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The Parliament of the Commonwealth of Australia

# **International Financial Markets – Friends or Foes?**

House of Representatives Standing Committee on Economics, Finance and  
Public Administration

March 2001  
Canberra

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*Forecasting is very difficult, especially if it is  
about the future.*

(Anonymous)







## Foreword

This inquiry stemmed from recognition by the Committee of the speed at which globalisation is proceeding in the field of international finance and that over the next few years, globalisation will have profound effects on Australia's financial arrangements.

Consequently, the Committee recognised that government fiscal and monetary policies must take the effects of globalisation into account and allow for the changing conditions it produces.

This has been a particularly challenging inquiry, covering issues which have an enormous scope. Recognising this, the Committee has kept a tight focus throughout the inquiry and has concentrated its investigations in the most appropriate and relevant areas.

The inquiry has examined the issues, in the main, from an Australian perspective. It has also touched on the very extensive work being undertaken by several international organisations. A topic of great interest was the Asian Financial Crisis and, in particular, the factors which enabled the Australian economy to continue growing strongly throughout that difficult period.

The Committee also looked closely at the activities of the large hedge funds. The attack on the Australian dollar by those funds in 1998, was a clear warning of the need for greater transparency in financial activities and the value of a sound prudential system.

In view of the rapid changes in this area and the scope of their effects, it is likely that the Committee will revisit this subject in the next Parliament.

David Hawker MP  
Chair





## **Membership of the Committee**

**Chair** Mr D P M Hawker MP

**Deputy Chair** Mr G S Wilton MP (until 14/6/00)

Ms A E Burke MP (from 29/6/00)

**Members** Mr A N Albanese MP

Ms T Gambaro MP

Mrs K E Hull MP

Mr M W Latham MP

Ms T Plibersek MP

Mr C M Pyne MP

Hon A M Somlyay MP

Dr A J Southcott MP

## **Committee Secretariat**

**Secretary** Ms B Forbes

**Inquiry Secretary** Mr Tas Luttrell

**Administrative Officers** Ms B Zolotto

Ms S Ristevski

Ms S Jurcevic





## **Terms of reference**

On 30 March 1999 the Treasurer, the Hon Peter Costello MP, asked the Committee to inquire into:

1. The implications of the globalisation of international financial markets for the conduct of fiscal and monetary policies in Australia, including medium-term and other strategies to cope with potential volatility in markets.
2. Information requirements for the stable and efficient operation of international financial markets, including the provision of information by governments and disclosure by market participants, especially by large market participants including highly leveraged institutions.
3. The relevance to these issues of recent developments in the international framework for financial regulation.





## List of abbreviations

ASEAN	Association of South East Asian Nations
ASIC	Australian Securities and Investment Commission
ASX	Australian Stock Exchange
ATO	Australian Taxation Office
CLERP6	Corporate Law Economic Reform Program, Proposals for Reform Paper No.6
DFAT	Department of Foreign Affairs and Trade
DOFA	Department of Finance and Administration
EAAU	East Asia Analytical Unit in the Department of Foreign Affairs and Trade
G7	Group of 7 Countries
G22	Group of 22 Countries
GDP	Gross Domestic Product
GST	Goods and Services Tax
HLI	Highly Leveraged Institutions
HSBC	Hong Kong and Shanghai Banking Corporation
IFIs	International Financial Institutions
IFSA	Investment and Financial Services Association
IBM	International Business Machines

IMF	International Monetary Fund
IOSCO	International Organisation of Securities Commissions
JCPAA	Joint Committee on Public Accounts and Audit
OECD	Organisation for Economic Cooperation and Development, Paris
OTC	Over-the-counter derivative products
PERLS	Principal Exchange Rate Linked Security
RBA	Reserve Bank of Australia
SDDS	IMF Special Data Dissemination Standard
SFE	Sydney Futures Exchange
WTO	World Trade Organization





# List of recommendations

## 1 Introduction

## 2 Asian financial crisis

### Recommendation 1

The Committee recommends:

- that the Government examine the feasibility of implementing those recommendations of the Group of 22 Countries Working Groups where Australia is yet to reach world's best practice, including:
  - ⇒ the collection of information on the foreign exchange liquidity position of the public, financial and corporate sectors;
  - ⇒ the collection of data on the foreign currency exposure of the corporate sector;
  - ⇒ the Reserve bank to join other Reserve banks and the International Monetary Fund in drafting a code of best practices in monetary policy transparency;
  - ⇒ further improving Australia's risk management processes;
  - ⇒ providing banking statistics to the Bank for International Settlements;
  - ⇒ implementation of an early-warning system to deal with crises in the banking sector;
  - ⇒ further improvements to Australia's insolvency laws; and
- that high priority be given to achieving successful outcomes in the World Trade Organization negotiations on financial services.  
(para 2.73)

### **3 Effects of the globalisation of international financial markets on economic policy**

#### **Recommendation 2**

The Committee recommends that the Government:

- continue to recognise the need to determine how employees and small businessmen displaced by the globalisation process can be assisted to make the transition to new employment;
- continue to explain what steps are being taken to reduce Australia's current account deficit;
- carry out additional work on public discussion and the dissemination of information on the changes occurring in international financial markets;
- determine whether additional measures are required to ensure that Australia does not experience a build-up of short-term foreign debt; and
- determine what additional steps are needed to ensure that companies moving financial centres to Australia are able to employ the necessary specialists to staff those centres. (para 3.76)

#### **Recommendation 3**

The Committee recommends that a major study be undertaken to explore the impact of various taxation regimes in our major trading partners. The study should assess these regimes in the light of recent reforms to the Australian tax system. (para 3.77)

### **4 Transparency and information requirements**

#### **Recommendation 4**

It is recommended that the Government continue to give high priority to:

- assisting international efforts to improve the transparency and accountability of the international financial system; and
- to expanding Australia's representation in the various international committees and working groups. (para 4.55)

## 5 International financial architecture

### Recommendation 5

The Committee recommends that:

- Australia continue its strong support for the review of the International Financial Architecture with the aim of modernising its institutions;
- the Government encourage Australian financial authorities to make the expertise of their experienced staff available to assist developing markets to reap the benefits of globalisation in world financial markets. (para 5.54)

## 6 Role of hedge funds (highly leveraged institutions)

### Recommendation 6

The Committee recommends that adoption of the proposals of the Financial Stability Forum Working Group on Highly Leveraged Institutions, should be given urgent consideration. The proposals are that there should be:

- stronger counterparty risk management;
- stronger risk management by hedge funds;
- enhanced regulatory oversight of Highly Leveraged Institution credit providers;
- greater risk sensitivity in bank capital adequacy regulation;
- sustained industry progress in risk management;
- a firmer market infrastructure;
- enhanced public disclosure by Highly Leveraged Institutions;
- enhanced public disclosure practices generally;
- enhanced national surveillance of financial market activity; and
- established good practice guidelines for foreign exchange trading. (para 6.44)

## 7 Derivatives

### Recommendation 7

The Committee recommends that:

Given the rapid growth in derivatives trading, the Treasury, the Australian Stock Exchange and the Sydney Futures Exchange should set up a working group to ensure that proper transparency regarding derivatives exposure is maintained by major public companies and financial institutions. (para 7.38)