Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates 20-21 February 2008

Question: aet 55

Topic: Article by Dr Paul Woolley

Hansard Page: E136

Senator JOYCE asked:

Senator JOYCE—Are you aware of the article by Dr Paul Woolley, his position on market dysfunctionality, and his belief in a lack of transparency in financial markets basically revolving around the $40 trillion market and $500 billion in costs each year—that we are lacking the transparency to really understand these costs and they ultimately end up back with the mortgage holder in financial markets? Do you have any—

Dr Laker—I am not aware of the particular—

Senator JOYCE—Would you take that on notice? It is something I am curious about because it is another possible omen of doom. It is something I would really like—

Dr Laker—Nobody would dispute your comment about transparency. Generally, with a lot of these finance instruments that is one of the areas that central banks and regulatory agencies across the globe are looking at now. Some of the products that had subprime exposures and were being on-sold to investors were very hard to understand. They were very opaque. But we are talking here about subprime and investment markets in the US. I think your question might have had an Australian link, but I would have to take it on notice.

Answer:

Dr Woolley's wide-ranging talk on Financial Sector Dysfunctionality raises a number of issues about the efficiency of capital markets and the social value of the financial services sector. Some of these issues, such as the lack of transparency for certain transactions and participants in capital markets, are currently the focus of the international regulatory community in its response to the global financial market turbulence since last August.

The Australian Prudential Regulation Authority (APRA) is not a market conduct regulator, however. Its mandate is to promote prudent behaviour on the part of financial institutions that it regulates to ensure that, under all reasonable circumstances, these institutions meet their financial promises to beneficiaries within a stable, efficient and competitive financial system.

Dr Woolley's suggested remedies for the capital market problems he identifies do not touch on the prudential framework for individual institutions, and a review of Dr Woolley's talk does not suggest any particular changes to APRA's prudential rules or supervisory approach are needed.