



CHARTERED ACCOUNTANTS
AUSTRALIA • NEW ZEALAND

20 April 2016

Superannuation
Productivity Commission
Locked Bay 2, Collins St East
MELBOURNE VIC 8003

Submitted on line to <http://www.pc.gov.au/inquiries/current/superannuation/make-submission#lodge>

Dear Sir/Madam

Submission – Superannuation Efficiency and Competitiveness

Chartered Accountants Australia and New Zealand welcomes the invitation to make a submission on the Productivity Commission's inquiry into the efficiency and competitiveness of the superannuation system.

Our submission is based on the contents of the Issues Paper released by the Productivity Commission on 16 March 2016.

We are a professional body comprised of over 115,000 diverse, talented and financially astute members who utilise their skills every day to make a difference for businesses the world over. Members are known for their professional integrity, principled judgment, financial discipline and a forward-looking approach to business which contributes to the prosperity of our nations.

We focus on the education and lifelong learning of our members, and engage in advocacy and thought leadership in areas of public interest that impact the economy and domestic and international capital markets.

We are a member of the International Federation of Accountants, and are connected globally through the 800,000-strong Global Accounting Alliance and Chartered Accountants Worldwide which brings together leading Institutes in Australia, England and Wales, Ireland, New Zealand, Scotland and South Africa to support and promote over 320,000 Chartered Accountants in more than 180 countries. Should you require any further information or wish to discuss the contents of this submission, please contact Tony Negline, Head of Superannuation.

Yours sincerely,

Rob Ward FCA AM
Head of Leadership & Advocacy

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Overview

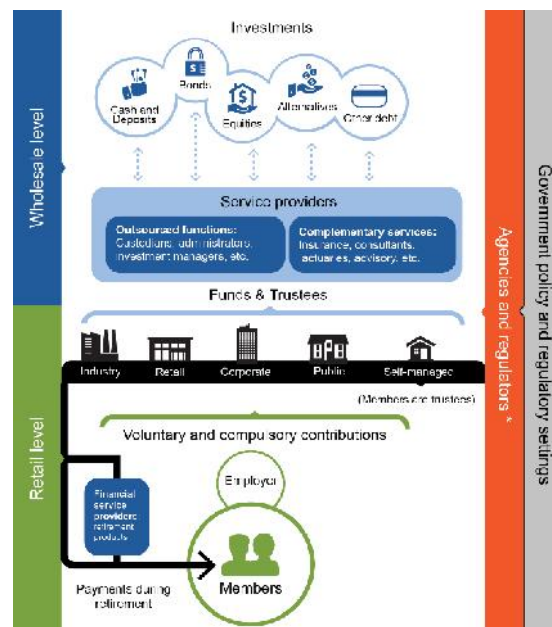
Chartered Accountants Australia and New Zealand submission is brief yet we believe involves an fundamentally important aspect of the inquiry the Productivity Commission is holding into the efficiency and competitiveness of the superannuation system.

As we will explain we believe the Commission's map of the superannuation system, with respect, is incorrect.

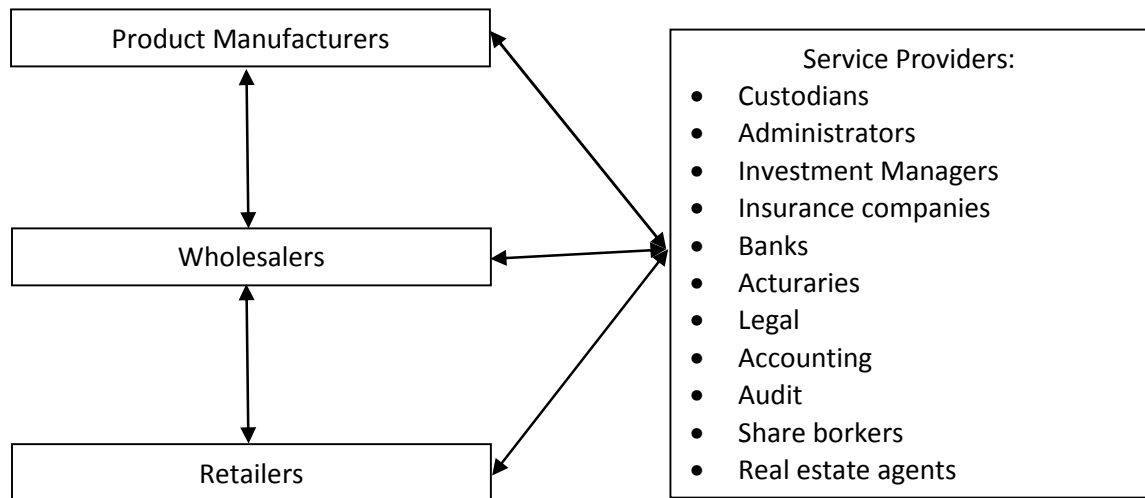
Later in our submission we will address some questions posed by the Comssion in its Issues Paper.

A Map Of The Superannuation System

The Commission proposed the following diagram of how the super system works:



Whilst we fully understand why the Commission might view the superannuation system in this way we believe that the superannuation system primarily has a three tier of distribution system along the following lines:



This is best explained by an example involving a retail super fund. A bank, directly via its branches, its website and through financial advisers licensed by a financial planning business owned by the bank. The super fund offers a wide range of investments including the following – listed shares (ASX and various non-Australian listed companies), many managed funds including those created by the bank's owned investment management company and term deposits.

So in this situation, the bank's controlled super fund is the product manufacturer, the wholesaler is the bank via its branches and website and also its financial planning firm. The retailer are the financial advisers and others in the bank offering or recommending the use of this product directly to consumers.

Several layers of complexity come about because of this structure:

1. In some cases many of layers in this three tier distribution model are owned by the same organization. But equally this may not be the case.
2. The financial arrangements that often exist between these distribution model's layers often occur in an opaque and confusing fashion

An important caveat about this distribution model – corporate, public sector and self-managed funds do not technically operate in this way. In all cases these super funds will deal directly between themselves and their members.

However it is highly likely that these fund types will deal with various product and service suppliers whose business model is structured in this way. For example, a superannuation investor may be advised to set up and use a SMSF by a planner who is employed by, and is an authorised representative of, a large financial organisation and that advice includes a recommendation to use an SMSF administrator that is owned by that organisation.

We believe the Commission, in its deliberations, also needs to focus on the role of financial advisers in determining the efficiency and effectiveness of the superannuation industry.



Chartered Accountants encourages the Productivity Commission to rethink its understanding as to how the superannuation industry is structured so that it is better able to assess the efficiency and effectiveness of this sector. The Commission must also include the role of financial advisers in its analysis.

Data Reporting Formats For SMSFs and APRA-Regulated funds

On page 14 of the Commission's Issues Paper the following question is asked:

To what extent do different data reporting formats make it difficult to compare SMSFs and APRA-regulated funds, and hence to assess the performance of the superannuation system as a whole?

We believe the differing reporting formats and the data collected make comparisons between SMSFs and APRA-regulated funds almost meaningless.

It is necessary to talk about SMSFs in generalities because that is the only way, in many cases, they can be understood to some extent. But each of the points made using this generalised information needs to be used cautiously.

However each SMSF is unique. In the same way each family and household in their own way are unique from all other families and households.

There may be similarities between SMSFs but there will also be many important points of difference between each of them.



Comparison between SMSFs and APRA regulated funds are often meaningless but also generalised data about SMSFs often doesn't deliver a true picture of many SMSF.