



MEDIA RELEASE

Tuesday, 13 February 2024

FINE-TUNING OF INVESTOR TEST REQUIRED TO PROTECT CONSUMERS

New research released today by the Financial Services Council (FSC) has revealed that in less than a decade, almost a fifth of Australian households would be eligible to buy wholesale products without retail consumer protections, leaving them potentially vulnerable due to not properly understanding the associated financial risks.

The [research](#) undertaken by PwC and Data Analysis Australia, shows the FSC's proposed value for the wholesale investor test net asset threshold of \$5 million, including the family home, would bring the threshold up to date with changing asset profiles and bring the number of Australian households eligible back down to 3.1 per cent.

CEO of the FSC Blake Briggs said: "The increase in property prices in the past two decades since the threshold was implemented has contributed to more Australians being classified as wholesale investors because of the increase in value of the family home.

"When the thresholds were first introduced in 2001, only 1.5 per cent of households were captured under the current \$2.5 million asset threshold. Today, it's increased to 11.7 per cent.

"If the threshold is left unchanged, these trends are set to continue, so that by 2033, more than one in five mum and dad investors could cease to have access to the consumer protections that are inherent when you are defined as a 'retail investor', and instead be treated as a sophisticated, 'wholesale investor' regardless of whether they understand the more complex financial products they can be offered."

The FSC recognises that wholesale investors are a vital part of Australia's capital markets, however we would support the Government updating the threshold so that only genuinely sophisticated investors fall within this category.

Wholesale investors lose retail consumer protections like the Design and Distribution Obligations (DDO), which obliges financial product issuers to take reasonable steps to ensure distribution is consistent with the target market, bans on conflicted remuneration, dispute resolution processes and access to a compensation scheme of last resort in certain circumstances.

"The FSC is urging the Government to use a scalpel, not a sledgehammer, when adjusting the thresholds, to get the balance right between the important role of wholesale products in capital markets, and the need to maintain consumer protections in financial advice," Mr Briggs added.

The FSC proposes:

- Increasing the net asset test from \$2.5 million to \$5 million, including the family home;
- Ensuring the sophisticated investor limb is easier to use by making it less subjective; and
- Grandfathering changes to avoid the re-classification of existing investors, which could force redemptions that are not in consumers financial interests.

“The evidence points to the broader MIS regime working well to protect consumers and provide regulatory stability and certainty for industry, but some fine tuning of the wholesale investor test is warranted.

“ASIC has at its disposal a powerful regulatory toolkit in the form of the Product Intervention Power (PIP) and DDO stop orders to protect consumers from products that are likely to cause significant consumer detriment.

“ASIC’s ability to protect consumers can also be enhanced by collecting the right information at registration, such as the proposed scheme’s investment strategy and personnel, so that it can identify potential risks early on and devote sufficient surveillance resources.”

The PwC report also found:

- By 2043, 25.5 per cent of Australian households would be captured under the net asset threshold, if the current threshold is left unchanged.
- If the original net asset threshold were indexed by CPI, it would now be \$4.3 million, which would mean 5.2 per cent of households meet the threshold.
- The current \$250,000 gross income test threshold, which captured less than 1 per cent of individuals in 2002, when the test first applied, still covers less than 1 per cent of individuals. Therefore, the FSC recommends no change.
- 2.7 per cent of households in 2002, had enough access to liquid assets to meet the product value test of \$500,000. Now, 7.8 per cent of households have access to over \$500,000 of liquid assets to meet the test. The FSC recommends no change given it is unlikely that individuals will invest \$500,000 in a single investment.
- Employing an options analysis which assessed the relative impact of the proposed options for changes the wholesale investor test against categories of benefits (consumer protection) and costs (costs of implementation, impact on access to higher risk-adjusted returns and impacts on the ability to raise capital), PwC found the FSC’s proposals rated higher than indexing for inflation and automatic periodic re-assessments of the thresholds by the Minister.

- ENDS -

Media Contact: Kylie Adoranti - 0423 715 955 - kadoranti@fsc.org.au

About the Financial Services Council

The FSC is a peak body which sets mandatory Standards and develops policy for more than 100 member companies in one of Australia’s largest industry sectors, financial services. Our Full Members represent Australia’s retail and wholesale funds management businesses, superannuation funds, life insurers and financial advice licensees. Our Supporting Members represent the professional services firms such as ICT, consulting, accounting, legal, recruitment, actuarial and research houses. The financial services industry is responsible for investing more than \$3 trillion on behalf of over 15.6 million Australians. The pool of funds under management is larger than Australia’s GDP and the capitalisation of the Australian Securities Exchange and is one of the largest pools of managed funds in the world.