4

Transparency and information requirements

4.1 As globalisation progresses, the need for the application of international standards and cooperation in addressing problems grows. In this context, international conferences have identified the need for greater transparency and accountability in the financial system as an area of prime importance. The terms transparency and accountability have been taken by the Committee to mean:

> … improving the range, relevance, reliability, comparability and understandability of information – information generated by governments and all market participants – and how that information is used by the various players in pursuing their individual objectives.[1]

4.2 The Federal Treasurer in his opening remarks to the Manila Framework Group in March 1999, nominated improvement in transparency as a key element in improving the global financial system. The Managing Director of the IMF, Michael Camdessus, gave it even greater prominence, when he said that greater transparency in international finance held the key to world economic stability.[2]

4.3 Governor Roger Ferguson of the US Federal Reserve Board expressed similar views:

> … we should seek ways of improving the transparency of financial institutions and markets. As we all know, full information is a fundamental requirement of free and competitive markets. More particularly, financial institutions and individual investors must be well informed about their own and their counterparties' exposures, the nature of new financial instruments, and the extent

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1 The Treasury, *Making Transparency Transparent: An Australian Assessment*, AGPS, CanPrint Communications, Canberra, March 1999, p.iii.

2 Submission 13, The Treasury, p 35.

> of overall market liquidity. I believe that banks and other financial institutions could significantly improve their disclosures by providing more information to the market about their risk management policies and practices and about the values of internal risk measures.
>
> … One of the key lessons of our most recent financial crisis is that international accounting and public disclosure standards are often inadequate. … Much more … should be done to provide the public and supervisors with the information they need to exert effective market discipline.[3]

4.4 The Australian Stock Exchange expressed the idea very simply: "… information is critical to the function of international financial markets. As a result market participants have a vested interest in privately pursuing information."[4]

4.5 An important step in improving the transparency of the world financial system occurred in November 1998, when the Basle Committee on Banking Supervision of the Bank for International Settlements, released a paper entitled "Core Principles for Effective Banking Supervision". This paper was a revised version of a document released for international public discussion in April 1997. It set out twenty-five basic Principles which the Basle Committee believed to be essential for a supervisory system to be effective.

4.6 A number of these principles bear directly on the need for supervisors to have access to all necessary information to determine the soundness of a bank's financial situation. In particular, the principle on Information Requirements states:

> Banking supervisors must be satisfied that each bank maintains adequate records drawn up in accordance with consistent accounting policies and practices that enable the supervisor to obtain a true and fair view of the financial condition of the bank and the profitability of its business, and that the bank publishes on a regular basis financial statements that fairly reflect its condition.[5]

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3 Governor Roger W. Ferguson, Jr., Federal Reserve Board, *Evolution of Financial Institutions and Markets: Private and Policy Implications*, Remarks at the Money Marketeers of New York University, New York, 25 February 1999, pp 1-2. http://www.bog.frb.fed.us/BOARDDOCS/SPEECHES/1999/199902252.htm

4 Submission 6, The Australian Stock Exchange, p.6.

5 *Basle Core Principles for Effective Banking Supervision*, Press Statement of the Basle Committee on Banking Supervision of the Bank for International Settlements, reproduced in Economic Perspectives, USIA Electronic Journal, Vol.3, No.4, August 1998, p.4. http://www.usia.gov/journals/ites/0898/ijee/ejfaf2.htm

4.7 Dr John Edwards in his evidence to the Committee, sounded a warning note about the continuing trend towards demanding greater transparency. He said that the downside is that people expect more from transparency than it is able to deliver:

> … We had the example of Brazil and Argentina in 1998 which really could not have been more transparent about their monetary and fiscal policies or the daily state of their reserves, and this merely signalled to the market how desperate things were becoming. … after the Tequila crisis the IMF promulgated new standards for disclosure and transparency which, just prior to the Asia crisis the deputy director, Mr Fisher then stated … had been widely accepted, yet that whole sequence of events occurred nonetheless. **I think the real problem with transparency is that people expect too much of it** [emphasis added].[6]

Australia's self assessment

4.8 In October 1998, to encourage other countries to carefully examine their performance in this area, Australia undertook to produce a self-assessment of the transparency of its own financial system as a model for others to follow. The Treasury in the introduction to the study, indicated that its intent was to examine Australia's adherence to international disclosure standards and also to various other sound practice principles (whether legal or voluntary).[7]

4.9 The report arising from this self-assessment process was entitled *Making Transparency Transparent*. The report highlighted the advantages to be gained from greater transparency:

> Improved transparency contributes to a more efficient allocation of resources by: ensuring market participants have sufficient information to identify risks; informing market expectations; contributing to the effectiveness of announced policies; and ultimately enhancing the stability of financial markets by assisting in the prevention of a build up of financial and economic imbalances.[8]

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6 Evidence, Dr J. Edwards, 22 March 2000, p.105.

7 The Treasury, *Making Transparency Transparent: An Australian Assessment*, AGPS, CanPrint Communications, Canberra, March 1999, p.vi.

8 The Treasury, *Making Transparency Transparent: An Australian Assessment*, AGPS, CanPrint Communications, Canberra, March 1999, p.v.

4.10 The report commented that the better the quality of the information available, the better equipped governments and market participants are to make sound policy decisions. In turn, soundly based policies and operating decisions make economies less vulnerable to shocks, panics and imbalances. These conditions are needed across the whole range of government and private economic activities.[9]

4.11 To reach its findings, the report compared Australia's practices to those recommended by international codes – in some areas, codes and standards already operating; in others, codes being drafted by international organisations. In the important fiscal and monetary policy sectors, Australia's practice was compared to the IMF's draft *Code of Good Practices on Transparency in Monetary and Financial Policies*.[10]

4.12 Australia's fiscal framework was found to be consistent with the principal features of the Code and monetary policy arrangements were found to compare favourably with the Code's principles of sound practice. In other areas, such as accounting standards, corporate governance and financial sector supervision, the report also noted that Australia's arrangements are consistent with the appropriate international standards.[11]

4.13 When asked by the Committee about the IMF code, the Governor of the Reserve Bank described the provisions as "very sensible". He added that "… we meet these requirements without any trouble."[12]

4.14 Commenting on its report *Making Transparency Transparent*, Treasury said:

> The report … benchmarks Australia's practices against a wide array of 'best practice' international standards and gives an example of how economies can explain their economic policies and institutional arrangements. Ensuring that such policies are comprehensively understood in the global marketplace establishes credibility and … allows investors to make a more informed risk assessment. This not only promotes market efficiency, but may also reduce the risk of 'contagion', at a time of crisis, as lenders are able to distinguish between the financial circumstances facing different countries.[13]

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9 The Treasury, *Making Transparency Transparent: An Australian Assessment*, AGPS, CanPrint Communications, Canberra, March 1999, p.iii.

10 The Treasury, *Making Transparency Transparent: An Australian Assessment*, AGPS, CanPrint Communications, Canberra, March 1999, pp.viii-x.

11 The Treasury, *Making Transparency Transparent: An Australian Assessment*, AGPS, CanPrint Communications, Canberra, March 1999, pp.3-7.

12 Evidence, Reserve Bank of Australia, 9 February 2000, p.11.

13 Submission 13, The Treasury, p 36.

4.15 The issues examined included the way in which information is created, how it is collated and published and the codes and standards guiding public and private use of the information.[14] The idea for the project arose from a G22[15] recommendation that the IMF prepare transparency reports for each country, summarising the degree to which an economy meets internationally recognised disclosure standards.[16]

4.16 The report makes it clear, however, that the views expressed are not necessarily those of the Australian Government and that it simply represents a stock-take of Australia's performance against international standards. Some of the standards themselves are still under development and the report is therefore regarded as a "work-in-progress", which will develop and change over time.[17]

4.17 Since the Australian assessment was produced, the staff of the IMF have carried out a number of assessments in other countries, including the UK. Australia's Treasury suggested that that process would accelerate and, in fact, an assessment of a country's observance of accepted codes and standards, could become a standard part of Article IV consultations. Treasury remarked that "it is a transparency that is becoming increasingly valued … because the international financial community is wanting this information" and concluded:"… it is increasingly being seen as being in countries' own interests to provide the information."[18]

International opinion

4.18 In the US, the President's Working Group on Financial Markets provided additional support for international proposals to improve transparency and the quality of information made available to market participants. The Working Group report commented:

> Improving transparency through enhanced disclosure to the public should help market participants make better, more

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14 The Treasury, *Making Transparency Transparent, An Australian Assessment,* AGPS, CanPrint Publications, Canberra, March 1999, Preface, p.iii.

15 G22 membership see footnote 56, Chapter 2.

16 Task Force on International Financial Reform, *Report to the Prime Minister,* AGPS, CanPrint Communications, Canberra, 1998, p.49.

17 Task Force on International Financial Reform, *Report to the Prime Minister,* AGPS, CanPrint Communications, Canberra, 1998, p.vii.

18 Evidence, The Treasury, 13 March 2000, p.41.

> informed judgements about market integrity and the creditworthiness of borrowers and counterparties.[19]

4.19 The IMF, in its annual assessment of international capital markets in September 1999, observed that gaps in the available information on financial products had been a problem area during the Asian Financial Crisis. The report suggested that, while considerable attention is being paid to this failing, official proposals for increased disclosure and transparency have not clearly indicated what type of additional information should be supplied, how often or to whom (investors, depositors, shareholders, counterparties or supervisors).[20]

4.20 The IMF considered that more time is needed to fully understand how the changes in modern financial systems have altered the information requirements necessary for efficiently handling risk factors. More information is needed about risk exposures, off-balance-sheet activities and over-the-counter derivatives markets.[21]

4.21 On balance, however, the Fund concluded that:

> … More information would improve the ability of financial institutions to strengthen quantitative and qualitative tools for managing financial risk. Better and more timely public disclosure of appropriate information … could potentially improve the ability of private stakeholders to assess risks and act accordingly in pricing risk and allocating portfolios. Likewise, the ability of supervisors and those responsible for surveillance to exercise adequate oversight could also be improved, with more accurate and comprehensive information …
>
> … To know what information is required requires analytical frameworks capable of understanding, assessing, and monitoring modern finance. … There are no simple solutions to analytical problems … supervisors also require new tools and techniques and better and more comprehensive information … for examining individual institutions. …[22]

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19 *Hedge Funds, Leverage, and the Lessons of Long-Term Capital Management*, Report of the President's Working Group on Financial Markets, Washington D.C., April 1999, p.32.

20 International Monetary Fund, *International Capital Markets: Developments, Prospects, and Key Policy Issues*, World Economic and Financial Surveys, Washington D.C., September 1999, p.142. http://www.imf.org/external/pubs/ft/icm/1999/index.htm

21 International Monetary Fund, *International Capital Markets: Developments, Prospects, and Key Policy Issues*, World Economic and Financial Surveys, Washington D.C., September 1999, p.142. http://www.imf.org/external/pubs/ft/icm/1999/index.htm

22 International Monetary Fund, *International Capital Markets: Developments, Prospects, and Key Policy Issues*, World Economic and Financial Surveys, Washington D.C., September 1999, p.149. http://www.imf.org/external/pubs/ft/icm/1999/index.htm

4.22 Treasury agreed that greater transparency would improve risk management:

> The recent financial crises have revealed shortcomings in the way that international investors evaluate and price risk. The recent financial problems have drawn attention to the need to improve transparency and disclosure in both the public and the private sector, …[23]

4.23 The other advantage produced by greater transparency, according to Treasury's evidence, is that it reduces the opportunities for market manipulation:

> The other element that we got more than a little concerned about in the Asian crisis was volatility that was perhaps being driven by a small number of market players who may have seen some advantage for themselves in engineering volatility. This goes to the issue of market manipulation. Market manipulation would certainly be something that concerns us, and that is why in the context of the debate on the international financial architecture we have, among other things, called for greater transparency in respect of the operations of all market players, both public sector and private sector market participants.[24]

4.24 Treasury did warn, however, that greater transparency alone would not stop financial crises. There was a need, Treasury said, to integrate the principles of transparency into market assessments, not merely to improve the quality of the data. The example was used of the failure of ratings agencies to downgrade the debt of the Asian Crisis countries – demonstrating weaknesses in the system of assessing available data.[25] The Committee concluded that improving the data would not have solved this problem. **Important though it is, transparency is not a forecasting system and, at the end of the day, unexpected shocks can still produce adverse reactions.**

Disclosure by private market participants

4.25 In academic circles the Committee found that there has been a tendency to dispute the need for transparency to be imposed by the application of mandatory standards. The argument is, that the needed level of fair and efficient operation of markets will be achieved by market pressures and

23 Evidence, The Treasury, 13 March 2000, p.35.

24 Evidence, The Treasury, 13 March 2000, p.39.

25 Submission 13, The Treasury, pp.36-7.

the need for firms to attract investors. The Treasury noted, however, that Australia's view is that to both attract investors and maintain their confidence in market integrity, full public disclosure of information is essential. It added that this philosophy is in line with the OECD's corporate governance framework. The underlying principle of that framework is that the system:

> … should ensure timely and accurate disclosure of information on all material matters regarding the financial situation, performance, ownership and governance of companies.[26]

4.26 The SFX warned that there were some difficulties involved in insisting on greater transparency from public companies. The data available is usually in the form of a "snapshot" of the firm's situation, usually on an annual or quarterly basis. The further you are from the date of this "snapshot", the less reliable it is regarding the companies current financial exposure. The other area of difficulty, is that of framing disclosure obligations so as to avoid requiring a company to release proprietary information to competitors.[27]

4.27 The SFX suggested that the latter problem would restrict counter-parties to requesting:

- broad concentrations of data, e.g. based on countries or types of product;
- availability of liquid unsecured assets; and
- assumptions employed to calculate the value at risk; the types of stress tests performed and other indicators of risk management capabilities.[28]

4.28 The Treasury rated the role of the private sector in dealing with financial crises as the most complex of the issues being considered internationally. Treasury referred to the work of a G22 Working Group on Transparency and Accountability and noted its finding that there was an absence of principles and standards internationally, to guide disclosure practices.[29]

4.29 The main aim of seeking greater transparency in the financial sector is to permit a much higher standard of risk management among market participants. It is widely believed that the lack of proper understanding of the risk levels involved in some investments has been a contributing cause of difficulties, not only in the Asian Crisis but in many of the financial crises of recent years. The Reserve Bank reported that this situation even applied to major banks:

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26 The Treasury, *Making Transparency Transparent: An Australian Assessment*, AGPS, CanPrint Communications, Canberra, March 1999, pp.21-2.

27 Submission 9, Sydney Futures Exchange, p.6.

28 Submission 9, Sydney Futures Exchange, p.6.

29 Submission 13, The Treasury, p.38.

> One of the biggest problems was that the people who were lending did not even know what they were doing. The people who were lending did not know the risks they were taking and that is a very severe shortcoming of a financial market, to have respectable prestigious banks lending to small, incredibly risky hedge funds and not knowing how big the risks were they were taking. The new approach to hedge funds is to cut off that supply of credit –a sort of unthinking supply of credit – by various rules on disclosure.[30]

4.30 The Bank for International Settlements formed a Working Group to examine transparency in the operations of individual market participants. The Group recommended: "that all financial institutions be encouraged to make available to clients and lenders a greater range of information on their risk profile."[31]

4.31 Australia has given a high priority to improving transparency in the financial system. An illustrative example is the approach to disclosure requirements in the CLERP6[32] legislation. A consultative paper on the implementation of CLERP6 included these comments:

> Disclosure regulation is the core of any regulatory scheme to protect consumers as it enhances consumers' ability to assess financial products and make informed decisions. Effective disclosure obligations must promote the production and provision of relevant and useful information at the point of sale of a financial product which consumers can effectively use to assess the features of a product and decide whether a product meets their needs. Currently, participants in Australia's financial markets face a range of information disclosure rules which vary greatly in their status, degree of prescription and penalties for breach.[33]

4.32 The paper also noted that submissions on CLERP6 had been supportive of harmonised and consistent disclosure obligations, with the flexibility to apply to a range of financial products. An important proviso is that product users and/or directors are to be held criminally and civilly liable

30 Evidence, Reserve Bank of Australia, 9 February 2000, p.7.

31 Submission 7, Reserve Bank of Australia, p.7.

32 CLERP6: The Treasury, *Financial Markets and Investment Products: Promoting competition, financial innovation and investment*, Corporate Law Economic Reform Program Proposals for Reform Paper No.6, AGPS, CanPrint Communications Pty Limited, 1997.

33 The Treasury, *Financial Products, Service Providers and Markets, Implementing CLERP6 –* Consultation Paper, as at 27 May 1999, Chapter 4, p.1. http://www.treasury.gov.au/publications/bills%2Cactandlegislation/corporatelaweconomicreformprogram/cle.../chap4.ht

for misleading and deceptive information included in a Financial Product Information Statement.[34]

4.33 ASIC in its submission summarised the effect of this legislation:

> Under current proposals in [CLERP6], an integrated regulatory framework for financial products and markets would be introduced … This regime would apply to virtually all existing financial products including securities, futures and other derivatives, and foreign exchange.[35]

4.34 In evidence to the Committee, ASIC commented that the CLERP6 legislation would remove some of the disparities in disclosure requirements in Australia. The provisions of CLERP6, for example, correct the anomalous situation that, for a product defined as a security, a prospectus must be issued, carrying with it specific disclosure obligations. For futures contracts or similar products, however, there is only a generic requirement for disclosure of the fact that the product carries a risk. ASIC said that CLERP6 imposes a much more uniform disclosure requirement.[36]

Information provided by governments

4.35 The Department of Finance and Administration (DOFA), in its submission to the inquiry, expressed the opinion that the provision of comprehensive information on fiscal policy and the financial standing of the public sector tended to enhance government credibility. This had the additional effect DOFA said, of reinforcing government efforts to improve fiscal balances, because the private sector can see and understand the aims of the government's policies.[37]

4.36 DOFA added that improving transparency is a vital element in crisis prevention – it allows governments to quickly identify emerging policy issues or institutional weaknesses and undertake the necessary corrective action. If the public can see these process at work there is a flow on of confidence to the private sector:

> Greater information will give investors more confidence in the underlying financial soundness of government securities and

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34 The Treasury, *Financial Products, Service Providers and Markets, Implementing CLERP6 –* Consultation Paper, as at 27 May 1999, Chapter 4, pp.1 & 6. http://www.treasury.gov.au/publications/bills%2Cactandlegislation/corporatelaweconomicreformprogram/cle.../chap4.ht

35 Submission 8, Australian Securities and Investments Commission, p.2.

36 Evidence, Australian Securities and Investments Commission, 22 March 2000, p.65.

37 Submission No. 12, Department of Finance and Administration, p.3.

> reduce the incentive to dump these securities when global financial insecurity flares. In this way transparency also benefits governments in the form of lower borrowing costs (through lower risk premia) and larger and more stable flows of portfolio and direct investment.[38]

4.37 There was some discussion with the Reserve Bank about the transparency of its control of monetary policy. The response by the Bank to questions posed by the Committee, was that considerable effort is being expended to make the Bank's operations as transparent as possible:

> I think we have made a major effort. We take it seriously. We think that the trilogy of independence, accountability and transparency go together.[39]

4.38 The Governor also referred to the Bank's biannual meetings with this Committee as "a very important contribution to the transparency of the Reserve Bank". He remarked that he made far more public speeches than his predecessors had done but that the optimum in transparency might not necessarily be the absolute maximum. To support this comment, he referred to the situation of the Chairman of the US Federal Reserve – saying that armies of people interpret every word Mr Greenspan says and compare each speech with comments made sometimes years before. He concluded:

> … people interpret his words with such detail that any slight change in a word between two speeches is interpreted as meaning something for monetary policy and it makes it very difficult for [Mr Greenspan]. I do not think we have reached that stage but there is an optimal amount of transparency and probably in the US, through no fault of their own, media attention has taken it beyond that optimum.[40]

4.39 The Committee asked whether the damage caused by speculation prior to Reserve Bank Board decisions on interest rates, could be minimised by publishing the minutes of the Board meetings. The Governor said that speculation was simply something the Bank had to live with – no hint of the decision could be given until the Board actually endorsed it. He said that publishing the minutes would not help because, necessarily, it would be after the event.[41]

38 Submission No. 12, Department of Finance and Administration, p.3.

39 Evidence, Reserve Bank of Australia, 9 February 2000, p.11.

40 Evidence, Reserve Bank of Australia, 9 February 2000, p.11.

41 Evidence, Reserve bank of Australia, 9 February 2000, p.10.

4.40 The aim in introducing recognised world standards on transparency is to overcome some of the regular causes of financial crises – the lack of accurate information about financial markets and the actions of participants. The difficulties which can be caused by a lack of information on financial matters, are best illustrated by an example: A former president of the Korea Economic Institute in the US, commented that when Korea asked the IMF for help in the recent crisis, one of the main difficulties was establishing the extent of the problem. How much short term debt would fall due in the next year? No one knew![42]

4.41 The backlash from this position saw Koreans unwilling to hold their own currency and a consequent slide in the value of the won. This was accompanied by rising import prices, higher interest rates, business and bank failures and growing unemployment.

4.42 The Committee noted that this illustration helps to explain why so much international attention has recently been directed to the question of transparency and the quality of information made available on financial matters. The author's final comment on the Korean example makes the point clear:

> The lack of reliable basic data on the national economy has produced similar results in all of the Asian economies now having difficulties. But this is not new. A lack of information led to the crisis in Mexico in 1994 and to innumerable previous crises. Financial crises regularly occurred in market economies, but just infrequently enough for people to forget.[43]

The availability of data

4.43 The example shown above, also illustrates the problem which arises when governments themselves are unable to access accurate information on the state of their financial system. It underlines the need for countries to provide the IFIs with comprehensive and reliable data. Without solid data to work with, it is impossible for the IMF, for example, to achieve proper supervision of the international financial system.

4.44 The Basle Committee on Banking Supervision, in its report on Enhancing Bank Transparency, noted:

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42 John T. Bennett, *Increasing Financial Transparency in a Global Economy*, USIA, Economic Perspectives, August 1998, p.1. http://www.usia.gov.journals/ites/0898/ijee/ejbenne.htm

43 John T. Bennett, *Increasing Financial Transparency in a Global Economy*, USIA, Economic Perspectives, August 1998, p.1.

> … markets contain disciplinary mechanisms that can reinforce the efforts of supervisors by rewarding banks that manage risk effectively and penalising those whose risk management is inept or imprudent. Market discipline, however, can only work if market participants have access to timely and reliable information which enable them to assess a bank's activities and the risks inherent in those activities. Improved public disclosure strengthens market participants' ability to encourage safe and sound banking practices.
>
> The complementary interaction of prudential supervision and market discipline is critical to promoting long-term stability of both individual institutions and banking systems. The effectiveness of the interaction depends greatly on meaningful public disclosure. This document recommends that supervisors focus their efforts on encouraging high-quality public disclosure at reasonable cost. …[44]

4.45 The report then set out six broad categories of information which should be addressed. Although the report is directed particularly at the banking industry, if the information set out in those categories were to be generally available, the transparency and "user friendliness" of the entire financial system would be improved:

> … It has identified the following six broad categories of information, each of which should be addressed in clear terms and appropriate detail to help achieve a satisfactory level of bank transparency:
>
> - financial performance;
> - financial position (including capital solvency and liquidity);
> - risk management strategies;
> - risk exposures (including credit risk, market risk, liquidity risk, and operational, legal and other risks);
> - accounting policies; and
> - basic business, management and corporate governance information.[45]

4.46 The Bank for International Settlements (BIS) established a Working Group to determine what aggregate data could be collected to improve the efficiency of international markets. The Group decided that efforts should be concentrated on the foreign exchange market – seen as the market of

44 Basle Committee on Banking Supervision, Report No.41, *Enhancing Bank Transparency*, Bank for International Settlements, Basle, September 1998, p.17. http://www.bis.org/publ/bcbs41.htm

45 Basle Committee on Banking Supervision, Report No.41, *Enhancing Bank Transparency*, Bank for International Settlements, Basle, September 1998, p.17. http://www.bis.org/publ/bcbs41.htm

greatest interest and where the data is easier to collect. The Group recommended that there should be more frequent data on market turnover and the positions of major financial participants. It also recommended the enhancement of data on credit exposures.[46]

International standards

4.47 The IMF, in cooperation with other international organisations, has been active in setting out benchmarking standards. The Fund actively encourages its member countries to aim for those benchmarks as minimum standards.

4.48 The benchmark used to measure the transparency of monetary and financial policies is the IMF *Code of Good Practices on Transparency in Monetary and Financial Policies: Declaration of Principles,* released on 16 April 1999. Earlier, a similar standard was set for fiscal policy in the *Code of Good Practices on Fiscal Transparency – Declaration on Principles.* For statistical data the ruling standard is the IMF's *Special Data Dissemination Standard* and for banking, the Basle Committee on Banking Supervision's *Core Principles for Effective Banking Supervision*.

4.49 The Treasury submission, however, noted that it was not enough to simply set the standards; there has to be an awareness among market participants and a willingness to use the available data to rigorously assess the level of risk in transactions:

> … transparency alone will not solve or forestall financial crises. Improving the availability of data is an important step, but if the risk of financial instability is to be reduced, transparency must be taken a step further and integrated into an assessment of the market. The failure of external ratings agencies to downgrade the debt of many of the East Asian crisis countries until after the onset of the crisis demonstrates a weakness on the part of some private participants to adequately assess available information. …[47]

4.50 Treasury commented that there are three main objectives in the development and implementation of international codes and standards:

- first, to serve as a benchmark for economic performance;
- second, to allow the dissemination of relevant, accurate and timely information by governments, institutions and the financial sector; and

46 Submission 7, Reserve Bank of Australia, pp.7-8.

47 Submission 13, The Treasury, pp.36-37.

- third, to facilitate the comparability of data – allowing informed comparisons of the financial and economic performance of firms and economies.[48]

4.51 The Report *Making Transparency Transparent* sets out in its introductory pages, details of a wide range of standards additional to those listed above. These represent standardised codes of conduct, which have either been developed or are being drafted by international organisations. The benchmarks cover topics as diverse as international accounting and auditing standards, corporate governance, regulation of the insurance industry, securities regulation and the treatment of foreign controlled enterprises. The Report reveals that Australia maintains a high level of compliance with all of these standards.[49]

4.52 The Treasury stressed, however, that observance of international standards needs to be a voluntary process and such requirements could not be forced upon an individual country by an outside authority:

> … countries need to be willing to sign up to regulation or observance of standards, and we would not want it any other way I do not think. We would not want to be required to meet a particular set of standards set by an international body. It is a matter of trying to show countries what the benefits are to them of signing up to standards or codes and it is therefore something that has to hasten slowly through a number of international for a …[50]

Conclusion

4.53 The Committee found that Australia is already playing a substantial role in international efforts to improve the transparency and accountability of the financial system.

4.54 It also found that Australia already has a high level of compliance with the standards being recommended by international agencies and committees. However, the Committee noted that, important as this is, it should be seen as an aid to, not a substitute for, sound economic practice in both the public and private sectors.

48 Submission 13, The Treasury, pp. 39.

49 The Treasury, *Making Transparency Transparent: An Australian Assessment*, AGPS, CanPrint Communications, Canberra, March 1999, Structure of the Report, pp. viii-x.

50 Evidence, The Treasury, 13 March 2000, p.41.

Recommendation 4

4.55 **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.**