


**Senate Select Committee on  
Superannuation and Financial Services**

**Main Inquiry  
Reference (b)**

**Submission No. 5**

Note: Also Submission No. 20 to References (a) & (c)

**Submittor:** Mr David N. Edwards  
Executive Director  
Australian Society of CPAs  
GPO BOX 2820AA  
MELBOURNE VIC 3001  
 - (03) 9606 9606

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The Secretary  
Senate Superannuation and Financial Services Select Committee  
Parliament House  
Canberra ACT 2600  
By Fax: 02 6277 3130  
E-mail: super.sen@aph.gov.au

Dear Madam

**Submission on Matters Pertaining to Superannuation  
and Financial Services**

The Australian Society of Certified Practising Accountants (ASCPA) is pleased to make this submission on the following topics:

- a) Prudential supervision and consumer protection for superannuation, banking and financial services;
- b) The opportunities and constraints for Australia to become a centre for the provision of global financial services, and;
- c) Enforcement of the Superannuation Guarantee Charge.

**A) PRUDENTIAL SUPERVISION AND CONSUMER PROTECTION FOR  
SUPERANNUATION, BANKING AND FINANCIAL SERVICES**

The ASCPA broadly supports the continuation of the reform process initiated by the Financial Services Inquiry, namely the creation of a unified and functionally-based, as opposed to industry sector-based, regulation of financial services.

We support a more unified approach to prudential supervision. However, we also acknowledge the need to maintain flexibility when dealing with unique products. For instance, we support the maintenance of the trustee system in superannuation. We feel such features can be accommodated within a more unified prudential regulation regime.

We also broadly support the principles contained in the CLERP 6 reforms (now contained in the *Financial Services Reform Bill* Exposure Draft) that seek to create a single licensing and disclosure regime for financial services. In particular, we support the inclusion in Section 882 of the proposed *Financial Services Reform Bill*, the provision for "declared professional bodies", that will enable key professional bodies such as the ASCPA to have a role in the effective protection of the financial services consumers.

**Recommendation**

**The ASCPA recommends the continuation of current financial services industry reform process, in consultation with relevant industry parties.**

## **B) THE OPPORTUNITIES AND CONSTRAINTS FOR AUSTRALIA TO BECOME A CENTRE FOR THE PROVISION OF GLOBAL FINANCIAL SERVICES**

The ASCPA believes Government has a critical role in fostering Australia as a global provider of financial services.

There are both opportunities and constraints that need to be considered in formulating such a strategy, some of which are noted and discussed below.

The ASCPA will briefly outline what it believes are some of the opportunities and constraints for Australia to become a provider of global financial services.

### **Opportunities and Advantages**

#### **i) Educated Workforce**

Australia has a highly educated, sophisticated workforce. Indeed, University and professional education provided by Australian institutions in the accountancy, business and finance sector is highly sought after throughout the East Asia region.

In addition, Australia benefits from having English as a first language, as well as 2.4 million Australians who speak a language other than English at home. As Australians enjoy an enviable standard of living and our quality of life is amongst the best in the world, it makes Australia an attractive destination for relocation of overseas staff.

Such benefits, in particular the highly educated nature of our workforce, need to be strongly promoted to institutions considering situating in Australia.

#### **ii) Developed Capital Markets**

Australia has a sophisticated domestic capital market, with developed markets in shares, derivatives, foreign exchange and commodities.

Our superannuation industry is highly developed with broad political commitment to the private provision for long term saving. This provides a steady flow of capital and continuing business opportunities.

### **Recommendation**

**That the Government strongly promotes the stability and likely growth of Australia's capital markets to prospective overseas investors.**

#### **iii) E-Commerce**

The growth of e-commerce presents both a challenge and an opportunity. E-commerce delivery of financial services challenges traditional brand loyalty, potentially injecting a new level of competition into domestic markets.

The ASCPA encourages members to embrace the new technologies. The Internet and e-commerce will create new challenges and will change the way CPAs and their organisations

operate, communicate and compete in the 21<sup>st</sup> Century. CPAs and other business and finance professionals are not immune to the pervasive impact of new technologies.

In recent years, Australian financial institutions have demonstrated an interest in consumer focussed e-commerce facilities such as Internet banking. However their focus appears to be have been on reducing their domestic transaction costs and providing a world level of service to their existing customers, rather than building a global brand.

### **Recommendation**

**That an e-commerce strategy be an important component of any future policies to make Australia a global provider of financial services.**

#### **iv) Role of Professional Bodies**

Professional Bodies such as the ASCPA perform a critical function in the financial services industry.

We educate and oversee our 90,000 members, many of whom work in the financial services industry.

### **Recommendation**

**The role of professional bodies in areas such as education and professional standards needs to be considered and recognised in current and future policy development.**

#### **v) Accounting Standards**

The Australian Accounting Standards Board, in 1995, commenced a program of harmonising Australian accounting standards with those accounting standards issued by the International Accounting Standards Committee (IASC). The objective of this program is to harmonise these two sets of accounting standards. This harmonisation program is nearing completion.

The IASC is presently undergoing a fundamental restructuring that should establish the major national standard-setters, including the Australian Accounting Standards Board, to form an integral part of the IASC standard-setting arrangements. This will significantly strengthen the IASC and assist with its evolution into a mature body with the potential to be a global standard-setter.

IASC restructuring will present the opportunity for the development of a single set of accounting standards for worldwide use. By harmonising with IASC accounting standards, Australia is well placed as progress is made towards a set of global accounting standards. In the meantime, Australia has a world class standard-setting structure. The quality and breadth of Australian accounting standards rank second only behind the United States of America.

### **Recommendation**

**The professional accountancy bodies and government should promote our accounting standards as positive features of the Australian economy to potential overseas investors.**

## **Constraints**

### **vi) Size of Local Market**

The relative size of local market does limit the scope for domestically generated growth. On the one hand, when compared to New York or London, we have a much smaller domestic market available and have a far less developed culture and history in financial services. Australia is also limited in economies of scale when compared to potentially huge markets such as China or India. This does present challenges for development as a global financial centre.

### **Recommendation**

**That policies to make Australia a global financial centre be cognizant of the relatively small size of the Australian domestic market. Recent examples of other "small" nations acting as financial centres such as the Republic of Ireland, the Netherlands, Switzerland, Singapore and (pre-1997) Hong Kong may provide greater insights than studying London or New York.**

### **vii) Distance from Europe and North America**

Australia's distance from Europe and North America still represents a difficulty.

While electronic mediums are overcoming the "tyranny of distance", the financial services industry, like many other industries, still relies on personal contact to facilitate business decisions. We anticipate that e-mail, video-conferencing and the other electronic communication mediums will continue to supplement rather than replace face-to-face business contact.

As many of the world's major financial institutions are based in North America and Europe, this places Australia at a slight disadvantage.

### **viii) Regulatory Burden and Uncertainty**

Despite political commitment to reduce business red tape, Australia continues to have a burdensome regulatory structure. While the Wallis reforms seek to address difficulties in the prudential supervision and consumer protection areas, new financial services entrants must contend with numerous laws, taxes, licenses and fees as well as State and Local Government strictures.

Legal uncertainties raised by cases such as *The Queen versus Hughes* need to be adequately addressed, both in terms of policy formulation and in terms of assuring potential investors.

### **Recommendation**

**The ASCA recommends that the Government follow through on its commitment to reduce business red tape.**

**The ASCPA would also recommend that Government actively communicate with potential investors when policy and legislative uncertainty emerges.**

## **C) ENFORCEMENT OF THE SUPERANNUATION GUARANTEE CHARGE**

The ASCPA recognises the importance of the Superannuation Guarantee (SG) and the associated Superannuation Guarantee Charge (SGC). This is a necessary component of Australia's three-pillars system for retirement income. We endorse the SG system, as it will generate future retirement income for Australians that will, in turn, alleviate the tax burden of future governments seeking to afford the cost of an aging population.

We endorse the proposed raising of the SG to 9 per cent of earnings by 2002-03.

There have been many reviews of the SG including the Senate Select Committee on Superannuation's earlier reviews in 1992 (Report No. 2 – *Super Guarantee Bills*) and 1995 (Report No. 15 - *Super Guarantee – Its Track Record*). In the latter report, the Senate Committee reported favourably on the level of compliance to the SG.

More recently, the Australian National Audit Office (ANAO) completed a report on the SG in November of 1999 (Audit Report No. 16, 1999-2000), noting the ANAO's audit of the administration of the SG by the Australian Taxation Office (ATO).

The ANAO report on the SG highlights overall sound enforcement by ATO but also identifies areas for possible improvement. Many of the reforms suggested by the ANAO are operational. We support operational changes within the ATO that would ensure a smoother administration of the SG, as long as such changes do not place any unnecessary compliance burden back on small business and their advisers. For instance, the report recommends replacement of manual processing of SG forms with electronic processing. Such long-term moves are to be encouraged but there needs to be consultation with industry to ensure such changes do not unintentionally have an adverse effect upon small businesses and their advisers.

The ASCPA also believes that some of the operational difficulties identified in the ANAO Report, such as the difficulties with the definition for SG eligibility and the voucher system, can be traced back to shortcomings in the SG legislation.

### **i) Frequency of Payments**

Currently, employers are obliged to pay the SG on an annual basis. At the 14 December 1999 Superannuation Choice of Funds Roundtable, the frequency of SG payments was raised as a major issue of concern. Many industry groups have raised concerns that the infrequency of payments mitigates employees receiving their rightful entitlements. In the light of the wider policy debate over employee entitlements, quarterly or monthly payments of the SG have been suggested.

While more frequent payments may be desirable to better achieve certain public policy outcomes, this must be weighed against the additional administrative and compliance burden this would place on small business.

Given the wider move to quarterly reporting requirements on employers with the New Tax System and that the SG was originally intended to be quarterly, it would seem sensible to consider quarterly payments.

### **Recommendation**

**If the Commonwealth Government sought more frequent payments of the SG to better achieve public policy outcomes, the ASCPA would support quarterly payments.**

## **ii) Eligibility to Receive SG**

The eligibility to receive SG payments is significantly different from other operational definitions for "employee" that employers need to consider, for instance for PAYE purposes. For instance, eligibility to SG is not merely based on being an employee. Certain types of contractors are eligible to receive SG based on the "labour component" of their contract. Further, certain categories of employees are expressly barred from receiving the SG such as those employed for domestic or private work for less than 30 hours a week, part-timers under the age of 18 and those earning under \$450 per month.

The ANAO report strongly indicates that this unique and convoluted definition for SG eligibility is a source of considerable confusion to both employers and ATO staff.

The eligibility to receive SG should be as closely aligned as possible with the other definitions of "employee", for instance the definition used for PAYE purposes. This may require a review of the contractor eligibility to SG.

There may also need to be consideration of extending SG coverage to include currently exempt employees such as part-timers under age of 18 or those earning under \$450 per month. We would argue that a strong case would need to be mounted to continue such exemptions.

## **Recommendation**

**The ASCPA supports a simplified and fairer definition of SG eligibility that is easy for employers to comply with and more closely aligned to definitions of employee used in income tax and related law.**

## **iii) Voucher System**

When an employer pays the SGC to the ATO rather than the SG to a super fund, the ATO uses the "voucher system" to remit the SGC paid by the employer to a super fund of the employee's choosing.

The ATO issues vouchers to the employee who must then go to a super fund. The super fund accepts the voucher. The fund then submits the voucher to the ATO who then remits the money to the fund.

The ANAO Report identifies problems with the voucher system with 96,000 unclaimed vouchers worth nearly \$66 million.

Unclaimed vouchers are a problem for meeting retirement income policy objectives since vouchers do not earn interest and lapse if not redeemed within 10 years of being issued.

ATO research confirms that SG voucher recipients are generally confused about what to do with the voucher. In 1996, the ATO found that 50 per cent of voucher recipients "were not able to understand what the voucher represented nor what should be done with it". The

voucher system is not widely understood and is failing to meet its policy objective of employees receiving the rightful SG entitlements.

### **Recommendation**

**The ASCPA recommends a full review of the current voucher system and consideration of alternative mechanisms. This could include granting the Commissioner of Taxation greater discretionary powers to transfer monies into an appropriate superannuation vehicle when an individual has consistently failed to claim a voucher and greater use of ATO data to match SG vouchers with individuals. This would increase the likelihood that vouchers are paid to superannuation funds; ensuring interest is accumulated and preventing vouchers from lapsing.**

#### **iv) Employer Reporting to Employees**

The absence of any requirement in the SG legislation for employers to report to employees, in regards to meeting the payment of SG, makes it difficult for employees to play a role in monitoring their employer's compliance.

### **Recommendation**

**The ASCPA recommends that the government give consideration to investigating possible means by which employees could receive information from their employers regarding payment of SG.**

If there are any questions on this submission, please contact myself on (03) 9606 9689 or Anne Molyneux, Director Intellectual Capital on (03) 9606 9656.

Yours sincerely

**DAVID N. EDWARDS**, FCPA  
Executive Director

Australian Society of CPAs  
GPO Box 2820AA, Melbourne VIC 3001  
Tel: (03) 9606 9689

c.c. A E Molyneux  
B Pragnell