

COUNCIL OF
FINANCIAL
REGULATORS

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1. COUNCIL OF FINANCIAL REGULATORS

The Council of Financial Regulators is the co-ordinating body for Australia's main financial regulatory agencies: the Reserve Bank of Australia (RBA), which chairs the Council; the Australian Prudential Regulation Authority (APRA); and the Australian Securities and Investments Commission (ASIC).

The Council's role is to contribute to the efficiency and effectiveness of financial regulation by providing a high-level forum for co-operation and collaboration among its members.

The Council was established in 1998 as the successor to the Council of Financial Supervisors (CFS). The CFS had been formed in 1992 to improve co-ordination and communication among the then major financial regulators: the RBA; the Insurance and Superannuation Commission (ISC); the Australian Securities Commission (ASC); and the Australian Financial Institutions Commission (AFIC).

The Council forms part of wide-ranging changes to Australia's financial regulatory structure in 1998, prompted by the recommendations of the Financial System Inquiry (the Wallis Committee). The changes included the establishment of a single prudential regulator (APRA), the establishment of a separate regulator (ASIC) to deal with market integrity and consumer protection issues across the financial system, and revised responsibilities for the RBA, involving its withdrawal from prudential supervision of banks but more extensive regulatory powers in the payments system.

Within this structure, the Council operates as an informal body in which members are able to share information and views, discuss regulatory reforms or issues where responsibilities overlap and, if the need arises, co-ordinate responses to potential threats to financial stability. These arrangements provide a flexible, low-cost approach to regulatory co-ordination among the main financial system regulators. The Council is non-statutory and has no regulatory functions separate from those of its members.

Membership of the Council comprises two representatives – the chief executive and a senior representative – from each of the three regulatory agencies. The Chairman is the Governor of the RBA, and the RBA provides the Council Secretariat. The Council met for the first time in May 1998 and currently meets about once every quarter. The Council's charter and administrative arrangements are shown in the box below and in Appendix A.¹

¹ During the transition to the new financial regulatory framework, the Council met in an interim configuration comprising representatives of the new and existing regulatory agencies.

Council Charter

The Council of Financial Regulators aims to facilitate co-operation and collaboration among its members, the main regulators of the Australian financial system – the Reserve Bank of Australia, the Australian Prudential Regulation Authority and the Australian Securities and Investments Commission. Its ultimate objective is to contribute to the efficiency and effectiveness of regulation.

The Council provides a forum for:

- sharing information and views among its members, and liaison with other regulators and agencies;
- harmonising regulatory and reporting requirements, paying close attention to the need to keep regulatory costs to a minimum;
- identifying important issues and trends in the financial system, including the impact of technological developments; and
- co-ordinating regulatory responses to actual or potential instances of financial instability, and helping to resolve any issues where members' responsibilities overlap.

Council Activities in 1999

The Council's first priority was to help ensure that Australia's new financial regulatory framework was bedded down successfully. The transition to this new framework was completed on 1 July 1999 with the transfer, from AFIC, of responsibility for the prudential supervision of the State- and Territory-based financial institutions to APRA and the corporate regulation of these institutions to ASIC. Chapter 2 outlines the current regulatory structure and discusses some further reforms, under the Commonwealth Government's Corporate Law Economic Reform Program (CLERP), which will affect the roles of the regulatory agencies.

Two other important issues, which are covered in Chapter 3, preoccupied the Council in 1999. The first was the Year 2000 problem. The Council saw its main tasks as co-ordinating the Year 2000 initiatives of each member and encouraging disclosure of Year 2000 preparations in the Australian financial sector. The thoroughness of these preparations, supported by Council's efforts and a sensible response by the Australian community, was rewarded with a smooth transition to Year 2000.

The second issue engaging the Council was the continuing momentum, globally, for measures to strengthen the international financial system. In the wake of the emerging markets crises of 1997 and 1998, which threatened more global instability, a number of multilateral initiatives were taken aimed at improving domestic regulatory structures and the international financial architecture. These initiatives, in which Council members have each played active roles, are now being taken forward by two new international groupings – the Financial Stability Forum and the G20. Australia’s contribution to the debate on international financial reform has been recognised by its inclusion in both of these groupings. Co-ordinating that participation, particularly where reform proposals touch more than one jurisdiction, is becoming a major focal point for the Council.

Appendices to the Report provide further background information on the Council, on the main types of financial institutions in Australia and recent developments in the regulation/supervision of the Australian financial system.

2. AUSTRALIA'S FINANCIAL REGULATORY FRAMEWORK

Summary of Framework

Australia's current financial regulatory framework, the main elements of which were introduced on 1 July 1998, has its genesis in the findings of the Financial System Inquiry (the Wallis Committee). The Inquiry recommended wide-ranging reforms to the structure of financial regulation, designed to achieve a more competitive, efficient and flexible financial system.

The regulatory framework consists of three agencies, each with specific functional responsibilities:

- the Australian Prudential Regulation Authority (APRA), which has responsibility for prudential supervision;
- the Australian Securities and Investments Commission (ASIC), which has responsibility for market integrity and consumer protection across the financial system; and
- the Reserve Bank of Australia (RBA), which has responsibility for monetary policy and for overall financial system stability.

The **Australian Prudential Regulation Authority** is an integrated prudential regulator responsible for deposit-taking institutions (banks, building societies and credit unions) as well as friendly societies, life and general insurance and superannuation.¹ APRA is charged with developing prudential policies that balance financial safety and efficiency, competition, contestability and competitive neutrality.

Deposit-taking institutions are now all regulated by APRA under the one licensing regime and are covered by the same depositor protection provisions of the *Banking Act 1959*. This legislation gives APRA the power to act decisively in the interests of depositors, including the power to revoke licences, to make prudential standards or issue enforceable directions, to appoint an investigator or statutory manager to an authorised deposit-taking institution (ADI) in difficulty or take control of the institution itself. If the difficulties prove intractable, APRA has the power to wind-up the institution and distribute its assets.

¹ APRA regulates the compliance of superannuation funds with the prudential regulation and retirement income provisions of the *Superannuation Industry (Supervision) Act 1993*, while ASIC has responsibility for the other provisions. Legislation to transfer the regulation of excluded funds (which have less than five members) from APRA to the Australian Tax Office was passed in October 1999.

Under the ‘depositor preference’ provisions of the *Banking Act 1959*, depositors have first claim to the assets of an ADI in a wind-up. To support depositors’ interests, all ADIs are required to hold assets in Australia at least equal to their deposit liabilities in Australia. These arrangements, however, do not confer any form of guarantee of depositors’ funds, and depositors have no recourse to APRA; nor does APRA have any obligation to make good any losses incurred by institutions under its supervision.

As in the case of ADIs, where the financial weakness of a life company, general insurer, friendly society or superannuation fund could have a detrimental effect on the interests of members and policyholders, APRA may intervene in the management of the troubled entity. In the case of superannuation, the Treasurer can levy the industry to partially compensate members for losses due to fraud, where such compensation is judged to be in the national interest. Again, however, members’ and policyholders’ entitlements are not guaranteed by either APRA or the Government.

The **Australian Securities and Investments Commission** sets and enforces standards for financial market behaviour, for financial sector intermediaries, and for selling financial products, including investments, insurance, superannuation and deposit-taking activities (but not lending). These standards aim to protect markets and consumers from manipulation, deception and unfair practices and, more generally, to promote confident participation in the financial system by investors and consumers. ASIC also administers the Corporations Law with the aim of promoting honesty and fairness in companies and markets.

ASIC’s submission to the inquiry by the Senate Select Committee on Superannuation and Financial Services into superannuation and financial services details the measures ASIC took to protect consumers in 1999. As part of its consumer protection role, ASIC also monitors and assesses compliance with the *Code of Banking Practice*, the *Credit Union Code of Practice*, the *Building Society Code of Practice* and the *Electronic Funds Transfer Code of Practice*. ASIC also supervises a number of industry-based alternative dispute resolution schemes and administers the consumer-related provisions of the *Retirement Savings Account Act 1997*.

The **Reserve Bank of Australia** has responsibility for monetary policy and for overall financial system stability. The RBA no longer has an obligation to protect the interests of bank depositors; rather, its task is to deal with threats to financial stability which have the potential to spill over to economic activity and consumer and investor confidence. The RBA retains its discretionary role of ‘lender of last resort’ for emergency liquidity support in the event of threats to financial stability. If it were to provide such support, the RBA’s preference would be to make funds available to the market as a whole through its domestic market operations. In certain circumstances, however, the RBA has said that it would be prepared to lend directly to a financial institution facing liquidity

difficulties. The institution would have to be one supervised by APRA; would have to be solvent; and the failure to make its payments would have to pose a threat to overall financial system stability. APRA's judgments about the fundamental soundness of a financial institution in distress would be critical to any RBA support.

The RBA, under the auspices of its Payments System Board, also has a mandate to promote the safety and efficiency of the Australian payments system, and has the backing of strong regulatory powers. If the RBA, for example, assesses there is scope to improve access to, or the efficiency or safety of a particular payment system, it can 'designate' that system as being subject to its regulation. It may then, in the public interest, impose an access regime on that system and/or set standards for efficiency or safety. The Government envisaged that these powers would be exercised within a broad co-regulatory approach, with safeguards for private-sector operators. The RBA also remains responsible for conducting Exchange Settlement Accounts for participants in the payments system and in 1999 it announced new arrangements which liberalised access to these Accounts.

Annual Reports and Internet sites of the individual Council members (see page 22) contain further details about their responsibilities and activities.

Developments in the Regulatory Framework

The final stage of the transition to the new regulatory framework was completed on 1 July 1999, with the transfer of responsibilities for institutions previously covered by the Financial Institutions (FI) Scheme to new national arrangements. The FI Scheme was a co-operative, uniform system of prudential supervision and regulation set up by the States and Territories in 1992, which governed the operation of building societies, credit unions and friendly societies. The Australian Financial Institutions Commission (AFIC) was the lead regulator of the FI Scheme, responsible amongst other things for the development of prudential standards, while day-to-day supervision and corporate regulation rested with State Supervisory Authorities.

Under the new arrangements, APRA assumed responsibility for the prudential supervision of the FI Scheme institutions, and ASIC for their corporate regulation. This transfer represented an historic example of the ceding of responsibility by the States and Territories to the Commonwealth in the interests of a more integrated and efficient system of protection for non-bank depositors and friendly society members.

The Council strongly supports APRA's current objective of developing a more integrated and harmonised supervisory framework for ADIs, to replace the previous disparate arrangements. The first stage in this project is the establishment of a single and

consistent set of prudential standards for ADIs to be issued under the *Banking Act 1959*. A number of draft standards have been released for industry comment and APRA expects to finalise the standards by mid 2000. Guidelines will also be issued setting out a uniform approach to the authorisation of ADIs. In the case of friendly societies, which are akin in important respects to life companies, APRA is working with the Life Insurance Actuarial Standards Board on the harmonisation of actuarial standards, which would apply to all life companies and friendly societies after a reasonable transition period.

Although the elements of Australia's financial regulatory framework are now all in place, the reform agenda promoted by the Financial System Inquiry has yet to run its full course. The Inquiry made a number of recommendations about the regulation of financial markets, which it found to be piecemeal and varied and subject to regulatory overlap. In particular, the Inquiry proposed that there be a single licensing regime for financial sales, advice and dealings in relation to financial products; consistent and comparable financial product disclosure; and a single authorisation procedure for financial exchanges and clearing and settlement facilities. The Government is responding to these recommendations in the context of its Corporate Law Economic Reform Program (CLERP).

The draft *Financial Services Reform Bill*, the outcome of the CLERP 6 consultation process, proposes a single statutory regime for the regulation of disclosure about financial products and services; for licensing and regulation of financial service intermediaries; and for licensing and regulation of financial markets and clearing and settlement facilities.² The new legislation would replace much of the existing sector-specific and product-specific legislation, including legislation dealing with consumer protection in the superannuation and life and general insurance industries. The new regime will apply generally to financial products and services, and the differences of treatment now embodied in a variety of legislation will largely disappear.

The Government has announced it proposes to enact the legislation during 2000, with a view to its commencement on 1 January 2001.

This reform represents a major change in the regulatory framework administered by ASIC. One aspect of the reform also has implications for the role of the RBA. The legislation proposes that the licensing of clearing and settlement facilities should be by 'the Minister' (ie the Treasurer or a Minister in his portfolio) while regulation should be by ASIC, with a significant role for self-regulation. There is an important exception,

² Clearing and settlement facilities for exchange-traded securities and derivatives, such as those operated by the Australian Stock Exchange and the Sydney Futures Exchange, and those for over-the-counter debt securities markets, such as the Reserve Bank Information and Transfer System (RITS) and Austraclear Limited, are included in this definition.

however. In consultation with the RBA and ASIC, the Minister can declare that a particular clearing and settlement facility is of sufficient significance to the stability and integrity of the payments system that it should be regulated by the Payments System Board. This would have the effect of removing that facility from regulation under the new regime in the Corporations Law and placing it under a comparable regime to be included in the *Payment Systems (Regulation) Act 1998*.

Once the legislation comes into effect, the RBA and ASIC intend to enter into a Memorandum of Understanding setting out areas of common interest as well as information-sharing and co-ordination arrangements.

Co-ordination between Council Members

Australia's financial regulatory structure includes strong mechanisms to ensure effective co-ordination and co-operation between the three regulatory agencies. These mechanisms aim at full and timely exchange of information, the avoidance of duplication and a clear delineation of responsibilities, particularly when dealing with matters such as a financial disturbance.

The liaison framework, which is overseen by the Council itself, is a multi-tiered one. At the highest level is a structure of overlapping Board representation and regular senior meetings between the regulatory agencies. The legislation provides for both the RBA (two members) and ASIC (one member) to have representation on the APRA Board and for APRA (one member) to have representation on the Payments System Board. In addition, the APRA Board meets formally with the ASIC Commissioners at least once a year, and senior APRA and ASIC representatives meet every six months to discuss matters of mutual interest.

At the operational level, co-operation arrangements have been set out in two Memoranda of Understanding (MOUs) which have been signed between the RBA and APRA and between APRA and ASIC. The MOUs cover such matters as information sharing, prompt notification of any regulatory decisions likely to impact on the other agency's area of responsibility, and consultation arrangements in the event of financial disturbances. The MOUs also establish bilateral Co-ordination Committees which aim, among other things, to avoid overlaps and gaps in regulatory coverage. Of course, at the broader level, this remains very much a focus of the Council.

The two MOUs are reproduced in Appendix B.

The Council is pleased that this liaison framework worked well in dealing with a number of issues during 1999. In the case of the RBA and APRA, for example, preparations for dealing with the Year 2000 problem called for continued close co-operation, which culminated in the establishment of a joint communications centre over the date change

period (see Chapter 3). Another priority for these two agencies has been information sharing. The RBA is providing APRA with relevant data from the payments system and regular briefings on the Australian economy. In turn, APRA is supplying the Bank with data needed to construct the monetary and credit aggregates, as well as prudential data in aggregate form which are used to assess developments in the financial system. The RBA has also been working with APRA, and the Australian Bureau of Statistics (ABS), to produce comprehensive statistics on the foreign assets and liabilities of Australian financial institutions, as input into the International Banking Statistics compiled by the Bank for International Settlements.

On a broader front, APRA has embarked on a major project to develop an integrated statistics system and is working with the RBA and ABS to improve the comprehensiveness and consistency of financial data. When implemented, APRA will be the central repository of financial information on regulated entities collected by these agencies, to which the RBA and ABS will have secure access when needed. The RBA and ABS are also represented on the steering committee overseeing the project. In the longer term, it is proposed that a data management committee be established, with representatives including APRA, the RBA and ABS, to advise on and guide the development and maintenance of harmonised statistical collections. The project team is also discussing with ASIC its current and future requirements for access to data held by APRA, and the nature of arrangements to co-ordinate any ASIC-related data collections with those of the other agencies.

The RBA and APRA are also assessing the level of public disclosure by ADIs in areas such as the structure of capital, risk exposures and capital adequacy. One motivation for this is the current review of the 1988 Capital Accord being conducted by the Basel Committee on Banking Supervision. The Basel Committee has indicated its firm commitment to improving public disclosure and market discipline, particularly on the part of internationally active banks; in its view, effective public disclosure allows market participants to assess a bank's capital adequacy and can provide strong incentives to banks to conduct their business in a safe, sound and efficient manner. In Australia, where there is no deposit insurance scheme or deposit guarantee, it is especially important that the public have access to adequate financial information about ADIs so that they can make an informed judgment about the safety of their deposits.

APRA and ASIC both have close interests, particularly, in funds management and the two agencies work together to achieve compliance and enforcement in this area. Special focus groups meet on an 'as required' basis to discuss business and operational matters. For example, an Approved Trustee/Single Responsible Entity liaison group meets monthly; a policy focus group meets every six weeks; and the formal APRA/ASIC Co-ordination Committee meets quarterly to ensure close co-ordination of policy,

operational and enforcement matters. This interaction is supplemented by various ongoing contacts between APRA's State Offices and ASIC's Regional Offices which are arranged locally by the relevant senior APRA executives and ASIC Regional Commissioners at their discretion. The agencies also conduct joint liaison with relevant industry bodies, including regular meetings with the Association of Superannuation Funds of Australia and the Investment and Financial Services Association.

In regulation, the two agencies have developed plans for joint inspection programs and for information sharing. In the managed investments area, they have worked together to minimise the risk of duplication of regulatory requirements. For example, they have established procedures for a 'one-stop shop' for applications from superannuation trustees seeking a licence as an approved trustee from APRA and a securities dealers licence from ASIC; they have also sought to align approval processes, including capital requirements, for custody activity in the superannuation and managed investments area.

In enforcement, APRA and ASIC have co-operated closely on a number of matters, including by short-term placements of staff to work on joint APRA-ASIC enforcement task forces. A national enforcement focus group, which meets every two months, ensures an appropriate overall strategy, effective communication on major enforcement cases and information sharing about operational matters involving both agencies.

3. MAJOR ISSUES FOR THE COUNCIL IN 1999

Year 2000 Problem

The 'Year 2000 problem' – the possibility that computer systems would be unable to deal correctly with dates beyond 31 December 1999 – posed unique challenges, in both the breadth of its potential impact across institutions, industries and countries and its fixed deadline. For the financial system, the threat was one of disruption to individual institutions and payments mechanisms, and a loss of public confidence more generally. The problem touched each Council member – the RBA because of its responsibilities for the payments system and overall financial system stability, as well as for Australia's currency note issue; APRA as part of its prudential oversight of the risk management of individual financial institutions; and ASIC because of its responsibilities for regulating securities markets and for consumer protection in the financial sector.

For these reasons, the Year 2000 problem was a major focus of co-operation between Council members during 1999, especially in the latter months. Recognising the overlapping interests, the Council had earlier established a Year 2000 'co-ordinators group' of relevant staff from each member, which aimed to:

- share information on Year 2000 developments between Council members;
- encourage a consistent approach to supervising Year 2000 preparations across the financial sector;
- co-ordinate the regulators' involvement with domestic financial industry groups and participation in international regulatory groups; and
- co-ordinate the disclosure of Year 2000 preparations in the financial sector.

The group met formally on a regular basis throughout 1999 and were also in frequent contact to share information and co-ordinate activities. An APRA representative on the Council participated in the group and reported to the Council at its meetings.

The group worked closely with industry bodies, including the Interbank Working Group established by the four major banks and the RBA to address Year 2000 issues affecting the banking community. The APRA (and Council) representative was also an active participant in the Joint Year 2000 Council. This gathering consisted of representatives from the Basel Committee on Banking Supervision, the Committee on Payment and Settlement Systems, the International Association of Insurance Supervisors (IAIS) and the International Organisation of Securities Commissions (IOSCO). It met regularly prior to the date change to develop a co-ordinated approach to Year 2000 regulation

by international financial supervisors, to discuss possible contingency measures and to serve as a point of contact with national and international private-sector initiatives.

The Council of Financial Regulators took a number of initiatives to deal with the potential impacts of the Year 2000 problem. It gave priority to encouraging financial institutions to disclose their progress towards achieving Year 2000 readiness and ADIs, in particular, to reassure customers in plain language that their deposits were safe. As part of this process, the Council in January 1999 published a booklet, *Year 2000 Preparations in the Australian Banking and Financial System*, which outlined the activities of Council members and the Year 2000 preparations being undertaken by regulated institutions and within the payments system. The booklet was updated in April and September 1999. The Council, together with the Australian Bankers' Association (ABA) and representatives from individual banks, also participated in a series of Infrastructure Forums in capital cities around Australia, organised throughout July and August 1999 by the year2k Industry Program of the Commonwealth Government. Their aim was to advise Australian industry and the media of the Year 2000 readiness of key infrastructure and service providers such as banking and finance, electricity, gas/fuel, telecommunications, water, aviation, rail and road transport, ports and shipping.

In addition, the Council prepared contingency plans to deal with problems that might have impacted on individual institutions or had broader systemic implications. The RBA, for example, augmented its holdings of currency notes to meet a potential increase in the public's demand for currency as the Year 2000 approached. The RBA and APRA worked closely with banks and other financial institutions to ensure that they had adequate liquidity over the New Year period. In June 1999, the RBA announced that if need be it would be more flexible in its domestic market operations as the New Year approached, for example, by broadening the range of eligible securities.

The Council's Year 2000 preparations culminated in the establishment of an RBA/APRA communications centre in the RBA's Head Office in Sydney. The centre operated from 1 December until 5 January and on a 24-hour basis over the New Year weekend, when ASIC staff were also in attendance. Its purpose was to monitor the activities of individual financial institutions, the operational status of the payments system and key infrastructure sectors more generally, and to co-ordinate briefings for Government, the media and overseas regulatory agencies. Financial institutions were required to report any disruptions to their operations, unusual changes in customer behaviour or adverse media reports, whether or not they were Year 2000-related. Card companies such as Visa International and MasterCard and payments service providers also submitted reports. Reporting was initially on a weekly basis but was stepped up to four-times daily over the critical period.

Over the New Year weekend, the communications centre maintained close contact with the Commonwealth Government's National Co-ordination Centre and provided briefings to overseas regulators through conference calls and status reports. At a press conference early on 1 January, the Governor of the RBA confirmed that the Australian financial system had made a smooth transition to the Year 2000, and updated media releases were issued over following days.

The Council is pleased that the arrival of the Year 2000 was trouble-free in Australia, and elsewhere. Only a couple of Year 2000-related "incidents" were reported to the communications centre during the whole period of its operation and these did not prove significant. The public's demand for cash was only a little above the usual seasonal demand around Christmas and New Year, and financial institutions did not require any additional liquidity support. In all, the substantial commitment made by financial institutions and Council members alike to meet the technical and other challenges of the Year 2000 problem, and to sustain public confidence, paid valuable dividends.

Reform of the International Financial System

The financial crises of 1997 and 1998, which began in the emerging market economies of Asia but later enveloped other regions, have prompted a major re-evaluation of the architecture of the international financial system. In traditional financial fora (such as the G7 and G10) and several *ad hoc* international gatherings, the search began for ways to promote greater financial stability. Proposals were developed to limit the volatility of international capital flows; improve supervisory regimes and the risk management practices of financial institutions; promote transparency and disclosure by governments and private agents; involve the private sector more fully in crisis resolution; and improve the performance of the International Monetary Fund and World Bank.

The various multilateral initiatives spawned by this search for reform bear directly on the responsibilities of each Council member, and all have been active in bringing an Australian perspective to the issues. The Council itself provides a forum for sharing information on, and co-ordinating Australian participation in, international financial reform. To assist in this process, the Council has an 'international officers group' of staff from each member whose task it is to keep the Council up-to-date on the activities of the main international bodies.

Calm returned to international financial markets throughout 1999 and into 2000 and economic conditions have recovered in most emerging market economies. In such an environment, complacency can become a risk to the momentum of reform. Although a number of key proposals have won broad support from the international community, the Council acknowledges that the reform agenda is far from finished and that complex

and detailed work lies ahead. Much of this work will be undertaken under the aegis of two new formal international groupings – the Financial Stability Forum and the G20 – on which Australia is represented. The involvement of Council members in these groupings and in other multilateral initiatives is summarised below.

The Financial Stability Forum was created in February 1999 by G7 Finance Ministers and Central Bank Governors to promote international financial stability through enhanced information exchange and international co-operation in financial market supervision and surveillance. It brings together on a regular basis national authorities responsible for financial stability in significant international financial centres, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts. In June 1999, Australia was invited to join the Forum, together with Hong Kong SAR, the Netherlands and Singapore. Australia is represented by the Governor of the RBA.

At its first meeting in April 1999, the Forum established three working groups to evaluate some specific issues of policy concern; the groups have now submitted their reports and recommendations. The one of particular interest to Australia, and on which the RBA was represented, was the working group on highly leveraged institutions (HLIs), which was asked to assess the challenges posed by such institutions to financial stability and to achieve consensus on the appropriate supervisory and regulatory response. The potential impact of HLIs on financial markets, and on system stability more generally, became the focus of public authorities following the near-collapse of Long Term Capital Management in August 1998 and the destabilising effects of HLIs on markets in some small and medium-sized open economies; the Australian dollar market was one of those subject to this source of speculative attack. The working group has recommended a package of measures to address both systemic risk and market dynamic concerns arising from the activities of HLIs. These include:

- stronger risk management practices by financial institutions acting as counterparties to HLIs, and by HLIs themselves;
- enhanced regulatory and supervisory oversight of credit providers to HLIs;
- enhanced public disclosure by HLIs, through both regulation and legislation; and
- enhanced national surveillance of financial market activity, especially in identifying and taking appropriate preventative measures against rising leverage.

The working party did not recommend direct regulation of currently unregulated HLIs at this stage but has left this option on the table.

The Forum's other two working groups addressed concerns related to capital flows and offshore financial centres. The Forum also established a task force on implementation

of standards, on which Australia was represented by the Treasury, to consider the role of international standards in strengthening domestic financial systems. The task force identified 12 key international standards, covering matters such as monetary and fiscal policy transparency, corporate governance and prudential supervision, and proposed a five-stage strategy to encourage their implementation.

The G20 was formed in December 1999 to broaden the dialogue on major economic and financial policy issues among systemically significant economies and to promote co-operation so as to achieve stable and sustainable world economic growth.¹ Australia is represented by the Treasurer and the Governor of the RBA; the G20 also meets at Deputies level. Although its role is still in the developmental stage, the G20 is intended to be an informal forum for discussion that is not tied to a specific international institution. It is expected to assist in identifying emerging policy challenges for the global community and the obstacles to reaching a consensus on appropriate policy responses. Its initial focus has been exchange rate regimes; capital controls and domestic financial systems; liability management; and private sector involvement in crisis prevention and resolution. The RBA has helped prepare a discussion paper for G20 Deputies on the lessons and policy implications of recent exchange rate crises in emerging markets.

The promotion of greater disclosure by financial institutions has also been a priority for the Committee on the Global Financial System at the Bank for International Settlements (BIS). Separate working groups, both of which have had RBA representation, have been reviewing disclosure regimes from institutional and market perspectives. One group, which worked jointly with representatives of the Technical Committee of IOSCO, was charged with identifying information suitable for public disclosure that would provide an accurate picture of a financial institution's exposure to market and credit risks. The group developed a disclosure template which is being trialed and evaluated by a successor multi-disciplinary grouping; a pilot disclosure regime is expected to be in place for large financial institutions by mid 2000. The second BIS group has made a number of preliminary recommendations on improving aggregate market information, particularly the transparency of aggregate foreign exchange positions, but the work is not being pursued further at this time.

APRA also participates actively in a number of international fora and in regional supervisory gatherings. It takes the view that its regulatory framework and supervisory approach should stay within the international mainstream, and that it has a role to play in contributing to the international debate on new trends and developments in regulation.

¹ Members comprise the G7 countries as well as Argentina, Australia, Brazil, China, India, Indonesia, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey and the European Union.

APRA is a member of the Core Principles Liaison Group of the Basel Committee on Banking Supervision. This Group is responsible for developing strategies to encourage countries to embrace the Core Principles for Effective Banking Supervision, promulgated by the Basel Committee in 1997. APRA is also participating in the Basel Committee's review of the 1988 Capital Accord and has made a detailed submission in response to initial proposals by the Committee.

APRA is represented on the Executive and Technical Committees and the Solvency Subcommittee of IAIS; the OECD Insurance Committee; and the Joint Forum and its Working Group 3 on capital and risk assessment.

In May 1999, APRA hosted an international conference of integrated financial supervisors in Sydney, which brought together representatives from eight overseas agencies with similar responsibilities to those of APRA. The first of its kind, the conference provided a forum to foster the sharing of ideas and experiences among agencies that straddle traditional industry boundaries. Issues discussed included the organisation and management structures for regulatory agencies; legislative frameworks; relationships with governments and other bodies; and ways of supervising conglomerates. APRA will participate in the second international conference of integrated financial supervisors in Canada in May 2000.

ASIC continued its membership of the Executive and Technical Committees of IOSCO and played an active role in the latter Committee's five working groups. It hosted the 25th Annual Conference of IOSCO in Sydney in May, 2000. The IOSCO working group on multinational accounting and disclosure continued its assessment of the core standards of the International Accounting Standards Committee to determine whether they should be recommended for use for cross-border offerings and listings. Other IOSCO working groups also dealt with issues such as electronic trading systems; operational and credit risk in securities firms; enforcement of market manipulation provisions; and the valuation and pricing of collective investment schemes.

In November 1999, IOSCO released the report of its task force on HLIs. This dealt with risk management practices in regulated securities firms dealing with HLIs; the reduction of systemic risk and the potential for market instability through additional transparency about HLI activities; and issues involved in greater public disclosures by HLIs.

Both APRA and ASIC are members of the Joint Forum (previously the Joint Forum on Financial Conglomerates), which was established in 1996 by the Basel Committee, IOSCO and IAIS to develop principles and techniques for the supervision of internationally active financial conglomerates. These parent bodies have approved new mandates for the Joint Forum in the areas of comparison of core principles; corporate governance and transparency; and risk assessment and capital. The Chairman of ASIC concluded his term as chair of the Joint Forum in December 1999.

Council members contributed actively over 1999 to technical assistance programs for the International Monetary Fund and World Bank, and to various regional training initiatives. As examples, the RBA is a member of the Independent Review Committee, which was established by the Indonesian Bank Restructuring Agency to review and verify its activities and to publish its findings. The RBA has also assisted the Bank of Thailand in the information technology and payments settlement areas. In addition, the RBA regularly provides training attachments for staff from other central banks and official agencies in the region.

APRA became involved in a two-year assistance program to the Bank of Thailand, funded by AusAID. APRA staff conducted training courses at the Bank of Thailand for supervisory staff on topics such as capital markets and market risk management; these will be followed up by secondments to APRA by Bank of Thailand officials to enable them to gain a first-hand understanding of Australian supervisory techniques and practices. The program will conclude with a re-run of the initial training courses, but conducted largely by the seconded Bank of Thailand staff. APRA has also provided assistance to Malaysia, Vietnam and China, amongst others.

The fourth ASIC Summer School, held in Melbourne in February 1999, brought together representatives from 16 different jurisdictions, as well as from the Australian industry and regulatory community. The School's theme was strengthening the architecture of the financial system and the week-long program focussed on local, national and global measures for establishing and maintaining a strong financial system. An ASIC officer was one of two key facilitators at a course on "Strengthening Training Programs and Processes" held in Kuala Lumpur in September 1999. The course was organised as part of the APEC/Asian Development Bank Securities Regulators Training Initiative and was attended by both bank supervisory and securities regulatory organisations from 15 countries. In December 1999, ASIC was the principal presenter at the Enforcement Training Institute run by the Asia-Pacific Regional Committee of IOSCO, together with the World Bank, in Korea. That same month, ASIC also organised a workshop in Sydney for directors of enforcement. Representatives from the United States, United Kingdom, Canada, Singapore, Malaysia, Hong Kong and New Zealand discussed a number of operational issues such as delivering enforcement programs; establishing a new enforcement regime; project management; investigating market manipulation; and document control systems.

APPENDIX A

COUNCIL MEMBERSHIP

Organisation	Representation	Internet Address	Information Office
Reserve Bank of Australia	Mr IJ Macfarlane (Chairman) Governor Dr JF Laker Assistant Governor (Financial System)	www.rba.gov.au	(02) 9551 9721
Australian Prudential Regulation Authority	Mr GJ Thompson Chief Executive Officer Mr GN Johnson General Manager, Consulting Services	www.apra.gov.au	(02) 9210 3000
Australian Securities and Investments Commission	Mr A Cameron Chairman Mr SF Tregillis National Director, Regulation	www.asic.gov.au	(02) 9911 2600

Administrative Arrangements

The Council of Financial Regulators does not have its own staff; support is provided by RBA officers. The Council met four times in 1999, and plans to meet on a quarterly basis each year.

Travel costs are borne by the members.

The production and printing costs of this Annual Report were met by the RBA; distribution costs were shared by the members.

The Federal Treasurer has Ministerial responsibility for the Council. Although there is no statutory requirement for the Council to table its report in Federal Parliament, the Treasurer has agreed to do so on this occasion.

APPENDIX B

MEMORANDA OF UNDERSTANDING BETWEEN COUNCIL MEMBERS

THE RESERVE BANK OF AUSTRALIA AND THE AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY

Objective

1. This Memorandum of Understanding sets out a framework for co-operation between the Reserve Bank of Australia (RBA) and the Australian Prudential Regulation Authority (APRA) which is aimed at promoting the stability of the Australian financial system.

Responsibilities

2. The responsibilities of the RBA and APRA for promoting financial stability are largely complementary.
3. The RBA's role is focused on the objectives of monetary policy, overall financial system stability and regulation of the payments system. It has no obligation to protect the interests of bank depositors and will not supervise any individual financial institutions. The RBA does, however, have discretion to provide emergency liquidity support to the financial system.
4. APRA is responsible for the prudential supervision of banks, life and general insurance companies and superannuation funds. Supervision of building societies, credit unions and friendly societies will transfer to APRA from State jurisdictions at a later date. APRA has powers to act decisively in the interests of depositors or policy holders and fund members if a supervised institution is in difficulty.

Sharing of Information

5. Full and timely exchange of information is a crucial element in co-ordination between the RBA and APRA.

6. The RBA gathers data and other information through its participation in financial markets and its pivotal role in the payments settlement system. APRA gathers a wide range of prudential data on the institutions which it supervises.
7. The RBA and APRA agree that, subject to legislative provisions, information available to one which is relevant to the responsibilities of the other will be shared as requested. Each organisation will provide relevant information to the other on a best endeavours basis, with due regard to the urgency of doing so.
8. When exchanging confidential information, the RBA and APRA acknowledge the confidentiality and secrecy requirements of the Acts under which they operate. Each organisation has the right to specify the level of confidentiality attached to information provided to the other.
9. The RBA and APRA will work together to avoid duplication in the collection of information so as to minimise the reporting burden on financial institutions. Subject to appropriate cost sharing, the RBA may arrange for information relevant to its responsibilities to be collected from financial institutions by APRA.
10. APRA will be responsible for the custody of all records relating to the supervision of banks, including those records transferred to APRA on its establishment. It will ensure that, subject to legislative provisions, the RBA has free and open access to these records.

Threats to Financial System Stability

11. If either the RBA or APRA identifies a situation which it considers is likely to threaten the stability of the financial system, it will inform the other as a matter of urgency. Responses to a disturbance of this type will depend on the particular circumstances prevailing, but in all cases the RBA and APRA will keep each other informed of their ongoing assessment and will consult closely on proposed actions.
12. The RBA will be responsible for determining whether, and how, it might provide emergency liquidity support to the financial system. It does not see its balance sheet as available to support the solvency of an individual financial institution in difficulty.

RBA Participation in Prudential Consultations

13. To assist it in keeping abreast of financial developments and supervisory issues, the RBA will participate from time to time in APRA's regular on-site reviews of, and prudential consultations with, supervised institutions. The RBA will give APRA appropriate notice of its intention to participate in such reviews/ consultations.

Consultation on Regulatory Policy Changes

14. Each organisation will notify the other of any proposed changes in regulatory policy, and provide the opportunity to consult on changes which are likely to impinge on the responsibilities of the other.

International Representation

15. The RBA and APRA will co-operate closely to ensure that Australia has appropriate representation in regional and international supervisory fora and training initiatives. In some circumstances there will be joint representation; for example, APRA will join the RBA in the relevant study groups of the Executive Meeting of East Asia and Pacific (EMEAP) central banks. In other circumstances only one institution will be represented; for example, APRA has assumed the RBA's membership of the Core Principles Liaison Group in the Basle Committee on Banking Supervision. In the latter cases, the two organisations will consult with each other as needed before and after the particular gathering.

Co-ordination Committee

16. A joint Co-ordination Committee will be established to facilitate close co-operation between the RBA and APRA. The Committee will be responsible for ensuring that appropriate arrangements are in place to respond to threats to system stability, and for co-ordinating information sharing. It will also handle operational matters such as statistical collections, joint research work and participation in international fora.
17. The Committee will be chaired by the Assistant Governor (Financial System) of the RBA and meet monthly or more frequently as required.

I.J. Macfarlane
Governor
Reserve Bank of Australia

G.J. Thompson
Chief Executive Officer
Australian Prudential Regulation
Authority

SYDNEY
12 October 1998

THE AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY AND THE AUSTRALIAN SECURITIES AND INVESTMENTS COMMISSION

1. Objective

- 1.1 This memorandum of understanding (MOU) sets out a framework for co-operation between the Australian Prudential Regulation Authority (APRA) and the Australian Securities and Investments Commission (ASIC) (the agencies) in areas of common interest where co-operation is essential for the effective and efficient performance of their respective financial regulation functions.
- 1.2 The agencies agree that consistent with their separate roles they will co-operate where it is within their administrative powers to reduce duplication and compliance costs and achieve effective enforcement and compliance outcomes.
- 1.3 This MOU is not intended to create binding obligations on either agency and each agency has the right to vary its terms at any time by agreement following consultation with the other agency.

2. Responsibilities

- 2.1 APRA is responsible for the prudential supervision for banks, life and general insurance companies and superannuation funds. If the State and territory Governments agree, APRA will also be responsible for the prudential supervision of building societies, credit unions and friendly societies. In performing its functions to protect the interest of depositors, policyholders and fund members APRA is required to balance financial safety with efficiency, competition, contestability and competitive neutrality.
- 2.2 ASIC is responsible for the administration and enforcement of the national scheme laws, being laws of the Commonwealth and the States in relation to Australian companies, securities, managed investments and futures markets; and for monitoring and promoting market integrity and consumer protection in relation to the Australian financial system, the provision of financial services and the payment system.

3. Regulatory Policy Development

- 3.1 Changes in regulatory policy or regulatory decisions on particular matters by either agency may have implications for the other agency. Each agency therefore will

notify the other of any proposed changes in regulatory policy or regulatory decisions likely to impact on the responsibilities of the other and provide the other with the opportunity to comment on any proposed changes.

- 3.2 Where implementation of regulatory policy or regulatory decisions by either agency has implications for the other agency, each agency will notify the other where such implementation is likely to impact on the responsibilities of the other.
- 3.3 The agencies agree that, where appropriate, it is desirable for them to consult with each other in relation to policy statements and media releases, which are being formulated and which may be of interest to or have an effect on each agency. Where appropriate, the agencies may consider whether to issue a policy statement or media release on a joint basis, having regard to the subject matter of the release, the policy objectives of each regulator, and the objectives of this agreement.

4. Mutual Assistance

- 4.1 The agencies recognise that it is important that they co-operate to promote confidence in the financial system and the confident and informed participation of all stakeholders in that system.
- 4.2. The agencies agree to provide each other with mutual assistance in relation to the exchange of information, appropriate referral of matters and co-operation in regulation, compliance, and enforcement within the framework of this agreement and which is consistent with all relevant laws.

5. Co-ordination Committee

- 5.1 A joint Co-ordination Committee will be established to facilitate close co-operation between APRA and ASIC. The Committee will operate according to a Charter and be responsible for ensuring the appropriate arrangements are in place for matters such as co-ordinating information-sharing, joint inspections or task forces, referral of cases and enforcement action or major supervisory intervention. It will also co-ordinate operational matters such as administrative arrangements to avoid duplication, statistical collections, joint research work or training or industry consultation, and participation in international fora.
- 5.2 It is envisaged that liaison in respect of routine operational matters will occur on an 'as needed' basis between appropriate staff of the two agencies.

6. Information-Sharing

- 6.1 Full and timely exchange of information is a crucial element in co-ordination between APRA and ASIC.
- 6.2 APRA gathers a wide range of information on the entities, which it prudentially supervises. ASIC gathers a wide range of information in its role in monitoring and promoting market integrity and consumer protection in relation to the Australian financial system.
- 6.3 The agencies agree that, subject to legislative provisions, information available to one agency, which is relevant to the responsibilities of the other agency, will be shared as requested. Each agency will provide relevant information to the other on a best endeavours basis, with due regard to the urgency of doing so. This will be subject to any relevant legal and operational considerations and any conditions, which the provider of the information might place upon the use or disclosure of the information, such as claims of legal professional privilege.
- 6.4 When exchanging confidential information, APRA and ASIC acknowledge the confidentiality and secrecy requirements of the Acts under which each agency operates. The agency providing information has the right to specify the level of confidentiality attached to the information it provides to the other, in order to protect that information from unauthorised use, or disclosure. The agency receiving the information will take all reasonable steps to ensure such information is only used or disclosed for the purpose for which it was obtained.
- 6.5 Each agency agrees not to disclose any confidential information obtained pursuant to this agreement to a third party unless it has obtained the prior consent of the agency which has provided the confidential information.
- 6.6 Subject to appropriate cost sharing, each agency may arrange for information relevant to its responsibilities to be collected from financial entities by the other agency.

7. Unsolicited Assistance

- 7.1 Each agency recognises that in the course of carrying out its functions and exercising its powers, it will come into possession of information which would, if provided to the other agency, be likely to assist that other agency in administering or enforcing the particular laws for which it is responsible.
- 7.2 Each agency agrees, subject to legal restrictions, to use its best endeavours to notify the other agency with due regard to the urgency of doing so of the existence of any

information of a kind referred to above, notwithstanding that it may not have received a request from the other agency for such information.

8. Cost of Provision of Information

- 8.1 In general, the agency which receives the request for information shall bear the cost incurred by it in locating and providing the information to the agency who requests the information.
- 8.2 If it appears to the agency that receives the request that it will incur substantial costs in responding to the request it may make representations to that effect to the requesting agency and the parties may negotiate a cost-sharing arrangement in relation to the provision of that information.

9. International Representation

- 9.1 The agencies will co-operate to ensure that Australia has appropriate representation in regional and international regulatory fora and training initiatives. In some circumstances there will be joint representation but where only one agency is represented it will consult with the other agency as needed before and after the particular gathering.

DATED this day 12 of October 1998

Alan Cameron AM
Chairman
Australian Securities and
Investments Commission

Graeme Thompson
Chief Executive Officer
Australian Prudential Regulation
Authority

APPENDIX C

MAIN TYPES OF FINANCIAL INSTITUTIONS as at December 1999

Type of Institution	Main Supervisor/ Regulator	Main Characteristics	No. of Active Groups ^a	Total Assets (\$b)
Banks	APRA	Provide a wide range of financial services to all sectors of the economy, including (through subsidiaries) funds management and insurance services. Foreign banks authorised to operate as branches in Australia are required to confine their deposit-taking activities to wholesale markets.	44	699 ^b
Non-bank financial intermediaries				
Building societies	APRA	Building societies raise funds primarily by accepting deposits from households, provide loans (mainly mortgage finance for owner-occupied housing) and payments services. Traditionally mutually owned institutions, building societies increasingly are issuing share capital.	19	13
Credit unions	APRA	Mutually owned institutions, credit unions provide deposit, personal/housing loan, and payment services to members.	219	21
Money market corporations ('merchant banks')	ASIC ^c	Operate primarily in wholesale markets, borrowing from, and lending to, large corporations and government agencies. Other services, including advisory, relate to corporate finance, capital markets, foreign exchange and investment management.	39 ^d	61
Finance companies (including general financiers)	ASIC ^c	Provide loans to households and small to medium-sized businesses. Finance companies raise funds from wholesale markets and, using debentures and unsecured notes, from retail investors.	56 ^d	68
Securitisers		Special purpose vehicles that issue securities backed by pools of assets (eg mortgage-based housing loans). The securities are usually credit enhanced (eg through use of guarantees from third parties).	51	54

Type of Institution	Main Supervisor/ Regulator	Main Characteristics	No. of Active Groups ^a	Total Assets (\$b)
Funds managers and insurers				
Life insurance companies	APRA ^e	Provide life, accident and disability insurance, annuities, investment and superannuation products. Assets are managed in statutory funds on a fiduciary basis, and are mostly invested in equities and debt securities.	38	176
Superannuation and approved deposit funds (ADFs) – outside of life insurance companies	APRA	Superannuation funds accept and manage contributions from employers (incl. self-employed) and/or employees to provide retirement income benefits. Funds are controlled by trustees, who often use professional funds managers/advisers. ADFs are generally managed by professional funds managers and, as with super funds, may accept superannuation lump sums and eligible redundancy payments when a person resigns, retires or is retrenched. Superannuation funds and ADFs usually invest in a range of assets (equities, property, debt securities, deposits).	203,272	295
Public unit trusts	ASIC ^c	Unit trusts pool investors' funds, usually into specific types of assets (eg equities, property, money market investments, mortgages, overseas securities). Most unit trusts are managed by subsidiaries of banks, insurance companies or merchant banks.	257	117
Trustee companies (common funds)	State authorities	Trustee companies pool into common funds money received from the general public, or held on behalf of estates or under powers of attorney. Funds are usually invested in specific types of assets (eg money market investments, equities, mortgages).	17	8
Friendly societies	APRA	Mutually owned co-operative financial institutions offering benefits to members through a trust-like structure. Benefits include investment products through insurance or education bonds; health; funeral; accident; sickness; or other benefits.	57	6
General insurance companies	APRA ^e	Provide insurance for property, motor vehicles, employers' liability, etc. Assets are invested mainly in deposits and loans, government securities and equities.	115	60

a Subsidiaries of an institution undertaking the same activity are treated as part of a single group.

b Refers only to the Australian banking operations and does not include assets of banks' overseas branches or domestic and foreign non-bank subsidiaries. Banks' global consolidated group assets (for all locally incorporated banks and foreign bank branches) at December 1999 were \$937 billion.

c ASIC does not conduct prudential supervision of these institutions, but does regulate certain aspects of their operations (eg compliance with the fundraising and securities licensing provisions of the Corporations Law).

d As at December 1999, groups with total assets below \$50 million are not included.

e State Government-owned insurance offices are not covered by Commonwealth legislation, nor supervised by APRA.

APPENDIX D

MAIN DEVELOPMENTS IN REGULATION/SUPERVISION OF THE AUSTRALIAN FINANCIAL SYSTEM: 1999

- Jan The Council of Financial Regulators releases an updated version of the booklet, *Year 2000 Preparations in the Australian Banking and Financial System*, describing the Year 2000 preparations of financial institutions in Australia and the activities of the financial sector regulators. It also describes preparations in payments and securities settlement systems.
- Feb APRA and the Commonwealth Treasury release a Memorandum of Understanding covering policy and operational co-ordination in the regulation of the Australian financial system.
- APRA and the Motor Accidents Authority of NSW sign a Memorandum of Understanding setting out a framework of co-operation in areas of common interest.
- ASIC announces the formation of an Office of Consumer Protection.
- ASIC and the Securities Commission of Papua-New Guinea release a Memorandum of Understanding providing a framework for the exchange of information and investigative assistance between the two organisations.
- Mar APRA releases for comment a Policy Discussion Paper on the prudential supervision of conglomerates.
- The Payments System Board announces a widening of access to Exchange Settlement Accounts at the RBA.
- Apr The Council of Financial Regulators releases an updated version of the booklet, *Year 2000 Preparations in the Australian Banking and Financial System*.
- The Australian Accounting Standards Board, the Life Insurance Actuarial Standards Board and APRA release a joint statement to the life insurance industry clarifying some of the requirements embodied in Accounting Standard AASB 1038 “Life Insurance Business”; Actuarial Standard AS1.01 “Valuation of Policy Liabilities”; and Prudential Rules (PR35) for financial statements under the *Life Insurance Act 1995*.

APRA and the Australian Tax Office release a Memorandum of Understanding setting out how the two agencies will co-operate in the regulation of the superannuation industry.

ASIC announces the creation of a new national electronic enforcement unit.

May The *Superannuation Legislation Amendment Act 1999* receives Royal Assent. This Act makes various amendments to the *Bankruptcy Act 1966*, the *Superannuation (Resolution of Complaints) Act 1993* and the *Superannuation Industry (Supervision) Act 1993* (SIS Act) to improve the efficiency and effectiveness of the supervisory framework for superannuation. Importantly, this Act permits trustees of a superannuation fund to amend the governing rules of the fund to enable the acceptance of binding death benefit nominations from members under section 59 of the SIS Act.

ASIC launches an Electronic Company Registration (ECR) service which enables new companies to be registered within minutes via the Internet.

ASIC enters into Memoranda of Understanding with the Comision Nacional Del Mercado De Valores of Spain and the Financial Services Board of South Africa.

Jun APRA releases guidelines outlining amendments to the capital adequacy standards applying to banks. The guidelines give effect to the decision by the Basel Committee on Banking Supervision, in October 1998, to allow the inclusion of innovative equity instruments in Tier 1 capital.

The *Financial Sector Reform (Amendments and Transitional Provisions) Act (No.1) 1999* receives Royal Assent. The Act deals with various matters associated with the transfer of financial institutions covered by the Financial Institutions Scheme to the Commonwealth regulatory regime.

The *Financial Sector (Transfer of Business) Act 1999* receives Royal Assent. The Act gives APRA new powers to approve an application for the transfer of part or all of the business of one prudentially regulated entity to another (a voluntary transfer); or to require, in limited circumstances, a prudentially regulated entity to transfer part or all of its business to another entity (a compulsory transfer).

A determination was made setting the levies for the period 1999 – 2000 to cover the supervisory costs of financial institutions regulated by APRA.

The High Court upholds an appeal against a decision of the full Federal Court which ruled that the review powers of the Superannuation Complaints Tribunal were invalid.

ASIC launches the trial of an interactive website service that allows its clients to view their company details and make changes to them.

- Jul APRA becomes responsible for the prudential regulation of the State- and Territory-based financial institutions (building societies, credit unions and friendly societies) previously covered by the Financial Institutions Scheme. ASIC becomes responsible for the corporate regulation of these institutions.
- The Electronic Funds Transfer (EFT) working group convened by ASIC releases a discussion paper calling for the EFT Code of Conduct to be expanded.
- Aug APRA announces the formal removal of the Prime Assets Requirement (PAR). Under new prudential guidelines dealing with liquidity management, each bank will manage its liquidity according to policies agreed individually with APRA.
- Sep The Council of Financial Regulators releases its final edition of the booklet, *Year 2000 Preparations in the Australian Banking and Financial System*.
- ASIC and APRA announce new requirements for financial reports of benefit funds and friendly societies registered under the *Life Insurance Act 1995*.
- APRA releases for comment three Policy Discussion Papers on the prudential supervision regime for general insurers.
- APRA issues amendments to its capital requirements which permit banks, in certain circumstances, to recognise bilateral close-out netting agreements for capital adequacy purposes.
- RBA releases a report, *Reducing Foreign Exchange Settlement Risk in Australia – A Progress Report*, based on a survey of foreign exchange dealers.
- The Payments System Board and the ACCC announce that they are to undertake a joint study into interchange fees for debit and credit cards, and membership criteria for credit cards.
- ASIC approves its first complaints resolution scheme, under its new policy dealing with complaints about licensees who provide investment advice to retail investors.
- The Minister for Financial Services and Regulation releases the results of a research project on consumer financial education material carried out by the Financial Services Consumer Policy Centre and commissioned by ASIC's Consumer Advisory Panel.
- Oct The *Superannuation Legislation Amendment Act (No.3) 1999* receives Royal Assent. This Act amends the SIS Act to establish a new category of small superannuation funds with fewer than five members, to be called self-managed superannuation funds. It provides for the transfer of regulation of such funds from APRA to the Australian Taxation Office.

Nov APRA releases for comment a second Policy Discussion Paper on the prudential supervision of conglomerates.

RBA announces that the Sydney Futures Exchange Clearing House has been granted an Exchange Settlement Account, the first approval under the more liberal access arrangements announced in March.

RBA announces that the Austraclear System and the Australian Payments Clearing Association's High Value Clearing System have been declared "approved multilateral netting arrangements" under *the Payments Systems and Netting Act 1998*.

Dec APRA and the ACCC release a Memorandum of Understanding setting out an agreed basis for policy co-ordination and information sharing.

ASIC and APRA release an interim policy for the treatment of mutual organisations under the Corporations Law and the *Banking Act 1959*.

APRA issues a statement setting out the requirements to be considered by APRA-supervised entities in determining whether, and how, to use the services of a custodian.

APRA releases for comment a draft Prudential Standard on liquidity management for all ADIs.

The *Superannuation Legislation Amendment Act (No. 4) 1999* receives Royal Assent. This Act amends the existing investment restrictions applying to superannuation funds under the *Superannuation Industry (Supervision) Act 1993*.

APPENDIX E

SPEECHES AND ARTICLES OF COUNCIL MEMBERS

Copies of the following speeches and articles are published on the Internet site or available from the Information Office of the relevant agency - see page 22.

Australian Prudential Regulation Authority

Carmichael, J., *The Framework for Financial Supervision in China: Macro and Micro Issues*, Strengthening the Banking System: Issues and Experience Conference, 1 March 1999.

Carmichael, J., *Regulation as an Exercise in Risk Management*, Institute of Actuaries of Australia, 8 November 1999.

Thompson, G.J., *Navigating the New Framework – APRA, RBA, ASIC and ACCC*, Law Institute of Victoria, 10 May 1999.

Thompson, G.J., *APRA – The First Year*, CEDA, 9 June 1999.

Thompson, G.J., *APRA – Into our Second Year*, CPA Insurance Industry Day, 27 September 1999.

Thompson, G.J., *Emerging Global and Regional Factors – Implications for Regulation, An Australian Perspective*, International Symposium on Enhancing Life Insurance Regulatory Regimes in Asia, 17 November 1999.

Australian Securities and Investments Commission

Cameron A., *Core Issues for Directors: “Balancing Conformance with Performance – Building Trust Between Directors, Regulators and Community”*, Australian Institute of Company Directors, 23 March 1999.

Cameron A., *Major Challenges in Financial Regulation at the End of the Decade*, Monash Law School Foundation Lecture, 6 May 1999.

Cameron A., *The Commission and The Panel*, Corporations and Securities Panel, 8 June 1999.

Cameron A., *Regulating a Global Market*, Australian Institute of International Affairs, 6 July 1999.

Cameron A., *The 10 Corporate Commandments Every CEO Should Know*, Investment and Financial Services Association 99 Conference, 21 July 1999.

Cameron A., *Key Regulatory Developments and Issues*, Insurance Council of Australia Conference, 12 August 1999.

Cameron A., *Global and Regional Regulatory Challenges: Enhancing Life Insurance Regulatory Regimes in Asia*, 17 November 1999.

Segal, J., *Superannuation in the New Regulatory Environment*, Superannuation 1999, National Conference for Lawyers, 26 February 1999.

Segal J., *The Perspective of a Regulator on Alternative Dispute Resolution Schemes*, Banking Ombudsmen & Financial Services Complaint Handling Schemes Conference, 10 March 1999.

Reserve Bank of Australia

Grenville, S.A., *Financial Crises and Globalisation*, The Reinventing Bretton Woods Committee Conference, 15 July 1999.

Grenville, S.A., *The International Reform Agenda: Unfinished Business*, William M. Mercer's Global Investment Forum, 6 December 1999.

Laker, J.F., *The Role of the Payments System Board*, AIC Conference on Australian Payments System Evolution, 16 June 1999.

Laker, J.F., *Monitoring Financial System Stability*, 52nd International Banking Summer School, 1 September 1999.

Laker, J.F., *The Reserve Bank of Australia – Post Wallis*, Keynote Lecture to Monash University Law School Foundation, 28 October 1999.

Macfarlane, I.J., *The Stability of the Financial System*, RC Mills Memorial Lecture, 29 July 1999.

Reserve Bank of Australia Bulletin, *Demutualisation in Australia*, January 1999.

Reserve Bank of Australia Bulletin, *Recent Developments in Interest Rates and Bank Lending*, April 1999.

Reserve Bank of Australia Bulletin, *The Role of Exchange Settlement Accounts*, April 1999.

Reserve Bank of Australia Bulletin, *Bank Fees in Australia*, June 1999.

Reserve Bank of Australia Bulletin, *Consumer Credit and Household Finances*, June 1999.

Reserve Bank of Australia Bulletin, *Capital Flows and the International Financial System*, November 1999.