific principles for government's role in promoting competition: preventing

[25] Australian G20, *Communiqué*, Meeting of Finance Ministers and Central Bank Governors, Sydney, 22-23 February 2014.
[26] Interim report, 1-7.

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			anti-competitive conduct and the build-up of excessive market power; removing barriers to competition subject to other policy objectives; ensuring access to natural monopolies; and facilitating consumers' capacity to understand products and switch products at a reasonable cost and through a simple process.[27] • The proposal that regulatory processes should give greater weight to competition. Options include requiring the RBA to report every three years on the efficiency and competitiveness of the financial system, appointing an additional APRA member with a competition mandate, and requiring APRA to report on competition.[28] The framework has strengths, particularly relating to efficiency, accountability and outcomes. However, within the framework there may be considerable scope for different interpretations. There is a risk of an interpretation that promotes the interests of particular competitors or sectors, or an overly domestic focus, which would be contrary to the goals of the Inquiry. **The interests of customers** As set out in our submission to the FSI, ANZ has been concerned about the consideration given to Australian businesses, as customers of the financial system, in regulatory decisions. We identified specific issues where we considered the interests of end customers, particularly businesses, were not sufficiently considered. These arose from regulatory approaches to technical risk modelling (relating to parameters such as Loss Given Default, Exposure at Default and Trade Finance). We estimated cost impacts from these issues to end customers of between 25 and 80 basis points compared to international peers.[29] ANZ believes that outcomes for customers, particularly business customers who will drive economic activity, should be given greater consideration in setting regulatory objectives. This would be consistent with the practice of the Productivity Commission and other economic agencies that focus on assessing benefits to consumers through the process of competition. **Improving understanding of risk** In ANZ's view, it is also important to continue to improve customers' understanding of the risk associated with particular types of investment. As the interim report suggests, risk taking is important for innovation in the financial

[27] Interim report, 2-5.
[28] Interim report, 3-127.
[29] ANZ, *Submission to the Financial System Inquiry*, March 2014, pp.5-6.

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			system. Nevertheless, public expectations of protections may not be consistent with legislated and regulated protections. Promoting public understanding of the risk associated with different classes of investments will help support innovation and minimise risks of taxpayer support or future pressure to extend regulation. This should complement work to improve disclosure and implement reforms such as Future of Financial Advice.
Xxxvii 3-126	Obs	To be able to perform their roles effectively in accordance with their legislative mandate, regulators need to be able to attract and retain suitably skilled and experienced staff.	ANZ agrees that regulators need to be able to attract and retain suitably skilled and experienced staff.
Xxxvii 3-128	PO	The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives: • No change to current arrangements. • Strengthen competition considerations through mechanisms other than amending regulators' mandates. • Refine the scope and breadth of ASIC's mandate. • Review the penalty regime in the Corporations Act. • Review mechanisms to attract and retain staff, including terms and conditions.	ANZ agrees with the view that the penalty regime in the *Corporations Act 2001* should be reviewed. See comments above in relation to regulatory objectives and mandates.
3-129	AI	The Inquiry seeks further information on the following areas: • Are changes needed to strengthen and/or refocus ASIC? • Is the current enforcement regime adequate? Does ASIC have adequate powers? • Are there alternative mechanisms for promoting better consideration of competition within financial sector regulation?	See responses above.
Retirement income			
Xxxviii	Obs	The retirement phase of superannuation is underdeveloped	Refer ANZ submission comments on 'Retirement incomes'.

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4-8		and does not meet the risk management needs of many retirees.	
Xxxix 4-25	PO	The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives: • A spectrum of options to achieve the objectives of the retirement income system and position Australia to manage the challenges of having an ageing population: o Maintain the status quo with improved provision of financial advice and removal of impediments to product development. • Provide policy incentives to encourage retirees to purchase retirement income products that help manage longevity and other risks. • Introduce a default option for how individuals take their retirement benefits. • Mandate the use of particular retirement income products (in full or in part, or for later stages of retirement).	See above.
Xxxix 4-25	Obs	There are regulatory and other policy impediments to developing income products with risk management features that could benefit retirees.	See above.
xl, 4-31	PO	The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives: • No change to current arrangements. • Take a more flexible, principles-based approach to determining the eligibility of retirement income products for tax concessions and their treatment by the Age Pension means-tests. • For product providers, streamline administrative arrangements for assessing the eligibility for tax	A wider range of products could be developed with a more flexible, principles-based approach to determining the eligibility of retirement income products. This would be assisted by streamline administrative arrangements for assessing the eligibility. Issuing longer-dated government bonds and addressing eligibility criteria may increase appetite to manufacture product with assets which align to retiree risk profile and objectives.

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		concessions and Age Pension means-tests treatment of retirement income products. • Issue longer-dated Government bonds, including inflation-linked bonds, to support the development of retirement income products.	
4-32	AI	The Inquiry seeks further information on the following areas: • Would deferred lifetime annuities or group self-annuitisation be useful products for Australian retirees? Are there examples of other potentially suitable products? • If part of retirees' superannuation benefits were to default into an income stream product, which product(s) would be appropriate? • Will the private sector be able to manage longevity risk if there is a large increase in the use of longevity-protected products? How could this be achieved? • Should Government increase its provision of longevity insurance? How would institutional arrangements be established to ensure they were stable and not subject to political interference? • What are some appropriate ways to assess and compare retirement income products? Is 'income efficiency' a useful measure?	Deferred lifetime annuities are attractive but not the only options for retirees especially given the phased increase to the age pension age. An ideal product for retirees could be any income stream product that is: • simple to understand • offered at a relatively low cost • addresses 'guarantee' of income payments • flexibility in capital preservation • offers protection against outliving the portfolio (longevity risk). There are a number of currently issues with a traditional longevity product. • The rate of increase in longevity is becoming more difficult to predict from an actuarial point of view as a result of medical advances. This means that appropriate pricing of the risk is becoming challenging. Incorrect pricing could lead to substantial losses. • Capital requirements of traditional lifetime annuities are high (reflecting the longevity risk) and are likely to further increase as the uncertainty around longevity increases. • The cost of providing a guaranteed lifetime income is not widely understood. The current low interest rate environment exacerbates this situation further. [30] There are a number of possible avenues that are worth exploring (noting as the interim report states, longevity risk can be transferred but not eliminated): • Industry pooling of experience – this protects companies from the adverse impact of their own portfolios and may reduce capital requirements as the experience is averaged over a larger pool. It does not protect the industry from systemic improvements in longevity.

[30] See longevity discussion in Actuaries Institute, Submission to the Financial System Inquiry, 30 March 2014.

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			• Reinsurance of tail-end longevity risk though this is unlikely to be available except at substantial and prohibitive cost • Government insurance of tail risk through products defined as a lifetime (i.e. a set age) or insurance of lifetime annuities that reach a certain age. Since government is a defacto longevity insurer this arrangement may not realise an increase in risk. Product comparison should only be made for like products. For instance, performance return would be more appropriate for market-linked products.
4-33	AI	The Inquiry seeks further information on the following area: • What, if any, regulations impede the development of products to help retirees access the equity in their homes?	Reverse mortgages allow retirees to access wealth in what is often their most substantial asset. There are no regulatory impediments to the development of these products. The risks to retirees associated with these products are significant. Retirees should receive appropriate advice consistent with the regulatory framework applying to these products.[31]
Technology (digital environment)			
xli, 4-41	Obs	Technological innovation is a major driver of efficiency in the financial system and can benefit consumers. Government and regulators need to balance these benefits against the risks, as they seek to manage the flexibility of regulatory frameworks and the regulatory perimeter. Government is also well-positioned to facilitate innovation through coordinated action, regulatory flexibility and forward-looking mechanisms.	ANZ agrees with the observation
xli, 4-44	PO	The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives: No change to current arrangements. Amend regulation that specifies using certain technologies with the aim of becoming technology neutral. Amendments should enable electronic service delivery to become the default; however, they should include opt-out provisions to	ANZ supports as broad principles (noting there may be practical trade-offs or competing policy objectives): • Adoption of the principle of technology neutrality for future regulation, recognising the need in certain exceptional circumstances for technology-specific regulation. • Electronic service delivery becoming the default, with opt-out provisions for those who wish to receive paper-based communications.

[31] Regulatory Guide 209 Credit licensing: Responsible lending conduct, September 2013 https://www.moneysmart.gov.au/superannuation-and-retirement/self-managed-super-fund-smsf/smsfs-and-property13-304. See also ASIC Media Release ASIC warns real estate industry about recommending property investment through SMSFs, Wednesday 6 November 2013

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		manage access needs for segments of the community. Adopt a principle of technology neutrality, for future regulation recognising the need for technology-specific regulation on an exceptions basis. Where technology-specific regulation is required, seek to be technology neutral within that class of technologies.	Nevertheless, there are areas where technology-specific regulation may be required. EFTPOS use has shifted to wireless technologies that improve the payment experience for customers. This may require technology-specific regulation to ensure protection of payment transactions or information. Government may also need to impose constraints on currencies being used to minimise fraud and ensure appropriate sanctions, AML checking and transaction information is captured. Government will also need to oversee or set technology-specific standards in areas such as encryption requirements, Near Field Communication protocols, and systems of 'balance of control' to ensure Australian assets are appropriately protected..
4-45	AI	The Inquiry seeks further information on the following area: What specific regulatory and legislative requirements should be prioritised for amendment in relation to technology neutrality?	ANZ's initial FSI submission (page 40) sets out a list of obstacles to providing digital services. These include: Evidence Act requirements that give weight to paper documents. • Ambiguity about the requirement to retain paper originals. • Requirements to operate some functions at arms-length and to provide information on related entities, limiting the ability to provide an integrated service. • Digital products are classified as a Tier 2 service, limiting the ability of bank staff to discuss them with customers. • Restrictions on the ability to verify customer information and identity over digital channels. • The requirement for cheques to be physically collected and exchanged by banks (cheque truncation) rather than deposited and exchanged by digital images, as is done in most other countries. • Barriers to cross-border transmission of confidential information.
xli, 4-51	PO	The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives: Establish a central mechanism or body for monitoring and advising Government on technology and innovation.	ANZ considers it appropriate to undertake a review and update of the 2009 Cyber Security Strategy but does not see a need for a general government technology strategy to enable innovation. We believe an outcome-based focus is appropriate in other areas: • Continuing collaboration between regulators and industry on particular

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		Consider, for example, a public–private sector collaborative body or changing the mandate of an existing body to include technology and innovation. Establish a whole-of-Government technology strategy to enable innovation.	projects and to share practical experience, particularly to address any systemic risk arising as the system moves to real-time and micro payments. • A specific audit of barriers to digitisation of financial services, with the objective of prioritising which changes would be valuable (e.g. facilitating digital identities, digital imaging of cheques). This might be repeated on a period basis. • An existing body, such as the Council of Financial Regulators, reporting on plans and progress on digitisation programs undertaken by key financial regulators.
4-51	AI	The Inquiry seeks further information on the following areas: Are there specific areas in which Government or regulators need to facilitate innovation through regulation or coordinated action? For example, by facilitating the development of central utilities? Are there ways to improve how regulators monitor or address emerging technological developments? For example, through adopting new technologies or mechanisms for industry intelligence gathering?	See comments above.
Technology (Managing information)			
xlii, 4-51	Obs	Access to growing amounts of customer information and new ways of using it have the potential to improve efficiency and competition, and present opportunities to empower consumers. However, evidence indicates these trends heighten privacy and data security risks.	ANZ agrees with the observation.
xlii, 4-55	PO	The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives: • Review and assess the new privacy requirements two years after implementation to consider whether the impacts appropriately balance financial system efficiency and privacy protections.	ANZ does not see a need for a review of the new privacy requirements at this time, two years after they have been implemented. The new regime is complex, and was time-consuming and costly to implement. We favour operating under the new regime for a reasonable period, then, if necessary, reviewing areas of particular concern identified through close stakeholder consultation. Current privacy laws offer adequate protections on record keeping and privacy requirements that impact on cross-border information flows. We would like to see

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		• Review record-keeping and privacy requirements that impact on cross-border information flows and explore options for improving cross-border mutual regulatory recognition in these areas.	concerns and regulatory gaps clearly articulated before any review is considered.
4-55	AI	The Inquiry seeks further information on the following areas: • What options could be explored for providing consumers with more control over use of their data and/or better access to their own data in useful formats to improve decision making and consumer outcomes? • What additional Government data sets could be released to improve consumer outcomes, industry analysis and public policy development via data.gov.au, taking into account relevant privacy requirements?	ANZ does not consider that there is a need for changes to the law to provide consumers with more control over use of their data or better access to their own data to improve consumer outcomes. In ANZ's view, existing privacy laws requiring organisations to obtain consent from consumers to use their personal information embody an appropriate level of control over those uses. Most of the non-commercially sensitive information organisations hold in respect of consumers is accessible to them on request. Consumers are often unaware of the rights to access their data existing privacy laws provide them and only investigate or exercise their rights when a dispute arises. We would like to see concerns and regulatory gaps in respect of data formats clearly articulated before any review is considered. ANZ considers the Government Document Verification Service, in operation for the past few years, to be a valuable resource allowing businesses to more accurately assess fraud and security risks of customers. We favour continued government support of this Service and expanding it to include additional data, for example concerning residency status.
xlii, 4-58	PO	The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives: • Implement mandatory data breach notifications to affected individuals and the Australian Government agency with relevant responsibility under privacy laws. • Communicate to APRA continuing industry support for a principles-based approach to setting cloud computing requirements and the need to consider the benefits of the technology as well as the risks.	ANZ supports mandatory data breach notifications to assist consumers regain control over their personal information. We consider that the current voluntary framework for notifying the Office of the Australian Information Commissioner works effectively. Consideration should also be given to educating consumers about the risks associated with particular events or behaviour. ANZ supports a principles-based approach to setting cloud computing requirements. Cloud computing takes various delivery forms, each with different risks and mitigating controls. There are key benefits to cloud computing and support innovation and growth of Australian financial institutions.
Technology (Security)			
xlii,	Obs	The financial system's shift to an increasingly online environment heightens cyber security risks and the need to	ANZ agrees with the observation.

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4-58		improve digital identity solutions. Government has the ability to facilitate industry coordination and innovation in these areas.	
xliii, 4-63	PO	The Inquiry would value views on the costs, benefits and trade-offs of the following policy option or other alternatives: • Review and update the 2009 Cyber Security Strategy to reflect changes in the threat environment, improve cohesion in policy implementation and progress public–private sector collaboration.	ANZ considers a review and update of the 2009 Cyber Security Strategy is an important measure. The review should cover: • How the government can best work with industry to support collaborative information sharing, such as the US FS-ISAC or the newly forming Australian National Fraud Exchange • A strategic private-public forum for discussing and co-ordinating cyber response is useful if a framework is established for all critical infrastructure entities to jointly respond to key security threats • An initial trial of a voluntary cyber security framework (similar to US NIST) including non-proscriptive principles and guidance.
4-63	AI	The Inquiry seeks further information on the following areas: • Would a private–public sector discussion forum for strategic issues, such as cyber crisis planning, improve cohesion in implementing cyber security policy? What other mechanisms might assist to improve cohesion or coordination? • Is there a need for more cross-sectoral or transnational mechanisms for information sharing, or for Government to work with industry to initiate the development of a collaborative model similar to the United States FS-ISAC? • How useful would a voluntary cyber security framework, similar to that of the United States NIST, be in assisting industry to develop cyber capabilities?	A private-public sector discussion forum for strategic issues is useful if this can be translated into actionable and tested plans. A co-ordination point is advantageous to assist Australian entities in managing key cyber security threats, including managing the cyber security issue through to post-incident / cross-country legal response. Historically, various mechanisms have been trialled between financial institutions for information sharing, with reliance on informal networks. A formal collaborative model would provide a formalised mechanism and framework for sharing sensitive information. ANZ supports an initial trial of a voluntary cyber security framework in the form of a principles and guidance (non-prescriptive) framework.
xliii, 4-70	PO	The Inquiry would value views on the costs, benefits and trade-offs of the following policy option or other alternatives: • Develop a national strategy for promoting trusted digital identities, in consultation with financial institutions and other stakeholders.	ANZ fully supports a national strategy for promoting trusted digital identities, in consultation with financial institutions and other stakeholders.

ATTACHMENT - ANZ RESPONSE TO THE FINANCIAL SYSTEM INQUIRY INTERIM REPORT

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4-71	AI	The Inquiry seeks further information on the following areas: • In developing a national strategy, what should be the respective roles, responsibilities and expectations of Australian public and private sector organisations in creating, accepting and maintaining the digital identities used by Australians? • Is there a need for Government to enhance identity authentication by facilitating interoperability standards in areas such as biometrics, enabling better access to Government information or improvements to the Documentation Verification Service?	The Government plays a pivotal role in establishing and facilitating the interoperability standards for identity authentication, and in the implementation of biometrics. Financial institutions rely heavily on government-issued credentials. A formal, standardised model and mechanism for electronically authenticating individuals is required. ANZ considers it critical to formalise processes for creating, validating, maintaining and ensuring the privacy of digital identities. The strategy should articulate how digital identities will be used and protected.
International Integration			
xliv, 4-81	Obs	Although elements of Australia's financial system are internationally integrated, a number of potential impediments have been identified. Financial system developments in the region will require continuing Government engagement to facilitate integration with Asia.	Refer ANZ submission comments on 'International Integration'.
4-88	AI	The Inquiry seeks further information on the following areas: • What are the potential impediments to integration, particularly their relative importance, and the benefits to the broader Australian economy that can be demonstrated if they were removed? • Where is future Government engagement needed to facilitate integration with Asia?	See above.
xliv, 4-88	Obs	Government efforts to promote Australia's policy interests on international standard-setting bodies have been successful. Domestic regulatory processes could be improved to better consider international standards and foreign regulation, including processes for collaboration and consultation about international standard implementation, and mutual recognition and equivalence assessment processes.	ANZ agrees with the observation. Following the Global Financial Crisis, the adoption of international regulation was unprecedented in speed and scope. This has, in some cases, resulted in the fragmented and incomplete adoption of regulation between nations. The reduction in regulatory fragmentation across Australia's trading partners will reduce the opportunity for regulatory arbitrage. International standards and domestic legislation with extra-territorial impacts in

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			Australia should be implemented in a way which is transparent, consultative and relates to core, high-level principles common to all nations.[32] Regulatory fragmentation can be addressed by Australian representatives working on international standard setting bodies. Domestic implementation of international standards required closer government and Treasury engagement. This is particularly the case where international standards on related subject areas may need to be implemented by different agencies (e.g. ASIC, APRA and to a lesser extent RBA have had to implement different aspects of G20 OTC derivatives reforms).
xlv, 4-97	PO	The Inquiry would value views on the costs, benefits and trade-offs of the following policy option or other alternatives: • Improve domestic regulatory process to better consider international standards and foreign regulation — including processes for transparency and consultation about international standard implementation, and mutual recognition and equivalence assessment processes.	ANZ believes that domestic regulatory processes can be improved at low cost to consider transparency and consultation about international standard implementation, and mutual recognition and equivalence assessment processes. New processes should take into account impacts on businesses and consumers, the interests of emerging markets, as well as stability objectives. The harmonisation of international and cross-border regulation is vital to ensuring an integrated global financial system and access to credit. Improving the harmonisation of international financial regulation will reduce the cost of operating in multiple markets, increase access to finance in emerging market economies (EMEs) and support capital deepening in the Asia region. It is argued that increasing harmonisation and cross-border implementation of international regulation may weaken the protections around domestic financial systems and open those markets to contagion. However, this can be mitigated through the adoption of high-level principles and regulatory objectives at an international level, which are then implemented, subject to agreement, by domestic regulators.
4-98	AI	The Inquiry seeks further information on the following areas: • What changes can be made to make implementing international standards more transparent and otherwise improved? • What improvements could be made to domestic regulatory process to have regard to foreign	When developing international standards, international organisations should adopt a clear set of high-level principles including cost-benefit analysis, implementation analysis and greater consultation with business.[33] Domestic regulators should also undertake a rigorous cost-benefit analysis of different ways of implementing international regulation to ensure unnecessary costs are not faced by the sector.[34]

[32] See *Australian B20 Financing Growth Taskforce Policy Summary*, p. 7 (http://www.b20australia.info/Documents/B20%20Financing%20Growth%20Taskforce%20Report.pdf)
[33] Above
[34] Above

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		regulatory developments impacting Australia? • Are there priority jurisdictions and activities that might benefit from further mutual recognition or other arrangements? What are the identified costs and benefits that might accrue from such an arrangement?	Earlier and more detailed involvement in consideration of the impact of international regulatory initiatives by a central agency such as Treasury could ensure the interests of individual agencies are coordinated in Australia's interest. It is not apparent that such coordination occurred in the early stage of BCBS or IOSCO initiatives. Treasury should be resourced adequately so it is able to consider the overall implications to Australia's financial system of interconnected financial reform. A central coordinating body can play a crucial role in ensuring there is transparency about the overall implications and direction of implementation of international reforms. Mechanisms such as Supervisory Colleges can be used to coordinate between international supervisors to support the effective supervision of international banking groups. On a domestic and international level, regulators and standard setters also need to consider the cumulative impact of financial legislation on access to credit, financial inclusion and cost of finance. International standard setters should fully consider conditions in EMEs when developing international regulation to ensure EMEs are supported in their efforts to develop deeper financial markets.
xlv, 4-98	Obs	Coordination of Australia's international financial integration could be improved.	Refer ANZ submission comments on 'International Integration'.
xlv, 4-101	PO	The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives: • Making no change to current arrangements. • Amend the role of an existing coordination body to promote accountability and provide economy-wide advice to Government about Australia's international financial integration.	See above.
4-102	AI	The Inquiry seeks further information on the following areas: • Have appropriate elements been put forward for an	See above.

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		effective coordination body? • What role should industry play in any new coordination body, including its funding?	