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Our ref KPMG submission FS Inquiry

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Submission to the Financial System Inquiry on Draft Terms of Reference

Introduction

As a leading professional services firm, KPMG is committed to meeting the requirements of all of our stakeholders – not only the organisations we audit and advise, but also investors, employees, governments and the wider community.

We have the privilege of advising the full spectrum of organisations in the financial services industry, including banking (retail, wholesale, investment banking, and mutuals), wealth management, insurance and superannuation. Through this broad and deep industry engagement, we have well-rounded and broad perspectives on a range of current and emerging industry issues, trends and developments.

We strive to contribute in a meaningful way to the debate that is shaping the future of the industries we serve. To this end, we welcome the opportunity to provide comments on the draft Terms of Reference for the Financial System Inquiry (“Inquiry”).

Financial System Inquiry

KPMG is supportive of the Inquiry and agrees that its timing is appropriate given significant changes to regulation post the Global Financial Crisis (GFC), the introduction of new technology, evolving consumer preferences and the substantial development of our compulsory system on superannuation since the “Wallis report” in 1996.

The Inquiry is broad in nature, including the entire financial system (currently regulated and non-regulated aspects of the system) and positioned in the context of addressing the future funding requirements of the Australian economy. We consider that the financial

system should align to and support the aspiration we have for our economy and wider society.

The interconnectedness of the global economy, as highlighted throughout the GFC, poses risks to the Australian financial system. A widely acknowledged vulnerability is the reliance on offshore wholesale funding markets, primarily through the local banking system. There is merit in exploring the opportunities for a new funding and investment model to emerge which better services the needs of borrowers (households, business and governments) and investors.

We believe that our financial system and regulatory architecture is broadly sound, hence, the examination should be on improvements to, and not wholesale changes of, the existing system. From an international standpoint, opportunities could be explored for improved coordination in the design and implementation of new regulation, for example, streamlining the phasing in of new regulation and limiting potential duplication or inconsistencies between international and national regulation.

We are at an inflexion point in financial services, particularly driven by the increased adoption of mobile banking and innovation in payments. We expect this to fundamentally change the distribution and consumption of financial products and services, as well as the level of industry competition (e.g. new entrants to the industry).

We are witnessing a shift in the global financial markets from traditional forms of financial intermediation, which still play an important role, towards markets-based financing. This is expected to expand particularly in Asia as their financial markets become more open and mature.

Comments on the draft Terms of Reference

KPMG is supportive of the proposed draft Terms of Reference for the Inquiry and believe that it broadly addresses the significant issues.

KPMG do not propose any material amendments to the draft Terms of Reference. We would offer the following suggestions for consideration.

Firstly, given the reasonably short timeframe for the Inquiry, we believe that a practical starting point is to review the recommendations of the various inquiries, reviews and Committees announced in the period post the GFC to understand what impediments existed that prevented their successful execution and what could be done to accelerate the implementation of key recommendations.

Secondly, while noted in point 3.2. “International integration, including international financial regulation”, we believe that specific consideration be given to the opportunities and implications for the Australian financial system in the “Asian Century”. With Asia becoming an increasingly important economic interest for Australia, and with local financial institutions increasingly pursuing regional expansion, exploring the opportunities, challenges and risks this presents would be a valuable aspect of the Inquiry. This would also explore the regulatory settings and the benefits of greater integration of regional financial markets, as well as what measures can be taken to support our institutions to be successful in Asia.

In terms of the proposed timetable, KPMG believes it provides sufficient time to allow for the exploration of the key issues, balancing the need for appropriate consultation and informed debate, with the need to ensure a certainty in the industry.

If there are any questions on the comments raised in this submission, please contact Ian Pollari – Partner, Financial Service on (02) 9335 8408 or ipollari@kpmg.com.au.

Yours sincerely



Adrian Fisk
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Yours sincerely



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