FSB FINANCIAL STABILITY BOARD

Press release

Press enquiries:
+41 61 280 8037

press@bis.org

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FSB completes peer review of Australia

The Financial Stability Board (FSB) published today the report on the peer review of Australia. This forms part of a regular programme of peer reviews of FSB member jurisdictions, which began with the publication of the peer review of Mexico last year and of Italy and Spain earlier this year. Canada and Switzerland also volunteered to undergo a peer review in 2011, and their reports will be published following approval by the FSB Plenary.

The Australian financial system weathered the financial crisis well. The resilience of the system largely reflected the resilience of the economy at large. Structural reforms ensured that macroeconomic conditions at the time of the crisis were favourable, while a combination of automatic stabilisers and proactive policy measures buffered the domestic economy from the sharp deterioration in global economic conditions. An important lesson from Australia's experience is that strong economic fundamentals provide a crucial bulwark against the risks of a financial crisis, and that appropriate macroeconomic policies matter as much for the health of the financial system as does the strength of the supervisory framework.

Strong macroeconomic fundamentals were also supported by a sound regulatory and supervisory framework. The monitoring of risks has not required a separate macro-prudential regulator in Australia: both the prudential regulator and the central bank have financial stability mandates. While the institutional arrangements for macro-prudential oversight are relatively informal, the relevant agencies have a long history of achieving consensus via the Council of Financial Regulators - as illustrated by their actions during the crisis. In that context, FSB members note that macro-prudential oversight requires effective inter-agency coordination, but that institutional arrangements can differ based on country-specific circumstances. However, it is important to ensure that the responsibilities of each agency are clearly defined, particularly during a crisis.

The post-crisis period presents a number of policy challenges for Australia. First, the economy - and the financial system - is going through a period of structural change in response to the strong demand for commodities from emerging Asian economies. Prudential tools may be considered to manage sector-specific risks stemming from these structural changes. Second, Australian banks have made good progress in reducing their dependence on wholesale (particularly external) funding, and they should continue to work towards managing this funding risk. Third, the size and nature of activities of the four big domestic banks could pose systemic and moral hazard risks in Australia. The authorities have a framework in place to address those risks through a graduated supervisory response, while future policies will need to be consistent with the work on systemically important financial institutions that is underway at the international level by the FSB and the Basel Committee on

Banking Supervision. Moreover, while a concentrated system by itself is not necessarily less competitive, it is important to proactively promote competition and contestability, as currently proposed in various government reforms.

Significant and commendable progress has been made in addressing Financial Sector Assessment Program (FSAP) recommendations across all financial sectors. This includes the development of a crisis management framework; the establishment of a deposit guarantee scheme; the strengthening of resolution powers; the promotion of effective risk management practices and strong capital reserves by banks as well as the close monitoring of their risks by the prudential regulator (APRA); the introduction of consolidated group supervision; the development of a comprehensive Policy Statement by the market conduct regulator (ASIC) to provide guidance on prospectus disclosure; and the adoption of reforms that significantly enhanced the management and regulatory framework for general insurers.

There remains scope for further progress in a few areas covered by the FSAP recommendations. Bearing in mind the structure of the Australian banking industry, the acceleration of work on recovery and resolution plans for the larger banks would be useful, focusing on what the authorities regard as the banks' critical economic functions. In banking supervision, the authorities should review the Section 11 exemptions of the *Banking Act* in order to establish an amended and clearer demarcation line between regulated and non-regulated entities. In securities regulation, best execution obligations to fund managers should be further clarified, for example by issuing more concrete guidance as recommended by the FSAP. Finally, ASIC should consider assessing the relevance and efficiency of capital requirements applicable to different types of market intermediaries so as to avoid any potential material regulatory gaps.

Notes to editors

The FSB has been established to coordinate at the international level the work of national financial authorities and international standard setting bodies and to develop and promote the implementation of effective regulatory, supervisory and other financial sector policies in the interest of financial stability. It brings together national authorities responsible for financial stability in 24 countries and jurisdictions, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts.

The objective of FSB country peer reviews is to examine the steps taken or planned by national authorities to address IMF-World Bank FSAP recommendations concerning financial regulation and supervision as well as institutional and market infrastructure. FSB member jurisdictions have committed to undergo an FSAP assessment every five years and, to complement that cycle, an FSB peer review two to three years following an FSAP. As part of this commitment, Australia volunteered to undergo a peer review in 2011, which follows up on the recommendations of the FSAP that was undertaken by the IMF in 2006.

A country peer review evaluates the progress made by the jurisdiction in implementing FSAP recommendations against the background of subsequent developments that may have influenced the policy reform agenda. It provides an opportunity for FSB members to engage in dialogue with their peers and to share lessons and experiences. Unlike the FSAP, a peer review does not comprehensively analyse a jurisdiction's financial system structure or policies, nor does it provide an assessment of its conjunctural vulnerabilities or its compliance with international financial standards.

The report published today describes the findings and conclusions of the Australia peer review, including the key elements of the discussion in the FSB Standing Committee on Standards Implementation (SCSI). The draft report for discussion was prepared by a team of experts drawn from FSB member institutions and led by Mehmet Yörükoğlu, Deputy Governor of the Central Bank of the Republic of Turkey. The review benefited from dialogue with the Australian authorities and from discussion in the FSB SCSI.

The FSB is chaired by Mario Draghi, Governor of the Bank of Italy. Its Secretariat is located in Basel, Switzerland, and hosted by the Bank for International Settlements.

For further information on the FSB, visit the FSB website, www.financialstabilityboard.org.