

Media Release

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13 out of 18 – Sound Report but still work to do

The general first impression of the Financial System Inquiry (FSI) Final Report is that it has tried to avoid being unnecessarily prescriptive and focussed more on improving the framework in which the Australian Financial System can develop more efficiently and effectively.

From this point of view, we commend the Report and believe it should lead to a more transparent, competitive and efficient financial system to the benefit of SMSF's investment portfolios.

13 out of the 18 recommendations that we put to the Financial System Inquiry in our first submission have been substantially met. The other 5 are in the category of matters that the FSI recommends should be referred to the Tax White Paper or otherwise addressed after agreement on the superannuation system's objectives has been met.

The only immediate aspect of the report that may impact some SMSFs is the FSI's response to the issue of gearing within superannuation. We recommended that this be reviewed and at a minimum some limits on gearing be applied.

FSI has recommended that the exception to the general prohibition on direct borrowing for limited recourse borrowing arrangements by superannuation funds be removed from the Superannuation Industry (Supervision) Act 1993.

This restores the general prohibition on direct borrowings on a prospective basis.

There are very few references to SMSFs in the Report. Indeed we could find one which recognised the different status of SMSF trustees as also being fund members and another which confirms the different status of SMSF trustees and therefore the retention of ATO as the SMSF supervising body.

There are four major areas of recommendation by FSI in relation to superannuation that can impact SMSFs:

1. That broad political agreement on the objectives of the superannuation system be sought and it then be enshrined in legislation, including a formal mechanism of periodic (but not frequent) review);
2. Substantial improvements in the governance of APRA-regulated funds be implemented;
3. Further improvements that should lead to improvements in quality of financial advice available to this sector; and
4. That the impending Tax White Paper addresses a number of taxation issues relating to investments and superannuation.

The taxations issues that it refers to include:

- a. Reducing capital gains tax concessions;
- b. Addressing the impact of dividend imputation on the financial system and Government revenue;
- c. Reconsider whether superannuation tax concessions are appropriately targeted; and
- d. Consider whether and how to align superannuation taxation rates in pre and post retirement phases in order to better foster whole-of-life superannuation products.

Some of the observations in relation to tax that were made in the FSI interim report - and which we criticised - have been retained in the Final Report and will require further strong input to the Government leading up to the Tax White Paper.

Outside SMSFs the Report has recommended a formal competitive process to allocate new default fund members to MySuper products and a requirement that superannuation fund trustees to offer a "comprehensive income product for members' retirement". SMSF trustees would be exempt from such a requirement.

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