



COMMONWEALTH OF AUSTRALIA

PARLIAMENTARY DEBATES



HOUSE OF REPRESENTATIVES

PROOF

BILLS

**Treasury Laws Amendment
(Ending Grandfathered Conflicted
Remuneration) Bill 2019**

Second Reading

SPEECH

Thursday, 1 August 2019

BY AUTHORITY OF THE HOUSE OF REPRESENTATIVES

SPEECH

Date Thursday, 1 August 2019	Source House
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Questioner	Responder
Speaker Frydenberg, Josh, MP	Question No.

Mr FRYDENBERG (Kooyong—The Treasurer) (10:06): I move:

That this bill be now read a second time.

On 4 February 2019, the government released its response to the final report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

We have committed to taking action on all 76 recommendations of the final report and, in a number of important areas, we will go further.

Since the release of the final report of the royal commission, the government has:

instigated and responded to the APRA Capability Review;

expanded the remit of the Australian Financial Complaints Authority to require it to establish a new historical redress scheme to consider eligible financial complaints dating back to 1 January 2008;

amended legislation to extend ASIC's product intervention power to, and impose design and distribution obligations on, all financial and credit products within ASIC's regulatory responsibility;

initiated work with the states and the territories towards establishing a national farm debt mediation scheme;

passed legislation banning the inducement of employers by superannuation trustees and introduced civil penalties on superannuation trustees and directors for breaching the law; and

released consultation papers on the removal of the exemption for insurance claims handling, the enforceability of financial services industry codes, the merits of universal terms for MySuper products, and superannuation binding death benefit nominations for Indigenous people.

Through this bill the government takes another important step in implementing the recommendations of the royal commission by enacting legislation that will end the payment of grandfathered conflicted remuneration to financial advisers.

While conflicted remuneration to financial advisers has been banned since 2013, remuneration arrangements that had been entered into before this date were not subject to the ban. This allowed financial advisers to continue to receive conflicted remuneration under these arrangements.

However, grandfathered conflicted remuneration can entrench customers in older, poorly performing products. This is because financial advisers may be unwilling to switch customers into newer, better products if it means the adviser will lose their entitlement to the grandfathered conflicted remuneration.

The Productivity Commission, in its report *Superannuation: Assessing Efficiency and Competitiveness* released earlier this year, indicated:

... members of 11 retail funds identified in data from the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry are estimated to have paid in excess of \$400 million in (grandfathered) trailing adviser commissions in 2017.

The continued payment of these commissions is eroding the superannuation savings of Australians.

Commissioner Hayne put it very succinctly in the royal commission's final report, saying:

There can be, and is, no justification for maintaining the grandfathering provisions.

This bill implements this recommendation of the royal commission to end grandfathered conflicted remuneration.

Consumers will be the major beneficiaries from this reform. The government's actions will mean they will receive higher quality advice and stop paying higher fees to fund grandfathered conflicted remuneration.

It is also important to point out that the government's actions go even further than the royal commission recommendation, because we will also require grandfathered benefits to be passed through to retail clients, where these commissions remain payable in contracts after 1 January 2021.

Otherwise, it will be the financial product manufacturers, not customers, who will benefit from no longer having to pay grandfathered conflicted remuneration to financial advisers.

As a result, the bill includes a power for regulations to be made that will require the pass through of grandfathered conflicted remuneration to clients.

Specifying these requirements in regulations is the most appropriate approach as it provides the ability to make more detailed rules on how benefits must be passed through and also provides for flexibility to respond to changing industry circumstances in a more timely manner.

The government recognises that the industry will need time to implement and adjust to the abolition of grandfathering. In response, the bill provides industry until 1 January 2021 to end all conflicted remuneration, facilitating a smooth transition to the end of grandfathering.

However, where industry can move earlier than 1 January 2021, the government expects firms to do so, and to do it in a way that results in the benefits being passed through to consumers.

To ensure the industry acts swiftly to end grandfathered arrangements and passes through the benefits to clients, the government has issued a direction to the Australian Securities and Investments Commission to monitor and report on industry actions in the period from 1 July 2019 to 1 January 2021.

The government's action through this bill to end grandfathering is an important part of the actions we have taken since releasing our response to the royal commission.

Restoring trust in Australia's financial sector is part of our plan for a stronger economy.

Full details of this measure are contained in the explanatory memorandum. I commend this bill to the House.

Debate adjourned.