Transcript of an address by the Treasurer of the Commonwealth of Australia, the Hon Peter Costello MP, at the opening of the IOSCO Conference, Sydney, 17 May 2000

Well thank you so much, Alan Cameron. To our distinguished guests, Guillermo Hartenek, Michel Prada, Paul Melly. To those of you who have come to this IOSCO Conference from overseas can I say first of all welcome to Sydney, the Olympic City.

And in four months' time we will see on the athletics track and in the swimming pool and in the sports, friendship and competition which I hope will symbolise some of the best of international competition. There's been a lot of fuss in Australia about ethics and the IOC, drug enhancement, accepting hospitality and who should carry the Torch.

And I feel rather reassured today to know that all of the world's regulators are on the spot to give ethical rulings in relation to these issues. I can boast today, for the time in its history Sydney is the most ethical city in the world as a consequence of your presence.

Think of the changes that we've seen in world sport over the last decades with technological advances, with enhanced training, as world records tumble one after the other. And much the same can be said of financial markets as technological innovation, more competition, improvements in service delivery, have changed the kind of world that we used to know over the last 20 or 30 years.

In 1941 the Sydney Stock Exchange passed a rule banning people from throwing paper aeroplanes in the Exchange. Today there is no pit of the Exchange. I doubt that a dealer could make a paper aeroplane today. The nuisance on our stock markets today comes from electronic mail. People who'll send letters saying – I love you. One was actually sent to me. I didn't open it. I smelled a rat immediately. Nobody has ever written to a Treasurer saying – I love you.

Rapid change is a permanent feature of the environment within which financial markets operate. And one of the most obvious factors driving change is technological development, which has had a dramatic impact on all aspects of the supply of financial products.

It's exposed domestic suppliers to greater competition. It's driven innovation in developing products. And it's driven innovation in distributing products. Now producers and suppliers can reach across geographic barriers to different cities and different countries and different parts of the world to different consumers with an explosion of products matching the demands of increasingly sophisticated consumers who can access those products via the Internet.

In the past where they were banned because of geographic barriers now they reach across those barriers, they reach across the regulatory geographic areas. They reach across the old characteristics and the old demarcation lines.

And technology, competition and consumer demand, are blurring traditional boundaries between products. These are great challenges for our policy makers, challenges which will require cross-border cooperation. Challenges to require that there is a diversity of consumers, some educated and sophisticate and many not.

Challenges requiring us to think above our localised jurisdictions and paper-based transactions to global electronic commerce. And as we seek to meet these challenges we know there is no breathing space. The entrepreneurs and their consumers will not wait for the regulators. The regulators are going to have to stay in front of the developments as they occur in the next decades.

And today I want to suggest to you that although we have a new economy if it is to work we need some old values. Old values for a new economy. Old values, sound laws, active corporate regulators, independent Courts to enforce the laws, encouraging growth and innovation whilst protecting people from dishonesty.

But as we know, laws and regulators and Courts only go so far. In the end we rely on individuals and company managers, on directors to conform to standards which go beyond the legislation, standards of behaviour that investors can rely on. What we need from our company managers and our directors is standards.

Regulation is vital but if the chances of prosecution are low, if bad practice becomes morally acceptable, if peer standards do not reinforce standards our laws will not be sufficient in themselves. And business leaders, government officials have a central role in reinforcing and upholding standards. If they fail a great restraining force is lost.

This is also the basis for transparency. Transparency enfranchises the public, the press, creditors in ensuring that standards are upheld. Unethical behaviour is less likely to flourish in an environment where there is transparency. As it's been noted, sunlight is the best disinfectant.

In Australia we've been reviewing our regulatory framework for financial services in the light of the rapid transformations that are now taking place. As a medium size economy we must keep step with international developments. And we believe we are now well on the way to providing a sound framework for innovation, for growth and for confident consumer decision making.

We want to ensure Australia is well placed to take advantage of globalisation and technological advancement. Our recent reforms have been aimed at promoting greater efficiency, enhance competition whilst maintaining system stability and consumer protection.

Some of these reforms which Alan referred to arising out of our Wallis Inquiry have been described by the IMF as path breaking. We now have a framework for dealing with financial conglomerates. We now have regulatory consistency across all products. We have a better focussed accountable structure for consumer protection.

We have established a twin peaks model of consumer regulation. A single prudential regulator - APRA – which goes across all financial products – banks, non-bank financial deposit-taking institutions, superannuation funds and focuses on the peak of prudential regulation. And a market integrity regulator ASIC - the Australian Securities Investment Commission - your host to this Conference.

And now we are implementing a new system of corporate law reform which we call the Corporate Law Economic Reform Program. We called it that because we wanted to remember what the ultimate goal of corporate law was.

We wanted to bear in mind that the corporation is a vehicle for creating economic activity by which people can join together with limited liability to accomplish economic goals they could not accomplish as individuals.

And to bear in mind that consumer protection has an economic focus as much as an ethical focus. We announced our first tranche of reforms earlier this year with fundamental changes to fundraising, takeovers, corporate governance and accounting standards. And a second wave of reforms is now out for public consultation to put in place a flexible regulatory framework to cater for changing consumer needs.

They are ambitious proposals - an integrated framework for all financial products, all financial service providers and/or markets; comparable and consistent regulatory treatment of all advice and selling activities; single licensing for all financial intermediaries including insurance agents, brokers, securities advisers, dealers, futures brokers as well as any other person engaged in financial services.

We believe this will benefit consumers who will have less confusion when they deal with intermediaries acting in a consistent way and subject to a comparable set of obligations. The Bill will put in place a simplified authorisation process for market operators and clearing and settlement facilities.

We are confident it will provide a model of international best practice amply satisfying the benchmarks set by IOSCO’s objectives and principles of securities regulation adopted in Nairobi in 1998.

As I said markets do not stand still. They will not wait for our regulators to catch up. I speak from experience. Shortly after becoming Treasurer the Australian Stock Exchange came to me and asked for permission to de-mutualise, the concept at that time not known in relation to stock exchanges.

And as we worked that through with some trepidation we came to the conclusion that this could be facilitated and in 1998 it became the first de-mutualised major stock exchange in the world to list on itself, on itself.

Now I commend the organisers of this Conference for devoting time to discussion of the impact of market structures such as de-mutualisation self-listing. These are significant topical and very important matters.

Investors are attracted to markets by their depth, quality and integrity. And the dynamism of our market system depends on the confidence of users, their quality and their integrity. Confidence is something hard won but easily lost. We had experience of that in Australia in the late 1980s where there was a loss of confidence in many of our regulatory arrangements.

And it was because of that loss of confidence in the late 1980s that we began to get serious about world best practice in relation to corporate regulation. It was a good time to get serious because one of the experiences that we learnt as this Region went into the financial and economic crisis in 1997-1998 where much of the Region – nearly all of the Region – was in severe recession was that institutions count.

It makes the difference to have strong institutions. Regardless of macro-economic policy which should always be good in any event, strong fiscal policy, strong micro-economic policy, good monetary policy. When a crisis occurred, the strength of institutions counts. It counts whether you have a good corporate regulator. It counts if you have good insolvency laws. It counts if there is strong prudential supervision.

I want to make one other mention of Australian policy developments in my opening remarks this morning, something that we see as important - the development of Australia as a financial centre. The financial services sector has grown rapidly in recent years in this country like most other countries of the world.

More than twice as much a contribution to GDP comes from the financial sector as compared to agriculture in Australia. We have some key advantages. Our time zone spans the close of business in the United States and the opening of business in Europe.

We take up new technology quickly, more computers per capita than any other country in the Region, second highest per capita ownership of computers in the world. Our telecommunications market - very competitive, the most deregulated in Asia. A workforce that is multilingual, stable and highly skilled. And the cost of prime CBD office space in Australia significantly lower than Tokyo, Hong Kong, Singapore or Beijing.

It's the strength and diversity of our financial sector in a favourable business environment which will make Australia an attractive destination as a financial centre. We've established a Centre for Global Finance to make Australia a leading centre for financial services in the Asia-Pacific time zone.

It's headed by Les Hosking, the former CEO of the Sydney Futures Exchange, recognised as making that Exchange one of the world's leading financial exchanges. And this Centre is playing an important role in increasing awareness and understanding of the opportunities and promoting the effectiveness of our regulatory framework.

It has a one-stop shop to assist international companies exploring business opportunities. And although it was only launched last year, a number of leading multinational market players have announced new or expanded operations in Australia. These are important first steps.

I want to take this opportunity to commend IOSCO on its work in helping to promote regulatory convergence and strengthening the international financial architecture. It has provided a useful benchmark for assessing regulatory frameworks. The work of its technical committee is essential to developing an unified approach to market regulation. Australia strongly supports this work.

And I look forward to a favourable announcement on the proposal to endorse a core set of international accounting standards for use in cross-border raisings and listings. Globalisation of capital markets highlights the need for globalisation of financial reporting requirements.

It is no longer appropriate for any one market to develop reporting requirements without regard to what is happening elsewhere. We recognise the importance of common accounting standards worldwide and we've recently reformed our standard setting arrangements with that objective in mind.

And Australia maintains a strong technical contribution to the work of bodies such as the International Accounting Standards Committee and the G4+1. We would like to see steady progress in the improvement of the international financial architecture.

We are doing it in a number of ways. In the Manila framework group, a group which was established in response to the Asian economic and financial crisis. We prepared a transparency report on all of our institutions to assess ourselves on meeting world's best practice and offered the opportunity to other countries in the Region to help with similar examinations.

We've been active on international financial architecture within the G20. We've contributed to the important work of the Financial Stability Forum on highly leveraged institutions. We've been working hard to extend the application of relevant principles through bodies such as the OECD, the World Bank and UNCITRAL.

We've been active in promoting institution and capability building in our region through APEC. For example in corporate governance and through a newly launched initiative on company accounting and financial reporting.

The importance of strong institutions brought home to this region how essential stability and good regulatory practice is for economic outcomes. And during the financial crisis many of the economies in this region commenced rebuilding their financial framework.

I hope it is not the case that as the Region picks up, as these economies experience strong growth again, that the importance of building a strong regulatory framework will be overlooked. One commentator suggested that the gain of rebuilding institutions was cancelled on account of an outbreak of sunshine.

I hope it is not the case that as the crisis passes we forget the lessons and cease working with our utmost ability on some of the answers. It's when markets are booming that policy makers have to be their most active. Everybody loses interest in corporate regulation when a market booms. It's only when it fails they look to allocate liability.

But it's when it's booming, when the activity is going on, that people need to be at their most vigilant. And now, during a period of strong world economic growth, is the most important time to be strengthening our architecture for the challenges of the future.

We may well be in an era which will become known as the new economy. But if the global economy is to prosper some of the old rules must be reinforced to apply. Rules as old as the

Ten Commandments themselves. Rules like – thou shalt not steal. Rules which are important to maintain honesty in financial markets.

Ensuring the primacy of those values in the new economy is a great policy challenge. A great policy challenge that today's makers and regulators must meet. To many, continuous change will demand that you respond quicker and quicker. And that you respond in ways which will not stifle innovation but create growing wealth for all.

The task of all of us as people in public service and engaged in regulation is to maximise those economic benefits for our citizens whilst maintaining trust and confidence for our investors. This is important work which you are called to do. It is important that it be coordinated through institutions such as IOSCO.

I know that the members that are here today are committed to continuing these important discussions. It is a great honour for us in Australia to be able to host you. It is with warmness from the bottom of our hearts that we welcome you and I wish you well in your deliberations.