FEDERAL ELECTION POLICY PRIORITIES

2025

CEO Introduction

A strong financial services sector is vital for Australia's economic well-being.

The domestic economy is in a malaise, with Australian Gross Domestic Product (GDP) slowing in 2024, marking the weakest rate of annual GDP growth since the 1990s recession, excluding the COVID-19 economic shock.

The Australian economy is currently reliant on federal and state government spending to keep economic growth positive, with federal government spending now at 12.3 per cent of nominal GDP.

Getting the economy moving again requires private sector-led growth. As one of the largest contributors to the domestic economy, the financial services industry has an important role to play in achieving sustainable economic growth and delivering secure employment and improvements in living standards for Australians.

The Financial Services Council (FSC) represents Australia's investment managers, superannuation funds, investment platforms and financial advice businesses. They are stewards of the savings of millions of Australians and play a leading role in capital formation and investment in the Australian economy.

The financial services industry encourages the next parliament to embrace a reform agenda to:

1. **Promote investment and economic growth**
2. **Make Australia's tax system more efficient**
3. **Reduce and streamline regulation**

This pre-election policy document outlines 15 priority reform proposals to achieve these goals and includes economic modelling on the 12 reforms that directly relate to the financial services sector. Our modelling demonstrates that the FSC's policy recommendations would generate:

- an additional $19 billion of GDP over the next decade;
- almost $2 billion a year in export revenue for the financial services sector by attracting additional capital into Australia; and
- an $800 million a year increase in the sector's productivity through a combination of reducing costs, lowering fees and increasing returns to consumers.

The Johnson Report in 2009 recognised Australia's great potential to grow as a global financial services centre. The financial services sector is one of Australia's key comparative advantages, but continues to be underutilised as a driver of economic growth.

Since the Johnson Report, Australia is behind international peers with leading financial centres in competitiveness rankings, remaining outside the top 10 countries. Despite our sophisticated investment sector and globally competitive management fees, Australia only exports 6.5% of funds under management, compared to global peers such as Singapore, who export 78% of funds under management.

The financial advice industry has dramatically reduced within the last decade from a peak of 28,000 financial advisers in 2018 to around 15,600 advisers more recently. Without reform to encourage investment in advice businesses the sector will not have the capacity to provide valuable financial advice to the 2.5 million Australians who will retire over the next ten years.

Fiscal pressures on the budget have caused successive Governments to eschew meaningful tax reform and instead treat Australians' superannuation savings as a source of funding through higher taxes, undermining consumer confidence in our superannuation system.

Tax reform has the capacity to re-invigorate growth in the Australian economy. The financial services industry would welcome and participate in a holistic, evidence-based tax review. At 30 per cent, Australia's company tax rate is uncompetitive with an OECD average rate moving towards 20 per cent, impacting Australia's international competitiveness and discouraging domestic investment.

The FSC recognises a mature tax reform debate requires all options to be left on the table, including taxes on superannuation, the company tax rate and the GST. The history of superannuation tax changes under both major parties, however, has been tinkering that undermines confidence in the system. If the major parties do not commit to a holistic tax review, the FSC calls on them to rule out changes to superannuation taxes.

Australia is well placed to have a private sector led economic recovery. This roadmap for reform offers the next parliament a strong future for the financial services sector that will contribute to the financial wellbeing of all Australians.

Blake Briggs

Chief Executive Officer

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The Financial Services Council calls on both major parties to implement reforms that will increase the competitiveness of the financial services sector:

1. Commit to a regulatory reduction and regulatory streamlining agenda

Form a red tape razor gang responsible for slashing inefficient regulation and implement the 9 reforms listed in this policy document that will reduce the regulatory burden to lower costs for business and consumers.

2. Undertake a review of the tax system

Tax reform has the capacity to reinvigorate growth in the Australian economy through increased productivity and capital investment. The financial services industry supports a holistic, evidenced-based tax review which genuinely considers all options for reform as part of a mature policy debate. This is necessary to ensure government avoids the temptation to make ad-hoc changes to superannuation as a substitute for real reform and fiscal constraint.

3. Boost productivity and growth

A proactive productivity and growth agenda for the financial services industry will support the expansion of the Australian financial services sector as a hub in the Asia-pacific, encouraging the inflow of overseas capital that can be directed to Australian businesses, and grow the financial advice industry.

1. Commit to a regulatory reduction and streamlining agenda

Form a red tape razor gang responsible for slashing inefficient regulation and implement the 9 reforms listed in this policy document that will reduce the regulatory burden to lower costs for business and consumers.

Simplify the Breach Reporting (Reportable Situations) Framework

PORTFOLIO: Cross-Industry

PRIORITY: Legislate in the first year of term

BACKGROUND: The breach reporting regime still requires numerous minor or technical breaches to be reported, even where they do not cause any customer loss, placing increasing strain on ASIC and industry resources without commensurate investigatory intelligence for the regulator. Current relief is unduly narrow. In addition, the ASIC Portal for submitting breaches requires material improvement and redesign.

The FSC estimates that simplification of the breach reporting regime will save businesses $183 million in net compliance costs over 10 years, and 34,000 hours a year that could instead be deployed into resolving more consequential breaches faster.

RECOMMENDATION:

Breaches which do not result in financial loss or damage to the consumer should be exempted from the breach reporting regime. Government should work with ASIC to improve the ASIC Portal.

Allow for the rationalisation of legacy superannuation and managed investment products

PORTFOLIO: Superannuation and Funds Management

PRIORITY: Legislate in the first year of term

BACKGROUND: Superannuation funds and fund managers face significant barriers when transitioning consumers from legacy investment products to more modern, efficient alternatives. These barriers primarily stem from tax implications, particularly Capital Gains Tax (CGT), which is triggered when consumers move out of older products. Additionally, transitioning may affect social benefit entitlements, further discouraging consumers from switching to better-performing products. As a result, consumers remain 'locked ' in higher-cost, lower-performing products.

Implementing a product modernisation regime that mitigates these tax and social benefit consequences would significantly enhance consumer outcomes. By 2050, such a regime is projected to deliver an additional $16 billion to consumers' retirement savings, increasing collective retirement incomes by $22 billion. The framework would also yield fiscal benefits for the government, including increased tax revenues from higher net investment returns and a reduction in social benefit payments.

RECOMMENDATION: Introduce a product modernisation mechanism that provides CGT rollover relief and ensures the continuation of social benefit entitlements. This would enable the closure of legacy products and facilitate the movement of consumers into more modern, higher-performing, and lower-cost products.

Promote competition in the superannuation market

PORTFOLIO: Superannuation and Financial Advice

PRIORITY: Consultation throughout the term

BACKGROUND: As the superannuation system has evolved, regulation has been default-centric. This has failed to recognise different levels of customer engagement, particularly for those who are more engaged and exercise various degrees of choice of superannuation products. Default-centric regulation, that displaces legitimate consumer choices and consumers' financial advisers, works against Australians being engaged with their retirement. This trend can be seen:

- from proposals to extend the performance test to choice products, where a consumer has made an active choice on the basis of receiving financial advice,
- with the implementation of the Retirement Income Covenant, where regulators have suggested the Trustee should be providing advice to customers about their retirement in circumstances where that customer already has professional personal advice, and
- in proposals that call for the defaulting of consumers into retirement products, the testing of retirement products like default MySuper products, or the setting up of default retirement products, which would limit consumer engagement and choice.

The FSC believes that the superannuation system should be built on the principle of encouraging superannuation customers to be engaged with their superannuation and make active choices that suit their individual needs. Consumers should be provided with tools, guidance, and where required, access to affordable advice to help them make individual decisions for their specific circumstances.

RECOMMENDATION: Government policy should promote consumer choice and competition in the superannuation and retirement income market. As part of the ongoing review of the Your Future, Your Super performance test and the ongoing consultation into retirement phase policy, proposals should recognise the different types of superannuation products and the role of personal financial advice in delivering good outcomes for customers:

- Avoid inappropriate expansion of the Your Future, Your Super performance test.
- Ensure appropriate application of retirement phase policy to choice products and superannuation platforms, where consumers make active decisions, often with financial advice, that distinguishes them from default products.
- Ensure the preservation of competition and choice for consumers in retirement products to support the growth of innovative retirement income solutions. Recognise that consumers who are more engaged and have the confidence to spend more of their balance will have better outcomes in retirement.

Introduce a product labelling regime for sustainable and responsible investments

PORTFOLIO: Funds Management

PRIORITY: Legislate in the first half of term.

BACKGROUND: Consumers are increasingly demanding investment products that align with their personal values, and there is a need for greater clarity and consistency in the sustainable investment product labelling market.

Noting that sustainable investment themed products have been developed based on a range of different objectives and methodologies, the focus should be on informing investor decisions and ensuring claims are well understood and not misleading. This will assist investors in understanding products in the market and enable them to make informed decisions on how to invest in line with their preferences or goals.

A consistent product labelling framework will provide regulatory certainty to product issuers and encourage the growth of investment products with sustainability-related or ethical-themed investment strategies, meaning greater choice for consumers to invest in alignment with their values and greater capital flow to meet Australia’s net zero and sustainability goals.

If Australia were to return to the trend of fund flows before the drop following recent regulatory uncertainty, this could lead to at least an additional $3.2 billion in capital each year flowing into the sustainable and responsible investments sector.

RECOMMENDATION: Prioritise developing a sustainable product labelling regime. The framework should allow for a wide range of financial products and be capable of application to diverse strategies and approaches to sustainable and responsible investment.

Provide a level playing field under the foreign investment framework

PORTFOLIO: Funds Management

PRIORITY: Legislate in the first year of term

BACKGROUND: To make Australia a more attractive investment destination, it is essential to streamline foreign investment review processes. Foreign Investment Review Board (FIRB) clearance currently needs to be obtained for most routine, passive investment activities by global funds, with several minor exceptions. These investments do not pose a national security risk to Australia and these barriers deter investment in Australia and discourage the exploration of more active, larger-scale investment projects.

The Government recently implemented an improvement by exempting interfunding arrangements (transactions within a fund or its related entities) from the FIRB clearance process. While this represents much needed progress, it is essential for more comprehensive measures to be put in place to resolve barriers to routine passive investing transactions – many of which involve investments being made for Australian investors.

High fees associated with FIRB applications also deter foreign investment, and are not appropriate where applicants are low-risk or the investments are clearly in the public interest.

RECOMMENDATION:

At present, regulatory barriers create unnecessary obstacles to global fund managers who set up operations in Australia, and invest on behalf of Australians, which has adverse impacts on the Australian economy.

- The Government should provide a level playing field for Australian domiciled global funds under the FIRB regime by exempting trusted investors who are fiduciaries for Australians' savings.
- The Government should reverse the decision to double fees on FIRB applications for low-risk investors to prevent the further stifling of investment.

Reform education requirements for financial advisers

PORTFOLIO: Financial advice

PRIORITY: Consult and implement in first or second year of term

BACKGROUND: The current education requirements for financial advisers are unduly prohibitive to new entrants, exacerbating the shortage of financial advisers. Most young people at university study a generalist degree such as commerce, business, or economics, but have competency in some topic areas that are relevant to financial advice. The pathway to becoming a financial adviser should not be limited to people who have completed a financial planning degree and instead should be flexible enough to accommodate new entrants and career changers by having elements of their pre-existing degree courses recognised, while maintaining appropriate qualification levels to ensure consumer protection.

Appropriate pathways should also be developed for the proposed new class of adviser, under the second tranche of reforms in response to the Quality of Advice Review, to become relevant providers over time. Reforming the education requirements could increase the future supply of advisers, which could lead to lower growth in costs in advice, which have increased by 58% between 2018 to 2023.

RECOMMENDATION:

- Increase the pool of relevant providers by updating the education standard and introducing new core knowledge areas for new entrants and three additional elective knowledge areas. The core areas should represent essential knowledge for financial advisers, such as: commercial law, taxation, financial advice regulatory and legal obligations, ethics and professionalism and behavioural finance. This proposal would ultimately support people from other professional backgrounds such as stockbrokers and accountants pursuing a career change to meet the education standards.
- Consider the development of appropriate pathways for the proposed new class of adviser to become relevant providers over time.

Reduce uncertainty with Design and Distribution Obligations (DDO) compliance

PORTFOLIO: Cross-Industry and Funds Management

PRIORITY: Begin review in the first or second half of term

BACKGROUND: The DDO has been in operation for 3 years now, however it presents some practical challenges for financial services businesses, due to its broad scope. Some examples include:

- Uncertainties regarding the “reasonable steps” obligations are causing fund managers to withdraw from the retail market, leading to lower choice for unadvised and retail consumers.
- DDO “distribution conditions” are mandatory in ASIC’s view, but this has resulted in practical difficulties for financial services businesses drafting distribution conditions for vanilla products such as exchange traded products (ETFs).
- DDO applies to all forms of “retail product distribution conduct”, when arguably some of these types of conduct (such as merely providing Product Disclosure Statements (PDSs) to retail clients) should not have been captured.
- While DDO does not apply to “excluded conduct”, the definition of excluded conduct is arguably too narrow and acts as an unnecessary cost to the financial advice process.

RECOMMENDATION: Government should consult with industry on technical changes to the law to address compliance challenges, so industry can obtain greater clarify on the scope of the obligations and to ensure greater product choice for consumers is not being inadvertently reduced.

Implementation of a Digital ID Scheme in Australia

PORTFOLIO: Cross-Industry

PRIORITY: Consult throughout first term

BACKGROUND: Work has commenced on the implementation of a cross-government digital identity verification service which will help organisations that need to cite identity data to do so without the need to collect and keep identity documents. Application of a digital ID in the financial services sector would result in benefits for consumers and businesses including:

- **Time savings for consumers** from no longer needing to provide certified or uncertified proof of ID for transactions such as loan and credit applications. This could be worth over $256 million a year based on Australia’s adult population making one transaction requiring proof of ID every five years and the 115 minutes time saving cited in the Department of Prime Minister and Cabinet’s report.

- **Fraud reduction benefits for consumers.** ID fraud is estimated to cost Australians over $3.6 billion each year. If just a 5 per cent reduction in fraud costs could be achieved, this would save Australians $182 million a year.

- **Productivity gains for financial services businesses** resulting from a reduction in the manual processing and handling of ID checks. A 10-minute saving per transaction requiring ID checks (based on Australia’s adult population making one transaction, requiring proof of ID, every five years) could result in productivity gains of $102 million a year for the sector.

RECOMMENDATION: Implement a Digital ID system in Australia which streamlines existing regulatory requirements while providing a secure identity verification service for Australians.

Review the operation of the Compensation Scheme of Last Resort (CSLR)

PORTFOLIO: Financial advice

PRIORITY: Commence review in first year of term, to be finalised by the first half of term.

BACKGROUND: The cost burden on financial advisers in Australia has increased significantly due to the combined impact of the annual ASIC levy and CSLR levy. The ASIC levy has more than doubled in recent years, and is projected to cost $1,500 per licensee, plus $2,878 per adviser for FY2024. Furthermore, the inclusion of Dixon Advisory cases in the CSLR has meant that financial advisers are expecting an additional levy of at least $1,186.

Compensation is currently determined using “but for” compensation principles. Under this methodology, compensation is based on what a client’s portfolio might have looked like if unsuitable advice had not been provided. This approach results in CSLR compensation for hypothetical gains rather than capital losses. The CEO of the CSLR operator has publicly stated that 80 per cent of the compensation paid under the CSLR was for unrealised capital gains, and 20 per cent was for capital losses.

There is also a significant proportion of the levies collected that are dedicated to administrative costs. In 2024, it was around 27 per cent, which is higher than the administration fee levels seen in government programs which can be in the range of 8-13 per cent.

RECOMMENDATION: Government should do a comprehensive review of the operation of the CSLR to ensure efficiency and prevent unsustainable cost for industry. This would include:

- reviewing the administration costs of the CSLR
- considering government contributions
- considering appropriate capping of industry contributions that reduce cost uncertainty
- reviewing arrangements like solvency, liquidity, insurance, capital and risk management requirements which prevent firms from collapsing or failing to meet obligations like compensation payments if required.

Consumers should also only be compensated for their actual losses, instead of compensating them for hypothetical foregone gains, which prevents the CSLR from being truly a scheme of last resort.

2. Undertake a review of the tax system

Tax reform has the capacity to reinvigorate growth in the Australian economy through increased productivity and capital investment. The financial services industry supports a holistic, evidenced-based tax review which genuinely considers all options for reform as part of a mature policy debate. This is necessary to ensure government avoids ad-hoc changes to superannuation taxes as a substitute for real reform and fiscal constraint.

Undertake a holistic tax reform agenda

PORTFOLIO: Cross-portfolio

PRIORITY: Throughout term

BACKGROUND: The last comprehensive review of Australia's tax system was held in 2015, and the financial services industry supports tax policy settings being re-evaluated to identify areas for reform to promote Australia's long-term prosperity.

Important considerations in such a review include the appropriateness of the overall tax burden and levels of government spending, as well as examining the relative efficiency and distribution of taxes. Australia's reliance on direct taxes, including a company tax rate that is internationally uncompetitive and increasingly onerous personal income taxes, should be examined, along with opportunities to remove inefficient state taxes.

RECOMMENDATION: The incoming government should commit to a holistic review of the design of the current tax system. This review should consider the most effective tax policy settings to support Australia's continued economic growth and long-term prosperity and ensure a stable and equitable revenue base.

Some key principles for broader systemic tax reform include:

- Lowering corporate tax rates to make Australia internationally competitive;
- Rebalancing the composition of tax as part of a holistic reform package that includes eliminating inefficient state taxes and considering appropriate consumption tax rates;
- Improving Australia's attractiveness and competitiveness as a global financial centre; and
- Ensuring fairness and certainty in superannuation tax settings, taking into account concessional rates, the preservation age and aged pension eligibility.

Commit to stable superannuation tax and policy settings

PORTFOLIO: Superannuation

PRIORITY: First year of term

BACKGROUND: Superannuation is a cornerstone of Australia's retirement system, providing millions of Australians with financial security and a dignified retirement. Confidence in the system is being eroded by frequent changes to its tax settings. Tax increases by successive governments, including the introduction of the transfer balance cap, Division 293 tax on high-income earners, regular changes to contribution caps, and more recently, the proposed Division 296 tax on high balances, have created uncertainty for consumers and cost and complexity for the industry.

Piecemeal tax changes generate poor policy design, such as the proposed application of the Division 296 tax on unrealised gains, taxing Australians on the increase of the value of assets they have not yet sold. When Australians contribute to their retirement by saving through superannuation, they do so with the expectation that tax policy settings will be fair and broadly stable.

The FSC supports reviewing superannuation tax settings as part of a government tax review, but in the absence of a holistic, evidence-based process, the FSC calls on both parties to rule out changes to superannuation tax changes in the next term of parliament.

RECOMMENDATION: Commit to consistent and stable policy and tax settings for superannuation, ensuring the system remains focused on its core purpose: growing Australians' savings to deliver a secure and dignified retirement.

3. Boost productivity and growth

A proactive productivity and growth agenda for the financial services industry will support the expansion of the Australian financial services sector as a hub in the Asia-pacific, encouraging the inflow of overseas capital that can be directed to Australian businesses, and grow the financial advice industry.

Promote Australia as a regional and global financial centre

PORTFOLIO: Funds Management

PRIORITY: Throughout term

BACKGROUND: Australia has significant potential to expand its role as an exporter of financial services to the Asia-Pacific region and the world. Complex and uncompetitive tax settings are a key barrier to the export of Australian funds management expertise, and limit our potential as a regional and global financial centre. In order to achieve the full benefit of Australia's expertise in funds management services, the attractiveness and competitiveness of Australia as an investment destination must be improved.

Australia's funds management sector currently manages over $3.9 trillion worth of assets (in managed funds). Of this, only $170 billion is managed on behalf of overseas investors. This is relatively small when compared to global financial centres such as Singapore where nearly 80 per cent of Funds Under Management (FUM) are managed on behalf of overseas investors.

Increasing the attractiveness of Australia as a destination for funds under management through tax reforms, amongst other initiatives, would allow Australia's funds management sector to compete more effectively and grow into a major global financial services centre.

A doubling of FUM on behalf of overseas investors from $170 billion to $340 billion would result in an additional $1.9 billion a year in direct revenue for the sector and significant indirect benefits for Australia's economy.

RECOMMENDATION: Implement low complexity and revenue-neutral measures to improve competitiveness as a priority including:

- **Modify rules for start-up funds to qualify as a managed investment trust (MIT) by extending the existing qualification timeframe to five years:** Under the current rules for start-up funds seeking MIT status, a fund needs to meet the widely held and not closely held tests within two years of establishment to qualify.
  In practice, it can take up to five to six years for a fund to become properly established.

Failure to qualify is a material risk to investors, discouraging early entry and further limiting funds' ability to meet the requirements. An extension can be balanced with stricter additional active marketing requirements to ensure that only funds intending to qualify will benefit from withholding tax concessions.

- **Improving rules for tax treatment of foreign exchange hedging**: complement deferred amendments to the TOFA rules for foreign exchange hedging to provide easier access to existing hedging rules and better match the gains and losses of hedges with those of their underlying assets.
- **Introduce a rollover regime for the Corporate Collective Investment Vehicle (CCIV):** Transitional arrangements should be implemented to allow existing managed investment trusts to transfer into the CCIV regime without attracting substantial tax liabilities. This would promote increased uptake of the CCIV structure by allowing existing funds to consolidate into the regime. A post-implementation review of the current CCIV framework should also be undertaken to identify further opportunities to remove tax disincentives for adopting the structure.
- **Simplify withholding tax for all payments by passport funds such as applying a single 5 per cent rate:** Among participants in the Asia Region Funds Passport (ARFP), Australia's complex withholding tax rules are a barrier to competitiveness. While resulting in similar tax outcomes in practice, the complex system of different tax rates and exemptions result in high compliance costs and a perception of being a higher-taxing jurisdiction. This system creates additional administration issues for foreign investors and operates differently to withholding tax regimes in other jurisdictions, which generally apply a single tax rate to distributions.

Implement an investment component in the National Innovation Visa to boost investment in start-ups and green companies

PORTFOLIO: Funds Management

PRIORITY: First year of term

BACKGROUND: The new National Innovation Visa (NIV) has the potential to deliver significant benefits for Australia, including nation-building investments in venture capital and start-ups, renewable energy, sustainable finance, healthcare infrastructure, and advanced manufacturing.

Analysis suggests the inclusion of an investment stream in the NIV could provide billions in future investments over the next decade, supporting key government priorities and encouraging venture capital investment.

Since its inception in 2012, the former Significant Investor Visa (SIV) contributed over $15 billion in complying investments and significantly more in additional investment. This was in return for only 300 primary visas annually, representing around 0.17% of Australia's annual migration intake. The independent Parkinson Review commissioned by the Government acknowledged the SIV had clear

economic benefits and could be retained in a targeted way to support innovative investments and venture capital.

RECOMMENDATION: Include an investor stream within the new National Innovation Visa, modelled on the former Significant Investor Visa.

Implement Quality of Advice Review recommendations to increase access to quality, affordable financial advice

PORTFOLIO: Financial Advice

PRIORITY: Immediate

BACKGROUND: Financial advice in Australia remains unaffordable for most Australians, in many cases exceeding $5,000. This is the result of regulatory red tape and costs that do not enhance the customer experience. Following the Quality of Advice Review, reforms are being progressed which remove unnecessary costs from the advice process, permit new models of advice and make it easier for customers to access simple advice at an appropriate cost.

RECOMMENDATION: Noting the government's announcement around the Delivering Better Financial Outcomes Tranche 2 reform package, both major parties should commit to finalising the implementation of the Quality of Advice Review to grow jobs in the financial advice sector and make it easier for Australians to access affordable financial advice. Reforms should also consider the role of digital advice solutions to enhance efficiency, lower cost, and complement the provision of person-to-person advice.

Restore reduced input tax credits (RITCs) for Financial Advice

PORTFOLIO: Financial Advice

PRIORITY: Legislate in the first year of term

BACKGROUND: Following guidance released in December 2023, the ATO's current interpretation of the law is that funds and platforms are not eligible to claim reduced input tax credits (RITCs) as they are viewed as not being recipients of the supply of advice for GST purposes. This position is contrary to previous indications, including in private rulings. The change means funds and platforms cannot continue the long-standing practice of passing the benefit on to consumers, leaving them up to 7.5 per cent worse off.

RECOMMENDATION: Government should amend legislation to restore reduced input tax credits (RITCs) for superannuation funds and platforms on GST paid for financial advice. This would recognise funds and platforms as recipients of advice for GST purposes and clarify the availability of tax credits for GST on fees paid on behalf of consumers. This could be achieved as part the financial advice reform package or as part of a separate bill.