

Comment on Funding Australia's economic activity

Australia has a built up systemic risk in housing the distortions are significant.

There are significant amounts of old unimproved properties that get depreciation and other tax credits but are not improved.

Property prices are distorted and inflating faster than inflation yet logically the improvement should depreciate over time and the land increase over time.

There are significant amounts of undeveloped land and a real housing shortage in Australia due to existing tax incentives.

Tax incentives to negatively gear old homes do not help improve a housing shortage.

Tax reform is needed to incentivise and unlock this accrued land bank and improve Australia's housing stock.

I am seeking change.

I would favour limiting negative gearing to newly built house dwellings only that have not been occupied.

- 1) That would increase building and construction activity.
- 2) The rental stock would new and meet current building regulations.
- 3) The market distortions created by housing bias would shift.
- 4) Gearing for Shares & Commercial Property other than housing unchanged

Option two would be to scrap negative gearing on housing entirely.

Consumer outcomes and conduct regulation

There are significant distortions in property prices and at present the volatility of price from year to year has been staggering.

Banks have huge data pools of valuation data and often make decisions to lend based on a desk top aggregated reports this increases danger for consumers.

I read a number of reports on certain banks that advance money on valuations then pared them back when they needed liquidity in the GFC in guise of prudent management.

In Australia we have different standards relating to duty of care than other countries and the banks have no incentive to lend responsibly despite saying they are.

The risk for the consumer borrowing for housing is significant

- 1) The Bank and Valuers are separate in the course of borrowing and have no duty at law to the borrower when producing a value for lending.
- 2) The bank has its position protected by insurance which the consumer pays.
- 3) The consumer is pursued for the loss in a shortfall and the bank passes risk to the insurer.

I would favour the following change to the borrowing frame work of banks risk assessment.

When taking on board collateral particularly residential housing for an owner occupied home.

- 1) A valuation must be ordered that links the duty of care to all three parties the bank, the valuer and the borrower is a needed for all connected parties.
- 2) A National independent property complaint body rather than State by State differences so that if there is a valuation dispute arises between a real estate sale and valuation it can be resolved and enforced.
- 3) The Financial Ombudsman Service needs to be independent of banking industry in its staffing at decision and operating level. By all means have one banker on the board rotated bi annually as spokesperson for Banking but the complaints body needs independence. There are too many senior bankers involved in the FOS at present.

The benefit of this would give the Australian consumer some protection from being duped in an expensive process of buying a home and would not slow down the lending process in large degree.

The benefit to the property market as a whole would be a general reining in of prices in general as no one will be tempted to overstate a value when they are all connected by a duty of care to all proximate parties.

Having a more independent Financial Ombudsman Service would build consumer trust between clients and banks.

Lastly I read and hear continual complaints about regulatory burden being placed on financial institutions and the cost of compliance.

I believe we have way too much box ticking and grand principles in play but not really effective compliance penalties so we end up having the same issues coming into play.

I do not hear much about the externalities and costs to families as victims of financial organisations it's only on the margins.

Nor do you hear about the banks that finance vice and organised crime and the effects it has on business and families in Australia.

Boards need to be accountable to the owners of the business and a simple law change that made their mandate to act at all times in the best interests for share holders and the communities in which they operate above their own interests would be a simple guiding law.

A board is really a consultancy group that should be giving oversight of the direction of the business for the owners benefit and monitoring the C suite and business outcomes with that in mind. The tone for governance is top down.

I do not see boards as the ones to operate a business rather those matters are tasked to the various committees and governance areas that the C suite is tasked to operate. The board should be monitoring outcomes and agreed objectives for the benefit of the owners at all times. The board should also be guiding the investment and sustainable practices for the business again for owner benefit.

I have some comments and questions that boards and C suite individuals might consider.

- 1) The incentives for running a high performing ASX listed company are fabulous and well deserved however when management and boards are shonky the penalties are not in line with the incentives at play. There are not enough penalties for the moral good to prevail.
- 2) More scrutiny and policing of Auditors and Company Risk Executives for collapsed listed entities. How could an Auditor regularly have several hundred thousand dollars a week flowing through a credit card and not arouse suspicion of a bank?
- 3) When a bank lends money to an organised crime syndicate what are the externalities for shareholders and community at large?
- 4) How about the mandatory reporting of money laundering and fraud. There needs to be a national financial institution standard with anonymity for staff to report direct rather than it going direct to a banks internal compliance for white wash.
- 5) When financing OMC gang headquarters, brothel's or other nefarious enterprise is that in the best interests of anyone? I am not saying do not do it if it is legal but at least it should be disclosed to share holders & community. Banks always put their signs up as proudly financed by... on swanky new apartments but not on OMC gang headquarters or new brothel.
- 6) Any financing of this nature should be disclosed to the community affected and let that community voice its concern to the financial institution concerned.
- 7) Any charge made to person needs to disclose the true finance rate a \$2.00 bank fee on a \$20 withdrawal is massive money for jam impost.

I would favour the following changes to improve governance and accountability

- 1) Penalties and sentences if convicted for ASX listed boards and management in line with financial incentives so that the moral good can prevail.
- 2) Full verification of individuals, trustee, share holders entities and not for profits of control and funding. I am not surprised that banks are duped with the ID requirements. The checks are carried out by the least experienced front line staff.
- 3) We live in a potential terrorist state and are about to host G20 summit we need closer ID checks at all levels to combat organised crime and terrorism.
- 4) Terms and conditions on opening any kind of financial product with a false ID to carry a mandatory jail term by the party supplying the false ID.
- 5) How about a national database match /police enquiry of all people opening a bank account.
- 6) Financial Transaction reporting direct to the outside watchdog entity rather than to an internal bank compliance team that then let media team white wash it.

- 7) I would like to see more information sharing between ATO, Centre link, Banks & Police.
- 8) When looking at the Valuation of commercial enterprises valuers and banks need to report the exact purpose that the subject security property is used to be used for. Euphemistic descriptions are not acceptable like OMC headquarters as meeting rooms or a brothel as serviced offices. How do you determine a risk position on an OMC gang headquarters that meets prudential requirements for VAR?
- 9) Boards need a top down enforceable policy and non compliance without best interest results in convictions at different levels on the operations side. At the board level non compliance should be financial impost and immediate lifetime disqualification.
- 10) Disclosure of effective finance rates for all transactions including withdrawal fees.

In closing the reams of existing compliance have not stopped the financial wrought to date. So we need some very strong but simple common sense reform that tie all parties to transactions and penalties that align to the incentives to penalties if boards and companies do wrong. We need light simple reform with much stiffer penalties for wrong doing.

Are we happy as a nation to finance organised crime, let boards and management off for polluting or maiming people with hazardous products and materials?

Why does it take so long for companies to compensate for gross financial negligence?

The incentives are way out of line with the possible penalties that a director or board will face so it needs to change.