

Background to the Inquiry

The financial system is essential to the well-being of all Australians.

The system is undergoing change under the pressure of new market and customer needs, new technologies and global competitive forces. The last comprehensive review of the system was undertaken by the Australian Financial System Inquiry (the Campbell Committee), which presented its report in 1981. Decisions taken in the following years set in train substantial reforms of the regulatory framework generally described as ‘financial deregulation’.

The Treasurer, the Hon. Peter Costello MP, established the present Financial System Inquiry in June 1996 with the following mission:

The Inquiry is charged with providing a stocktake of the results arising from the financial deregulation of the Australian financial system since the early 1980s. The forces driving further change will be analysed, in particular, technological development. Recommendations will be made on the nature of the regulatory arrangements that will best ensure an efficient, responsive, competitive and flexible financial system to underpin stronger economic performance, consistent with financial stability, prudence, integrity and fairness.

The members of the Inquiry are:

Mr Stan Wallis (Chairman)
Mr Bill Beerworth
Professor Jeffrey Carmichael
Professor Ian Harper
Mrs Linda Nicholls.

The Secretary is Mr Greg Smith.

The full Terms of Reference are reproduced in Appendix A.

The Inquiry is required to provide a final report to the Treasurer by the end of March 1997.

Approach of the Committee

The Committee has adopted several lines of inquiry in its approach to the Terms of Reference. Shortly after its establishment, the Inquiry invited submissions from the public. A total of 268 submissions were received. Analysis of these submissions by the Inquiry is continuing and they have provided valuable input for this paper.

The Inquiry has also held discussions with a number of financial system participants, both in Australia and overseas. Insights from a range of these discussions are included throughout this document.

This Discussion Paper has been prepared from the above sources with the assistance of the Inquiry Secretariat.

The Purpose of the Discussion Paper

The purpose of the Discussion Paper is to set out the main issues which have been identified by the Inquiry, as a basis for:

- facilitating further discussions where required with those who have made submissions to the Inquiry (or others)—this will include open meetings in the five mainland capitals in early to mid-December; and
- an invitation to those who may wish to provide a further submission—further submissions must be received by the Inquiry Secretariat no later than 5 pm on Monday, 13 January 1997.

The Discussion Paper does not cover all of the issues raised by the Inquiry's Terms of Reference. It is mainly directed at Paragraph 3 — that is, the task of making recommendations on 'the regulatory arrangements and other matters affecting the operation of the financial system'.

Included within this task is a review of certain Commonwealth legislation affecting the financial sector under the requirements of the Competition Principles Agreement (see Appendix B).

The paper does not provide any substantive review of 'financial deregulation' (Terms of Reference Paragraph 1) and provides only preliminary observations on 'the factors likely to drive further change' (Paragraph 2). Substantive findings on each of these matters will be presented in the Final Report.

The work of the Inquiry to date has benefited greatly from submissions the Inquiry has received and from the help and goodwill offered by a great many individuals and organisations. The Inquiry wishes to record its gratitude for this positive and timely assistance.

The Inquiry has not sought to present its own views on the issues raised in the Discussion Paper. The Inquiry's recommendations will be included only in the Final Report.

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