

20th May, 1999

**The Secretary, House of Representatives Standing Committee
on Economics, Finance and Public Administration,
Parliament House.,
Canberra, Act 2600**

To the Secretary of the Committee and Mr David Hawker, MP,

On 3rd May, 1999 I sent you a copy of a paper entitled “**The Need For A Supra-Mega Regulator For The Next Millennium - Is There Evidence?**” presented at the Global Finance Conference in Istanbul, 7-9th April, 1999 and to be presented in Barcelona at the European FMA Conference 4-6th June, 1999, which I believe is to be provided as an Exhibit. The abstract for this paper is enclosed with this letter.

I have marked sections of the paper below that matches your terms of reference. Please note that this paper was inspired by comments of Mr Charles Freeland of the Bank for International Settlements (the BIS) and by my visit to the Asian Development Bank (the ADB) in October last year.

**Correspondence of the attached paper with the terms of reference of your
Inquiry into the International Financial Market Effects on Government Policy**

1. Implications of globalisation of the international financial markets for the conduct of fiscal and monetary policies – **in order to devise policies that can cope with potential volatility in markets it is necessary to understand why and how the Asian crisis developed and to compare it with other crises. This is discussed in Section 1.3 of the attached paper.**
2. Information requirements for the stable and efficient operation of international financial markets – **Section 1.4 proposes a new solution to the achievement of national regulatory goals – an international mega regulator concentrating on strong prudential measures in an age of liberalisation of protective measures.**

3. The relevance to these issues of recent developments in the international framework for financial regulation – **Sections 1.1 gives an overview of the current architecture in international financial regulation, while Section 1.2 discusses and compares the role of the Bank for International Settlements with the Asian Development Bank. These sections then lend some support (together with the rest of the paper) for the conclusions in Section 1.5 which discusses the future of regulation of the international financial system.**

I look forward to hearing from you,

Dr. Carolyn Currie

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**PLEASE NOTE THAT THE VIEWS EXPRESSED HEREIN ARE THOSE OF
MY GOODSELF AND DO NOT REPRESENT THE VIEWS OF THE
VENERABLE ESTABLISHMENT FOR WHICH I WORK, AND HAVE
WORKED SINCE 1991**

THE NEED FOR A SUPRA-MEGA REGULATOR FOR THE NEXT MILLENNIUM - is there evidence?

Dr Carolyn V. Currie ¹

- *Presentation at the Global Finance conference, Istanbul, April 7 – 9, 1999(msc#01-99-6145)*
- *Manuscript 650130, Session 41, Financial Management Association, (European Division) Friday, June 4, 10.15am – 11.45am, “The Regulation of Financial Institutions”*

ABSTRACT

This paper puts forward an argument for a new international approach to the regulation of financial systems. The approach is based on both inductive and deductive reasoning. The Asian crisis which became evident in 1997, with concomitant contagion effects for vulnerable emerging nations such as Russia and Brazil, provides a fertile database for the application of a systems theory approach to the analysis of financial crises. This approach was first developed by the OECD in response to crises during the eighties (OECD, 1991, 1992). Similarly a taxonomy of regulatory models developed by Currie (1992,1997, 1998) aids in our understanding of both the problem and solution to coordination of a uniform approach to solving the regulatory problems associated with globalisation, innovation and deregulation.

The paper is divided into a five part analysis. The first part analyses the structure of national and international regulatory models governing financial systems. The second part examines the role of international reparations banks in achievement of the national and international regulatory goals of stability, safety and structure. The third section reviews major financial crises 1987-1998 - preconditions and characteristics, with particular reference to emerging nations. This leads to a discussion of a new solution to the achievement of national regulatory goals - mega regulators concentrating on strong prudential measures in an age of liberalisation of protective measures. This paper concludes by attempting to assess the future of regulation of the international financial systems - should it be one in which an international mega regulator or group of regional regulators play a lead role in ensuring the stability of the international financial system, acting in concert to prevent and alleviate financial crises.

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Introduction

In response to the recent series of financial crises the IMF has issued proposals for reform of Asian economies. Underlying these reforms is the complete recognition that the regulatory model applied to govern national financial markets of weak prudential supervisory measures and a mixture of strength in protective measures is not the optimal. This is shown by the concentration in the IMF proposals and in the literature on increasing the strength of the enforcement mode, compliance audits and sanctions in the economies of emerging nations (see for instance Caprio, Hunter, Kaufman and Leipziger, 1998, Part VI). These proposals include an emphasis on reconstructing international regulatory arrangements by,

- Introducing more effective surveillance of countries and greater transparency;
- Heightening regional surveillance by the IMF and the World Bank, financial sector reform including improved prudential regulation and supervision, with more effective structures for orderly workouts, including better bankruptcy laws at the national level. Sanctions to include widespread publicity of those who fail to make the grade, with “countries conditioning access to their markets by foreign banks on a strong home-country supervisory regime” (Hartcher, 1998, p.10);
- Strengthening international financial institutions, including the IMF ².

This plan has been expanded upon further by Robert Rubin, the US Treasury Secretary to include the establishment of global standards along the lines of the “Core Principles for Effective Banking Supervision” already established by the Basle Committee, particularly centred to strengthen national bankruptcy laws, accountancy standards, disclosure, loan classification and overall corporate governance (BIS, 1996, 1997, 1998).

Policies suggested by the IMF have been criticised for a number of reasons. All these concerns can be summarised in the effect on confidence. Stiglitz (1997, p.2) maintains that the macroeconomic fundamentals of the East Asian countries are still very strong with low inflation, high savings and an impressive skill base, but,

“Confidence has been adversely affected by concerns about the health of the financial system, and about the substance and perceptions of transparency and governance”.

Before considering any of these questions it is necessary to analyse the present

² “Editorial: East Asian shipwreck”, (Financial Times, 16 February, 1998).

structure of national and international regulatory models governing financial systems to understand whether there is a need for further international regulatory bodies or whether there are existing bodies which could fulfil these functions given an expanded charter. Theories of central banking, arguments for laissez-faire banking and deregulation, and understanding the process of transformation of national markets into globalised systems is interlinked with the discussion of how and why international supra financial institutions have evolved.