

22 August 2014

Financial System Inquiry
GPO Box 89
SYDNEY NSW 2001

Dear FSI

Reforming the Regulatory Architecture

Thank you for the opportunity to provide a submission to the Financial System Inquiry in response to the FSI Interim Report, and for your consideration.

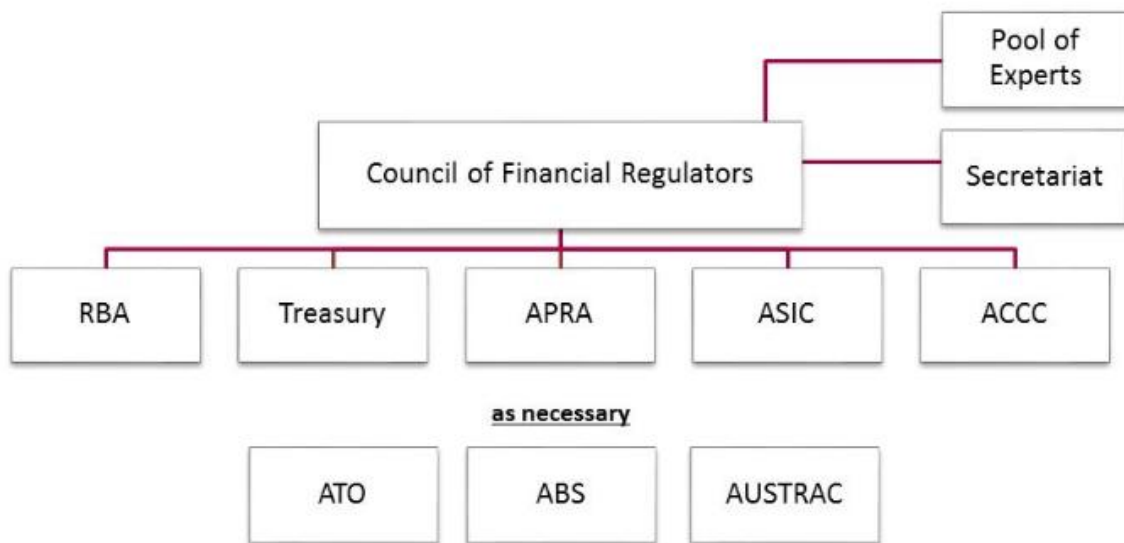
I have written a paper on Regulating Australia's Financial System for the Australian Centre for Financial Studies Funding Australia's Future project. It was published in June 2014 – see http://www.fundingaustraliasfuture.com/sites/fundingaustraliasfuture.com/files/papers/Regulating_the_Australian_Financial_System.pdf.

The paper draws on the developments in the financial system and in our understanding of finance since the Wallis Inquiry, particularly the Global Financial Crisis (GFC), the exposure of taxpayers in securing financial stability and the difficulties consumers have with finance. The canvas is primarily the Reserve Bank of Australia (**RBA**), Treasury, the Australian Prudential Regulation Authority (**APRA**), the Australian Securities and Investments Commission (**ASIC**) and Australian Competition and Consumer Commission (**ACCC**).

In brief, the paper proposes improving Australia's regulatory architecture by:

- Making the **Council of Financial Regulators** (CFR) into a statutory body largely comprising ex-officio the heads of the main financial policy and regulatory agencies (RBA, Treasury, APRA and ASIC and bringing in the ACCC), accountable to the parliament for the effectiveness of financial regulation, the coordination of financial regulation (including internationally) and decision-making on pro-active counter-cyclical macroprudential policy. It should be led by an independent chair, supported by an external pool of experts and a secretariat, publish its agenda and records of meetings, and have its macroprudential policy decisions implemented by the appropriate agency;
- Requiring **APRA** to publish risk appetite statements that protect taxpayers while maintaining almost unchanged the prudential perimeter, but moving competition responsibilities from APRA and relocating them to ACCC;
- Taking consumer and competition responsibilities out of **ASIC** and relocating them to **ACCC**, enabling ASIC to focus on maintaining market integrity in the face of rising international and technology challenges.

The regulatory architecture could then look like this:



“No change” to the regulatory architecture does not seem a prudent option in view of the pressures ahead. In addition, there are many more minor regulatory reforms that would make a difference to the community that uses financial services. For instance, a major gain would come from simply making the public thoroughly aware of the **Financial Claims Scheme** (FCS), which has created some safe financial instruments supported by Government and prudential regulation.

Yours sincerely,

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