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Product Rationalisation Project  
Corporations and Financial Services Division  
The Treasury  
Langton Crescent  
PARKES ACT 2600

By email: [productrationisation@treasury.gov.au](mailto:productrationisation@treasury.gov.au)

Dear Sir/Madam

## **Product Rationalisation of Managed Investment Schemes and Life Insurance Products**

CPA Australia represents the diverse interests of more than 129,000 members in finance, accounting and business in 100 countries throughout the world. Our mission is to make CPA Australia the global professional accountancy designation for strategic business leaders. We make this submission not only on behalf of our members, but also the accounting profession generally and in the broader public interest.

The evolving nature of both the financial services industry and regulation will continue to result in the creation of legacy products. Providing a mechanism to rationalise these products will benefit all stakeholders.

CPA Australia supports the proposed mechanisms in the proposals paper, as we believe they offer a workable solution to the range of issues involved in the product rationalisation process.

Of paramount importance is the protection of the policyholder or member. We believe that the 'no disadvantage' test proposed will therefore be invaluable, especially for the rationalisation of life insurance products where the individual has no access to compensation claims through existing external dispute resolution (EDR) schemes.

Should you have any questions on either the above or the attached submission, please do not hesitate to contact Keddie Waller, Technical Adviser – Financial Planning on 03 9606 9816 or [Keddie.Waller@cpaaustralia.com.au](mailto:Keddie.Waller@cpaaustralia.com.au).

Yours sincerely

A handwritten signature in black ink, appearing to read 'Paul Drum'.

Paul Drum FCPA  
General Manager – Policy & Research

### 3.2.1 Legacy product test

**(a) Do you agree with the need for a legacy product test? If not, why not?**

CPA Australia is supportive of principles based legislation, however we recognise that the introduction a legacy product test will help ensure that only genuine legacy products are allowed to benefit from the product rationalisation mechanism.

**(b) Do you consider the proposed criteria and specific tests to be appropriate and clear?**

The proposed criteria and specific tests appear appropriate and clear.

### 3.2.2 Taxation relief test

**(a) Do you consider the test to be appropriate and clear?**

CPA Australia is supportive of the proposed criteria and specific tests.

### 3.2.3 No disadvantage test

**(a) Do you consider the proposed no disadvantage test to be appropriately framed? Does it contain all the necessary key elements? Are the terms used in the test clear and practical?**

The rights and interests of beneficiaries should not be materially affected by any product rationalisation. The proposed no disadvantage test is sufficiently broad and far-reaching in the way it has been framed to ensure that the product provider must consider all relevant factors in applying this test and make certain that beneficiaries do not suffer any material loss of rights and interests.

**(c) Are the 'factors to consider' listed above appropriate, clear and complete? If not, what changes should be made, or what additional factors should be included?**

CPA Australia believes that the 'factors to consider' are appropriate, clear and complete. It may be appropriate for guidance to be issued to demonstrate that this test may be applied differently depending on the specified circumstances, but only if such guidance is deemed necessary or there is a strong demand from product providers due to practical issues being encountered in applying the principles.

## 3.3 Managed Investment Schemes

**(a) Do you consider the proposed mechanism for managed investment schemes to be appropriate? In particular, do you think it provides an appropriate level of protection to members, without imposing an excessive burden on responsible entities?**

It is important given the complex nature of product rationalisation that adequate consumer protection be provided, however not to the extent that the processes make it cost prohibitive for product providers. The proposed mechanism appears to have achieved this balance.

### **3.4.2 Direct application or referral to Court**

- (a) Do you consider the proposed mechanism for life insurance products to be appropriate? In particular, does it provide a sufficient level of protection for policyholders, without imposing an excessive burden on product providers?**

While the proposed mechanism for the rationalisation of life insurance products largely replicates that proposed for the rationalisation of managed investment schemes, CPA Australia is concerned that where the product provider makes direct application to the Court, individuals have no possibility of compensation through existing EDR schemes and rather they can only appeal the Court's decision. Given the costs involved, we feel that it is unlikely that a consumer would choose to pursue this option.

We however recognise the importance and need for a rationalisation mechanism and are therefore are supportive of the proposal, provided the product provider is held accountable to ensuring that the no-disadvantage test is adequately met.

- (b) If not, how could the proposed mechanism be improved?**

CPA Australia is supportive of the proposed mechanism, however we again emphasise the importance of the no-disadvantage test. It must ensure there will be no detriment to any policyholder given there will be no access to compensation claims through existing EDR schemes should the Court approve a product rationalisation application.

## **4.2 Life Insurance Products**

- (a) Have the key taxation issues been identified? How should they be addresses?**

Stamp duty may be another taxation issue that will arise as a result of product rationalisation. An exemption may be necessary, however to ensure that it is effective a consistent approach would need to be adopted by each respective state.

## **4.3 Managed Investment Schemes**

- (a) Have the key taxation issues been identified? How should they be addressed?**

The proposed treatment of the event brought on by the rationalisation of products via a CGT rollover mechanism seems most appropriate.