



ASIC

Australian Securities & Investments Commission

Global markets: Regulating for economic growth

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Introductory comments

Good morning.

Today, I'd like to give you an insight into my perspectives on 'global regulation'.

However, first let me begin by extending a warm welcome to you all to ASIC's 12th Summer School.

This year, thanks to the hard work of our Summer School sponsor, Mark Adams, together with his team, we have broken more Summer School 'records'.

I am delighted that, in the course of this week's proceedings, we will be joined by 60 distinguished, expert presenters, who come from a diverse range of jurisdictions, industries and backgrounds and will, no doubt, contribute significantly to the dialogue and debate we will enjoy here.

As delegates, you also come from a variety of backgrounds and perspectives, ranging from financial and professional services businesses, to industry associations and fellow regulators (including colleagues from ASIC) and academia.

We also have a record number of around 50 international colleagues, who represent 19 countries, including Canada, China, Fiji, Germany, Hong Kong, Indonesia, Ireland, Republic of Korea, Malaysia, New Zealand, Papua New Guinea, Qatar, Saudi Arabia, Singapore, Sri Lanka, Thailand, Vanuatu, the United Kingdom and, of course, Australia.

Welcome to you all.

It is promising that the composition of our Summer School attendees increasingly reflects participation at an international level, a clear indicator of the trend towards a global focus in our capital markets and the need for

regulators and legislators to work carefully together to support and facilitate legitimate international business activity.

Let me make two introductory comments before exploring the genesis of this week's theme, *Global Markets: Regulating for economic growth*.

- First, as you would be aware, for the first time, we have divided the Summer School into two parts to provide greater flexibility for participants and distinct focuses –
 1. Part 1, which runs from today until Wednesday will focus on strategic issues: doing business in Asia, perspectives across borders and valuing the consumer; and
 2. Part 2, from Thursday to Friday, we will have a specific regulatory focus: achieving better regulation and understanding ASIC's business.
- Second, I would strongly encourage you to engage in the dialogue and debate that occurs throughout the program. In this way, we can actually get the *most* out of this week.

Global Markets: Regulating for economic growth

This year's Summer School theme – *Global Markets: Regulating for economic growth* – was developed to stimulate discussion on the opportunities that now exist in our global capital markets and to consider the challenges that lie ahead in regulating these markets.

Our global markets are growing deeper and more liquid, with the amount of money flowing across borders increasing rapidly, boosting liquidity and reducing the cost of capital.

More and more, we are each carrying out our business on the international stage – be it as a regulator, market participant, financial services provider or director of a company. We are no longer limited to focusing on the United States, United Kingdom or Europe; it extends to many of the developing markets as well.

Global capital markets, of course, can be a double-edged sword.

On the upside, the increasing integration of global capital markets has a number of positive flow-on effects, including:

- improving investment levels domestically and internationally and providing greater opportunity for investors from one jurisdiction to directly invest in other jurisdictions, including at the retail investor level;
- promoting growth at both the microeconomic (i.e. company) level and more broadly in terms of the macroeconomic 'gross domestic product' level; and
- providing greater access to capital (as we are currently seeing with the surge in private equity deals being put on boardroom tables).

However, the exposure to international competition, and the cross-border money flows that accompany it, also accentuates our exposure to the potential regional corporate collapses and downturns, which almost inevitably happen from time to time, in one or all of our economies.

It is preparing for these types of situations that 'global regulation' can play its greatest role. Other terminology currently in popular use that you might be more familiar with to describe this concept is mutual recognition, comparable regulatory regimes, regulatory equivalence, substituted compliance and regulatory harmonisation.

The foundation for any coordination of such an approach is that any regulatory weakness from any jurisdiction that is part of a convention like this is to be absolutely minimised.

Whatever the nomenclature, the message is clear.

The regulatory regimes that underpin each jurisdiction must reflect a clear understanding of the global nature of the issues that confront them and must provide a breadth of options for responses that we can pursue.

Charlie McCreevy, European Commissioner for Internal Markets and Services, recently reflected in Dublin:

'...precisely when a major default does occur – or when a few significant accidents happen – ...markets will adjust, amateurs will get driven out, and sound and sensible...principles will be restored. Fools get parted from their money. And fools posing as professionals – as well as professionals behaving like fools – deserve to be parted from their money...'

Given Australia's prominence in the Asia-Pacific region, as our Treasurer said, it is imperative that we continue to build our businesses, competing globally *to survive*, on foundations of a sound internationally-accepted regulatory regime.

Let me address each of these points of interest – Australia's international competitiveness and its contribution to global regulation – in turn.

Australia's global competitiveness

Australia's economy *is* globally competitive.

As one of the world's 20 largest economies, it makes a significant contribution on the international stage. And our remarkable success is clearly supported by the fact that we are the most resilient economy in the world, now entering our sixteenth year of economic expansion.

We are in a position to boast about how our funds management industry is one of the most sophisticated in the world, managed by talented professionals.

The size of our investment funds pool is US\$700 billion, the largest in Asia and fourth largest in the world. Our per capita average of investment in managed funds is valued at close to AU\$50,000, dwarfing all other nations (including the United States by 20%) and reflecting an increase of around 115% over the last five years.

Our stock market capitalisation is also ranked 9th globally, measuring US\$900 billion. This is complemented by strong stock market performance, up 19% in 2006.

On global competitiveness rankings, in 2006 the international Institute for Management Development ranked Australia 6th of 61 economics and the World Economic Forum placed us 19th among 125 nations.

Much of this economic success can be attributed to our regulatory regime here in Australia – a balanced, principles-based approach to disclosure, fundraising, corporate governance and the provision of financial services and products.

A challenge for us in Australia is to continue to apply the same judgment, vision and integrity that leaders in government and business have demonstrated in the past.

We all know from our experience that the business environment continues to get more complex and difficult.

ASIC is already mandated to:

- enforce the laws of the Commonwealth of Australia;
- protect consumers, investors and creditors and promote their informed, confident participation in our markets; and
- of equal importance, maintain, facilitate and improve the performance of the financial system and the entities within it to enhance commercial certainty, reduce business costs and *promote the efficiency and development of the economy.*

In this context, therefore, let me turn now to some of ASIC's specific contributions to the debate on 'global regulation'.

ASIC's contribution to the debate on 'global regulation'

For some time, ASIC has advocated a strong preference for making the regulatory regime work in a cross-border environment.

At the broadest level, this involves consultation, cooperation and, ultimately, collaboration.

At the consultation level, ASIC liaises with our counterparts overseas through, for example, the International Organisation of Securities Commissions (*IOSCO*) and the Joint Forum. We have a range of representatives on IOSCO's Technical Committee and each of the Standing Committees, which cover:

- ❑ Multinational Disclosure and Accounting;
- ❑ Regulation of Secondary Markets;
- ❑ Regulation of Market Intermediaries;
- ❑ Enforcement and the Exchange of Information; and
- ❑ Investment Management.

Similarly, ASIC is committed to pursuing strong cooperation arrangements between regulators internationally. Our reliance on IOSCO's *Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information* is the keystone for information sharing in the context of enforcement and inspection.

Additionally, in accordance with our principles for cross-border financial services regulation, we recognise foreign regulatory regimes that are sufficiently equivalent to the Australian regulatory regime in terms of the degree of investor protection, market integrity and reduction of systemic risk that they achieve.

Our cooperative work in the accounting and auditing areas and, in particular, the adoption of the International Financial Reporting Standards, is another clear step towards enhancing cross-border business.

A current and relevant example of ASIC's collaborative approach to the global capital markets is our involvement in Indonesia as part of the Australia-Indonesia Partnership of Reconstruction and Development (*AIPRD Program*).

I am honoured to have had the opportunity to meet with the Indonesian Minister for Finance, Dr Sri Mulyani Indrawati, and the Chairman of Bapepam LK, the Indonesian Capital Market and Financial Institutions Supervisory Agency, Dr Rahmany, during two visits to Indonesia last year as part of the AIPRD program.

Later today, we will hear two perspectives from an emerging market in transition, Dr Rahmany's and Dr Abimanyu's (Head of the Fiscal Analysis Division in the Indonesian Ministry of Finance), which we sincerely look forward to.

The collaboration that has taken place between Bapepam LK and ASIC over the last eighteen months or so has been highly successful. Our role has been to assist Indonesia in economic, financial and public sector management through the exchange of skills and expertise.

Facing the challenges ahead

More broadly, there will, no doubt, be challenges ahead as we together strive for 'global regulation'.

From my own perspective, Australia is currently on a cusp. We are still small enough to recognise and appreciate our domestic idiosyncrasies, but we are large enough to contribute to the global scene. Like the catchcry, we continue to 'think globally and act locally' to a large degree.

However, as the Asian region of which we are a part continues to grow at rates that are currently outpacing other regions, the drive for global regulation in the interests of the broader international economies will increase.

We will not only need to think globally, but act in a global context as well.

We also need to reflect on the financial strength of the United States of America and incredible success of the European Union in influencing global markets.

I believe that getting the most out of 'global regulation' will require:

1. recognising, understanding and appreciating the global nature of the environments we operate in and how we each contribute to them;
2. anticipating circumstances, such as downturns or major corporate collapses before they arise;
3. maximising the effective dialogue and cooperation between international regulators, particularly when dealing with issues surrounding international business; and
4. staying abreast of developments and emerging trends.

Concluding remarks

In my view, the program for this year's Summer School provides an ideal forum for progressing our thinking on 'global regulation'.

I have every confidence that the presenters at the Summer School will add to the debate.

We have heard from the Australian Federal Treasurer. We will hear from heads and representatives of regulatory agencies from the United States of America, Germany, the United Kingdom, Hong Kong, Thailand and Indonesia.

We will also hear from business leaders who have achieved success outside Australia and we will hear from third party industry academics, lawyers, accountants and economists.

There will, no doubt, be plenty to whet the appetite and expand our horizons.

I thank you for your participation. Enjoy our 2007 Summer School.