

4 June 2003

Dr Kathleen Dermody
Secretary
Parliamentary Joint Committee
on Corporations and Financial Services
E-mail: corporations.joint@aph.gov.au

Dear Dr Dermody

**PJC Inquiry into Corporations Amendments Regulations 2003 (No.1) 2003,
No.31 and Regulation 7.1.29 in Corporations Amendment Regulations 2003
(No.3) 2003 No.85.**

Credit Union Services Corporation (Australia) Limited (CUSCAL) is the peak body for the majority of Australia's 189 credit unions. On behalf of our affiliated credit unions, CUSCAL is pleased to provide this submission to the PJC's inquiry into the above FSR regulations.

In short, at this stage of the FSR transition period we urge the PJC to give a high priority to the need for FSR licence applicants to have certainty and stability about the FSR regime. The novelty, scope and complexity of the FSR legislation, regulations and policy statements suggest a further review of the regime will be needed in the post-transition period.

Credit unions play an essential role in Australia's financial services sector, providing banking and financial services to more than three and a half million members, and offering a genuine and community based alternative to the major banks. Total assets in the credit union sector currently stand at \$27.4 billion.

Credit unions in Australia:

- collectively, are the sixth largest deposit taking force in Australia;
- are mutuals, where members own the credit union in which they are customers;
- are not-for-profit, with a focus on delivering benefits to members and a common set of values and ethics which govern credit union operations;
- continually report strong service outcomes – research in 2001 showed eight out of ten members rated satisfaction with their credit union as 'excellent' or 'very good', compared with three in ten customers of major banks.

Credit unions offer a full range of banking and financial services to members, including face to face services, internet and telephone banking, ATM and EFTPOS access, investment and savings accounts, personal and home loans, credit and debit

cards. Many credit unions offer investment advice, financial planning services, managed funds and insurance products through their operations.

While credit unions traditionally grew from geographic and industrial bonds, where membership was limited to a specific employment or regional group, most credit unions today accept memberships across the community. Australians in all communities are able to join a credit union.

Across Australia there are more than 1000 credit union branches and agencies. Credit unions operate a significant ATM network, and credit union cardholders have access to the entire national network of ATMs and EFTPOS terminals. Internet and telephone banking services also operate through the credit union sector.

Compared with other ADIs in Australia, credit unions are small institutions, with each credit union setting its own policies and operating as a licensed ADI.

Credit unions are currently diverting significant resources into compliance with the FSR regime. The FSR legislation, regulations and policy statements involve a formidable compliance effort to meet licensing, conduct and disclosure requirements.

These preparations for obtaining an Australian Financial Services Licence (AFSL) are in addition to meeting stringent prudential requirements imposed by APRA under the *Banking Act 1959*.

It is simply a fact that regulatory compliance is a heavier burden for smaller entities because they are less likely than their larger competitors to be able to devote full time resources to the function.

This means that stability and certainty in the regulatory environment is critically important to smaller entities.

Although the FSR legislation commenced in March 2002, significant elements of the regime have been introduced, or revised, or remain subject to consideration by policy-makers, since that date.

The key outstanding matters include:

- ASIC's policy statement on conduct and disclosure for financial product advisers;
- legislative amendments foreshadowed by Treasury to fix unintended consequences identified by industry; and
- a policy decision on 'compensation arrangements.'

The Government and ASIC have urged financial services providers to apply as soon as possible for their AFSL to avoid a logjam of last-minute applications. The PJC would increase the likelihood of early licence applications if it contributed to an atmosphere of certainty about the FSR regime.

CUSCAL does not wish to raise any objection to the regulations that are the subject of the PJC inquiry.

CUSCAL strongly supports the regulation allowing ADIs access to ‘streamlined’ licensing. Legislative streamlining for ADIs was promised repeatedly by the Minister for Financial Services and Regulation in 2000 and 2001. The regulation allowing streamlining for ADIs delivers on this policy commitment. It is important to note that while removing any doubt that an ADI will be granted an AFSL, streamlining does not in any way diminish the licensee’s obligations.

A streamlining applicant will have to declare that it will comply with its obligations as an AFS licensee and will have to certify that the following is true:

- the responsible officers named in this application have the relevant knowledge, skills and experience to perform their particular roles within this business;
- the applicant believes the responsible officers named in this application are of good fame and character;
- the applicant has, and will continue to have, measures in place to maintain the competence required to provide the financial services applied for in this application;
- the applicant has, and will continue to have, appropriate measures in place to provide the financial services applied for in this application efficiently, honestly and fairly;
- the applicant has established, and will maintain, compliance measures that are appropriate and will ensure that it complies with the obligations under the financial services laws;
- the applicant has established, and will maintain, adequate monitoring, supervision and training procedures to ensure that representatives will comply with the requirements of the financial services laws, are properly trained and are competent to undertake their role when they join the applicant’s financial services business and on an ongoing basis.

It is an offence to provide false information to ASIC and that false or misleading information may be grounds to revoke a licence

For further information, please contact me on 02 6232 6666 or 0418 213 025.

Yours sincerely,

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