

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates 20-21 February 2008

Question: aet 70

Topic: ASIC Taskforce

Hansard Page: Written

Senator BUSHBY asked:

1. What is it that ASIC is hoping to achieve through the investigations of the taskforce set up to review the \$2trillion retail investment sector?
2. Who are members of the taskforce?
3. When is it anticipated that you will release the findings of the taskforce?
4. What are the terms of reference for the taskforce?
5. What outcomes is ASIC hoping to achieve through the investigations of the taskforce?
6. What investigations are being undertaken by the taskforce as part of its undertakings in accordance with the terms of reference?
7. Are you confident that the outcomes that will flow from the taskforce's investigations will prevent another Westpoint or Bridgecorp situation arising?
8. What consultation has been undertaken with the retail investment and financial advice industries in respect to the investigations of the taskforce?
9. What evidence will have been sought by the taskforce before it completes its investigations?

Answer:

1. The aim of the retail investor taskforce is to assist Australian retail investors to build better financial security through long-term investment.

To achieve this aim, the taskforce is undertaking an in-depth review of the retail investor sector to understand the obstacles and challenges that retail investors face in investing and building financial wealth and what ASIC can do to assist them.

The taskforce will then identify specific projects for ASIC to undertake to better assist retail investors to make good decisions, be better equipped to manage their investments and protect their wealth and have better access to quality advice.

The drivers for this taskforce include the increase in direct and indirect retail investment through superannuation funds, the growth in complex products being marketed to retail investors and experiences in recent property-related investment losses.

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates 20-21 February 2008

2. ASIC's Deputy Chairman, Jeremy Cooper is leading the taskforce. A team led by Jeremy Cooper is undertaking the review of the retail investment sector and identifying specific projects to be undertaken by ASIC. The projects that are identified will then involve staff from the whole of ASIC.
3. The taskforce will complete its strategic review within the next few months and then commence implementation of the specific projects identified by the review. These projects are to be completed over the next three years.
4. As announced to the Senate on 31 May 2007.
5. See the answer to question 1.
6. The retail investor taskforce will examine the following areas:
 - improving the quality of advice;
 - investor education of the importance of diversifying risk through asset allocation and understanding risk and reward premiums for particular asset classes;
 - simpler and more targeted disclosure;
 - advertising of complex products targeted at the retail investor; and
 - early detection and elimination of illegal operators.
7. No. No matter how sophisticated the financial system, the extent of regulation and the quality of advice and disclosure, all investing carries a certain amount of risk of loss of both income and the principal invested. The current regulatory system does not limit the products that a person can invest in, provided that the product complies with the disclosure requirements and so certain investors will continue to be exposed to risky products. Investment losses and corporate collapses cannot be completely prevented and ASIC does not hold itself out as being able to do so.

However, ASIC believes that improvements in the areas of investor understanding about risk and reward, clear messages about the importance of diversification, greater scrutiny of advertising and better disclosure will reduce the risk that retail investors invest in high-risk products that are not suitable for them.

8. The retail investor taskforce is consulting with industry organisations and consumer representatives through individual interviews and roundtable meetings. To date, the taskforce has consulted with more than 30 organisations as well as devoting a whole day at its recent Summer School (attended by several hundred external delegates) to retail investor issues.
9. In addition to consultation with industry members and roundtable meetings, we will also obtain evidence from the external industry and consumer surveys undertaken by ASIC as part of its strategic review process. We will look at

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates 20-21 February 2008

economic analysis and statistical information from external sources and from ASIC's Office of the Chief Economist. We will also examine international trends and developments and the experiences of other regulators where relevant. ASIC is also a member of the Financial Services Working Group announced by the Government and this work will also be taken into account by the taskforce.