

Chapter 1

Introduction

Background

1.1 The Financial Sector Legislation Amendment (Discretionary Mutual Funds and Direct Offshore Foreign Insurers) Bill 2007 and the Corporations (National Guarantee Fund Levies) Amendment Bill 2007 were introduced into the House of Representatives on 21 June 2007 by the Parliamentary Secretary to the Treasurer the Hon. Chris Pearce, MP.

1.2 On 21 June 2007, on the recommendation of the Selection of Bills Committee, the Senate referred the provisions of the bills to the Standing Committee on Economics for inquiry and report by 31 July 2007.¹

Conduct of the inquiry

1.3 The committee advertised the inquiry in the *Australian* newspaper on 27 June 2007 and invited written submissions by 9 July 2007. Details of the inquiry were placed on the committee's website. The committee also wrote to a number of organisations and stakeholder groups inviting written submissions.

1.4 The committee received eight submissions. These are listed in Appendix 1. A public hearing was held in Melbourne on Friday 27 July 2007. Treasury gave evidence via teleconference and addressed the concerns raised in the submissions.

Acknowledgments

1.5 The committee thanks all those who contributed to its inquiry by preparing written submissions. Their work has been of considerable value to the committee.

Background to the bill

1.6 The Bill implements the approach to the regulation of Discretionary Mutual Funds (DMFs) and Direct Offshore Foreign Insurers (DOFIs) announced by the Minister for Revenue and Assistant Treasurer on 3 May 2007. DOFIs will be prudentially regulated under the Insurance Act. DMFs will not be prudentially regulated but information will be collected to determine the nature and scope of their operations.²

1 Selection of Bills Committee, *Report No. 11 of 2007*, dated 21 June 2007.

2 Explanatory Memorandum (EM), p. 1.

1.7 It addresses an outstanding HIH Royal Commissioner's recommendation and a regulatory gap identified in the International Monetary Fund's 2006 Financial Sector Assessment Programme for Australia, and makes a minor amendment to support changes made by the Corporations (National Guarantee Fund Levies) Amendment Bill 2007. This complementary Bill will impose a cap on levies payable.³

Outline of the bill

1.8 The Bill is structured into three Schedules.

- (a) Schedule 1 – 'Amendments commencing on Royal Assent' – introduces amendment relating to the proposed monitoring of Discretionary Mutual Funds;
- (b) Schedule 2– 'Amendments commencing on 1 July 2008' – introduces provisions relating to the proposed regulation of DOFIs and their supervision by the Australian Prudential Regulation Authority (APRA); and
- (c) Schedule 3 – 'Amendments commencing on the 28th day after the day on which this Act receives the Royal Assent' – introduces the amendment to the Corporations Act 2001 which caps the levy payable under the Corporations (National Guarantee Fund Levies) Amendment Bill 2001.