Product Modernisation Research

Financial Services Council

31 October 2023

EY
Building a better working world

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Ernst & Young was engaged on the instructions of the Financial Services Council Ltd (“Client”, “FSC”) to undertake general research on the impacts of a potential Modernisation regime, in accordance with the Scope of Services in our engagement agreement dated 18 August 2023.

The results of Ernst & Young’s work, including the assumptions and qualifications made in preparing the report, are set out in Ernst & Young’s report dated 31 October 2023 (“Report”). The Report should be read in its entirety including the transmittal letter, the applicable scope of the work and any limitations. A reference to the Report includes any part of the Report. No further work has been undertaken by Ernst & Young since the date of the Report to update it.

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Ernst & Young have consented to the Report being shared with the Client’s members, for reference in conversation with the Australian Government Treasury department.

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Executive summary

The “Modernisation” challenge – applicable to both Superannuation Funds and Managed Investment Schemes

Definition of Modernisation: Rationalisation of products and investment structures in a pragmatic and efficient manner by Trustees (Responsible Entity or Responsible Superannuation Entity) in the best interests of members/investors.

Barriers to “Modernisation”

1. No concept of a consumer interest test at a collective level leading to onerous requirements to obtain explicit member consent.

2. Triggering of capital gains tax (CGT), stamp duty and other transaction costs upon rationalisation of a product or investment structure

3. No concept of a “successor product” based on equivalency, rendering Trustees unable to choose a default option for their members.

There are system-wide inefficiencies with costs borne by individuals, government, regulators, trustees and advisors

Scale of the “Modernisation” Challenge

Within Superannuation Funds	**1,748,870** [1] Investor accounts	**$115bn** [1] Funds under Management (FuM)
Within Managed Investment Schemes	**135,000** [2] Investor accounts	**$17bn** [2] FuM
Potential increase in scale due to APT	**60,000** [3] Investor accounts	**$4bn** [3] FuM

Current state: Outside of a Successor Fund Transfer (SFT), whereby a whole superannuation fund is transferred to another and CGT relief applies for all members, there is no existing, viable mechanism that enables Trustees of Superannuation Funds (SFs) and Managed Investment Schemes (MISs) to efficiently rationalise products and investment structures. This creates an uneven playing field that only promotes efficiencies in a subset of scenarios. Consequently, the proliferation of products that could benefit from “modernisation” is creating system-wide inefficiencies, with our research indicating negative consequences for all stakeholders.

The recent application of the Annual Performance Test (APT) to trustee directed products is expected to increase the rate at which the Modernisation challenge grows.

Principles of FSC’s “Modernisation” policy position: With the aim of replicating the beneficial outcomes of rationalisation via an SFT, the underlying principles are designed to safeguard customers from poor outcomes whilst removing key barriers to modernisation. The FSC’s principles of a viable regime include:

a. Application of consumer interest test at a collective level

b. Introduction of a “successor product” concept for MISs

c. Transfer of tax and non-tax attributes to the new investment vehicle

d. Relief from the immediate tax implications of the rollover itself.

Sources:
1. https://www.apra.gov.au/news-and-publications/apra-releases-superannuation-statistics-for-march-2023
2. Survey responses provided by a range of FSC members.
3. https://www.apra.gov.au/2023-annual-superannuation-performance-test-trustee-directed-products

Executive summary

The case for a mechanism to support broader "Modernisation" of superannuation and Managed Investment Schemes

Key research findings:

Current legislative and tax settings are inconsistent – supporting mergers of whole superannuation funds, but not the modernisation of products and investment structures within a superannuation fund or Managed Investment Schemes.

The barriers to modernisation are creating system inefficiencies. The opportunity to provide consumers higher net investment returns translates into higher taxation revenue and age pension savings.

Basis of our findings:

EY conducted surveys and interviews with FSC members representing a range of superannuation funds and Managed Investment Schemes. Our research focused on various aspects of how a product modernisation regime may impact their businesses, customers and other stakeholders.

On the basis of the survey responses and available industry statistics, EY also conducted modelling of the potential costs and benefits to consumers and the Federal Government in relation to a potential product modernisation regime.

Key modelling outcomes:

Retirement outcomes

$16bn	$22bn (net)*
Increased balances at retirement	**Net income increases during retirement**

*** A $41bn increase** in revenue derived from increased retirement balances, **offset by a $19bn reduction** in age pension reliance.

- Superannuation members currently in accumulation phase and retiring between now and 2050 are projected to be cumulatively c.$16bn better off at retirement.
- As a result, these members are projected to have access to an additional c.$22bn in total income during retirement (after allowing for reductions in age pension payments of $19bn).

Government Revenue

$2bn	$19bn
Increased tax receipts	**Age pension savings**

- The Government is projected to receive an additional c.$2bn in tax receipts on investment earnings in the superannuation accumulation phase, with c.$700m of this increase received in the next 10 years if a viable regime currently existed.
- Importantly, the cost of providing CGT relief on rollover is expected to be negligible because without a suitable Modernisation mechanism, Trustees indicated they were unable to justify it is in the best interests of members.
- The Government is expected to save c.$19bn in age pension payments over the retirement phase, with the majority from 2040 onwards, noting only 1%, or c.$240m, of this saving is expected to occur in the next 10 years.

Executive summary

Stakeholder outcomes from broader "Modernisation"

Stakeholder	Expected benefits of reform
Member / investor outcomes	▸ **Access to equivalent products with higher net investment returns:** Driven by both higher expected investment performance and lower fee structures. Minimising the CGT implications (amongst other matters) is seen as a key enabler for accessing equivalent products. ▸ **Reduced risk of opportunity cost associated with being uninvested:** Driven by a reduced requirement for MISs to return funds into cash accounts when closing products. Without explicit investment instructions, trustees currently place funds in investors cash accounts when closing options / products, increasing the risk of sub-optimal returns for investors due to the inability to obtain timely advice or remain invested by 'default'. ▸ **Greater member equity related to reduced flow-on impacts to at-scale products or investment options:** The ability to eliminate the cost inefficiencies of operating sub-scale products on older legacy systems is expected to benefit all members, according to FSC member responses.
Government outcomes	▸ **Generation of greater tax receipts:** Driven by higher investment returns (net of fees) on customers account balances. ▸ **Generation of savings due to reduced age pension payments:** Greater net investment returns during the accumulation phase, leading to higher retirement balances and higher self-funded income streams during retirement. This reduces the reliance on the age pension over a prolonged period. ▸ **Opportunities to fund other initiatives:** The combination of additional tax revenue and reduction in age pension payments enables the Government to fund other initiatives.
Trustee outcomes	▸ **Increased operational efficiencies obtained from:** (i) Administrative savings associated with calculating fewer unit prices, lower custodian and platform fees (ii) Reducing duplicated regulatory and compliance processes such as audits, Target Market Determinations and Product Disclosure Statements. This is also expected to enable greater equity in pricing structures by reducing the potential for flow-on impacts associated with inefficiencies of operating duplicate products and options to members / investors more broadly. ▸ **Increased ability to focus on providing a better customer experiences through:** (i) A more competitive product (ii) More competitive pricing due to operational efficiencies (iii) Streamlined and more targeted customer service.
Regulator outcomes	▸ **Reduced burden on monitoring a larger volume of products:** As a result of rationalisation, Trustees are expected to maintain a lower number of product series which often comprised of the same investment mandate. Trustees are often required to duplicate regulatory processes such as audits and Target Market Determinations. ▸ **Facilitates a more competitive industry driving better outcomes for the consumer:** as noted above a more competitive environment is fostered due to producing operational efficiencies from rationalisation. This meets a key regulator objective to maintaining competitiveness.

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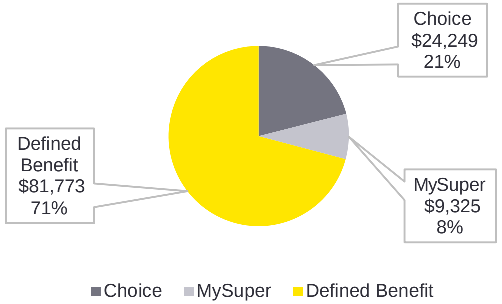
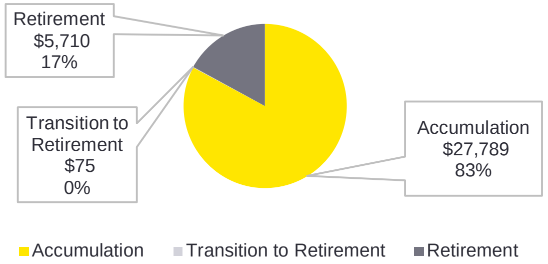
The "Modernisation" challenge

"Modernisation" challenge within Superannuation Funds

Scale of the "Modernisation" challenge within Superannuation Funds

As at 31 March 2023, an estimated **$115bn of Funds under Management (FuM)** across **1.7m member accounts** were held within Legacy Superannuation products, defined by APRA as products with existing members that are closed for new members to join. This equates to **c.3%** of the total FuM in the superannuation sector of $3,494bn[1]. The graphs[1] below outline the split of assets held within Legacy Superannuation products across a range of categories.





Key points to note in relation to the volume of FuM:

- The volume noted above covers Accumulation, Transition to Retirement (TTR), Retirement (Pension), and Defined Benefit (DB) products.
- While DB products form a significant portion of the Legacy products, this is not the focus of this research. DB schemes are a special case where the protection of member entitlements is the key issue rather than growing balances. The investment and operational cost risks are borne by the employers responsible for funding benefits, rather than the consumer.
- For modelling the impact of a potential "Modernisation" mechanism, the assets underpinning Legacy DB schemes have been excluded.

Sources:
1. https://www.apra.gov.au/news-and-publications/apra-releases-superannuation-statistics-for-march-2023
2. https://www.apra.gov.au/2023-annual-superannuation-performance-test-trustee-directed-products

In practice, several other scenarios may also benefit from a viable "Modernisation" regime which may not be captured under the FuM modelled. These scenarios include extending CGT relief to allow for partial SFTs where it is in the members' best financial interests.

Successor Fund Transfer (SFT) mechanism

In the current state, the SFT process allows the Trustee to conduct rationalisation as they deem fit, contingent on meeting members best financial interest obligations under a whole of fund transfer only. The Trustees' assessments consider the Capital Gains Tax (CGT) "rollover relief" provided. It also consists of sufficient protections for the member, whilst being viable for the Trustee, such that rationalisation efficiencies may be realised. The design of the SFT mechanism has been driven by regulatory expectations and the need for scale.

In many ways, the principles of the "Modernisation" regime proposed by the FSC reflect the mechanisms available to Trustees' during the SFT process yet enables Trustees with discretion to access these mechanisms for other scenarios where "Modernisation" is also beneficial. Based on interviews with various FSC members, the ability to conduct rationalisation during previous SFTs has occurred widely where it has been considered appropriate and favourable for all stakeholders. These FSC members welcome the availability of such a mechanism to all Trustees' to obtain system-wide efficiencies.

Future outlook

As part of the Your Future Your Super legislation, the APT was initially introduced for MySuper products. Subsequently, the APT has been extended to trustee directed products as at 30 June 2023. The nature of the APT risks the scale of the "Modernisation" challenge growing significantly in the near term, in the absence of a viable "Modernisation" mechanism (excluding SFT). The influence of the APT on the scale of the challenge includes:

- $11bn of FuM is captured under products that are closed to new members because of failing the APT[1].
- Following the extension of the APT to 805 trustee directed products, 96 products comprising of $4bn of FuM failed the APT as at 30 June 2023. These products risk closure to new members should they fail the APT in 2024, in which case they would further increase the "Modernisation" challenge[2].

Therefore, a viable "Modernisation" mechanism needs to be available on an ongoing basis.

"Modernisation" challenge within Superannuation Funds

Implications of no viable "Modernisation" regime

The outcomes of EY's research indicate that the limited ability to conduct "Modernisation" (excluding SFT) results in system-wide inefficiencies, creating sub-optimal outcomes for all key stakeholder groups. Detailed below are the outcomes from each stakeholder's perspective:

Member outcomes

Historically, Legacy superannuation products provide lower returns and incur comparatively higher fees. These observations can be attributed to:

- Poor performance from investment strategy.
- Historical fee structures relating to commissions.
- Higher costs associated with operational inefficiencies for the Responsible Superannuation Entity (RSEs). Refer to the subsequent sub-section for details.

Relative to being invested in their contemporary equivalents, members are worse-off at, and during, retirement due to being invested in Legacy superannuation products. The table below outlines the difference in investment returns and fees between Legacy and contemporary products over an eight-year period to 31 March 2023[1]. These differences are reflective of all superannuation funds (retail and industry), based on APRA statistics at 31 March 2023.

Category	Legacy products	Contemporary products	Difference
Investment option (returns including investment fees and tax)			
Conservative	2.88%	3.75%	(0.87%)
Balanced	4.85%	6.65%	(1.80%)
Growth	6.06%	6.75%	(0.69%)
Fee structure			
Administration fee	0.12%	0.07%	0.05%
Investment fee	0.35%	0.16%	0.19%

Sources:
1. https://www.apra.gov.au/news-and-publications/apra-releases-superannuation-statistics-for-march-2023

RSE outcomes

With the inability to conduct "Modernisation", significant operational inefficiencies are incurred by the RSE. The inefficiencies encountered relate to:

- Costly and time-ineffective operation of legacy and out-dated systems. This also leads to greater cyber risks associated with legacy systems.
- Additional costs associated with regulatory compliance of each product and option (e.g. Product Disclosure Statements, maintaining Target Market Determination, audits).
- Costs and reduced scale associated with maintaining multiple investment mandates.

Government outcomes

There is lost tax revenue associated with lower investment returns. Additionally, greater reliance is placed on the age-pension due to individuals having both lower superannuation balances at retirement and lower net investment returns during retirement.

Regulator outcomes

With the proliferation of Legacy products, greater effort is required by regulators (e.g. APRA, ASIC) to perform their duties in the monitoring of the industry.

Unintended consequences of no viable "Modernisation" regime

- Stifling product innovation: Without a viable "Modernisation" regime, Trustees indicated that it creates barriers for innovation (due to not having a mechanism to rationalise unsuccessful products). Trustees indicated they are hesitant to issue new retirement products under the Retirement Income Covenant without a viable mechanism to "Modernise". This results in poor member outcomes as consumer needs evolve.
- Potential flow-on impacts to members in contemporary products from the inefficiencies of maintaining operation of several products that could benefit from rationalisation. This can create differential outcomes between different cohorts of members / investors.
- In the current environment, start-ups or new competitors may introduce products under an external/independent Trustee. For these new entrants, it may be impractical to obtain their own Trustee licence once scale is achieved due to having no viable mechanism (such as a partial SFT). This hinders a more competitive environment.

“Modernisation” challenge within Managed Investment Schemes

Scope of “Modernisation” challenge within Managed Investment Schemes (MIS)

Based on discussions with FSC members, the ability to conduct “Modernisation” for an MIS can be beneficial under the following scenarios:

- Existence of the duplication of products or investment options.
- Existence of complex inter-woven investment structures with a common underlying fund.
- Sub-scale unit classes or funds (or those trending towards this classification point).

The scenarios where “Modernisation” is beneficial can vary based on the circumstances surrounding the investment products involved, with FSC members indicated that the greatest opportunity often lies in simplifying underlying investment structures.

Scale of the “Modernisation” challenge within MISs

Based on survey responses of several FSC members it is estimated that c.$17bn of FuM across c.135k accounts is captured within the scenarios described above.

Implications of no viable “Modernisation” regime

Similar to the situation encountered by SFs, the absence of a viable “Modernisation” regime creates system-wide inefficiencies that leads to sub-optimal outcomes for all stakeholders. Each subsection below seeks to explore the outcomes for each stakeholder in each scenario:

Case Study 1: Duplication of products or investment options

- Investor outcomes: Investors may incur higher fees (and hence, lower net returns) based on historical commission or advice fee structures.
- Responsible Entity (RE) outcomes: Additional costs associated with operational management (e.g. calculation of unit prices, custodian and platform fees) and regulatory compliance of each product and option (e.g. maintenance of Target Market Determination, Product Disclosure Statements, audits).
- Government outcomes: Loss of tax revenue associated with lower net investment returns and corporate tax on lower comparative net profits.
- Regulator outcomes: Additional effort required to execute monitoring duties due to overseeing a greater volume of products and investment options.

Case Study 2: Complex inter-woven investment structures with a common underlying fund

Outcomes across all stakeholders are similar to the outcomes noted in Case Study 1.

Case Study 3: Sub-scale unit classes or funds

- Investor outcomes: The outcome for investors is driven by the actions taken by the RE. Where monies are returned to the investor upon closure of the unit class / product / option, there are potential opportunity costs of being uninvested or poorly invested. Similarly, investors may incur additional advice and transaction costs just to be transferred to the contemporary equivalents. Unadvised investors, through choice or circumstance, may be slow to re-invest, or invest poorly, the monies returned following the closure, creating further opportunity costs from sub-optimal investing.

  Trustees have indicated that sub-scale unit classes / products / options may lead to higher overall costs and fees to investors through duplication of processes and regulatory and compliance costs.

Outcomes across the other stakeholders is expected to materially reflect the outcomes noted in Case Study 1.

Future outlook

New products and options are likely to continue to be created to meet evolving investor preferences and the regulatory environment. An example of this relates to the uptake of sustainable investing. However, over time the investment mandate of existing products and options may evolve to be similar in nature. Therefore, there is a risk of potential growth in the scale of the “Modernisation” challenge due to eventual future duplication of products and options.

Therefore, a viable “Modernisation” mechanism needs to be available on an ongoing basis for MIS as well as for Superannuation funds.

“Modernisation” challenge within Managed Investment Schemes (cont.)

Unintended consequences of no viable “Modernisation” regime

- With the need for investors to provide investment instructions to the RE during the windup of a MIS, FSC members have indicated that up to 50% of FuM could be at risk of being excluded from transfers into contemporary products, with much of this initially remaining in investors’ cash accounts. Presented with this, along with the explicit tax consequences previously highlighted, Trustees have indicated that they are finding it challenging to justify the windup of duplicate products / options and complex inter-woven investment structures. Hence, Trustee’s are being left to operate sub-scale, duplicate products or investment options.
- Stifling product innovation: similar to the findings for SFs (as outlined on Page 12) RE’s also indicated that there are barriers for innovation due to not having a mechanism to rationalise unsuccessful products. This results in poor consumer outcomes as needs evolve.
- Potential flow-on impacts to investors in contemporary products akin to those outlined on Page 12 for SFs. Inefficiencies of maintaining several duplicate products or options has the potential to create differential outcomes between different cohorts of investors.

Emergence of the need for “Modernisation”

Overview

Products, options or scenarios that could benefit from a viable “Modernisation” regime have emerged due to several reasons. The two broad categories include:

- Changes in legislation.
- Corporate strategy and activity.

Changes in legislation

Over the years, several legislative changes, including the introductions of additional legislation, has led to a proliferation of products that could benefit from “Modernisation”. The key legislative reforms include:

- Future of Financial Advice (“FoFA”): Resulted in a ban for conflicted remunerations (e.g. trail commissions) that caused several retail (i.e. sold to individual customers) products to be closed. Instead, wholesale equivalents remain open to new investors, with the customers remaining in the closed retail products that are ultimately investing into the same structure as the contemporary wholesale funds.
- Regulated Annual Performance Test: The prohibition from accepting new beneficiaries upon failure of the performance test in two consecutive years based on historical performance against a benchmark for MySuper and trustee-directed products.

Corporate strategy and activity

Corporate actions over a number of years have also led to scenarios where the availability of a viable “Modernisation” regime could reduce current system inefficiencies. For example:

- Mergers and Acquisitions between MISs: Resulted in MISs operating several products or options with identical (or almost identical) investment mandates / underlying asset pools.
- Unsuccessful product launches and obsolete products that have been superseded with contemporary products with materially aligned investment mandates.
- Historical operating decisions that led to the creation of duplicate options (e.g.: new investment option per advisory group or fee structure).

Key differences between products “likely to be Modernised” vs. contemporary equivalents

Contemporary products generally have access to a broader, wider investment menu relative to the products with scope for “Modernisation”. This allows members to choose an investment option or product that is better aligned to their risk appetite and life stage.

Under most scenarios encountered by MISs, the products likely to be Modernised comprise of a materially consistent investment mandate and underlying asset allocation. While this means that gross investment returns would remain similar, the products likely to be Modernised generally comprise of higher fee structures associated with (i) bespoke commission and advice fee structures, and (ii) administration fees reflective of the cost base to operate those investment options / products.

Products likely to be Modernised often operate on older registries and administration systems with comparatively limited functionality and thus, offer less flexibility to the end customers. On the other hand, contemporary products generally operate on systems supported by enhanced digital capabilities, which allows customers and advisers to ‘self-serve’ for activities such as contributions, withdrawals (where allowed) and altering investment option based on risk appetite.

Better consumer support is available for customers on contemporary products due to receiving greater training and experience on these products consistent with current laws and market practice. In contrast, FSC members have indicated it is challenging to train and maintain support staff with the detailed knowledge of all the product rules and intricacies for products likely to be Modernised, leading to poorer customer experiences.

Whilst not an exhaustive set of differences, an appropriate “Modernisation” regime is expected to comprise of a consumer interest test at a collective level that seeks to mitigate risks associated with large volumes of members being worse-off as part of the rationalisation. Based on discussions across a range of FSC members, it was noted that there are limited reasons for members or investors to remain in products that would otherwise be Modernised under a viable mechanism.

3

Barriers to “Modernisation”

Key barriers to “Modernisation”

Feedback from FSC members indicates the following key barriers preventing “Modernisation”. This should not be interpreted as an exhaustive list of barriers to “Modernisation”.

	Description	Comparison to SFT option
Tax Challenges	**1. Capital Gains Tax** A key barrier to conducting rationalisation outside of an SFT relates to the triggering of Capital Gains Tax (CGT) at the point of rationalisation and for some funds, revenue gains/losses. Specifically, it leads to reduced leverage from bringing forward the payment of the previously deferred tax liabilities. This leads to lower expected investment returns for investors, commensurate with the reduction in investable assets. Similarly, when products carry unrealised losses, the value of associated deferred tax assets would be foregone, as the tax position is not allowed to be carried forward upon rationalisation. Trustees indicated that these outcomes make it increasingly challenging to meet their obligations to act in the member’s best financial interests when evaluating rationalisation. Without CGT relief, Trustees indicated rationalisation is unlikely to occur. Importantly, this implies there is no real deferral of tax revenue on capital gains were Division 310 relief provided, with Trustees otherwise being unable to conduct rationalisation. *Note: Another barrier to conducting rationalisation relates to payment of stamp duty in a similar manner to incurring CGT, noting this is limited to the extent the underlying fund holds assets that incur stamp duty (e.g. property).*	Where rationalisation occurs as part of the SFT process, and Division 310 relief applied, asset positions are maintained at the original cost basis and unrealised gains/losses are not crystallised. Hence, the existing tax positions are carried forward for all investors. Under this mechanism, Trustees have indicated that it is increasingly likely for their member’s best financial interests to be met.
Trustee responsibilities	**2. Obtaining member consent** Under the current legislative construct, MISs are required to obtain consent from individual investors in a product or option to conduct ‘Modernisation’. Trustees indicated this is often a costly exercise, with significant barriers associated with the ability to obtain active engagement from investors, especially individuals that are on WRAP platforms. In addition, there is no concept of a collective best interests test that allows the Trustee to act on behalf of members. Consequently, it becomes prohibitively challenging for the Trustee to obtain consent from investors, without being able to mitigate the taxation impacts (e.g. through CGT Division 310 relief - refer to ‘Tax challenges’ for details).	Under an SFT arrangement, the Trustee is able to form decisions on the members’ behalf upon demonstrating best interests at a collective level (i.e. bundle of rights rather than a no disadvantage basis). This mitigates the comparatively onerous requirements to obtain consent from each individual while maintaining the integrity of members not being ‘worse off’ at a collective level.
	3. Consent to modify consumer rights Under the current legislative construct, MISs are unable to place the investor into a reasonable default option as part of undertaking a ‘Modernisation’ project. Hence, where an investor does not provide instruction, the Trustee may pay out the investor’s account balance (often into a ‘cash account’). This leads to sub-optimal outcomes such as: ▸ Opportunity costs for the members related to being uninvested for periods of time. ▸ Potentially large outflows of FuM and resulting reduction in overall scale for ‘successor’ MIS products.	Under an SFT arrangement, the Trustee is empowered to default the member to particular investment options as long as equivalency is maintained. The concept of equivalency refers to retaining the same rights that the holder had under the original product in respect of benefits. This equips the Trustee with a pragmatic mechanism to conduct rationalisation in a SFT while appropriately considering member outcomes.

Implications of barriers

Example outcomes for a Customer

Consider a scenario where an individual member is invested in a product that could benefit from “Modernisation”. Specifically, where:

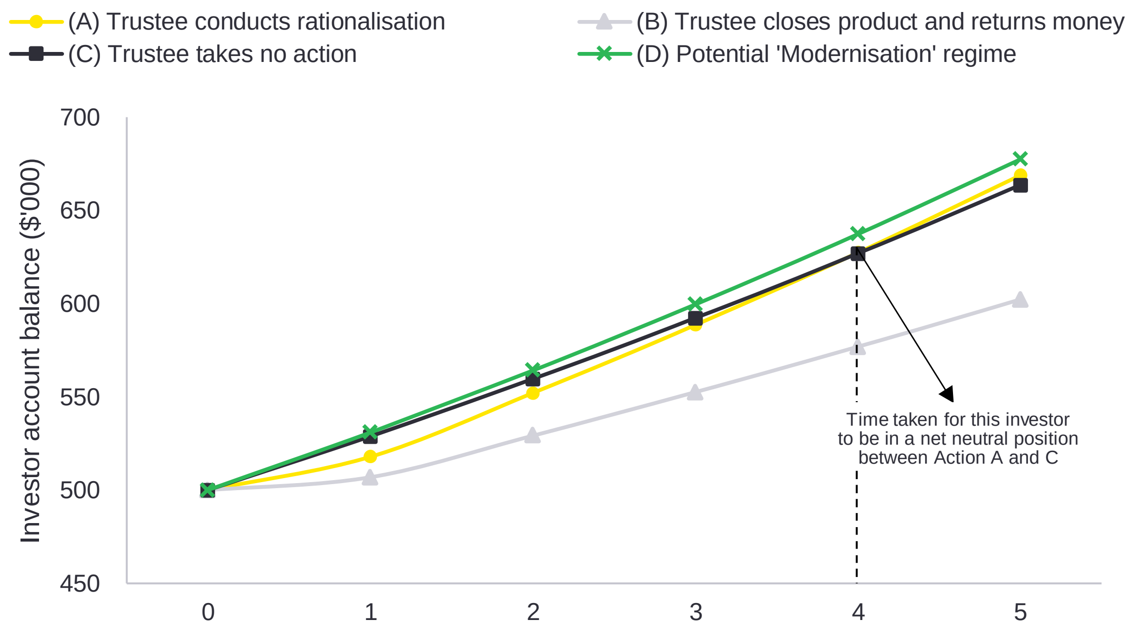
- Current member balance of $500k, containing unrealised capital gains of $150k.
- Return net of fees in current option is 7.0% p.a.
- Return net of fees in equivalent at-scale option is 7.5% p.a.
- Return net of fees is 5.0% p.a. where money is paid out (e.g. remaining invested in cash).

Range of actions available for the Trustee

The Trustee ordinarily evaluates the following four actions:

Action A Conduct rationalisation into another product / option despite current barriers	→	**Inconsistent with best financial interest obligations**
Action B Close product and return funds to investor (who then remains in cash)	→	**Inconsistent with best financial interest obligations, resulting in poorer member outcomes**
Action C Take no rationalisation action when faced with current barriers	→	**Trustees will default to no action** ***(Note: No CGT realisation event)***
Action D Conduct rationalisation under a potential “Modernisation” regime	→	**Ideal customer outcome (Highest account balance)**

Customer outcomes – account balances



- Trustees indicated that they are unable to conclude that implementing Action A is consistent with their best financial interest obligations, due to the length of time before investors are expected to recoup lost investment returns from bringing forward CGT payments (c.4 years in this example, with greater unrealised capital gains further increasing the time to reach the net neutral position). This time, however, will vary for each individual investor, which trustees indicated creates further challenges when determining members’ best financial interest.
- The chart above demonstrates that the investor experiences the best outcomes (highest account balance) under Action D. Action B carries the risk of significantly poorer expected long-term outcomes if the funds returned to investors remain invested in cash / term deposits etc.

Implications of barriers (cont.)

Example outcomes for Government

Using the same scenario from the previous page where a member is invested in a product that could benefit from "Modernisation". Specifically, where:

- Current member balance of $500k, containing unrealised capital gains of $150k.
- Return net of fees in current option is 7.0% p.a.
- Return net of fees in equivalent at-scale option is 7.5% p.a.
- Return net of fees is 5.0% p.a. where money is paid out (e.g. invested in cash).

Comparison of outcomes under Trustee actions

Per the previous page, Trustees have indicated that Actions A and B are rarely undertaken, due to the outcomes of their best financial interest assessments.

Therefore, the differences in outcomes for Government, in terms of cumulative tax receipts, are most appropriately considered under the following two actions:

Action C
Take no rationalisation action when faced with current barriers → **"Status quo" (lower cumulative tax receipts)**

Action D
Conduct rationalisation under a potential "Modernisation" regime → **Best Government outcomes (higher cumulative tax receipts)**

Government outcomes – cumulative tax receipts

- The chart above demonstrates that the Government experiences the best outcomes (greater cumulative tax receipts) under Action D, due to the additional tax on higher investment earnings. Action C, the "status quo" of no rationalisation action under the current regime, leads to lower cumulative tax receipts for Government as the investors are remaining in investment option that provide lower expected net investment returns.

4

Potential impacts of reform

Overview and summary of impacts

To quantify the potential impact of a Modernisation regime, we have modelled the benefits of conducting rationalisation to the consumer and Government for the following cases:

Rationalising Legacy Accumulation Superannuation

Rationalising Legacy Retirement Superannuation

Rationalising relevant product scenarios for MISs

Outcomes on the next page

To the extent that additional product scenarios could benefit from a Modernisation regime, this is expected to reflect an upside to the benefits presented both here (to the right) and on the next page.

Conducting rationalisation for consumers in the above-mentioned cases, into contemporary equivalents, is expected to lead to significant positive impacts for all stakeholders. These impacts are driven by the compounding effects of better returns and lower fees, leading to higher account balances, increased taxable investment returns and reduced reliance on the age pension during retirement. Given these compounding effects, the benefits of implementing such a regime are greatest when enabled at the earliest possible opportunity.

As part of a Modernisation regime, Trustees have indicated they expect to obtain increased operational efficiencies obtained from administration savings and reducing duplicated regulatory and compliance costs. They have indicated that this would allow them to focus on providing customers with more competitive and equitable pricing. Similarly, monitoring activities for regulators become less cumbersome due to a smaller number of products. Refer to Page 9 for additional details on other benefits to stakeholders.

Rationalising Legacy Accumulation Superannuation

Member outcomes

$16bn	$22bn (net)*
Increased balances at retirement	**Increased income during retirement**

*** A $41bn increase** in revenue derived from increased retirement balances, **offset by a $19bn reduction** in age pension reliance.

- Superannuation members currently in accumulation phase and retiring between now and 2050 are projected to be cumulatively c.$16bn better off at retirement.
- As a result, these members are projected to have access to an additional c.$22bn in total income during retirement (after allowing for reductions in age pension payments of $19bn).

Government Revenue

$2bn	$19bn
Increased tax receipts	**Age pension savings**

- The Government is projected to receive an additional c.$2bn in tax receipts on investment earnings in the superannuation accumulation phase, with c.$700m of this increase received in the next 10 years if a viable regime currently existed.
- Importantly, the cost of providing CGT relief on rollover is expected to be negligible because without a suitable Modernisation mechanism, Trustees indicated they were unable to justify it is in the best interests of members.
- The Government is expected to save c.$19bn in age pension payments over the retirement phase, with the majority from 2040 onwards, noting only 1%, or c.$240m, of this saving is expected to occur in the next 10 years.

Overview and summary of impacts (cont.)

The benefits expected to emerge from conducting rationalisation for consumers currently invested in Legacy Retirement and in relevant product scenarios for MISs are smaller than for Legacy Accumulation products given the shorter expected investment horizons. The results of our modelling shown below reflect a somewhat conservative 10 years time horizon for each. To the extent that the expected time horizons are longer, this is expected to reflect an upside to the benefits presented below.

Similarly to the Legacy Accumulation scenarios, conducting rationalisation for consumers in these two above-mentioned cases to contemporary equivalents is expected to lead to significant positive impacts for all stakeholders. Again, these impacts are driven by the compounding effects of better returns and/or lower fees, leading to higher account balances, increased taxable investment returns (for MIS products) and reduced reliance on the age pension. Given these compounding effects, the benefits of implementing such regimes are greatest when enabled at the earliest possible opportunity.

Rationalising Legacy Retirement Superannuation

Member outcomes

$160m

Increased income over the next 10 years of retirement

* **A $240m increase** in revenue derived from higher returns on account balances, **offset by a $80m reduction** in age pension reliance.

Government Revenue

$80m

Age pension savings over the next 10 years

Rationalising relevant product scenarios for MISs

Investor outcomes

$865m

Increased balances over the next 10 years

Government Revenue

$120m

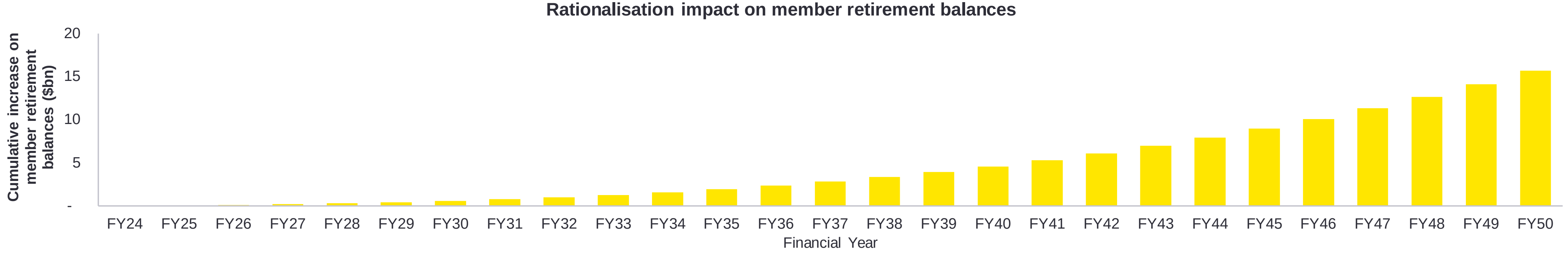
Increased tax receipts over the next 10 years

Rationalisation of relevant product scenarios encountered by MISs includes duplication of products or options, complex investment structures with a common underlying fund and sub-scale unit classes or funds.

Superannuation funds – rationalising existing legacy accumulation products

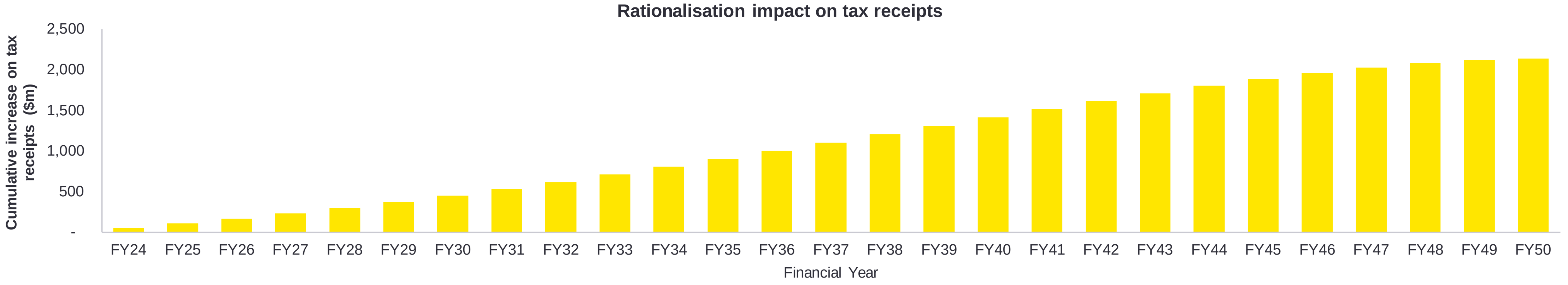
Existing members in Legacy Accumulation Superannuation are expected to be c.$16bn better off at retirement, driven by higher expected returns and lower expected fees.

The chart below demonstrates the cumulative increase in account balances at retirement due to rationalising members in Legacy products to contemporary equivalents. Refer to Section 5 for details in relation to the key assumptions underpinning the quantification.



The Government is expected to receive an additional c.$2bn in tax receipts, with c.$700m of this increase received in the next 10 years due to higher expected returns.

The chart below demonstrates the cumulative increase in government tax receipts on superannuation balances due to rationalising members in Legacy products to contemporary equivalents. Refer to Section 5 for details in relation to the key assumptions underpinning the quantification.



Superannuation funds – rationalising existing legacy accumulation products (cont.)

Rationalisation of Legacy Accumulation Superannuation products is expected to create an additional c.$22bn in income throughout retirement

The chart to the right demonstrates the cumulative increase in retirement income for individuals due to rationalising Legacy products in the accumulation phase.

The net increase in member retirement income reflects a **$41bn increase** in income from earnings on superannuation balances **offset by $19bn reduction** in age pension reliance.

Refer to Section 5 for details on the key assumptions underpinning the quantification.

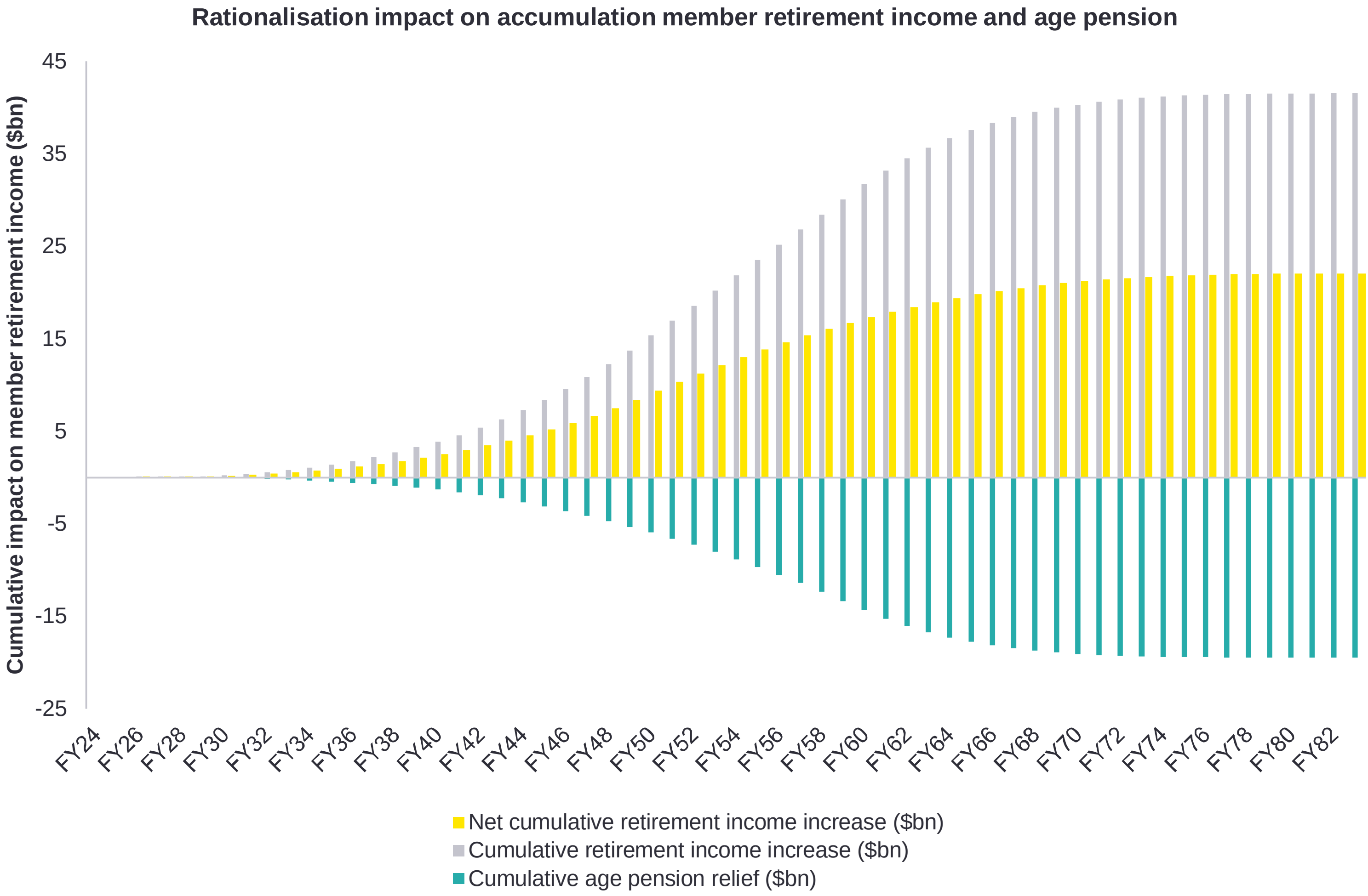
It expected that the reliance on the age-pension system will reduce by c.$19bn.

Approximately, $240m of this benefit is realised in the next 10 years.

The chart to the right also demonstrates the cumulative decrease in age pension payments the Government is expected to pay due to rationalising Legacy products in the accumulation phase.

The majority of the age pension savings are expected to emerge well beyond the next 10 years, as the impact occurs after members have reached retirement.

Refer to Section 5 for details on the key assumptions underpinning the quantification.



Superannuation funds – rationalising existing legacy accumulation products (cont.)

An individual holding a Legacy Accumulation Superannuation product can expect have up to a 41% higher balance at retirement as a result of rationalisation. Similarly, an individual could expect to receive up to an additional c. $240k in income throughout retirement (after allowing for reduction in the age pension).

The table below outlines the potential impact at an individual level for conducting rationalisation of Legacy Accumulation Superannuation products. Refer to Section 5 for details in relation to the key assumptions underpinning these projections.

	Accumulation phase					Retirement phase		
Starting age	**Starting account balance**	**Legacy balance at retirement**	**Contemporary balance at retirement**	**$ difference**	**% difference**	**Retirement revenue increase**	**Age pension relief**	**Net retirement income increase**
40	$ 80,000	$ 484,005	$ 683,689	$ 199,684	41%	$ 374,928	$ 176,253	$ 198,676
45	$ 83,000	$ 372,684	$ 496,021	$ 123,336	33%	$ 211,214	$ 94,148	$ 117,067
50	$ 87,000	$ 285,456	$ 357,871	$ 72,415	25%	$ 133,081	$ 55,478	$ 77,603
55	$ 93,000	$ 218,899	$ 258,164	$ 39,266	18%	$ 94,063	$ 39,191	$ 54,871
60	$ 100,000	$ 163,003	$ 180,410	$ 17,407	11%	$ 46,637	$ 6,222	$ 40,415

Implications for a 40-year-old in Superannuation:

- A 40-year-old with a current account balance of $80k is expected to hold c.$480k of assets at retirement if they were to remain in a Legacy Accumulation Superannuation product, while continuing to contribute 30% of their Superannuation Guarantee (SG) contributions each year on average.
- Upon rationalisation to a contemporary equivalent, the individual is expected to realise c.1.6% p.a. of additional net returns (i.e. return net of investment fees, administration fees and tax) on the account balance and each SG contribution. As a direct result of the compounding effect of these additional expected net returns, it is expected this individual would hold c.$680k of assets at retirement (i.e. an increase of c.$200k, or 41% compared with their Legacy balance in this product at retirement). Consequently, the individual would have c.$200k in additional income to maintain their lifestyle during retirement (after allowing for a c.$175k reduction in reliance on income from the age pension).

Key takeaways:

- The impact of the compounding effect of these additional expected net returns is material for individual investors. The earlier rationalisation is able to occur, the greater the benefits for each individual member and for other stakeholders. Specifically, the Government is expected to derive greater benefits (i.e. higher tax receipts and lower reliance on income from the age pension) for facilitating rationalisation earlier, given the impact is directly linked to individuals realising higher net returns on their investment.

Superannuation funds – rationalising existing legacy retirement products

Rationalising Legacy Retirement Superannuation products is expected to produce an additional c.$160m in income for individuals over the next 10 years.

The chart to the right demonstrates the expected cumulative increase in retirement income for individuals in Legacy Retirement Superannuation products over the next 10 years due to rationalisation.

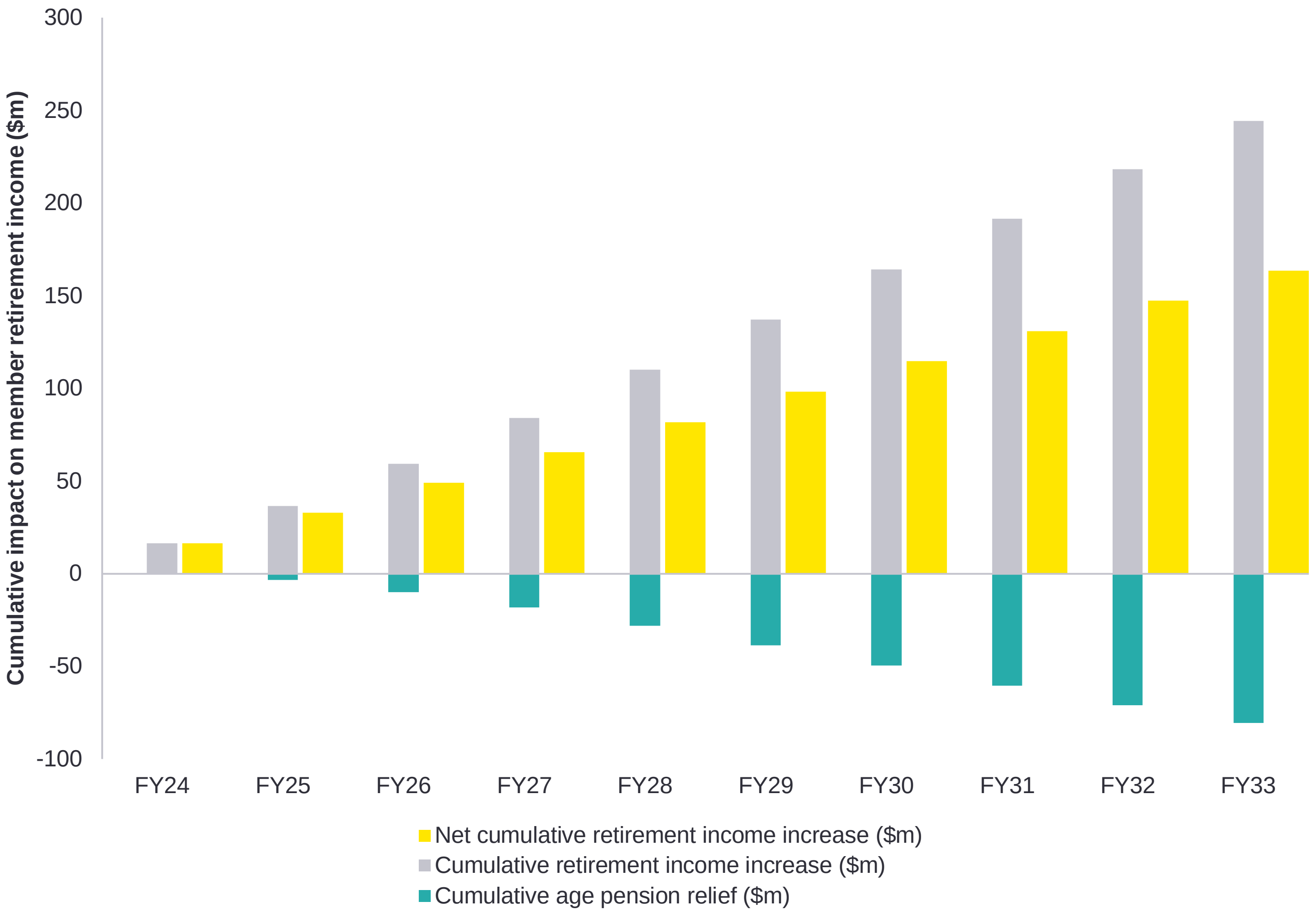
The net increase in member retirement income reflects an increase in income from earnings on superannuation balances offset by a reduction in age pension reliance.

Refer to Section 5 for details in relation to the key assumptions underpinning the quantification.

It expected that the reliance on the age-pension system will reduce by c.$80m over the next 10 years.

The chart to the right also demonstrates the cumulative decrease in age pension payments the Government is expected to pay over the next 10 years due to rationalising members in Legacy Retirement Superannuation products.

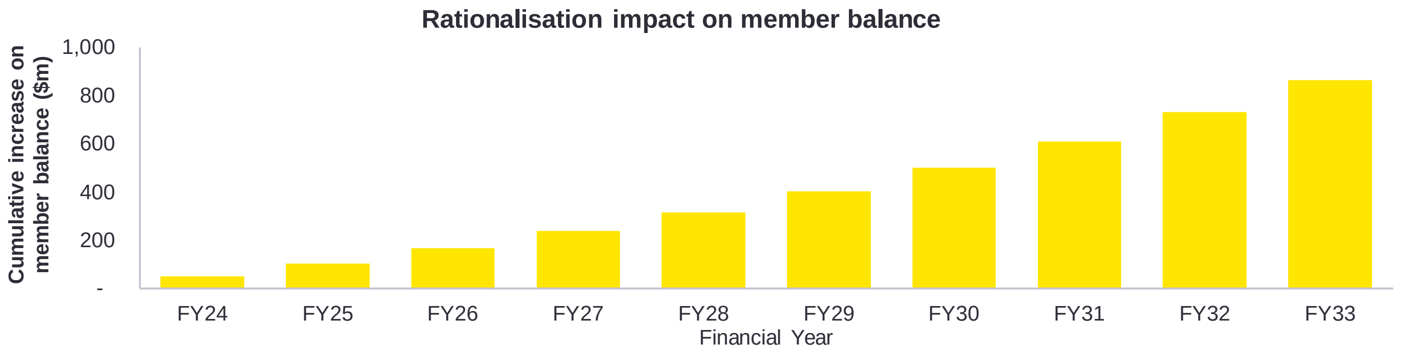
Refer to Section 5 for details in relation to the key assumptions underpinning the quantification.



Managed investment schemes – modernisation of product scenarios

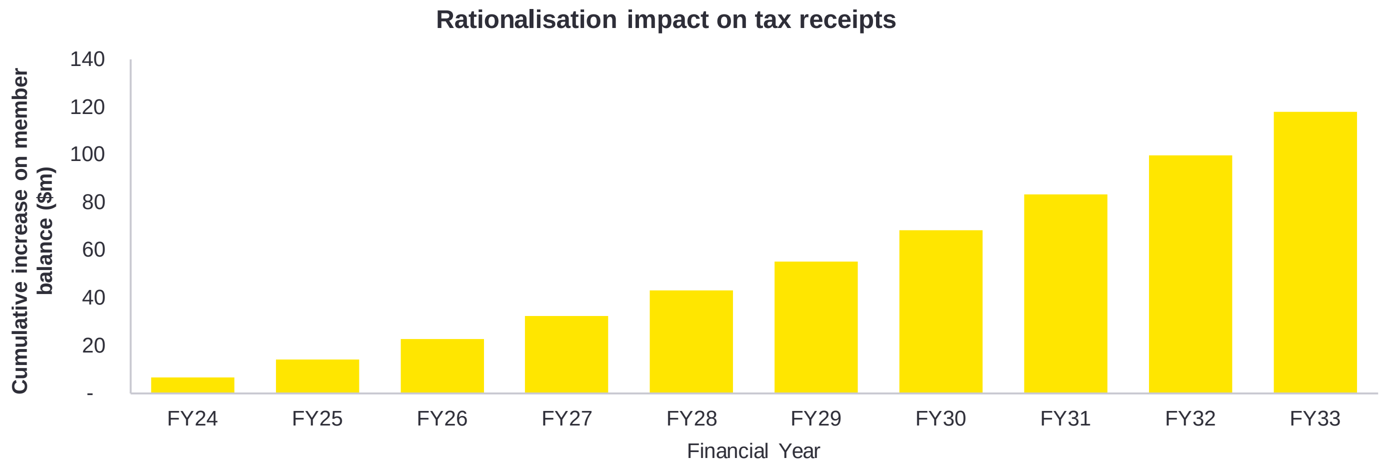
Investors impacted by the product scenarios that could benefit from Modernisation are expected to be c.$865m better off over the next 10 years, driven by lower fees.

The chart to the right demonstrates the cumulative increase in account balances for investors in MISs over the next 10 years at retirement due to Modernisation of relevant product scenarios. Refer to Section 5 for details in relation to the key assumptions underpinning the quantification.



Associated with the higher net returns for investors, the Government is expected to receive an additional c.$120m in tax receipts over the next 10 years.

The chart to the right demonstrates the cumulative increase in government tax receipts from MIS's due to the application of the Modernisation regime to relevant product scenarios. Refer to Section 5 for details in relation to the key assumptions underpinning the quantification.



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Appendices

Appendix A – Key assumptions Superannuation funds

Difference between legacy and contemporary products (accumulation phase)

Investment returns, investment fees and administration fees were set with reference to the long-term experience of accumulation products published by APRA[1] and major Australian superannuation funds, as well as recent Treasury superannuation return assumptions[2].

Category	Contemporary	Legacy	Difference
Investment returns (% p.a.)[1]	7.50%	6.00%	1.50%
Investment fees (% p.a.)[1]	0.17%	0.20%	0.03%
Administration fees (% p.a.)[3]	0.25%	0.50%	0.25%

The investment returns assumption does not include investment fees or taxes.

Member mix

Member mix has been set with reference to survey responses from FSC Members and EY's industry observations.

Age band	Proportion of members	Average FUM	Average income
Age 44 and below	17%	$80,000	$100,000
Age 45 to 49	18%	$83,000	$105,000
Age 50 to 54	19%	$87,000	$110,000
Age 55 to 59	20%	$93,000	$115,000
Age 60 to 64	20%	$100,000	$105,000
Age 65 and over	7%	$110,000	$95,000

Other assumptions

The table below describes other key assumptions underpinning the quantification of impacts under a "Modernisation" regime.

Other key assumptions		
Description	**Assumption**	**Reference point**
Wage inflation	3.5%	Set with reference to historical data from Australian Bureau of Statistics (ABS).
Discount rate	2.5%	Set as the mid-point of the target inflation range provided by the Reserve Bank of Australia (RBA) to consider the impact on purchasing power.
Contribution tax rate	15%	Set based on tax rates as at 13 October 2023.
Net effective tax rate	7%	Reflects offsetting factors affecting the effective tax rate (such as franking credits).
Tax rate on investment earnings	12%	Reflects a blended rate between income and short/long capital gains. Set based on tax rates as at 13 October 2023 and EY's industry observations.
"Modernisation" opt-in rate	80%	Set with reference to survey responses provided by FSC Members.
Superannuation contribution	30%	Reflects an assumption relating to the proportion of members that have Guaranteed Superannuation Contribution deposited to the Legacy product. Set with reference to survey responses provided by FSC Members and EY's industry observations.

Sources:
1. https://www.apra.gov.au/news-and-publications/apra-releases-superannuation-statistics-for-march-2023
2. https://treasury.gov.au/sites/default/files/2021-02/p2020-100554-udcomplete-report.pdf
3. https://www.apra.gov.au/2023-annual-superannuation-performance-test-trustee-directed-products

Appendix A – Key assumptions cont. Superannuation funds

Assumptions for retirement phase modelling

- $200k adjustment to the Superannuation balance at retirement to reflect members in Legacy products holding additional superannuation accounts.

  The magnitude of the adjustment was set with reference to average Superannuation balance at retirement implied by data from the Australian Bureau of Statistics.

- Mortality rates for weighting retirement cashflows are used as per the Australian Life Table 2015-17.

Assumptions for retirement income calculator inputs

A publicly available retirement income calculator is leveraged to obtain the relevant outputs regarding retirement income and age pension payments. The table below summarises the key assumptions used as retirement calculator inputs as part of modelling the retirement phase outcomes.

Other key assumptions		
Description	**Assumption**	**Reference point**
Balance at retirement	As implied by modelling in the accumulation phase	N/A
Home ownership status	Fully owned.	Set based on expected outcomes at an industry level.
Investment assets (e.g. bank account balance, term deposits, trusts).	$200,000	Set based on data as per the Australian Bureau of Statistics.
Other assets (e.g. contents of dwellings, other property, vehicles)	$270,000	
Other income in retirement (after tax)	$15,000 p.a.	
Profile	Male Individual	N/A – This is a conservative, simplifying assumption that only impacts the mortality rate used.

Other relevant assumptions for modelling Legacy Retirement product outcomes

- An Age 75 model point is assumed to be representative of the member profile on average. This was a simplifying assumption to illustrate benefits given the FuM for these products is small relative to Legacy Accumulation products.
- Remaining Superannuation Balance: $140,000

  Reflective of the remaining Superannuation Balance for a 75-year-old being in a Legacy Retirement product since retirement.

- Difference in investment returns between Contemporary and Legacy of 1.50%.

  Reflective of the differences modelled for accumulation products. Based on discussions with FSC Members, the returns are expected to be similar between accumulation and retirement as long as the investment option (e.g. growth, balanced or conservative) is aligned.

- Difference in fees of 3 basis points of FuM and $46 p.a. respectively

Appendix A – Key assumptions (cont.) Managed investment schemes

Additional assumptions for modelling outcomes for MISs

- 100% rate of "Modernisation" reflective of survey responses from FSC Members.

  Furthermore, the scale of the FuM provided in Section 2 is reflective of the accounts that are likely to benefit from "Modernisation".

- Investment return difference is assumed to be nil.

  This has been determined based on discussions with FSC Members who indicated that often the products are invested with the same underlying asset pool.

- Management cost difference of 30 bps.

  The difference in management cost has been estimated based on survey responses from FSC Members. For modelling purposes, it has been assumed that the benefit realised by MISs is passed onto investors in full. In practice, the amount of benefit passed onto investors is likely to depend on competitive position.

- The net contribution rate is nil.

  This is a simplifying assumption in the absence of any specific credible reference points. Holding all else equal, a positive net contribution rate, is expected to result in higher benefits to those outlined in Section 4.

Appendix B – Sensitivities

Although assumptions have been informed using updated information and our understanding of the environment, actual experience is inherently unpredictable and will always vary from modelled results. The table below includes the industry-level impacts of rationalisation in the accumulation phase, under variations of the key assumptions adopted.

Assumption	Sensitivity	Cumulative increase in member retirement balance ($bn)	% increase from central difference	Cumulative increase in tax receipts ($bn)	% increase from central difference
Investment return spread **(1.5% +/- 1%)**	Central	15.7	0%	2.1	0%
	Low	6.3 (-9.3)	-60%	0.9 (-1.3)	-60%
	High	26.7 (+11)	70%	3.6 (+1.5)	70%
Investment fee spread **(0.03% +/- 0.02%)**	Central	15.7	0%	2.1	0%
	Low	15.9 (+0.2)	1%	2.2 (+0)	1%
	High	15.5 (-0.2)	-1%	2.1 (-0)	-1%
Admin fee spread **(0.25% +/- 0.1%)**	Central	15.7	0%	2.1	0%
	Low	16.7 (+1)	-6%	2 (-0.1)	-6%
	High	16.7 (-1)	7%	2.3 (+0.1)	7%
Contribution rate **(3% +/- 1%, 0%)**	Central	15.7	0%	2.1	0%
	Low	14.6 (-1.1)	-7%	2 (-0.2)	-7%
	High	16.8 (+1.1)	7%	2.3 (+0.2)	7%
	0%	12.3 (-3.3)	-21%	1.7 (-0.5)	-21%
Effective tax rate **(12% +/- 1%)**	Central	15.7	0%	2.1	0%
	Low	16 (+0.4)	2%	2 (-0.2)	-7%
	High	15.3 (-0.4)	-2%	2.3 (+0.2)	7%
Rationalisation opt-in rate **(80% +/- 5%)**	Central	15.7	0%	2.1	0%
	Low	14.7 (-1)	-6%	2 (-0.1)	-6%
	High	16.7 (+1)	6%	2.3 (+0.1)	6%

Appendix C – Scope of services

Scope area 1: Profile the scale of legacy products

- Summarise the scale of the legacy product challenge across Superannuation Funds (SF) and Managed Investment Schemes (MIS). This will include quantification of:
  - The number of legacy products
  - The number of customers holding legacy products
  - Funds under management for legacy products
- Summarise key metrics such as investment return and fees for legacy products vs. modern products

Scope area 2: Understand the emergence and nature of legacy products

- Summarise the key factors leading to the emergence of legacy products.
- Understand the implications and challenges faced by Responsible Entity's (REs) and Registrable Superannuation Entity's (RSEs) in managing legacy products. Aspects that will be explored include:
  - Legal and operational challenges (e.g. current legislation and regulations, reliance on legacy systems)
  - Differing investment mandates and objectives between legacy vs. modern investment products
  - Member engagement
- Understand the key product features of legacy products compared with modern equivalents, with a focus on:
  - Explicit and implicit investment guarantees and optionality
  - Barriers to transaction and withdrawal activity
  - Diversity of investment choice

Scope area 3: Articulate the challenge to modernising legacy products

- Understand the tax implications and legal challenges and barriers to product rationalisation encountered by REs and RSEs. Aspects that will be explored include:
  - Requirement for consent to legally modify consumer rights
  - Legal barriers on communicating with members about modern products
  - Triggering of fund tax "events" (e.g.: realising capital gains, incurring additional stamp duty)
  - Grandfathered social security treatment
  - Member's best financial interest considerations and assessment of benefit equivalency
- Understand tax implications for members holding legacy products and wishing to:
  - Make voluntary concessional and non-concessional contributions
  - Make compulsory contributions
  - Roll over into retirement products
  - Reinvest investments that have matured
  - Withdraw from these products to invest into modern products

Appendix C – Scope of services (cont.)

Scope area 4: Impact assessment of reforms proposed by the FSC

- Profile representative investors across the most material legacy product constructs.
- Quantify an impact range of product rationalisation on the operating costs for REs and RSEs. This will consider aspects such as:
  - (i) the cost to implement product rationalisation
  - (ii) savings from streamlined processes, systems and functions
  - (iii) savings from economies of scale
  - (iv) degree of cross-subsidies accepted
  - (v) contribution to operational risk reserves.
- Conduct representative modelling for key investor profiles to quantify the expected impacts at retirement from transitioning to a modern product during accumulation phase. The investor profiles are expected to vary by age and legacy product groupings.
- Conduct representative modelling for key investor profiles to quantify the expected impacts on retirement incomes for investors transitioning to a modern product during retirement phase.
- Quantify the total expected impacts from transitioning all investors from legacy products, based on the representative investor profile modelling.
- Quantify the direct impact to Government as a result of implementing the FSC's proposed reforms. This will primarily involve understanding the impact on the magnitude and timing of tax receipts, as well as investors access to social security benefits.
- Sensitivity analysis will be conducted for key assumptions such as:
  - Investment returns realised under legacy and modern products.
  - Investment and administration fees for modern products (incl. magnitude of reduction due to product rationalisation).
  - Mix of investor profiles to quantify the expected benefit at a system level.
- Qualitatively opine on the following aspects:
  - Potential unintended consequences, such as poor member outcomes due to:
    - (i) loss of investment guarantees or options
    - (ii) change in investment choice
    - (iii) inequitable outcomes for cohorts of investors
  - Potential future benefits to the Government associated with product rationalisation.

Appendix D – Transmittal letter

Reliance Restricted

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Attention: Spiro Premetis
Financial Services Council
Level 5, 16 Spring Street, Sydney NSW 2000

Product Modernisation Research **31 October 2023**

Dear Spiro

In accordance with our Engagement Agreement dated 18 August 2023 (“Agreement”), Ernst & Young (“we” or “EY”) has been engaged by the Financial Services Council Limited (“you”, “FSC” or the “Client”) to conduct research (the “Services”) in relation to the impact of a potential product modernisation regime (the “Project”).

The enclosed report (the “Report”) sets out the outcomes of our work. You should read the Report in its entirety. A reference to the report includes any part of the Report.

Purpose of the Report and restrictions on its use

Please refer to a copy of the Agreement for the restrictions relating to the use of our Report. We understand that the deliverable by EY will be used for the purpose of providing information on the impacts of a potential product modernisation regime and will be used for advocacy purposes (the “Purpose”).

This Report was prepared on the specific instructions of the FSC solely for the Purpose and should not be used or relied upon for any other purpose.

This Report and its contents may not be quoted, referred to or shown to any other parties except as provided in the Agreement. We accept no responsibility or liability to any person other than to the FSC or to such party to whom we have agreed in writing to accept a duty of care in respect of this Report, and accordingly if such other persons choose to rely upon any of the contents of this Report they do so at their own risk.

Nature and scope of our work

The scope of our work, including the basis and limitations, are detailed in our Agreement and in this Report.

Our work commenced on 18 August 2023 and was completed on 31 October 2023. Therefore, our Report does not take account of events or circumstances arising after 31 October 2023 and we have no responsibility to update the Report for such events or circumstances.

In preparing this Report we have considered and relied upon information from a range of sources believed to be reliable and accurate. We have not been informed that any information supplied to us, or obtained from public sources, was false or that any material information has been withheld from us.

We do not imply, and it should not be construed, that we have verified any of the information provided to us, or that our enquiries could have identified any matter that a more extensive examination might disclose.

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Product Modernisation Research **31 October 2023**

Nature and scope of our work (cont.)

The work performed as part of our scope considers information provided to us and only a combination of input assumptions relating to future conditions, which may not necessarily represent actual or most likely future conditions. Additionally, modelling work performed as part of our scope inherently requires assumptions about future behaviours and market interactions, which may result in forecasts that deviate from future conditions. There will usually be differences between estimated and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. We take no responsibility that the projected outcomes will be achieved, if any.

We highlight that our analysis and Report do not constitute investment advice or a recommendation to you on a future course of action. We provide no assurance that the scenarios we have modelled will be accepted by any relevant authority or third party.

Our conclusions are based, in part, on the assumptions stated and on information provided by the FSC, its Members and other information sources used during the course of the engagement. The modelled outcomes are contingent on the collection of assumptions as agreed with the FSC and no consideration of other market events, announcements or other changing circumstances are reflected in this Report. Neither Ernst & Young nor any member or employee thereof undertakes responsibility in any way whatsoever to any person in respect of errors in this Report arising from incorrect information provided by the FSC or other information sources used.

This letter should be read in conjunction with our Report, which is attached.

Thank you for the opportunity to work on this project for you. Should you wish to discuss any aspect of this Report, please do not hesitate to contact David Millar on +61 405 440 493.

Yours sincerely

David Millar
Partner

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