



22 March 2019

The Treasury
Financial Services Reform Implementation Taskforce
Langton Crescent
PARKES ACT 2600
via email: FOFAGrandfathering@treasury.gov.au

Dear Sir/Madam

Ending Grandfathered Conflicted Remuneration for Financial Advisers

The Australian Banking Association (**ABA**) welcomes the opportunity to provide comments on the Exposure Draft of Treasury Laws Amendment (Ending Grandfathered Conflicted Remuneration) Bill 2019. We view this as an important reform initiative to ensure no more conflicts for advisers and we encourage the Government to prioritise the passage of this Bill.

The banking industry recognises the conflicts of interests that exist with grandfathered conflicted remuneration and supports the Exposure Draft legislation to repeal the provisions set out in ss 1528, 1529 and 1531 of the *Corporations Act 2001*.

ABA member banks have committed to and are taking significant steps to change their processes and culture to ensure there is no repeat of the cases heard at the Royal Commission. As highlighted in the ABA's submission to the Interim Report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry¹, our member banks have already taken action to change the way they pay, retain and rebate grandfathered payments:

- Major banks have ended grandfathered payments attributable to their own products (and in some cases external products) to employed advisers;
- Some ABA members have also ceased to receive grandfathered payments they are entitled to receive as platform operators; and
- Some ABA members have also ensured that the value of grandfathered payments that would have been deducted from customers' accounts has been returned to the customer.

While our member banks have taken steps to remove these conflicts of interest, the industry has advocated for a legislative approach to implementation of these reforms² to ensure consistency across the industry and overcome practical and contractual challenges to fully removing conflicted remuneration. A legislated approach to implementation will provide uniformity and certainty across the industry and is a more efficient approach to banning these conflicted remuneration practices in a manner that will benefit consumers.

In progressing this reform, it is important that the Government considers potential unintended consequences for consumers, such as tax and social security impacts. Rebating consumers could raise income tax considerations, while the movement of customer assets from one product class to another, has the potential to trigger a capital gains tax event. Given this, the ABA supports appropriate transitional arrangements that ensure consumers are not left worse off by the reform.

Thank you again for the opportunity to provide this submission.

¹ Australian Banking Association, submission dated 26 October 2018, *Submission to the Royal Commission Interim Report*, available at https://www.ausbanking.org.au/images/uploads/ABA_Submission_to_the_Royal_Commission_Interim_Report.pdf, page 13.

² Australian Banking Association, media release dated 10 October 2018, *Ending fees for no service, grandfathered payments*, available at <https://www.ausbanking.org.au/media/media-releases/media-release-2018/ending-fees-for-no-service-grandfathered-payments>.



Australian Banking
Association

About the ABA

With the active participation of 23 member banks, the ABA provides analysis, advice and advocacy for the banking industry and contributes to the development of public policy on banking and other financial services. The ABA works with government, regulators and other stakeholders to improve public awareness and understanding of the industry's contribution to the economy and community. It strives to ensure Australia's banking customers continue to benefit from a stable, competitive and accessible banking industry.

Yours faithfully

Signed by

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