

19 September 2025

Five Pillars Committee
Productivity Commission

via online consultation portal

RE: Five pillars of productivity inquiries - Interim report consultation

The Financial Services Council (FSC) welcomes the opportunity to comment on the Productivity Commission's interim reports as part of its five pillars of productivity inquiry. We recognise the important contribution this work will make to identifying reforms that boost competitiveness and drive long-term growth in the Australian economy. We also note the Treasurer's comments that the five pillars of research will be central to the Government's productivity agenda this term.

In achieving Australia's economic potential, the attractiveness and competitiveness of the domestic investment environment is critical. A well-functioning financial services sector provides the capital pipeline for growth and supports expansion in sectors where Australia has comparative advantage.

This submission focuses primarily on *Pillar 1: Creating a more dynamic and resilient economy*, where we believe there is the greatest scope to deliver reform by improving regulatory practice, strengthening international competitiveness, and encouraging investment. The ideas presented below offer substantial value to the Commission's work in finalising its report. In particular, these proposals are essential to attracting the capital needed to enable the net zero transition, encourage greater inflows to support national policy goals, and expand the role of the financial services sector as a driver of growth.

The FSC would also welcome further engagement with the Commission as it progresses its work, particularly in relation to opportunities to streamline regulatory burdens in financial services that currently act as a brake on productivity and impose unnecessary costs on businesses with limited benefit to consumers.

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 the financial services industry. Our membership is comprised of Australia's retail and wholesale funds management businesses, superannuation funds, investment platforms and financial advice licensees.

The FSC has long advocated for a reform agenda that promotes investment and economic growth, makes Australia's tax system more efficient, and reduces and streamlines regulation. We believe there are substantial productivity gains to be achieved from simplifying and streamlining Australia's regulatory framework in financial services, and are interested in engaging with the Productivity Commission and its research on reform ideas to improve productivity outcomes.

Summary of Recommendations

Positioning Australia as a Leading Global Investment Hub

1. The Government or Productivity Commission should undertake a focussed stream of work on proposals to reduce red tape and strengthening international competitiveness in financial services;
2. The Government should introduce revenue-neutral tax changes to make Australia a more attractive domicile for investment management, including reforms to MITs, CCIVs, the Asia Region Funds Passport and TOFA hedging rules;
3. Recommend the simplification of Foreign Investment Review Board approvals and the reversal of recent fee increases for passive, low-risk capital from trusted institutional investors;
4. Consider an investor stream within the National Innovation Visa to draw experienced entrepreneurs and investors with a track record of building and scaling businesses;

Building a Collaborative and Efficient Regulatory Framework

5. Retain the draft recommendations in the Pillar 1 interim report relating to *Regulating to promote business dynamism*, to ensure regulatory reform that achieves greater clarity and efficiency remains a central focus;
6. Recommend the Government adopt a balanced scorecard for assessing regulator performance, covering outcomes such as consumer protection, industry growth, legal certainty, and minimising regulatory cost;
7. Emphasise the need for regulators to provide clear guidance in areas of legal uncertainty, particularly for sustainability-related product claims, to prevent greenwashing while supporting innovation. It should encourage a collaborative approach to give industry certainty upfront rather than relying on enforcement;
8. Examine the impact of immaterial breaches currently captured in the breach reporting regime, which impose significant compliance costs on industry with little benefit to consumers or regulators;
9. Support the introduction of a product modernisation regime, including a CGT rollover for legacy superannuation and managed investment products, to improve efficiency, reduce costs and deliver better long-term outcomes for consumers.

Cashflow tax and implications for financial services

10. The final report should not recommend the application of a cashflow tax to financial services;
11. Continue to support a lower corporate tax rate as part of reforms to strengthen Australia's international competitiveness;
12. Call for a broader review of Australia's tax system, beyond corporate and cashflow tax, to ensure a holistic and neutral approach that supports competitiveness and investment;

Positioning Australia as a Leading Global Investment Hub

Australia has the foundations to be a leading global financial centre, but our potential remains underutilised. Despite the sophistication of our domestic funds management sector and internationally competitive fees, Australia exports only 6.5 per cent of funds under management, compared with Singapore's 78 per cent. Earlier FSC analysis shows that doubling overseas funds under management from \$170 billion to \$340 billion would generate an additional \$1.9 billion in sector revenue each year, alongside broader GDP and productivity gains.

The FSC supports the Productivity Commission’s interim report view that regulation is hampering productivity in the financial services sector. In a global economy, capital will flow to jurisdictions that offer certainty and proportionate obligations, and regulatory arbitrage risks discouraging investment in the Australian market. A focused stream of work by the Commission or Government on red tape reduction and competitiveness in financial services would send an important signal to global investors that Australia is committed to being an attractive and stable destination for capital.

With the right policy settings, there is significant potential to increase capital inflows, expand exports, and direct investment to national priorities such as the net zero transition and affordable housing. However, unnecessary tax and regulatory barriers continue to discourage global managers from establishing in Australia and deter passive investment by trusted foreign investors.

Key areas for reform include:

- **Managed Investment Trusts (MITs):** The current two-year timeframe for start-up funds to satisfy the “widely held” test is unrealistic and deters early entrants. Extending this to five years would make Australia more attractive for new fund establishment.
- **Corporate Collective Investment Vehicles (CCIVs):** Intended to align Australia with international practice, CCIVs have struggled to gain traction. The absence of rollover relief prevents existing funds from transitioning without crystallising tax liabilities. Providing rollover relief and addressing residual technical barriers would unlock the regime’s potential.
- **Asia Region Funds Passport:** Complex withholding tax arrangements are a key reason for low take-up. Adopting a single competitive rate, for example 5 per cent, would simplify compliance and make Australia a more attractive base for regional funds.
- **Taxation of Financial Arrangements (TOFA) Hedging Rules:** Current rules can tax non-existent gains on foreign exchange hedges, discouraging international diversification and adding unnecessary costs. Reform is needed to better align tax outcomes with underlying investments.

Unnecessary barriers also exist in Australia’s foreign investment framework. Current Foreign Investment Review Board (FIRB) approval processes and fees add cost and delay for routine, low-risk capital from trusted institutional investors. Streamlining requirements and reversing recent fee increases would remove a recognised deterrent to capital inflows.

Australia’s migration settings can also play a role in positioning the country as a global hub for investment and innovation. The National Innovation Visa presents an opportunity to attract talent, but a dedicated investor stream would ensure capital and entrepreneurial expertise is channelled into priority sectors such as renewable energy, technology and advanced manufacturing, while strengthening the start-up and venture capital ecosystem.

RECOMMENDATION 1

The Government or Productivity Commission should undertake a focused stream of work on proposals to reduce red tape and strengthening international competitiveness in financial services.

RECOMMENDATION 2

The Government should introduce revenue-neutral tax changes to make Australia a more attractive domicile for investment management, including reforms to MITs, CCIVs, the Asia Region Funds Passport and TOFA hedging rules.

RECOMMENDATION 3

Recommend the simplification of Foreign Investment Review Board approvals and the reversal of recent fee increases for passive, low-risk capital from trusted institutional investors.

RECOMMENDATION 4

Consider an investor stream within the National Innovation Visa to draw experienced entrepreneurs and investors with a track record of building and scaling businesses.

Building a Collaborative and Efficient Regulatory Framework

The Productivity Commission’s interim report recognises that the “ever-growing thicket of rules” imposes significant costs on business and holds back productivity. In financial services, this problem is magnified by frequent changes to law, overlapping reporting obligations, and an enforcement culture that prioritises litigation over collaboration.

The FSC supports the Commission’s draft recommendations to reduce complexity and increase clarity in regulation. Draft Recommendation 2.1 *Set a clear agenda for regulatory reform* addresses the need for greater clarity in Australia’s complex web of legislative and soft policy regulation. Setting targets and clear government objectives would give industry more certainty on the future regulatory landscape.

The FSC also supports Draft Recommendation 2.2 *Bolster high-level scrutiny of regulations* to ensure greater oversight in reducing additional layers of complexity and burden. The FSC also supports Draft Recommendation 2.3 *Enhance regulatory practice to deliver growth, competition and innovation* as another important proposal to give regulators and policymakers a clear lens to ensure markets thrive rather than being held back by red tape.

In our previous submission to the Commission, the FSC proposed a balanced scorecard approach for regulators, under which regulator performance would be measured not only by enforcement outcomes but also by their ability to minimise regulatory uncertainty, minimise regulatory costs, and facilitate industry growth. This approach would ensure regulators adopt a more collaborative, supervisory-first posture, delivering greater consistency in outcomes and supporting the Productivity Commission’s aim of a more dynamic and resilient economy.

The FSC has previously recommended the use of updated Statements of Expectations as a practical tool to achieve this balance, and we welcome that the Productivity Commission has recognised this in its interim report. Clear Statements of Expectations would help regulators place greater weight on certainty, proportionality and collaboration in their supervisory approach, ensuring regulation supports growth and innovation rather than adding unnecessary complexity.

Clear guidance in areas of legal uncertainty is also critical to balancing consumer protection with market development. Recent practice has too often relied on high-profile enforcement action where the law is unclear, leaving courts to determine interpretation after the fact. This has created regulatory risk, deterring innovation in areas such as sustainable investment and discouraging foreign entrants. A more collaborative approach, similar to regulators overseas or the ATO’s use of determinations, would provide certainty upfront and reduce reliance on punitive enforcement. By issuing practical guidance and working with industry, regulators can prevent greenwashing while giving product issuers the confidence to develop new options, expanding consumer choice, aligning with international standards, and keeping Australia an attractive market for global capital.

Simplifying regulatory obligations is also essential to reduce unnecessary costs and free resources for innovation and growth. The current breach reporting framework captures immaterial breaches that cause no consumer harm, creating significant compliance costs without corresponding benefit. Exempting these would remove an estimated \$183 million in costs over 10 years and allow firms to

focus on issues that matter to consumers.

A recalibrated regulatory culture should therefore focus on providing certainty, reducing duplication, and promoting collaboration between regulators and industry. This would provide the confidence needed for long-term investment and support innovation in product markets.

Australia's superannuation and managed funds sector continues to carry the burden of outdated, legacy products that impose unnecessary cost, complexity and inefficiency on both providers and consumers. Members in older products often face higher fees, weaker investment governance frameworks, and limited access to modern features such as retirement solutions and digital servicing. For industry participants, the inability to transition members into contemporary, better-performing products without triggering adverse tax consequences has long been a barrier to innovation.

The FSC continues to advocate for a product modernisation regime, underpinned by a capital gains tax rollover that allows superannuation funds and managed investment schemes to move consumers into newer, more efficient products without crystallising tax liabilities. Previous modelling indicates such reform could deliver \$16 billion in additional retirement savings by 2050.¹ This is a reform that comes at minimal cost to government revenue while significantly improving long-term outcomes for consumers.

Product modernisation would also reduce system-wide inefficiency, enabling providers to decommission outdated administration systems and redirect resources towards innovation and new product development. The benefits extend to regulators, who would be able to oversee a more streamlined product set, and to consumers, who would enjoy simpler disclosures and more comparable offerings.

Embedding product modernisation as part of the Commission's recommendations under Pillar 1 would provide a strong signal that regulatory settings should enable the transition to modern, fit-for-purpose products, rather than perpetuating inefficiencies caused by historical tax barriers.

RECOMMENDATION 5

Retain the draft recommendations in the Pillar 1 interim report relating to *Regulating to promote business dynamism*, to ensure regulatory reform that achieves greater clarity and efficiency remains a central focus.

RECOMMENDATION 6

Recommend the Government adopt a balanced scorecard for assessing regulator performance, covering outcomes such as consumer protection, industry growth, legal certainty, and minimising regulatory cost.

RECOMMENDATION 7

Emphasise the need for regulators to provide clear guidance in areas of legal uncertainty, particularly for sustainability-related product claims, to prevent greenwashing while supporting innovation. It should encourage a collaborative approach to give industry certainty upfront rather than relying on enforcement.

RECOMMENDATION 8

Examine the impact of immaterial breaches currently captured in the breach reporting regime, which impose significant compliance costs on industry with little benefit to consumers or regulators.

¹ [EY Product Modernisation Research, 2023](#)

RECOMMENDATION 9

Support the introduction of a product modernisation regime, including a CGT rollover for legacy superannuation and managed investment products, to improve efficiency, reduce costs and deliver better long-term outcomes for consumers.

Cashflow tax and implications for financial services

The Productivity Commission's interim report canvasses company tax reform, including a net cashflow tax alongside a reduced statutory rate. While the intent is to encourage investment, the design is not fit for purpose in financial services.

A cashflow tax would create distortions by encouraging firms to restructure below the \$1 billion threshold, undermine neutrality across sectors, and impose significant compliance costs due to its interaction with existing frameworks such as franking credits, capital gains tax, gearing rules and attribution managed investment trust member annual statements. Fund managers and superannuation funds, while not "interest margin" businesses, are fundamentally similar in nature to core banking and other finance entities and should be treated consistently. Applying a narrow definition of financial services risks creating further distortions and competitive inequities within the sector.

The FSC supports the Productivity Commission's broader objective of improving Australia's international tax competitiveness and agrees that lowering the corporate tax rate would help achieve this. However, piecemeal changes risk creating further complexity. The Productivity Commission's final report should instead call for a comprehensive review of the tax system to ensure competitiveness, neutrality and sustainability across the economy. For financial services specifically, the focus should be on reforms that encourage growth and international investment, such as amending withholding tax arrangements and creating a more attractive environment for global capital.

RECOMMENDATION 10

The final report should not recommend the application of a cashflow tax to financial services.

RECOMMENDATION 11

Continue to support a lower corporate tax rate as part of reforms to strengthen Australia's international competitiveness.

RECOMMENDATION 12

Call for a broader review of Australia's tax system, beyond corporate and cashflow tax, to ensure a holistic and neutral approach that supports competitiveness and investment.

We would appreciate the opportunity to meet with your team to discuss these proposals further, including any additional information or support that we or our members may be able to provide. For further information, please contact James Young (Policy Manager, Funds Management and Taxation) at jyoung@fsc.org.au.

Kind regards,

Chaneg Torres
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