
Australia's New Financial Regulatory Framework

Far-reaching changes to Australia's financial regulatory structure came into effect on 1 July 1998. These changes represent the Government's response to the recommendations of the Financial System Inquiry (the Wallis Committee), set up in May 1996 to analyse the forces driving change in Australia's financial system and advise on ways to improve regulatory arrangements.

Under the new structure:

- A single prudential supervisor, the Australian Prudential Regulation Authority (APRA), has been established to take over responsibility for the supervision of banks, life and general insurance companies and superannuation funds. Supervision of other deposit-taking institutions (building societies, credit unions and friendly societies) is expected to transfer to APRA from State jurisdictions later in 1998.
- The Australian Securities and Investments Commission (ASIC) assumes responsibility for market integrity and consumer protection across the financial system, including for investment, insurance and superannuation products.
- The Reserve Bank retains responsibility for monetary policy and the maintenance of financial stability, including stability of the payments system. The Bank now has stronger regulatory powers in the payments

system to be exercised by a new Payments System Board within the Bank.

The prudential standards which the Bank has applied to banks in Australia have been adopted by APRA. The Bank's supervision staff and staff from the Insurance and Superannuation Commission, which previously had responsibility for prudential regulation of insurance and superannuation, transferred to APRA on 1 July.

While the Bank has no responsibility for the supervision of any individual financial institution, it remains the only agency which is able to provide emergency liquidity support in the event of any threats to the stability of the financial system. The new regulatory structure envisages close and effective co-ordination between the Bank and APRA in the discharge of their respective duties. As one key element of this, the Governor and the Assistant Governor (Financial System) from the Bank are members of the APRA Board.

Changes in the governance of the Bank in line with the new regulatory structure have been incorporated in the *Reserve Bank Act*. The Reserve Bank Board remains responsible for the Bank's monetary and banking policy, and for the Bank's policy on all other matters except for payments system policy. Membership of the Board has been reduced from a maximum of eleven to a maximum of nine, with the cancellation of one of the two

Deputy Governor positions and one external position. The new Payments System Board is responsible for the Bank's payments system policy, the objectives of which are:

- controlling risk in the financial system arising from the operation of the payments system;
- promoting the efficiency of payments systems; and
- promoting competition in the market for payments services, consistent with the overall stability of the financial system.

The Bank's powers in this area, set out in the *Payment Systems (Regulations) Act 1998*, allow it to undertake more direct regulation of 'designated' payments systems when it judges it to be in the public interest. This may involve the imposition of access rules or operating standards for participants in such systems. The Act also provides a framework for regulation of purchased payment facilities, such as travellers cheques and stored-value cards.

The Payments System Board has a maximum of eight members, comprising the Governor (Chairman), a representative of the Bank appointed by the Governor (Deputy

Chairman), a representative of APRA appointed by its Chief Executive Officer, and up to five other members appointed by the Governor-General in the same manner and for the same maximum term (five years) as members of the Reserve Bank Board. Appointments to the Payments System Board are expected to be announced shortly.

The *Reserve Bank Act* provides a clear delineation of responsibilities between the Payments System Board and the Reserve Bank Board. Instances of conflict over policies should therefore be rare. However, if a conflict were to arise, the view of the Reserve Bank Board would prevail to the extent that there is any inconsistency in policy. If there are disagreements between the Boards on questions of jurisdiction or consistency of policy, they are to be resolved by the Governor, who is Chairman of both Boards.

Both Boards are required to inform the Government of their policies in their respective areas of responsibility. In the event of a difference of opinion between the Government and either Board, the existing provisions of the *Reserve Bank Act* provide a mechanism for dispute resolution. ✎